Akciju sabiedrība "Attīstības finanšu institūcija Altum"

(incorporated with limited liability and registered in the Republic of Latvia with registration number 50103744891)

Second Programme for the Issuance of Notes in the Amount of EUR 70,000,000

Under this Second Programme for the Issuance of Notes in the Amount of EUR 70,000,000 (the "Programme") described in this base prospectus (the "Base Prospectus"), Akciju sabiedrība "Attīstības finanšu institūcija Altum", a joint stock company (in Latvian – akciju sabiedrība) incorporated in and operating under the laws of the Republic of Latvia, and registered with the Commercial Register of the Republic of Latvia under registration number: 50103744891, legal entity identifier (LEI code): 5493007HPQSSX8BJ4315, legal address: Doma laukums 4, Riga, LV-1050, Latvia, telephone: +371 67774010, e-mail: altum@altum.lv, website: www.altum.lv ("ALTUM"), subject to compliance with all relevant laws and regulations, may issue and offer from time to time in one or several series (the "Series") non-convertible unsecured and unguaranteed notes denominated in EUR, having maturity up to 10 years and with fixed interest rate (the "Notes"). Each Series may comprise one or more tranches of Notes (the "Tranches"). The maximum aggregate nominal amount of all Notes from time to time outstanding will not at any time exceed EUR 70,000,000.

References herein to "this Base Prospectus" shall, where applicable, be deemed to be references to this Base Prospectus, including the documents attached herein or incorporated herein by reference (see Section "Documents Incorporated by Reference"), as supplemented or amended from time to time. To the extent not set forth in this Base Prospectus, the specific terms of any Notes will be included in the relevant final terms (the "Final Terms") (a form of which is contained herein), therefore the prospectus relating to Series issued under the Programme consists of this Base Prospectus and the respective Final Terms.

The nominal amount of each Note shall be specified in the Final Terms and shall be at least EUR 1,000. The Notes will be offered for subscription for a minimum investment amount, which will be specified in the Final Terms. The Notes shall be governed by the laws of the Republic of Latvia.

The Notes will be offered to investors, other than retail investors (see Section "Important Information Concerning the Base Prospectus"), in the Republic of Latvia and the Republic of Lithuania, as well as to investors located in other Member States of the European Economic Area (the "EEA") by a way of private placement.

This Base Prospectus has been registered with and approved as a base prospectus by the Financial and Capital Market Commission of Republic of Latvia (in Latvian - Finanšu un kapitāla tirgus komisija) (the "FCMC") in its capacity as the competent authority in Latvia for the purposes of the Prospectus Directive, to the extent implemented in each relevant Member State of the EEA, in accordance with the requirements of the Financial Instruments Market Law and Regulation (EC) No 809/2004, as amended (the "Prospectus Regulation"). The FCMC has approved this Base Prospectus, but it is not liable for the correctness of the information presented therein. The FCMC has notified this Base Prospectus to the competent authority in Lithuania (the Bank of Lithuania (in Lithuanian - Lietuvos Bankas)) and provided it with a certificate of approval attesting that this Base Prospectus has been drawn up in accordance with the Prospectus Directive.

Application will be made to Akciju sabiedrība "Nasdaq Riga", registration number: 40003167049, legal address: Vaļņu 1, Riga, LV- 1050, Latvia ("Nasdaq Riga") for admitting each Tranche to listing and trading on the official bond list (the Baltic Bond List) of Nasdaq Riga according to the requirements of Nasdaq Riga not later than within 3 (three) months after the Issue Date of the respective Tranche. Trading of the respective Tranche on the Baltic Bond List of Nasdaq Riga is expected to commence within 1 (one) month after the above-mentioned application has been made. All dealings in the Notes of the respective Tranche prior to the commencement of unconditional dealings on the Baltic Bond List of Nasdaq Riga may be in the form of private over-the-counter transactions and will be at the sole risk of the parties concerned. Nasdaq Riga is a regulated market for the purposes of the Markets in Financial Instruments Directive 2014/65/EU, as amended ("MiFID II"). Unless the context requires otherwise, references in this Base Prospectus to the Notes being "listed" (and all related references) shall mean that such Notes have been listed and admitted to trading on the Baltic Bond List of Nasdaq Riga as may be specified in the applicable Final Terms.

The Notes shall be issued in the bearer dematerialised form and registered with Nasdaq CSD SE, registration number: 40003242879, legal address: Vaļņu 1, Riga, LV-1050, Latvia (the "Depository") in book-entry form. Investors may hold the Notes through participants of the Depository, including credit institutions and investment brokerage firms (see Section "General Terms and Conditions of the Notes" for more information).

This Base Prospectus has been drawn up and published by ALTUM in connection with the offering and listing of the Notes. Except where specified otherwise, capitalised words and expressions in this Base Prospectus have the meaning given to them in Section entitled "Definitions". This Base Prospectus and any supplement thereto will be published on the website of ALTUM (www.altum.lv) and copies may be obtained at the registered office of ALTUM during normal business hours on any business day.

The Notes have not been, and will not be, registered under the U.S. Securities Act 1933 (as amended) (the "Securities Act"), or with any securities regulatory authority of any state of the United States. This Base Prospectus or the Final Terms are not to be distributed to the United States or in any other jurisdiction where it would be unlawful. The Notes may not be offered, sold, pledged or otherwise transferred, directly or indirectly, within the United States or to, for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act (the "Regulation S")), except to a person who is not a U.S. Person (as defined in Regulation S) in an offshore transaction pursuant to Regulation S.

Arranger of the Programme and Sole Bookrunner

AB SEB bankas

The date of this Base Prospectus is 9 May 2019

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IMPORTANT INFORMATION CONCERNING THE BASE PROSPECTUS

General

IMPORTANT – PROHIBITION OF SALES TO EEA RETAIL INVESTORS: The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail investor as defined in Regulation (EU) No 1286/2014 (the "PRIIPs Regulation"); or (ii) not a qualified investor as defined in Directive 2003/71/EC (as amended) (the "Prospectus Directive"). Consequently, no key information document required by the PRIIPs Regulation for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

MIFID II PRODUCT GOVERNANCE/TARGET MARKET: The Final Terms in respect of any Notes will include a legend entitled "MiFID II Product Governance" which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a "distributor") should take into consideration the target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the MiFID Product Governance rules under EU Delegated Directive 2017/593 (the "MiFID Product Governance Rules"), any dealer purchasing any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arranger of the Programme, the Sole Bookrunner, the dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MIFID Product Governance Rules.

In this Base Prospectus, any reference to "ALTUM" or the "Issuer" means Akciju sabiedrība "Attīstības finanšu institūcija Altum", and "ALTUM Group" means Akciju sabiedrība "Attīstības finanšu institūcija Altum" together with its consolidated subsidiaries and associates (investments in venture capital funds are classified as subsidiaries or associates only for purposes of financial accounting). In this Base Prospectus the "Arranger of the Programme" and the "Sole Bookrunner" refers to AB SEB bankas.

In this Base Prospectus, unless otherwise specified, references to a "Member State" are references to a Member State of the European Economic Area, references to "Euro", "euro", "EUR" or "€" are to the currency introduced at the start of the third stage of the European economic and monetary union, and as defined in Article 2 of the Council Regulation (EC) No 974/98 of 3 May 1998 on the introduction of the Euro, as amended.

This Base Prospectus has been prepared by ALTUM in accordance with the Financial Instruments Market Law and the Prospectus Regulation. ALTUM will, as deemed necessary, supplement the Base Prospectus with updated information pursuant to the Financial Instruments Market Law.

This Base Prospectus should be read and construed together with any supplement hereto and with any other documents attached herein or incorporated herein by reference (see Section "Documents Incorporated by Reference") and, in relation to any Tranche of Notes, with the Final Terms of the relevant Tranche.

No person has been authorised by ALTUM, the Arranger of the Programme or the Sole Bookrunner to give any information or to make any representation not contained in or not consistent with this Base Prospectus or any information supplied by ALTUM or such other information as is in the public domain and, if given or made, such information or representation should not be relied upon as having been authorised by ALTUM, the Arranger of the Programme or the Sole Bookrunner.

No representation or warranty, express or implied, is made by the Arranger of the Programme and the Sole Bookrunner as to the contents of this Base Prospectus, and nothing contained in this Base Prospectus is, or shall be relied upon as, a promise or representation by the Arranger of the Programme or the Sole Bookrunner in this respect, whether as to the past or the future. The Arranger of the Programme and the Sole Bookrunner assumes no responsibility for the accuracy or completeness of the information and, accordingly, disclaims to the fullest extent permitted by

applicable law, any and all liability which it might otherwise be found to have in respect of this Base Prospectus or any such statement.

The information contained herein is current as of the date of this Base Prospectus. Neither the delivery of this Base Prospectus, nor the offer, sale or delivery of the Notes shall, under any circumstances, create any implication that there have been no adverse changes occurred or events have happened, which may or could result in an adverse effect on ALTUM Group's business, financial condition or results of operations and/or the market price of the Notes.

ALTUM may have included therein its own estimates, assessments, adjustments and judgements in preparing some of the market information contained in this Base Prospectus, which has not been verified by an independent third party. Market information that may be included herein is, therefore, unless otherwise attributed to a third party source, to a certain degree subjective. Whilst ALTUM believes that its own estimates, assessments, adjustments and judgements are reasonable and that the market information prepared by it generally reflects the industry and the markets in which ALTUM operates, there is no assurance that ALTUM's own estimates, assessments, adjustments or judgements are the most appropriate for making determinations relating to market information or that market information prepared by other sources will not differ materially from the market information included herein. Nothing contained in this Base Prospectus constitutes, or shall be relied upon as, a promise or representation by ALTUM, the Arranger of the Programme or the Sole Bookrunner as to the future.

Each prospective investor, by accepting delivery of this Base Prospectus and any Final Terms, agrees that this Base Prospectus and any Final Terms are being furnished by ALTUM solely for the purpose of enabling a prospective investor to consider the purchase of the Notes. Any reproduction or distribution of this Base Prospectus and/or any Final Terms, in whole or in part, any disclosure of their contents or use of any information herein for any purpose other than considering an investment in the Notes is prohibited, except to the extent that such information is otherwise publicly available.

This Base Prospectus and any Final Terms are not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by ALTUM that any recipient of this Base Prospectus and any Final Terms should purchase the Notes. Each prospective investor should determine for itself the relevance of the information contained in this Base Prospectus and any Final Terms, and its purchase of Notes should be based upon such investigation, as it deems necessary.

In making an investment decision regarding the Notes, prospective investors must rely on their own examination of ALTUM Group and the terms of the offering of the Notes, including the merits and risks involved, and prospective investors should rely only on the information contained in this Base Prospectus and any Final Terms. ALTUM and ALTUM Group has not authorised any person to provide prospective investors with different information or to give any information or to make any representation not contained in this Base Prospectus and any Final Terms. If anyone provides prospective investors with different or inconsistent information or makes any such representation, prospective investors should not rely on such information and representation. The delivery or display of this Base Prospectus shall not under any circumstances, create any implication that the information contained in the Base Prospectus is correct as of any time subsequent to the date hereof or that the operations of ALTUM have not since changed.

Prospective investors should not consider any information in this Base Prospectus and any Final Terms to be investment, legal or tax advice. Prospective investors should consult their own counsel, accountant and other advisers for legal, tax, business, financial and related advice regarding purchasing and holding of the Notes. None of ALTUM, the Arranger of the Programme and the Sole Bookrunner, or any of its respective affiliates or advisers, makes any representation to any offeree or purchaser of the Notes regarding the legality of an investment in the Notes by such offeree or purchaser under appropriate investment or similar laws.

The Base Prospectus and any Final Terms do not constitute or form part of an offer to sell, or a solicitation of an offer to buy, any security other than the Notes under this Base Prospectus.

Forward-Looking Statements

Some of the statements in this Base Prospectus, including statements under Sections "Macroeconomic and Political Risks", "Risks Related to Business Operations" and "Financial Risks" are

based on views of management board of ALTUM and understanding of ALTUM Group and its operating environment and on the assumptions made based on the factors known to the management board of ALTUM as of the date of this Base Prospectus and thus can be forward-looking statements. Statements which include such words as "believe", "anticipate", "predict", "expect", "will", "would", "could", "consider", "likely", "estimate" or "plan" and variations of such words or any other similar statements identify forward-looking statements.

These forward-looking statements involve known and unknown risks, uncertainties and other important factors, as a result of which ALTUM Group's actual results, activities or achievements or the actual results, activities or achievements of a business segment of ALTUM Group may differ materially from the expressly or indirectly presented results, activities or achievements indicated in the forward-looking statements. Such risks, uncertainties and other important factors include, among others, general economic development, ALTUM Group's need for financing, ALTUM Group's indebtedness, ALTUM Group's liquidity, the development of demand in ALTUM Group's products and services, competition, as well as other matters described under Sections "Macroeconomic and Political Risks", "Risks Related to Business Operations" and "Financial Risks" and forward-looking statements described under the section "Financial and Trend Information".

Sections "Macroeconomic and Political Risks", "Risks Related to Business Operations" and "Financial Risks" include risks, uncertainties and other important factors, which may affect ALTUM Group's business operations, financial position and/or business results. The risk factors described in the Base Prospectus do not necessarily include all risks and new risks may surface. If one or more of the risk factors described in this Base Prospectus or any other risk factors or uncertainties would materialise or any of the assumptions made would turn out to be erroneous, ALTUM Group's actual business result and/or financial position may differ materially from that anticipated, believed, estimated or expected. It is not ALTUM Group's intention, and it will not accept responsibility for updating any forward-looking statements contained in this Base Prospectus, unless required by applicable legislation.

Figures Presented in the Base Prospectus

The figures set out in the financial statements and other figures presented in the Base Prospectus have mainly been rounded off. As a result, the sum of individual figures set out in the tables contained in this Base Prospectus may not always correspond accurately to the sums presented in these tables. In addition, certain percentages have been calculated based on exact figures and thus do not necessarily correspond to the percentages, which would have been the result, if the calculation would have been based on figures that have been rounded off.

Selling Restrictions

General

The Arranger of the Programme and the Sole Bookrunner have represented and agreed that they will (to the best of their knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which they offer, sell or deliver Notes or possess or distribute this Base Prospectus and any Final Terms and will obtain any consent, approval or permission required by them for the offer, sale or delivery by them of Notes under the laws and regulations in force in any jurisdiction to which they are subject or in which they make such offers, sales or deliveries and the Issuer shall not have any responsibility therefor.

None of the Issuer, the Arranger of the Programme or the Sole Bookrunner represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

Prohibition of Sales to EEA Retail Investors

The Arranger of the Programme and the Sole Bookrunner have represented and agreed that they have not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by this Base Prospectus as completed by the Final Terms in relation thereto to any retail investor in the EEA. For the purposes of this provision:

(a) the expression "retail investor" means a person who is one (or more) of the following:

(i) a retail investor as defined in the PRIIPs Regulation; or

(ii) not a qualified investor as defined in the Prospectus Directive; and

(b) the expression an "offer" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes.

The United States, Australia, Japan, Canada, Hong Kong, South Africa, Singapore and Certain Other Jurisdictions

The Notes will not be offered to persons who are residents of the United States, Australia, Japan, Canada, Hong Kong, South Africa, Singapore or any jurisdiction in which such offering would be unlawful.

The Notes have not been approved or disapproved by the United States Securities and Exchange Commission or any State Securities Commission in the United States or any other regulatory authority in the United States nor have any of the foregoing authorities passed upon or endorsed the merits of the securities or the accuracy of this Base Prospectus. Any representation to the contrary is a criminal offence in the United States.

The Notes have not been, and will not be, registered under the Securities Act, or with any securities regulatory authority of any state of the United States. This Base Prospectus or the Final Terms are not to be distributed to the United States or in any other jurisdiction where it would be unlawful. The Notes may not be offered, sold, pledged or otherwise transferred, directly or indirectly, within the United States or to, for the account or benefit of, U.S. persons (as defined in Regulation S), except to a person who is not a U.S. Person (as defined in Regulation S) in an offshore transaction pursuant to Regulation S.

SUMMARY

This summary is made up of disclosure requirements known as “Elements”. These Elements are numbered in Sections A-E (A.1-E.7). This summary contains all the Elements required to be included in a summary for this type of securities and issuer. Because some Elements are not required to be addressed, there may be gaps in the numbering sequence of the Elements. Even though an Element may be required to be inserted in the summary because of the type of securities and issuer, it is possible that no relevant information can be given regarding the Element. In this case a short description of the Element is included in the summary together with a statement of that the Element is not applicable.

In particular, Elements in italics denote placeholders for completing the issue specific summary relating to a Tranche of Notes for which such issue specific summary is to be prepared.

Words and expressions defined in Section entitled "Definitions" or elsewhere in this Base Prospectus have the same meanings in this summary.

Section A - Introduction and warnings

A.1	Warning	This summary must be read as an introduction to this Base Prospectus and any decision to invest in the Notes should be based on a consideration of the Base Prospectus as a whole, including the documents attached to the Base Prospectus, and the Final Terms of the relevant Notes. Where a claim relating to the information contained in this Base Prospectus is brought before a court in a Member State, the plaintiff may, under the national legislation of the Member State where the claim is brought, be required to bear the costs of translating the Base Prospectus before the legal proceedings are initiated. Civil liability attaches only to those persons who have tabled the summary including any translation thereof, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of the Base Prospectus or it does not provide, when read together with the other parts of the Base Prospectus, key information in order to support investors when considering whether to invest in such securities.
A.2	Consent to use the Base Prospectus	Not applicable.

Section B - Issuer

B.1	Legal and commercial name	Akciju sabiedrība “Attīstības finanšu institūcija Altum”.
B.2	The domicile and legal form of the issuer, the legislation under which the issuer operates and its country of incorporation	ALTUM is a joint stock company (in Latvian - akciju sabiedrība) incorporated pursuant to the laws of the Republic of Latvia on 27 December 2013. ALTUM is registered with the Commercial Register of the Republic of Latvia under registration number 50103744891, legal entity identifier (LEI code): 5493007HPQSSX8BJ4315, legal address: Doma laukums 4, Riga, LV-1050, Latvia, telephone: +371 67774010, e-mail: altum@altum.lv, website: www.altum.lv. ALTUM operates in accordance with the laws of the Republic of Latvia. The main legal acts of the Republic of Latvia which regulate the operations of ALTUM are: ▪ Development Finance Institution Law (in Latvian - Attīstības finanšu institūcijas likums);

		▪ Law on the Management of Public Persons' Capital Shares and Capital Companies (in Latvian - Publiskas personas kapitāla daļu un kapitālsabiedrību pārvaldības likums); and ▪ Commercial Law (in Latvian - Komerclikums).
B.4b	A description of any known trends affecting the issuer and the industries in which it operates	As of the date of this Base Prospectus there are no information on any known trends, uncertainties, demands, commitments or events that are reasonably likely to have a material effect on ALTUM's or ALTUM Group's prospects and the industries in which ALTUM or ALTUM Group operates in the financial year of 2019.
B.5, B14	If the issuer is part of a group, a description of the group and the issuer's position within the group If the issuer is dependent upon other entities within the group, this must be clearly stated	ALTUM is a parent company of ALTUM Group. As of the date of this Base Prospectus ALTUM Group includes ALTUM and two closed investment funds (in Latvian – slēgtie ieguldījuma fondi) Hipo Latvia Real Estate Fund I and Hipo Real Estate Fund II in which ALTUM is a sole investor, as well as the following subsidiaries and associates (investments in venture capital funds are classified as subsidiaries or associates only for purposes of financial accounting): ▪ KS "Otrais Eko fonds" (33 per cent investment in capital); ▪ KS "BaltCap Latvia Venture Capital Fund" (67 per cent investment in capital); ▪ KS "AIF Imprimatur Capital Technology Venture Fund" (67 per cent investment in capital); ▪ KS "AIF Imprimatur Capital Seed Fund" (100 per cent investment in capital); ▪ KS "ZGI-3" (95 per cent investment in capital); ▪ KS "FlyCap Investment Fund I AIF" (95 per cent investment in capital); ▪ KS "Expansion Capital Fund AIF" (95 per cent investment in capital); ▪ "Baltic Innovation Fund" (20 per cent investment in capital); ▪ KS "Buildit Latvia Pre-Seed Fund" (100 per cent investment in capital); ▪ KS "Buildit Latvia Seed Fund" (80 per cent investment in capital); ▪ KS "Overkill Ventures Fund I AIF" (100 per cent investment in capital); ▪ KS "Overkill Ventures Fund II AIF" (80 per cent investment in capital); ▪ KS "Commercialization Reactor Pre-seed Fund" (100 per cent investment in capital); ▪ KS "Commercialization Reactor Seed Fund" (80 per cent investment in capital); ▪ KS "ZGI-4" (60 per cent investment in capital); ▪ KS "INEC 1" (75 per cent investment in capital); ▪ KS "INEC 2" (90 per cent investment in capital); ▪ KS "FlyCap Mezzanine Fund II" (60 per cent investment in capital).
B.9	Where a profit forecast or estimate is made, state the figure	Not applicable. ALTUM has not made any profit forecast or profit estimate in this Base Prospectus.
B.10	A description of the nature of any qualifications in the audit report on the historical financial information	Not applicable. None of the audit reports on ALTUM Group's audited consolidated annual reports for the years ended 31 December 2016, 2017 and 2018 includes any qualifications.

B.12	Selected historical key financial information regarding the issuer, presented for each financial year of the period covered by the historical financial information, and any subsequent interim financial period accompanied by comparative data from the same period in the prior financial year except that the requirement for comparative balance sheet information is satisfied by presenting the year end balance sheet information A statement that there has been no material adverse change in the prospects of the issuer since the date of its last published audited financial statements or a description of any material adverse change A description of significant changes in the financial or trading position subsequent to the period covered by the historical financial information

The following summary of ALTUM Group's consolidated financial performance and key performance indicators for three financial years ended 31 December 2016, 2017 and 2018, has been extracted, without any material adjustment, from ALTUM Group's consolidated financial statements in respect of those dates and periods.

	Year ended 31 December		
	2016 (restated*)	2017 (restated*)	2018 (audited)
Key financial data (ALTUM Group)			
Net income from interest, fees and commissions (tEUR)[1)]	11,024	11,602*	11,554
Profit (period) (tEUR)	2,170	8,709*	4,092
Cost to income ratio[2)]	88.4%	50.3%*	77.1%
Employees[3)]	242	230	222

	Year ended 31 December		
	2016 (restated*)	2017 (restated*)	2018 (audited)
Key financial data (ALTUM Group)			
Total assets (tEUR)	443,400*	453,668*	495,939
Tangible common equity (TCE)/Tangible managed assets (TMA)[4)]	36.5%*	35.1%*	31.7%
Equity and reserves (tEUR)	210,406*	222,848*	221,590
Risk coverage, total: [5)](tEUR)	66,508*	67,593*	77,815
Risk coverage reserve	63,636*	62,651*	85,276
Risk coverage reserve used for provisions	-4,323	-4,753	-19,268
Portfolio loss reserve (specific reserve capital)	7,195	9,695	11,807
180-days liquidity ratio [6)]	449%	482%*	227%

	Year ended 31 December		
	2016 (restated*)	2017 (restated*)	2018 (audited)
Financial instruments (gross value)			
Outstanding (tEUR) (by financial instrument)			
Loans	217,429	207,585	217,131
Guarantees	147,175	182,376	236,895
Venture capital	64,785**	62,299**	59,698
Total	429,389**	452,260**	513,724
Number of contracts	11,449	14,402	18,280
Volumes granted (tEUR) (by financial instrument)			
Loans	59,465	51,869	66,443
Guarantees	56,109	68,615	88,765
Venture capital	21,356	2,638	4,149
Total	136,929	123,122	159,357
Number of contracts	4,461	4,697	5,464
Leverage for raised private funding [7)]	162%	185%	162%

* Due to change of accounting policy regarding investments in venture capital funds the comparatives for 2017 and 2016 have been restated.

** Venture capital funds presented at gross value.

1) "Net income from interest, fees and commissions" consists of the following items in the Statement of Comprehensive Income: "Net interest income" and "Net income from fees and commissions". ALTUM uses this indicator as the key financial metric for profitability by evaluating ALTUM Group's net income amount generated by the portfolio of financial instruments and recognised in the Statement of Comprehensive income. ALTUM management measures and monitors the actual performance of this

		indicator on a quarterly basis compared to the approved level in ALTUM Group's budget. 2) "Cost to income ratio" (CIR) is calculated by dividing the amount of "Staff costs", "Administrative expense", "Amortisation of intangible assets and depreciation of property, plant and equipment" by "Operating income before operating expenses" included in the Statement of Comprehensive Income. ALTUM uses CIR to evaluate the operational efficiency. This is one of the measures of operational efficiency which ALTUM management assesses on a quarterly basis in the management reports to evaluate the outputs from different operational activities and efficiency improving measures. 3) "Employees" is the average number of employees in the period, excluding members of the Supervisory Board and the Audit Committee. 4) "Tangible common equity" (TCE)/"Tangible managed assets" (TMA) (TCE/TMA). "Tangible Common Equity" (TCE) is calculated by subtracting the revaluation reserve of available for sale investments from total equity. "Tangible Managed Assets" (TMA) is calculated by adding the guarantees shown as off-balance sheet items to the total assets of ALTUM Group taking into account provisions for these guarantees and subtracting "Deferred expense", "Accrued income", "Property, plant and equipment", "Intangible assets", "Other assets" and "Assets held for sale". Data for the calculation of both indicators (TCE, TMA) are obtained from ALTUM Group's Financial statements: Statement of Financial Position and Statement of changes in equity, notes - Off balance sheet items and contingent liabilities and Provisions. ALTUM uses the ratio "TCE/TMA" to evaluate ALTUM Group's capital position adequacy and to measure ALTUM Group's tangible common equity in terms of ALTUM Group's tangible managed assets including the off-balance sheet item Guarantee portfolio. The Risk and Liquidity Management Committee of ALTUM monitors its level on a quarterly basis. 5) "Risk coverage, total" is net funding available for coverage of expected credit losses of development programmes implemented by ALTUM. "Risk coverage, total" is sum of "Risk coverage reserve" and "Portfolio loss reserve" (specific reserve capital) deducted by "Risk coverage reserve" used for provisions. Expected losses are estimated prior to implementation of particular development programme and part of the public funding received under respective development programme for coverage of expected losses on credit risk is transferred either to "Portfolio loss reserve" as ALTUM Group's specific reserve capital or accounted separately as provisions for risk coverage "Risk coverage reserve" classified within liabilities. "Portfolio loss reserve" (specific reserve capital) is disclosed in note to ALTUM Group's Financial statements "Reserves". "Risk coverage reserve" is disclosed in note to ALTUM Group's Financial statements "Support programme funding and state aid". "Risk coverage reserve" used for provisions represents amount of "Risk coverage reserve" allocated to allowance for impairment loss on loan portfolio and guarantee portfolio, disclosed in respective notes to ALTUM Group's Financial statements "Loans" and "Provisions". "Risk coverage, total" is key indicator to be used for assessment of ALTUM's risk coverage on implemented programmes and long-term financial stability. 6) "180-days-liquidity ratio" is calculated by dividing the amount of the balances "Due from other credit institutions and the Treasury" with a maturity of up to 1 month and "Financial assets at fair value through other comprehensive income and Investment securities" by the amount of the total liabilities maturing within 6 months and total financial commitments maturing within 6 months (off-balance sheet items). The data required for the calculation of the "180-days liquidity ratio" is disclosed in the following ALTUM Group's Financial statements: Statement of Financial Position and notes – Off-balance sheet items and contingent liabilities and Maturity analysis of assets and liabilities. ALTUM uses the "180-days-liquidity ratio" to assess and monitor ALTUM Group's ability to fulfil ALTUM Group's contractual and/or contingent liabilities during 6 (six) month with the currently available liquidity resources. "180-days-liquidity ratio" helps to manage ALTUM Group's liquidity risk in line with ALTUM Group's/ALTUM's funding management objectives and risk framework. Risk and Liquidity Management Committee of ALTUM monitors its level on a quarterly basis. 7) "Leverage for raised private funding" indicates the amount of additional private funds invested in a project in addition to ALTUM's financing. "Leverage for raised private funding" is determined considering the financing invested by a private co-financier and a project's implementer, which, on average, makes up to 50 per cent for loans, up to 70 per cent for guarantees and venture capital (except for housing loan guarantees' programme for the first instalment with a ratio of 795 per cent) in addition to ALTUM's funding. There has been no material adverse change in the prospects of ALTUM or ALTUM Group since the date of the audited consolidated annual report of ALTUM Group for 2018.

		There has been no material adverse change in ALTUM's or ALTUM Group's financial or trading position since 31 December 2018.
B.13	A description of any recent events particular to the issuer which are to a material extent relevant to the evaluation of the issuer's solvency	Not applicable. There have been no recent events particular to ALTUM which are to a material extent relevant to the evaluation of ALTUM's solvency since the date of its last published audited or unaudited financial statements.
B.15	A description of the issuer's principal activities	ALTUM is a development finance institution providing public financial support to businesses and specific groups of population in Latvia. ALTUM implements its mandate by ensuring access to financing to small and medium-sized enterprises through a range of financial instruments (mainly loans and guarantees) and venture capital funds. ALTUM also offers technical support, by providing counselling and training in various areas, such as renovation and energy efficiency of buildings, or agricultural business development.
B.16	To the extent known to the issuer, state whether the issuer is directly or indirectly owned or controlled and by whom and describe the nature of such control	ALTUM is incorporated as a joint stock company (in Latvian - akciju sabiedrība) under the laws of the Republic of Latvia. The Republic of Latvia is the sole shareholder of ALTUM. The Ministry of Finance of the Republic of Latvia holds 40 per cent, while the Ministry of Economics of the Republic of Latvia and the Ministry of Agriculture of the Republic of Latvia each holds 30 per cent of share capital of and voting rights in ALTUM.
B.17	Credit ratings assigned to the issuer or its debt securities at the request or with co-operation of the issuer in rating process	Moody's Investors Service on 25 March 2019 has confirmed ALTUM long-term issuer rating Baa1 with stable outlook and the baseline credit assessment (BCA) was upgraded to baa3 from ba2. The short-term issuer rating was affirmed at P-2. The Series of Notes issued under the Programme may be rated or unrated. If rated, such ratings will not necessarily be the same as the rating assigned to ALTUM. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. Issue specific summary: The Notes to be issued [are not/have been/are expected to be] rated [by:[●]]

Section C - Securities

C.1	A description of the type and the class of the securities being offered and/or admitted to trading, including any security identification number	Non-convertible unsecured and unguaranteed Notes with an aggregate nominal value of up to EUR 70,000,000. The Notes are dematerialized debt securities in bearer form. The Notes will be issued in one or several Series. Each Series may comprise one or more Tranches. The Notes of each Tranche will all be subject to identical terms, except that the issue dates and the issue prices thereof may be different in respect of different Tranches. In order to identify each Series and Tranches, the Final Terms shall stipulate a serial number of a respective Series and a serial number of a respective Tranche. Issue specific summary: Series Number: [●] Tranche Number: [●]

		Before commencement of the offering of the Notes of the first Tranche of each Series, an ISIN code will be assigned to the respective Series. Where a further Tranche is issued, which is intended to form a single Series with an existing Tranche at a point after the Issue Date of the existing Tranche, a temporary ISIN code may be assigned to the Notes of such further Tranche, which is different from the ISIN code assigned to the relevant Series, until such time as the Tranches are consolidated and form a single Series. Issue specific summary: ISIN Code: [[●]]/[Temporary ISIN Code: [●]. Upon admission of the Notes to the regulated market the Notes will be consolidated and form a single series with [●] and will have a common ISIN code [●]]
C.2	Currency of the securities issue	EUR
C.5	A description of any restrictions on the free transferability of the securities	The Notes are freely transferable securities and can be pledged. However, the Notes cannot be offered, sold, resold, transferred or delivered in such countries or jurisdictions or otherwise in such circumstances in which it would be unlawful or require measures other than those required under the laws of the Republic of Latvia, including the United States, Australia, Japan, Canada, Hong Kong, South Africa, Singapore and certain other jurisdictions. In addition, the Noteholders are prohibited to resell, transfer or deliver the Notes to any person in a manner that would constitute a public offer of securities.
C.8, C.9	A description of the rights attached to the securities including • ranking • limitations to those rights • the nominal interest rate • the date from which interest becomes payable and the due dates for interest • where the rate is not fixed, description of the underlying on which it is based • maturity date and arrangements for the amortisation of the loan, including the repayment procedures • an indication of yield • name of representative of debt security holders	Ranking The Notes constitute direct, unsecured and unguaranteed obligations of the Issuer, ranking pari passu without any preference among each other and with all unsecured, unguaranteed and unsubordinated indebtedness of the Issuer, save for such obligations as may be preferred by mandatory provisions of the law. Issue Price The Notes may be issued at their nominal amount or at a discount or a premium to their nominal amount. Interest rate The Notes shall bear interest at Annual Interest Rate. The interest on the Notes will be paid annually on the dates specified in the Final Terms. Interest shall accrue for each interest period from and including the first day of the interest period to (but excluding) the last day of the interest period on the principal amount of the Notes outstanding from time to time. The first interest period commences on the Issue Date and ends on a day preceding the first interest payment date. Each consecutive interest period begins on the previous interest payment date and ends on a day preceding the following interest payment date. The last interest period ends on the Maturity Date. Interest in respect of the Notes will be calculated on the basis of the actual number of days elapsed in the relevant interest period divided by 365 (or, in the case of a leap year, 366), i.e. a day count convention Act/Act (ICMA) will be used. Issue specific summary: Interest payment date: [●] each year Indication of Yield An expected Yield to Maturity Range for the Notes being offered shall be determined by the Issuer before the beginning of the Placement Period of

		the Notes by publishing a respective announcement on the Issuer's website www.altum.lv. However, during the Placement Period of the Notes the Issuer has a right to update the Yield to Maturity Range. Determination of the Final Yield to Maturity, Annual Interest Rate and Issue Price The Final Yield to Maturity will be determined after the Placement Period on the basis of submitted purchase orders of the investors. The Final Yield to Maturity shall be the same for all investors acquiring the Notes of the respective Tranche during the offering. The established Final Yield to Maturity shall be specified in the Final Terms, which will be published after allotment of the Notes to the investors. Issue specific summary: Final yield to Maturity: [●] The Annual Interest Rate (the coupon) shall be set by rounding down the Final Yield to Maturity to the nearest tenth of the rounded digit (which itself is set in percentage terms). The established Annual Interest Rate shall be specified in the updated Final Terms, which will be published after allotment of the Notes to the investors. Issue specific summary: Annual Interest Rate: [●] The Issue Price of the Notes shall be established according to formula provided in the Final Terms of the relevant Tranche and shall be rounded to the nearest thousand of the rounded digit under arithmetic rounding rules. The established Issue Price shall be specified in the updated Final Terms, which will be published after allotment of the Notes to the investors. Issue specific summary: Formula for calculation of the Issue Price: [●] Issue specific summary: Issue Price: [●] Updated Final Terms containing information about the established Final Yield to Maturity, Annual Interest Rate, Issue Price, the aggregate principal amount of the respective Tranche and definitive amount of the Notes to be issued will be published on the Issuer's website www.altum.lv and submitted to the Financial and Capital Market Commission after allotment of the Notes to the investors. Maturities Each Series of Notes may have a maturity up to 10 (ten) years. Issue specific summary: Maturity Date: [●] Redemption The Notes shall be repaid in full at their nominal amount at the Maturity Date. The Issuer does not have a right to redeem the Notes prior to the Maturity Date, unless the Issuer has prepaid the Notes in case of Change of Control or an Event of Default or in case the Noteholders' Meeting, upon proposal of the Issuer, has decided that the Notes shall be redeemed prior to the Maturity Date.

		Representative of debt security holders The rights of the Noteholders to establish and/or authorize an organization/person to represent interests of all or a part of the Noteholders are not contemplated, but, on the other hand, these are not restricted. The Noteholders should cover all costs/fees of such representative(s) by themselves.
C.10	If the security has a derivative component in the interest payment, provide a clear and comprehensive explanation to help investors understand how the value of their investment is affected by the value of the underlying instrument(s), especially under the circumstances when the risks are most evident	Not applicable. The Notes have no derivative component in the interest payment.
C.11	Indication as to whether the securities offered are or will be the object of an application for admission to trading, with a view to their distribution in a regulated market or other equivalent markets with indication of the markets in question	The Issuer will submit an application regarding inclusion of each Tranche in the official bond list (Baltic Bond List) of Nasdaq Riga. An application will be prepared according to the requirements of Nasdaq Riga and will be submitted to Nasdaq Riga within 3 (three) months after the Issue Date of the respective Tranche.

Section D - Risks

D.2	Key information on the key risks that are specific to the issuer	Macroeconomic and Political Risks ▪ Severe deterioration of either global, regional or national economic situation and/or financial position of the Latvian government. ▪ Possible large-scale downturn in the Latvian economy. ▪ Possible steep economic slowdown in Latvia's main export markets. ▪ An unexpected or significant reduction of EU funds that could have an adverse impact on Latvia's economic growth. ▪ Possible material deterioration of Latvia's fiscal stance. ▪ Possible emergence of macroeconomic imbalances that could adversely affect Latvia's economic stability. ▪ Possible significant downturn in the Nordic real estate market which may increase the cost of the parent banks' wholesale funding and, consequently, have an adverse impact on the economic growth and lending volumes in Latvia. ▪ Reliance of domestic banks on non-resident deposits, which are generally subject to a higher degree of volatility and greater money

		laundering and terrorist financing risks, as well as risks relating to foreign political developments. ▪ Other factors, such as the level of unemployment in Latvia, migration trends, consumer purchasing power and price level dynamics, changes in the Eurozone's monetary environment and overall political stability in the EU. ▪ Political and social decisions made by the Latvian government. Risks Related to Business Operations ▪ The Cabinet of the Ministers of the Republic of Latvia is channelling the public funding reflows towards continuation of ALTUM's financial instruments' programmes and implementation of new programmes. There is a risk that the Cabinet of Ministers of the Republic of Latvia may decide to halt the reinvestment of reflows into new operations, as a result of which ALTUM may receive less funding. This may have adverse effect on the liquidity of ALTUM Group and may increase the costs of services provided by ALTUM Group. ▪ There is a risk that in the 2021-2027 programming period of the EU funds Latvia will receive less funding from the European Regional Development Fund. The reduction of funding will affect the grant programmes, as a result of which the funding of the 2014-2020 programming period of the EU funds committed to the financial instruments could be partially transferred to the grant programmes, and, as such, the EU funding available to financial instruments implemented by ALTUM could be reduced. Therefore, ALTUM seeks for other funding sources. In the event other funding sources than public funding are not available and the funding provided by the European Regional Development Fund is decreased, it is possible that the scope of ALTUM's programmes will be reduced, with larger portion of programmes' reflows consumed by administrative costs, and part of the new programmes discarded. This may have an adverse effect on the business operations and financial position of ALTUM Group. ▪ The programmes financed from the funding of the 2014-2020 programming period of the EU funds stipulate that ALTUM has to achieve progress monitoring indicators and specific financial volumes by 2023. If ALTUM fails to reach the planned financial volumes by 2023, the funding available to the financial instruments could be reduced. This may have a material adverse effect on the business operations and financial position of ALTUM Group. For the time being, no risks are identified in terms of reaching the funding volumes by the end of 2023. ▪ The venture capital funds supported by the EU funds of the 2014-2020 programming period allow different portion of private co-funding depending on the maturity stage of the foreseen underlying investments. The pace of investments in the programme depends on the ability of the fund managers to attract private co-funding. Should the managers of venture capital funds selected by ALTUM be unable to attract private co-funding in required amounts, the necessary volume of ALTUM's investments in venture capital funds within the eligibility period set by the EU fund rules may not be reached. This may have an adverse effect on the business operations and financial position of ALTUM Group. ▪ If due to any reason there is a change in the EU agricultural funding policy, that would decrease the direct payments to the Latvian farmers, then this might affect ALTUM's performance.

		▪ There is a risk that in the long-term ALTUM's operational niches could shrink as a result of improved capacity of ALTUM's customers to gain access to financial instruments offered by private funding providers and/or the products offered by ALTUM becoming outdated due to changing business environment in the particular market gap niche operated by ALTUM. Therefore, deterioration of ALTUM's competitive position and/or loss of a considerable share of the customer base may have an adverse effect on the business operations and financial position of ALTUM Group. ▪ According to the Development Finance Institution Law, the Latvian government is accountable for the guarantees issued by ALTUM in the amount specified each year by the Law on the State Budget. There is a risk that the maximum total guarantee exposure having the status of state-backed guarantees could possibly be reduced or even revoked, as a result of which ALTUM would be forced to lower the volume of the issued guarantees and/or to increase ALTUM's commissions for issuance of guarantees, in which case ALTUM's services would become more expensive. Furthermore, in the event ALTUM lacks sufficient risk coverage for guarantee activities, the Ministry of Finance of the Republic of Latvia may take decision to cease the issuance of new guarantees. This may have an adverse effect on business operations and financial position of ALTUM Group. ▪ The European Commission has granted approval for ALTUM's business operations until 31 December 2022. The approval may be prolonged, following a reassessment by the European Commission. There is a risk that as of 1 January 2023 the scope of ALTUM's business operations may be limited, the current business operations may be terminated and/or replaced with new business operations. This may have an adverse effect on the business operations and financial position of ALTUM Group. ▪ Since the implementation of state support programmes requires compliance with the EU regulatory framework, there is a risk that ALTUM and its cooperation partners (financial intermediaries) may interpret and apply the EU law differently than the supervisory authorities during their inspections. ALTUM has established a risk management system to ensure pro-active risk management, as well as timely introduction of corrective measures for mitigation or elimination of the compliance risks. Notwithstanding ALTUM's efforts, a non-compliance with regulations in respect of implementation of programmes may have an adverse effect on the financial position and reputation of ALTUM Group. ▪ ALTUM takes all the measures necessary to reduce the probability of conducting business with customers involved in or allegedly involved in money laundering and terrorism financing by adhering to all the legal requirements and implementing the "know your customer" principles in its business operations. There is a risk that the measures adopted by ALTUM may be insufficient for prevention of money laundering and terrorism financing, as a result of which ALTUM may incur losses, be subjected to legal sanctions, or its reputation may deteriorate. This may have an adverse effect on the financial position and reputation of ALTUM. ▪ There is a risk that ALTUM has not taken the necessary measures to ensure compliance with Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of individuals with regard to the processing of personal data and the free movement of such data and repealing Directive 95/46/EC (General Data Protection

		Regulation). This may have an adverse effect on the financial position and reputation of ALTUM. Financial Risks ▪ ALTUM implements a number of state support programmes where it does not exercise full control over the funds' expenditure. There is a risk that the Central Finance and Contracting Agency of the Republic of Latvia may regard part of the expenditure as not eligible for funding. In such case, ALTUM would have to cover the costs from its own funds and seek recovery of funds from the debtor by enforced collection. This further entails is a risk that recuperation on funds will not be possible or feasible and these expenses will have a negative impact on ALTUM's financial indicators. ▪ In determining the amount of compensation payments, the terms and conditions of ALTUM's programmes (as approved by the Cabinet of Ministers of the Republic of Latvia) provide that the difference between the limit established by the applicable EU regulations and the amount estimated in the business plan is covered from the EU's structural fund and national budget funding repayments. There is a risk that national and EU regulatory changes covering these issues may have an adverse effect on ALTUM's financial position, if additional limitations on compensation payments are imposed. ▪ There is a risk to incur losses in the event ALTUM's customers or business partners are not able or refuse to comply with their liabilities towards ALTUM pursuant to the terms and conditions of the concluded agreements. The exposure to credit risk is mitigated by obtaining pledges relevant to the transaction at risk or other types of collateral, as well as by securing a coverage of expected losses arising from higher level of credit risk while implementing state support and promotional programmes from public funding. ▪ There is a risk to incur losses in case ALTUM is unable to satisfy legally valid claims of its creditors in a timely manner, or, in case of contingency, such as, for instance, unexpected reduction in the volume of cash flows from the loan portfolio and other assets, resulting in a material shortage of liquid assets at ALTUM's disposal. ▪ There is a risk to incur losses from revaluation of balance and off-balance items denominated in the foreign currencies due to exchange rate fluctuations. ▪ There is a risk to incur losses due to changes in interest rates applicable to ALTUM's income and/or expense and its economic value.
D.3	Key information on the key risks that are specific to the securities	▪ The Notes may not be a suitable investment for all investors. Thus, each potential investor in the Notes must assess the suitability of that investment in light of its own circumstances, including the effects on the value of such Notes and the impact this investment will have on its overall investment portfolio. ▪ The investors may forfeit the interest and principle amount invested, in case ALTUM becomes insolvent or legal protection proceedings or out-of-court legal protection proceedings of ALTUM are initiated. ▪ The Notes are unsecured obligations of ALTUM, without any additional guarantees and securities; in case of ALTUM's insolvency, the Noteholders will become unsecured creditors. As of 31 December 2018, the secured creditors of ALTUM are the Treasury of the Republic of Latvia (in the amount of 38,215 million EUR) and the European Investment Bank

		(in the amount of 38,194 million EUR). In the event of insolvency, ALTUM's assets will be used for settling the Noteholders' claims only after the claims by the Treasury of the Republic of Latvia, the European Investment Bank and other preferential creditors are satisfied. ▪ The Notes do not contain covenants governing ALTUM's operations and do not limit its ability to merge or otherwise affect significant transactions that may have a material adverse effect on the Notes and the Noteholders. Thus, in the event that ALTUM enters into such transaction, Noteholders may be materially adversely affected. Furthermore, subject to the relevant amendments to the law, the current shareholder of ALTUM, namely, the Republic of Latvia, may dispose any or all of its shareholding. ▪ Any adverse change in the financial condition or prospects of ALTUM may have a material adverse effect on the liquidity of the Notes, and may result in a material decline in their market price, and thus may result in a reduced probability that the Noteholders will be fully repaid on time. ▪ ALTUM is not prohibited from issuing further debt. This, accordingly, may increase the number of claims that would be equally entitled to receive the proceeds, including those related to ALTUM's possible insolvency. Further, any provision which confers, purports to confer, or waives a right to create security interest in favour of third parties, such as a negative pledge, is ineffective against third parties. Thus, such security interest in favour of a third party, even if created in breach of ALTUM's obligations and undertakings herein, would be a valid and enforceable security interest over the pledged asset. ▪ ALTUM's ability to successfully refinance its debts depends on the conditions of debt capital markets and its own financial condition. ALTUM's inability to refinance its debt obligations on favourable terms, or at all, could have a negative impact on ALTUM Group's operations, financial condition, earnings and on the Noteholders' recovery under the Notes. ▪ It is possible that an active market for the Notes may not develop or may not be maintained, as well as it may be affected by the changes in market and economic conditions, financial conditions and prospects of ALTUM, which accordingly may have an impact on the liquidity and market price of the Notes. ▪ The Notes will bear interest at a fixed interest rate, which accordingly exposes a risk that a price of such security may be affected by the changes in the market interest rate. Also, inflation may result in a decline of the market price of the Notes, as it decreases the purchasing power of a currency unit and respectively the received interest. ▪ The payments on the Notes will be made in EUR, accordingly the fluctuations in exchange rates and interest rates may adversely affect the value of the Notes, if the investor's financial activities are denominated principally in another currency unit. ▪ In case the Notes are rated by independent credit rating agencies, such ratings may not reflect the potential impact of all risks related to the Notes, as well as it may be revised or withdrawn by the rating agency at any time. In addition, any adverse change in an applicable credit rating of ALTUM could also adversely affect the trading price of the Notes. ▪ The Notes are governed by the laws of the Republic of Latvia, which may change during the life of the Notes, thus no assurance can be given as to the impact of any of such possible changes of laws or regulations.

		Hence, such changes may have a material adverse effect on ALTUM, as well as the Notes. ▪ The investment activities of certain investors are subject to legal investment laws and regulations, or reviews or regulations by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent the Notes constitute a legal investment from the part of the investor, can the Notes be used as a collateral, and whether other restrictions apply to the purchase or pledge of the Notes. ▪ There is a risk that the market value of the Notes is higher than the early redemption amount following a Change of Control and that it may not be possible for Noteholders to reinvest such proceeds at an effective interest rate as high as the interest rate on the Notes and may only be able to do so at a significantly lower rate. It is further possible that ALTUM will not have sufficient funds at the time of the mandatory prepayment to make the required redemption of Notes. ▪ Only the shareholder of ALTUM has voting rights in the shareholders' meetings of ALTUM. The Notes carry no such voting rights. Consequently, the Noteholders cannot influence any decisions by ALTUM's shareholder concerning, for instance, the capital structure of ALTUM. ▪ The decisions of the Noteholders (including amendments to the General Terms and Conditions of the Notes) will be binding to all Noteholders, including Noteholders who did not vote and Noteholders who voted in a manner contrary to the majority. ▪ The Sole Bookrunner has engaged in, and may in the future engage in, investment banking and/or commercial banking or other services provided to ALTUM Group in the ordinary course of business. Therefore, conflicts of interest may exist or may arise as a result of the Sole Bookrunner's current or future engagement in transactions with other parties, having multiple roles or carrying out other transactions for third parties with conflicting interests. ▪ The Notes will be affiliated to Nasdaq CSD SE account-based system, and no physical notes will be issued. Clearing and settlement relating to the Notes will be carried out within Nasdaq CSD SE book-entry system as well as payment of interest and repayment of the principal. Investors are therefore dependent on the functionality of Nasdaq CSD SE account-based system. ▪ The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended, or any U.S. state securities laws. Subject to certain exemptions, a holder of the Notes may not offer or sell the Notes in the United States. ALTUM has not undertaken to register the Notes under the U.S. Securities Act or any U.S. state securities laws or to effect any exchange offer for the Notes in the future. Furthermore, ALTUM has not registered the Notes under any other country's securities laws, other than laws of the Republic of Latvia. Each potential investor should be aware of the transfer restrictions that apply to the Notes. It is the Noteholder's obligation to ensure that the offers and sales of the Notes comply with all applicable securities laws.

Section E - Offer

E.2b	Reasons for the offer and use of proceeds when different from	The net proceeds of the issue of Notes will be used by ALTUM for its general corporate purposes. If in respect of any particular Series of Notes, there is a

	making profit and/or hedging certain risks	particular identified use of net proceeds, this will be stated in the relevant Final Terms. Issue specific summary: [The net proceeds of the issue of each Tranche will be used by ALTUM for its general corporate purposes]/[The net proceeds of the issue of each Tranche will be used by ALTUM for [●]].
E.3	A description of the terms and conditions of the offer	The Arranger of the Programme and the Sole Bookrunner The Arranger of the Programme and the Sole Bookrunner is AB SEB bankas (registration number: 112021238, legal address: Gedimino ave. 12, LT-01103 Vilnius, Lithuania). Issue Date The Issue Date of the Notes will be specified in the Final Terms of the respective Tranche. Issue specific summary: Issue Date: [●] Aggregate principal amount The aggregate principal amount of each Tranche shall be initially specified in the Final Terms. The Issuer may increase or decrease the aggregate principal amount of a Tranche as initially set out in the Final Terms during the Placement Period of that Tranche. Issue specific summary: Aggregate principal amount: [EUR [●] [in addition to [●]]] Nominal amount of the Note The nominal amount of each Note will be at least EUR 1,000. Issue specific summary: Nominal amount of the Note: [●] Minimum Investment Amount The Notes will be offered for subscription for the Minimum Investment Amount which will be specified in the Final Terms. Issue specific summary: Minimum Investment Amount: [●] Placement Period Placement Period for each Tranche will be specified in the Final Terms. Issue specific summary: Placement Period: [●] Covenants Change of Control, Negative Pledge, Cross Default and others. Depository The Notes will be book-entered within Nasdaq CSD SE. Governing law Latvian law

E.4	A description of any interest that is material to the issue/offer including conflicting interests	Save for commissions to be paid to the Arranger of the Programme and the Sole Bookrunner, so far as ALTUM is aware, no person involved in the offer of the Notes has an interest material to the issue/offer, nor any conflicting interests.
E.7	Estimated expenses charged to the investor by the issuer or offeror	No expenses or taxes will be charged to the investors by ALTUM in respect to the issue of the Notes. However, the investors may be obliged to cover expenses which are related to the opening of the securities accounts with credit institutions or investment brokerage firms, as well as commissions which are charged by the credit institutions or investment brokerage firms in relation to the execution of the investor's purchase or selling orders of the Notes, the holding of the Notes or any other operations in relation to the Notes. Neither ALTUM, nor the Arranger of the Programme or the Sole Bookrunner will compensate the Noteholders for any such expenses.

KOPSAVILKUMS

Šis kopsavilkums ir sagatavots, pamatojoties uz informācijas prasībām, kas apzīmētas kā "Elementi". Šie Elementi ir sagrupēti sadaļās A-E (A.1 – E.7). Šis kopsavilkums ietver visus Elementus, kas jāiekļauj kopsavilkumā par šāda veida vērtspapīriem un emitentu. Tā kā atsevišķus Elementus nav nepieciešams ietvert kopsavilkumā, ir iespējamas atkāpes Elementu numerācijas kārtībā. Pat ja kāda Elementa ietveršanu kopsavilkumā paredz vērtspapīru un emitenta veids, pastāv iespēja, ka attiecīgo informāciju par konkrēto Elementu nav iespējams sniegt. Šādā gadījumā kopsavilkumā tiek ietverts īss Elementa apraksts kopā ar norādi, ka Elements nav piemērojams.

Atsevišķos Elementos kursīvā norādītas vietas, kuras tiks papildinātas ar konkrētās emisijas kopsavilkumu par Obligāciju Laidienu, par kuru ir paredzēts sagatavot šādu konkrētās emisijas kopsavilkumu.

Vārdiem un izteicieniem, kas definēti sadaļā "Definīcijas" vai citur šajā Pamatprospektā, ir tāda pati nozīme šajā kopsavilkumā.

A daļa - Ievads un brīdinājumi

A.1	Brīdinājums	Šis kopsavilkums ir jāskata kā Pamatprospekta ievads un, pieņemot ikvienu lēmumu veikt ieguldījumu Obligācijās, ieguldītājam jāapsver Pamatprospekts kopumā, ieskaitot tam pievienotos dokumentus un konkrēto Obligāciju Galīgos noteikumus. Gadījumā, ja kādas dalībvalsts tiesā tiek iesniegta prasība saistībā ar Pamatprospektā ietverto informāciju, prasītājam, atbilstoši attiecīgās dalībvalsts, kurā iesniegta prasība, tiesību aktiem, var tikt pieprasīts segt Pamatprospekta tulkošanas izmaksas pirms šādas tiesvedības uzsākšanas. Civiltiesiskā atbildība tiek piemērota tikai tām personām, kuras iesniegušas kopsavilkumu kopā ar tā tulkojumu, bet tikai tādos gadījumos, kad kopsavilkums ir maldinošs, neprecīzs vai nekonsekvents, ja to skata kopā ar citām Pamatprospekta daļām, vai, ja to skatot kopā ar citām Pamatprospekta daļām, tas nesniedz būtiskāko informāciju, kas palīdzētu ieguldītājam pieņemt lēmumu veikt ieguldījumu šādos vērtspapīros.
A.2	Piekrišana Pamatprospekta izmantošanai	Nav piemērojams.

B daļa - Emitents

B.1	Juridiskais nosaukums un komercnosaukums	Akciju sabiedrība "Attīstības finanšu institūcija Altum".
B.2	Emitenta juridiskā adrese, juridiskā forma, tiesību akti, pēc kuriem emitents veic darbību, dibināšanas valsts	ALTUM ir akciju sabiedrība, kas dibināta saskaņā ar Latvijas Republikas tiesību aktiem 2013. gada 27. decembrī. ALTUM ir reģistrēta Latvijas Republikas Komercreģistrā ar reģistrācijas numuru 50103744891, juridiskās personas identifikators (LEI kods): 5493007HPQSSX8BJ4315, un tās juridiskā adrese ir: Doma laukums 4, Rīga, LV-1050, Latvija, tālrunis: +371 67774010, e-pasts altum@altum.lv, interneta vietne: www.altum.lv. ALTUM īsteno savu darbību atbilstoši Latvijas Republikas tiesību aktiem. Galvenie Latvijas Republikas tiesību akti, kuri regulē ALTUM darbību, ir: ▪ Attīstības finanšu institūcijas likums;

		▪ Publiskas personas kapitāla daļu un kapitālsabiedrību pārvaldības likums; ▪ Komerclikums.
B.4 b	Emitentu un nozaru, kurā tas darbojas, ietekmējošo identificēto tendenču apraksts	Šī Pamatprospekta sagatavošanas dienā nav informācijas par jebkādām identificētām tendencēm, neskaidrībām, prasījumiem, saistībām vai notikumiem, kas 2019. finanšu gadā potenciāli varētu būtiski ietekmēt ALTUM vai ALTUM koncerna nākotnes perspektīvas vai arī nozares, kurās ALTUM vai ALTUM koncerns īsteno darbību.
B.5, B14	Gadījumā, ja emitents ir koncerna dalībnieks – koncerna apraksts un emitenta stāvoklis koncernā. Informācija par to vai emitents ir atkarīgs no juridiskām personām koncernā.	ALTUM ir ALTUM koncerna mātes uzņēmums. Šī Pamatprospekta sagatavošanas dienā ALTUM koncerns ietver ALTUM un divus slēgtos ieguldījumu fondus – "Hipo Latvijas nekustamā īpašuma fonds I" un "Hipo Latvijas nekustamā īpašuma fonds II", kuru vienīgais ieguldītājs ir ALTUM, kā arī šādas meitas un asociētās sabiedrības (ieguldījumi riska kapitāla fondos ir klasificēti kā meitas vai asociētās sabiedrības vienīgi finanšu uzskaites vajadzībām), kuros ALTUM ir būtiska ietekme (ieguldījumi riska kapitāla fondos): ▪ KS "Otrais Eko fonds" (33% ieguldījums kapitālā); ▪ KS "BaltCap Latvia Venture Capital Fund" (67% ieguldījums kapitālā); ▪ KS "AIF Imprimatur Capital Technology Venture Fund" (67% ieguldījumi kapitālā); ▪ KS "AIF Imprimatur Capital Seed Fund" (100% ieguldījums kapitālā); ▪ KS "ZGI-3" (95% ieguldījums kapitālā); ▪ KS "FlyCap Investment Fund I AIF" (95% ieguldījums kapitālā); ▪ KS "Expansion Capital Fund AIF" (95% ieguldījums kapitālā); ▪ "Baltic Innovation Fund" (20% ieguldījums kapitālā); ▪ KS "Buildit Latvia Pre-Seed Fund" (100% ieguldījums kapitālā); ▪ KS "Buildit Latvia Seed Fund" (80% ieguldījums kapitālā); ▪ KS "Overkill Ventures Fund I AIF" (100% ieguldījums kapitālā); ▪ KS "Overkill Ventures Fund II AIF" (80% ieguldījums kapitālā); ▪ KS "Commercialization Reactor Pre-seed Fund" (100% ieguldījums kapitālā); ▪ KS "Commercialization Reactor Seed Fund" (80% ieguldījums kapitālā); ▪ KS "ZGI-4" (60% ieguldījums kapitālā); ▪ KS "INEC 1" (75% ieguldījums kapitālā); ▪ KS "INEC 2" (90% ieguldījums kapitālā); ▪ KS "FlyCap Mezzanine Fund II" (60% ieguldījus kapitālā).
B.9	Gadījumā, ja ir ietvertas peļņas prognozes vai novērtējums, norādiet apjomu	Nav piemērojams. Šajā Pamatprospektā ALTUM nav ietvēris peļņas prognozi vai plānotās peļņas apmēru.
B.10	Revidentu ziņojumā ietverto atrunu iepriekšējās finanšu informācijas sakarā apraksts	Nav piemērojams. Nevienā no revidentu ziņojumiem par ALTUM koncerna auditētajiem konsolidētajiem gada pārskatiem par finanšu gadiem, kas noslēdzās 2016., 2017. un 2018.gada 31. decembrī, nav ietvertas nekādas atrunas.

B.12	Selektīva būtiska iepriekšējā finanšu informācija par emitentu par katru iepriekšējās finanšu informācijas apskata periodā ietverto finanšu gadu un ikvienu sekojošo starpperiodu finanšu pārskatu, pievienojot salīdzinošos datus par to pašu periodu iepriekšējā finanšu gadā, izņemot gadījumus, kad salīdzinošās bilances informācijas prasība tikusi izpildīta, sniedzot gada noslēguma bilances informāciju Apliecinājums, ka kopš pēdējā revidētā finanšu pārskata publikācijas datuma nav notikušas jebkādas būtiski nelabvēlīgas izmaiņas emitenta nākotnes perspektīvās, vai arī šādu būtiski nelabvēlīgu izmaiņu apraksts Būtisku izmaiņu finanšu stāvoklī vai tirgus pozīcijā, kas notikušas pēc iepriekšējās finanšu informācijas aptvertā perioda, apraksts	Sekojošais ALTUM koncerna konsolidēto finanšu rādītāju un galveno darbības rezultātu kopsavilkums par trīs finanšu gadiem, kas noslēdzās 2016., 2017. un 2018. gada 31. decembrī, ir izvilkums no ALTUM koncerna konsolidētajiem finanšu pārskatiem, kas sagatavoti par minētajiem periodiem un uz konkrētajiem datumiem, neveicot nekādas būtiskas korekcijas.

	Gads, kas noslēdzās 31. decembrī		
	2016 (koriģēts*)	2017 (koriģēts*)	2018 (revidēts)
Galvenie finanšu dati (ALTUM koncerns)			
Neto procentu un komisijas naudas ieņēmumi (tEUR)[1)]	11,024	11,602*	11,554
Peļņa (pārskata periodā) (tEUR)	2,170	8,709*	4,092
Izdevumu un ieņēmumu attiecība (IIA) [2)]	88.4%	50.3%*	77.1%
Darbinieku skaits[3)]	242	230	222

	Gads, kas noslēdzās 31. decembrī		
	2016 (koriģēts*)	2017 (koriģēts*)	2018 (revidēts)
Galvenie finanšu dati (ALTUM koncerns)			
Kopā aktīvi (tEUR)	443,400*	453,668*	495,939
Kapitāls bez pārvērtēšanas rezerves (KBPR) / Kopējie pārvaldītie aktīvi (KPA)[4)]	36.5%*	35.1%*	31.7%
Kapitāls un rezerves (tEUR)	210,406*	222,848*	221,590
Riska segums, kopā: [5)] (tEUR)	66,508*	67,593*	77,815
Riska seguma rezerve	63,636*	62,651*	85,276
Riska seguma rezerve, kas izmantota uzkrājumiem	-4,323	-4,753	-19,268
Portfeļa zaudējumu rezerve (speciālais rezerves kapitāls)	7,195	9,695	11,807
Likviditātes rādītājs 180 dienām[6)]	449%	482%*	227%

	Gads, kas noslēdzās 31. decembrī		
	2016 (koriģēts*)	2017 (koriģēts*)	2018 (revidēts)
Finanšu instrumenti (bruto vērtībā)			
Portfelis (tEUR) (pa finanšu instrumentiem)			
Kredīti	217,429	207,585	217,131
Garantijas	147,175	182,376	236,895
Riska kapitāls	64,785**	62,299**	59,698
Kopā	429,389**	452,260**	513,724
Līgumu skaits	11 449	14,402	18,280
Piešķirtie apjomi (tEUR) (pa finanšu instrumentiem)			
Kredīti	59,465	51,869	66,443
Garantijas	56,109	68,615	88,765
Riska kapitāls	21,356	2,638	4,149
Kopā	136,929	123,122	159,357
Līgumu skaits	4,461	4,697	5,464
Piesaistītā privātā finansējuma sviras koeficients [7)]	162%	185%	162%

* Dēļ uzskaites politikas maiņas attiecībā uz ieguldījumiem riska kapitāla fondos, atbilstoši koriģējot, ir mainīti arī salīdzinošie rādītāji par 2017. un 2016. gadu.

** Riska kapitāla fondi uzrādīti to bruto vērtībā.

1) Neto procentu un komisijas naudas ieņēmumus" veido sekojoši Visaptverošo ienākumu pārskata posteņi: "Neto procentu ieņēmumi" un "Neto komisijas ieņēmumi". ALTUM šo rādītāju izmanto kā būtiskāko pelnītspējas rādītāju, novērtējot ALTUM koncerna neto ieņēmumu apjomu, ko ģenerē Finanšu instrumentu portfelis, un kas atspoguļots Visaptverošo ienākumu pārskatā. ALTUM vadība neto ieņēmumu apjoma faktisko izpildi ik ceturksni novērtē pret ALTUM koncerna budžetā apstiprināto apjomu.
2) "Izdevumu un ieņēmumu attiecība" (IIA) tiek aprēķināta "Personāla izmaksu", "Administratīvo izdevumu" un "Nemateriālo aktīvu un pamatlīdzekļu nolietojuma summu" dalot ar "Pamatdarbības ienākumiem pirms pamatdarbības izdevumiem", kas

atspoguļoti Visaptverošo ienākumu pārskatā. ALTUM IIA rādītāju izmanto, lai novērtētu ALTUM koncerna operacionālās darbības efektivitāti. Šis ir viens no darbības efektivitātes novērtēšanas rādītājiem, kuru ALTUM vadība ik ceturksni vērtē vadības atskaitēs, lai novērtētu dažādu aktivitāšu darbības rezultātus un efektivitāti uzlabojošo pasākumu rezultātus.

3) "Darbinieku skaits" tiek aprēķināts kā vidējais darbinieku skaits periodā, neiekļaujot Padomes un Revīzijas komitejas locekļus.

4) "Kapitāls bez pārvērtēšanas rezerves" (KBPR)/"Kopējie pārvaldītie aktīvi" (KPA) (KBPR/KPA).
"Kapitāls bez pārvērtēšanas rezerves" (KBPR) tiek aprēķināts no "Kopā kapitāls" atskaitot "Pārdošanai pieejamo ieguldījumu pārvērtēšanas rezervi".
"Kopējie pārvaldītie aktīvi" (KPA) iekļauj ALTUM koncerna kopējos aktīvus, pieskaitot ārpusbilancē uzskaitīto garantiju apjomu, ņemot vērā uzkrājumus garantijām, no kura atņemti "Nākamo periodu izdevumi", "Uzkrātie ieņēmumi", "Pamatlīdzekļi", "Nemateriālie aktīvi", "Pārējie aktīvi" un "Pārdošanai pieejamie aktīvi".
Abu rādītāju (KBPR, KPA) aprēķinā izmantotie posteņi atspoguļoti ALTUM koncerna finanšu pārskatos: Pārskatā par finanšu stāvokli un Kapitāla un rezervju izmaiņu pārskatā, pielikumos – Ārpusbilances posteņi un iespējamās saistības un Uzkrājumi. ALTUM rādītāju "KBPR/KPA" izmanto, lai novērtētu ALTUM koncerna kapitāla pietiekamību un lai novērtētu ieguldītā kapitāla īpatsvaru kopējos pārvaldāmajos aktīvos, pieskaitot ārpusbilancē uzskaitīto garantiju portfeli. ALTUM Aktīvu, pasīvu un riska vadības komiteja ik ceturksni vērtē šī rādītāja lielumu.

5) "Riska segums, kopā" ir tīrais finansējums, kas pieejams ALTUM ieviesto atbalsta programmu sagaidāmo kredītzaudējumu segumam. "Riska segums, kopā" ir "Riska seguma rezerves" un "Portfeļa zaudējumu rezerves" (speciālais rezerves kapitāls) kopsumma, no kuras atskaitīta "Riska seguma rezerve", kas izmantota uzkrājumiem. Sagaidāmie zaudējumi tiek aplēsti pirms attiecīgās atbalsta programmas ieviešanas un daļa no publiskā finansējuma, kas tiek saņemta attiecīgās atbalsta programmas ietvaros sagaidāmo kredītriska zaudējumu segumam, tiek novirzīta vai nu "Portfeļa zaudējumu rezervē", kas ir ALTUM koncerna speciālais rezerves kapitāls, vai uzskaitīta atsevišķi kā uzkrājumi riska segumam "Riska seguma rezervē" saistībās. "Portfeļa zaudējumu rezerve" (speciālais rezerves kapitāls) ir atspoguļots ALTUM koncerna finanšu pārskatu pielikumā "Rezerves", savukārt "Riska seguma rezerve" ir atspoguļota ALTUM koncerna finanšu pārskatu pielikumā "Atbalsta programmu finansējums un valsts atbalsts". "Riska seguma rezerve", kas izmantota uzkrājumiem, ir "Riska seguma rezerves" apjoms, kas alocēts un izmantots uzkrājumiem aizdevumu portfeļa vērtības samazinājumam un uzkrājumiem garantijām, un tā attiecīgi atspoguļota ALTUM koncerna finanšu pārskatu pielikumos "Kredīti" un "Uzkrājumi".
"Riska segums, kopā" ir pamatrādītājs, novērtējot riska segumu ALTUM ieviestajās atbalsta programmās, kā arī vērtējot ALTUM koncerna ilgtermiņa finanšu stabilitāti.

6) "Likviditātes rādītājs 180 dienām" tiek aprēķināts, "Prasību pret citām kredītiestādēm un Valsts kasi" ar termiņu līdz 1 mēnesim un "Finanšu aktīvi patiesajā vērtībā ar pārvērtēšanu pārējos ienākumos un ieguldījumu vērtspapīros" summu dalot ar "Kopējo saistību ar maksājuma termiņu" līdz 6 mēnešiem un "Kopējo finansiālo saistību" ar maksājuma termiņu līdz 6 mēnešiem (ārpusbilances postenis) summu. "Likviditātes rādītāja 180 dienas" aprēķinam nepieciešamie dati ir atspoguļoti ALTUM koncerna finanšu pārskatos: Pārskatā par finanšu stāvokli un sekojošos pielikumos – Ārpusbilances posteņi un iespējamās saistības un Aktīvu un saistību sadalījums pēc to atlikušās atmaksas un dzēšanas termiņa. ALTUM "Likviditātes rādītājs 180 dienām" izmanto, lai novērtētu un uzraudzītu ALTUM koncerna spēju ar tā rīcībā esošajiem likvīdajiem aktīviem segt klientu un citu kreditoru juridiski pamatotās prasības vai iespējamās saistības, kas iestāsies tuvākajos 6 (sešos) mēnešos. "Likviditātes rādītājs 180 dienām" palīdz vadīt ALTUM koncerna likviditātes risku atbilstoši ALTUM koncerna/ALTUM resursu vadības stratēģijai un risku pārvaldīšanas stratēģijai. Šī rādītāja līmeni ik ceturksni vērtē ALTUM Aktīvu, pasīvu un risku vadības komiteja.

7) "Piesaistītā privātā finansējuma sviras koeficients" parāda projektā papildus ALTUM finansējumam ieguldītā privātā finansējuma apjomu. Koeficients tiek noteikts, ņemot vērā finansējumu, kuru papildus ALTUM finansējumam ir ieguldījis privātais līdzfinansētājs un projekta īstenotājs, kas vidēji aizdevumiem ir līdz pat 50 procentiem, garantijām un riska kapitālam līdz pat 70 procentiem (izņemot mājokļu aizdevumu garantijas programmas pirmajai iemaksai, kur šis koeficients ir 795 procenti).

Kopš ALTUM koncerna revidētā konsolidētā finanšu pārskata par 2018. gadu apstiprināšanas dienas nav notikušas būtiskas negatīvas izmaiņas ALTUM vai ALTUM koncerna nākotnes perspektīvās.

Kopš 2018. gada 31.decembra nav notikušas būtiskas negatīvas izmaiņas ALTUM vai ALTUM koncerna finanšu stāvoklī un tirgus pozīcijās.

B.13	Aktuālu, emitentu ietekmējošu notikumu apraksts, kas ir būtiski emitenta maksātspējas novērtēšanai	Nav piemērojams. Kopš pēdējo revidēto vai nerevidēto finanšu pārskatu publicēšanas datuma nav iestājušies nekādi būtiski apstākļi, kas varētu būt nozīmīgi ALTUM maksātspējas novērtēšanai.
B.15	Emitenta galveno darbības jomu apraksts	ALTUM ir attīstības finanšu institūcija, kas sniedz valsts finansiālo atbalstu uzņēmējdarbībai un noteiktām iedzīvotāju grupām Latvijā. ALTUM veic šo uzdevumu un nodrošina mazajiem un vidējiem uzņēmumiem pieeju finansējumam, izmantojot virkni finanšu instrumentu (galvenokārt aizdevumus un garantijas) un riska kapitāla fondus. ALTUM piedāvā arī tehnisko atbalstu – konsultācijas un apmācības vairākās jomās, piemēram, par ēku atjaunošanu un energoefektivitāti vai lauksaimniecības uzņēmējdarbības attīstību.
B.16	Apmērā, kādā šāda informācija ir emitenta rīcībā, norādīt vai emitentu tieši vai netieši pārvalda vai kontrolē kāda persona (norādīt), sniegt šādas kontroles aprakstu	ALTUM ir reģistrēta atbilstoši Latvijas Republikas tiesību aktiem kā akciju sabiedrība. ALTUM vienīgais akcionārs ir Latvijas Republika. ALTUM 40% akciju un balsstiesību turētājs ir Latvijas Republikas Finanšu ministrija, 30% – Latvijas Republikas Ekonomikas ministrija un 30% – Latvijas Republikas Zemkopības ministrija.
B.17	Emitentam vai tā parāda vērtspapīriem, pēc emitenta pieprasījuma vai emitentam sadarbojoties vērtēšanas procesā, piešķirtais kredītreitings	Moody's Investors Service 2019. gada 25. martā apstiprināja ALTUM ilgtermiņa emitenta reitingu Baa1 ar stabilu prognozi, un bāzes kredītnovērtējums (BCA) tika paaugstināts uz baa3 no ba2. Īstermiņa emitenta reitings tika apstiprināts P-2 līmenī. Programmas ietvaros emitēto Obligāciju Sērijām var tikt piešķirts kredītreitings, kā arī tās var būt bez reitinga. Ja tiktu piešķirts reitings, tad šāds reitings var atšķirties no ALTUM piešķirtā reitinga. Kredītreitings nav uzskatāms par rekomendāciju pirkt, pārdot vai turēt kādus vērtspapīrus un reitingu aģentūra, kas piešķīrusi konkrēto reitingu, var to apturēt, samazināt vai atcelt jebkurā brīdī. Konkrētās emisijas kopsavilkums: Reitings emitētajām Obligācijām [nav piešķirts/ir piešķirts/paredzams, ka to piešķirs] aģentūra [●]]

C daļa - Vērtspapīri

C.1	Piedāvāto un/vai tirgū iekļauto vērtspapīru veids un kategorija, ieskaitot vērtspapīru identifikācijas numurs	Nekonvertējamas, nenodrošinātas un bezgarantiju Obligācijas ar kopējo nominālvērtību līdz 70,000,000 EUR. Obligācijas ir dematerializēti uzrādītāja parāda vērtspapīri. Obligācijas tiks emitētas vienā vai vairākās Sērijās. Katra Obligāciju emisijas Sērija var sastāvēt no viena vai vairākiem Laidieniem. Viena Laidiena Obligācijas ir pakļautas identiskiem noteikumiem, izņemot atšķirības dažādu Laidienu emisijas datumos un emisijas cenās. Katras Sērijas un Laidiena identifikācijas mērķim Galīgajos noteikumos tiek norādīts katras Sērijas un katra Laidiena kārtas numurs. Konkrētās emisijas kopsavilkums: Obligāciju Sērijas numurs: [●] Laidiena numurs: [●] Pirms katras Sērijas pirmā Laidiena piedāvājuma uzsākšanas, attiecīgajai Sērijai tiek piešķirts ISIN kods. Gadījumā, ja tiek emitēts vēl kāds Laidiens, kas kopā ar jau emitēto Laidienu noteiktā datumā pēc jau emitētā Laidiena

		Emisijas datuma veidos vienu Sēriju, tad šādām nākamā Laidiena Obligācijām var tikt piešķirts pagaidu ISIN kods, kas atšķiras no attiecīgajai Sērijai piešķirtā ISIN koda, un tiek izmantots līdz brīdim, kad Laidieni tiek apvienoti vienā Sērijā. Konkrētās emisijas kopsavilkums: ISIN kods: [[●]/[Pagaidu ISIN kods: [●]. Pēc Obligāciju iekļaušanas regulētajā tirgū, Obligācijas tiek apvienotas vienā Sērijā ar [●], izmantojot vienotu ISIN kodu [●]].
C.2	Vērtspapīru emisijas valūta	EUR
C.5	Vērtspapīru brīvas pārvedamības ierobežojumu apraksts	Obligācijas ir brīvi pārvedami vērtspapīri. Tomēr Obligācijas nevar tikt piedāvātas, pārdotas, tālākpārdotas, pārvestas vai nodotas tādās valstīs vai jurisdikcijās vai citādi, tādos apstākļos, kur šādu pasākumu īstenošana ir pretlikumīga vai paredz tādu papildu pasākumu īstenošanu, kādi netiek paredzēti Latvijas Republikas tiesību aktos, ieskaitot Amerikas Savienotās Valstis, Austrāliju, Kanādu, Honkongu, Japānu, Dienvidāfriku, Singapūru un citas noteiktas jurisdikcijas. Turklāt Obligacionāri nedrīkst Obligācijas tālākpārdot, pārvest vai nodot nevienai personai tādā veidā, kas varētu tikt uzskatīts par vērtspapīru publisku piedāvājumu.
C.8, C.9	No obligācijām izrietošo tiesību apraksts, ieskaitot • dalījumu kategorijās • tiesību ierobežojumus • nominālo procentu likmi • dienu, no kuras jāveic procentu maksājumi • procentu maksājumu datumus • ja likme nav fiksēta, pamata instrumenta, kas pamato likmi, apraksts • atmaksāšanas termiņu • aizņēmuma amortizācijas noteikumus, ieskaitot atmaksāšanas kārtību • ienesīguma prognozes • parāda vērtspapīru turētāju pārstāvja nosaukumu/ vārdu un uzvārdu	Dalījums kategorijās Obligācijas veido tiešas, nenodrošinātas un bezgarantiju Emitenta saistības, kas kategorizējamas pari passu bez jebkādām priekšrocībām vienām pret otru, kā arī attiecībā pret visām Emitenta nenodrošinātām, bezgarantiju un nesubordinētām parādsaistībām, izņemot saistības, kas atbilstoši obligāto tiesību aktu prasībām uzskatāmas par prioritārām. Emisijas cena Obligācijas var tikt emitētas to nominālvērtībā vai arī piemērojot emisijas atlaidi vai emisijas uzcenojumu. Procentu likme Obligācijām tiek noteikta fiksēta Gada procentu likme. Procentu maksājumi veicami reizi gadā Galīgajos noteikumos noteiktajos procentu samaksas datumos. Procenti tiek uzkrāti par konkrētajā brīdī neatmaksāto Obligāciju pamatsummu par katru procentu periodu no procentu perioda pirmās dienas (ieskaitot) līdz procentu perioda pēdējai dienai (neieskaitot). Pirmais procentu periods sākas Emisijas datumā un noslēdzas iepriekšējā dienā pirms pirmā procentu samaksas datuma. Katrs nākamais procentu periods sākas iepriekšējā procentu samaksas datumā un noslēdzas iepriekšējā dienā pirms nākamajā procentu samaksas datuma. Pēdējais procentu periods noslēdzas Dzēšanas datumā. Procenti par Obligācijām tiek aprēķināti, konkrētajā procentu periodā pagājušo dienu skaitu dalot ar 365 (vai t.s. garā gada gadījumā – ar 366), t.i., tiks izmantots dienu aprēķina princips Act/Act (ICMA). Konkrētās emisijas kopsavilkums: Procentu Samaksas datums: katra gada [●] Ienesīguma norādīšana Emitents norāda piedāvāto Obligāciju paredzamā Ienesīguma līdz dzēšanai (Yield to Maturity) diapazonu pirms Obligāciju Izvietošanas perioda sākuma, publicējot attiecīgu paziņojumu Emitenta interneta vietnē www.altum.lv.

		Tomēr Obligāciju Izvietošanas periodā Emitents ir tiesīgs mainīt paredzēto Ienesīguma līdz dzēšanai diapazonu. Galīgā ienesīguma līdz dzēšanai, Gada procentu likmes un Emisijas cenas noteikšana Galīgais ienesīgums līdz dzēšanai tiks noteikts pēc Izvietošanas perioda, balstoties uz ieguldītāju iesniegtajiem pirkuma pieteikumiem. Galīgais ienesīgums līdz dzēšanai būs vienāds visiem ieguldītājiem, kas attiecīgā piedāvājuma ietvaros iegādāsies attiecīgā Laidiena Obligācijas. Noteiktais Galīgais ienesīgums līdz dzēšanai tiks iekļauts Galīgajos noteikumos, kas tiks publicēti pēc Obligāciju izvietošanas ieguldītājiem. Konkrētās emisijas kopsavilkums: Galīgais ienesīgums līdz dzēšanai: [●] Gada procentu likme (kupons) tiks noteikta, noapaļojot Galīgo ienesīgumu līdz dzēšanai uz leju līdz noapaļotā skaitļa tuvākajai desmitdaļai (kas ir procentos izteikts lielums). Noteiktā Gada procentu likme tiks iekļauta Galīgajos noteikumos, kas tiks publicēti pēc Obligāciju izvietošanas ieguldītājiem. Konkrētās emisijas kopsavilkums: Gada procentu likme: [●] Obligāciju Emisijas cena tiek noteikta saskaņā ar Galīgajos noteikumos ietverto formulu attiecībā uz konkrēto Laidienu, noapaļojot summu līdz tuvākajai tūkstošdaļai atbilstoši aritmētikas likumiem par skaitļu noapaļošanu. Noteiktā Emisijas cena tiks iekļauta Galīgajos noteikumos, kas tiks publicēti pēc Obligāciju piešķiršanas ieguldītājiem. Konkrētās emisijas kopsavilkums: Emisijas cenas aprēķināšanas formula: [●] Konkrētās emisijas kopsavilkums: Emisijas cena: [●] Galīgie noteikumi, kas ietvers informāciju par apstiprināto Galīgo ienesīgumu līdz dzēšanai, Gada procentu likmi, Emisijas cenu, konkrētā Laidiena kopējo pamatsummu un emitējamo Obligāciju skaitu tiks publicēti Emitenta interneta vietnē www.altum.lv un pēc Obligāciju piešķiršanas ieguldītājiem tiks iesniegta Finanšu un kapitāla tirgus komisijai. Dzēšanas termiņš Obligāciju sērijas dzēšanas termiņš var būt līdz 10 (desmit) gadiem. Konkrētās emisijas kopsavilkums: Dzēšanas termiņš: [●] Atpirkšana Obligācijas tiek atmaksātas to nominālvērtības pilnā apmērā Dzēšanas datumā. Emitentam nav tiesību atpirkt Obligācijas pirms Dzēšanas datuma, izņemot gadījumus, kad Emitents ir veicis Obligāciju pirmstermiņa atmaksu Emitenta Akcionāru maiņas gadījumā vai, iestājoties kādam Saistību neizpildes gadījumam, vai arī gadījumā, ja Obligacionāru sapulce, pamatojoties uz Emitenta ierosinājumu, pieņem lēmumu par Obligāciju atpirkšanu pirms noteiktā Dzēšanas datuma.

		Obligacionāru pārstāvis Obligacionāru tiesības izveidot un/vai pilnvarot kādu fizisku vai juridisku personu pārstāvēt visu Obligacionāru vai kādas to daļas intereses netiek noteiktas, taču nav paredzēti arī šādu tiesību ierobežojumi. Obligacionāriem ir pienākums pašiem segt visas izmaksas/izdevumus, kas ir saistīti ar šādas pārstāvniecības nodrošināšanu.
C.10	Ja procentu maksājums par vērtspapīru ir balstīts uz atvasinātu instrumentu, sniedziet skaidru un izsmeļošu skaidrojumu, lai palīdzētu ieguldītājiem izprast, kā to ieguldījumu vērtību ietekmē šāda (-u) instrumenta (-u) vērtība, jo īpaši izteikta riska apstākļos	Nav piemērojams. Obligāciju procentu maksājumi nav balstīti uz atvasinātajiem instrumentiem.
C.11	Informācija par to vai par piedāvātajiem vērtspapīriem ir/ tiks iesniegts pieprasījums par iekļaušanu tirgū to izplatīšanai regulētā tirgū vai kādā citā līdzvērtīgā tirgū, norādot attiecīgos tirgus	Emitents iesniedz pieteikumu par katra Laidiena iekļaušanu Nasdaq Riga oficiālajā parāda vērtspapīru sarakstā (Baltijas parāda vērtspapīru sarakstā). Šāds pieteikums tiek sagatavots atbilstoši Nasdaq Riga prasībām un tiek iesniegts Nasdaq Riga 3 (trīs) mēnešu laikā pēc attiecīgā Laidiena Emisijas datuma.

D daļa - Riski

D.2	Būtiska informācija par emitentam raksturīgiem būtiskiem riskiem	Makroekonomiskie un politiskie riski ▪ Globālā, reģionālā vai vietējā ekonomiskā stāvokļa un/vai Latvijas valdības finansiālā stāvokļa nopietna pasliktināšanās. ▪ Iespējamā būtiskā Latvijas ekonomikas lejupslīde. ▪ Iespējamā straujā Latvijas galveno eksporta tirgu attīstības tempu samazināšanās. ▪ Negaidīts vai būtisks Eiropas Savienības fondu samazinājums, kas var nelabvēlīgi ietekmēt Latvijas ekonomisko izaugsmi. ▪ Iespējamā Latvijas fiskālā stāvokļa būtiska pasliktināšanās. ▪ Iespējamā makroekonomiskās nelīdzsvarotības rašanās, kas varētu nelabvēlīgi ietekmēt Latvijas ekonomisko stabilitāti. ▪ Ievērojama lejupslīde Ziemeļvalstu nekustamā īpašuma tirgū, kas varētu ietekmēt mātes banku finansējuma izmaksas un attiecīgi varētu nelavēlīgi ietekmēt ekonomikas izaugsmi un kreditēšanas apjomus Latvijā. ▪ Vietējo banku atkarība no nerezidentu noguldījumiem, kas parasti ir pakļauti lielākam svārstīgumam un lielākam noziedzīgi iegūtu līdzekļu

		legalizēšanas un teroristu finansēšanas riskam, kā arī riskiem, kas saistīti ar ārpolitikas attīstību. ▪ Citi faktori, piemēram, bezdarba līmenis Latvijā, migrācijas tendences, patērētāju pirktspēja un cenu līmeņa dinamika, izmaiņas Eirozonas monetārajā vidē un vispārējā politiskā stabilitāte ES. ▪ Latvijas Republikas valdības pieņemtie politiskie un sociālie lēmumi. Ar saimniecisko darbību saistītie riski ▪ Latvijas Republikas Ministru kabinets novirza atmaksātos līdzekļus no publiskā finansējuma ALTUM finanšu instrumentu programmu turpināšanai un jaunu programmu īstenošanai. Pastāv risks, ka Latvijas Republikas Ministru kabinets var nolemt apturēt atmaksāto līdzekļu atkārtotu ieguldīšanu jaunās aktivitātēs, kā rezultātā ALTUM saņems mazāku finansējumu. Tas palielinātu finansējuma izmaksas, kas nelabvēlīgi ietekmētu ALTUM koncerna likviditāti, saimniecisko darbību un finanšu stāvokli. ▪ Pastāv risks, ka 2021.-2027. gada plānošanas periodam Latvija varētu saņemt mazāku finansējuma apjomu no Eiropas Reģionālā Attīstības fonda. Finansējuma samazinājums ietekmēs grantu programmas, līdz ar to Eiropas Savienības fondu finansējums, kas piešķirts 2014.-2020. gada plānošanas periodam, daļēji varētu tikt pārdalīti grantu programmām, kā rezultātā Eiropas Savienības finansējums, kas ir pieejams ALTUM īstenotajiem finanšu instrumentiem, varētu samazināties. Tādēļ ALTUM meklē citus finansējuma avotus. Ja papildus publiskajam finansējumam citi finansējuma avoti nebūtu pieejami un Eiropas Reģionālā attīstības fonda sniegtais finansējums tiktu samazināts, pastāv iespēja, ka ALTUM programmu apjoms tiks samazināts, novedot pie tā, ka lielāko daļu no programmās atmaksātajiem līdzekļiem patērētu administratīvās izmaksas un daļa no jaunajām programmām tiktu slēgtas. Tas var nelabvēlīgi ietekmēt ALTUM koncerna saimniecisko darbību un finanšu stāvokli. ▪ Programmās, kas tiek finansētas no ES fondu 2014.-2020. gada plānošanas perioda finansējuma, noteikts, ka ALTUM jāsasniedz progress, ko apliecina uzraudzības rādītāji, un noteikti finanšu apjomi līdz 2023. gadam. Ja ALTUM nesasniegs plānotos finanšu apjomus līdz 2023. gadam, finanšu instrumentiem pieejamais finansējums var tikt samazināts. Tas var būtiski nelabvēlīgi ietekmēt ALTUM koncerna saimniecisko darbību un finanšu stāvokli. Šobrīd nav konstatēts risks attiecībā uz finanšu apjomu sasniegšanu līdz 2023.gadam. ▪ ES fondu 2014.-2020. gada plānošanas periodā atbalstītie riska kapitāla fondi pieļauj atšķirīgu privātā līdzfinansējuma apjoma piesaisti atkarībā no uzņēmuma, kurā fonds veiks investīcijas, attīstības stadijas. Temps, kādā tiek veikti ieguldījumi programmā, ir atkarīgs no fonda pārvaldnieku spējas piesaistīt privāto līdzfinansējumu. Ja ALTUM izvēlētie riska kapitāla fondu pārvaldnieki nespētu piesaistīt privāto līdzfinansējumu nepieciešamos apjomos, nepieciešamais ALTUM ieguldījumu apjoms riska kapitāla fondos var netikt sasniegts ES fondu noteikumu definētajā izmaksu attiecināmības periodā. Tas var nelabvēlīgi ietekmēt ALTUM koncerna saimniecisko darbību un finanšu stāvokli. ▪ Ja kāda iemesla dēļ mainās ES lauksaimniecības finansēšanas politika, kas samazina tiešos maksājumus Latvijas lauksaimniekiem, tas varētu ietekmēt ALTUM darbības sniegumu. ▪ Pastāv risks, ka ALTUM darbības jomas ilgtermiņā varētu sarukt, ņemot vērā ALTUM klientu pieaugošo iespēju piekļūt privātā finansējuma

		sniedzēju piedāvātajiem finanšu instrumentiem un/vai ALTUM piedāvāto produktu neaktualitātes dēļ, ko izraisījušas pārmaiņas uzņēmējdarbības vidē ALTUM apkalpotajā tirgus nišā. Līdz ar to ALTUM konkurējošās pozīcijas pasliktināšanās un/vai ievērojamas daļas klientu bāzes zaudējums var nelabvēlīgi ietekmēt ALTUM koncerna saimniecisko darbību un finanšu stāvokli. ▪ Saskaņā ar Attīstības finanšu institūcijas likumu Latvijas valsts ir atbildīga par ALTUM izsniegtajām garantijām tādā apmērā, kā katru gadu noteikts likumā "Par valsts budžetu". Pastāv risks, ka kopējais maksimālais garantiju riska apmērs, kam ir piešķirts valsts nodrošinātu garantiju statuss, varētu tikt samazināts vai pat nenodrošināts, kā rezultātā ALTUM būtu spiesta samazināt izsniegto garantiju apjomus un/vai palielināt ALTUM komisijas par garantiju izsniegšanu, kas sadārdzinātu ALTUM pakalpojumus. Turklāt, ja ALTUM trūks atbilstoša riska seguma garantiju aktivitātēm, Latvijas Republikas Finanšu ministrija var pieņemt lēmumu pārtraukt jaunu garantiju izsniegšanu. Tas var nelabvēlīgi ietekmēt ALTUM koncerna saimniecisko darbību un finanšu stāvokli. ▪ Eiropas Komisija ir atļāvusi ALTUM veikt saimniecisko darbību līdz 2022. gada 31. decembrim. Eiropas Komisija var pagarināt atļauju pēc atkārtota izvērtējuma sagatavošanas. Pastāv risks, ka, sākot ar 2023. gada 1. janvāri, ALTUM saimnieciskās darbības apjoms var tikt samazināts, pašreizējā saimnieciskās darbības aktivitātes var tikt pārtrauktas un/vai aizstātas ar jaunām saimnieciskās darbības aktivitātēm. Tas var nelabvēlīgi ietekmēt ALTUM koncerna saimniecisko darbību un finanšu stāvokli. ▪ Ņemot vērā, ka valsts atbalsta programmas tiek īstenotas saskaņā ar ES tiesisko regulējumu, pastāv risks, ka ALTUM un tās sadarbības partneri (finanšu starpnieki) var iztulkot un piemērot ES tiesību aktus citādi nekā uzraudzības iestādes, veicot pārbaudes. Lai nodrošinātu preventīvu risku pārvaldību, kā arī savlaicīgu koriģējošu pasākumu ieviešanu atbilstības risku mazināšanai vai novēršanai, ALTUM ir izveidojis risku pārvaldības sistēmu. Neraugoties uz ALTUM pūlēm, neatbilstība noteikumiem, kas regulē programmu īstenošanu, var nelabvēlīgi ietekmēt ALTUM koncerna saimniecisko darbību un finanšu stāvokli. ▪ ALTUM veic visas nepieciešamās darbības, lai samazinātu iespējamību, ka saimnieciskā darbība tiek veikta ar klientiem, kas ir iesaistīti vai varētu būt iesaistīti noziedzīgi iegūtu līdzekļu legalizācijā vai terorisma finansēšanā, ievērojot visas tiesību aktos noteiktās prasības un savā saimnieciskajā darbībā ievērojot "zini savu klientu" principus. Pastāv risks, ka ALTUM veiktās darbības var būt nepietiekamas, lai novērstu noziedzīgi iegūtu līdzekļu legalizāciju vai terorisma finansēšanu, kā rezultātā ALTUM varētu ciest zaudējumus, tikt pakļauts juridiskām sankcijām vai tā reputācija varētu pasliktināties. Tas var nelabvēlīgi ietekmēt ALTUM saimniecisko darbību un finanšu stāvokli. ▪ Pastāv risks, ka ALTUM nav veikusi vajadzīgos pasākumus, lai nodrošinātu atbilstību Eiropas Parlamenta un Padomes 2016. gada 27. aprīļa Regulai (ES) 2016/679 par fizisku personu aizsardzību attiecībā uz personas datu apstrādi un šādu datu brīvu apriti un ar ko atceļ Direktīvu 95/46/EK (Vispārīgā datu aizsardzības regula). Tas var negatīvi ietekmēt ALTUM finansiālo stāvokli un reputāciju. Finanšu riski ▪ ALTUM īsteno virkni valsts atbalsta programmu, kurās tai nav pilnas kontroles pār līdzekļu izlietojumu. Pastāv risks, ka Latvijas Republikas

		Centrālā finanšu un līgumu aģentūra varētu atzīt daļu no izdevumiem par tādiem, kas nav tiesīgi saņemt finansējumu. Šādā gadījumā ALTUM būtu jāsedz izmaksas no saviem līdzekļiem un ar piedziņas palīdzību jācenšas tos atgūt no parādniekiem. Savukārt tas ietver risku, ka līdzekļu atgūšana nebūs iespējama vai ir maz ticama un izdevumiem būs nelabvēlīga ietekme uz ALTUM finanšu rādītājiem. ▪ Nosakot kompensācijas maksājumu apjomu, ALTUM programmu noteikumi un nosacījumi, kurus apstiprinājis Latvijas Republikas Ministru kabinets, paredz, ka starpību starp piemērojamo ES regulu noteikto limitu un biznesa plānā paredzēto summu sedz no ES struktūrfonda un valsts budžeta finansējuma atmaksām. Pastāv risks, ka izmaiņas šos jautājumus regulējošos valsts un ES noteikumos nelabvēlīgi ietekmēs ALTUM finanšu stāvokli, ja tiks noteikti papildus ierobežojumi kompensācijas maksājumiem. ▪ Pastāv risks ciest zaudējumus, ja ALTUM klienti vai sadarbības partneri nespēj vai atsakās izpildīt savas saistības pret ALTUM saskaņā ar noslēgto līgumu noteikumiem un nosacījumiem. Pakļautība kredītriskam tiek mazināta, nodrošinot riska darījumam atbilstošas ķīlas vai cita veida nodrošinājumus, kā arī nodrošinot segumu sagaidāmajiem zaudējumiem, kas rodas dēļ lielāka kredītriska līmeņa valsts atbalsta un attīstības programmu īstenošanā. ▪ Pastāv risks ciest zaudējumus, ja ALTUM nespēs savlaicīgi izpildīt savu kreditoru tiesiski pamatotus prasījumus, vai, ja iestājas noteikti apstākļi, piemēram, neparedzēts aizdevuma portfeļa un citu aktīvu naudas plūsmu apjomu samazinājums, kas novestu pie būtiska ALTUM rīcībā esošo likvīdo aktīvu iztrūkuma. ▪ Pastāv risks ciest zaudējumus saistībā ar valūtas maiņas likmes svārstībām no ārvalstu valūtās denominēto bilances un ārpusbilances posteņu pārvērtēšanas. ▪ Pastāv risks ciest zaudējumu saistībā ar izmaiņām ALTUM ieņēmumiem un/vai izdevumiem piemērojamajās procentu likmēs un tās ekonomiskajā vērtībā.
D.3	Nozīmīga informācija par būtiskākajiem riskiem, kas ir raksturīgi vērtspapīriem	▪ Obligācijas var nebūt piemērots ieguldījuma objekts visiem ieguldītājiem. Ikvienam ieguldītājam ir jāizvērtē ieguldījumu atbilstība, balstoties uz paša ieguldītāja specifiskiem apstākļiem, ieskaitot ietekmi uz šādu Obligāciju vērtību un šādu ieguldījumu ietekmi uz ieguldītāja ieguldījumu portfeli kopumā. ▪ ALTUM maksātnespējas iestāšanās gadījumā vai arī, ja tiek ierosināts ALTUM tiesiskās aizsardzības process vai ārpustiesas tiesiskās aizsardzības process, ieguldītāji var zaudēt procentus un ieguldīto pamatsummu. ▪ Obligācijas ir nenodrošinātas ALTUM saistības, bez jebkādām papildu garantijām un nodrošinājuma. Emitenta maksātnespējas gadījumā Obligacionāri kļūst par nenodrošinātiem kreditoriem. Uz 2018. gada 31.decembri ALTUM nodrošinātie kreditori ir Latvijas Republikas Valsts kase (38,215 miljonu eiro apmērā) un Eiropas Investīciju banka (38,194 miljonu eiro apmērā). Maksātnespējas gadījumā ALTUM aktīvi tiks izmantoti Obligacionāru prasījumu izpildei tikai pēc Latvijas Republikas Valsts kases, Eiropas Investīciju bankas un citu priviliģēto kreditoru prasījumu apmierināšanas. ▪ Obligācijas neietver apņemšanās, kas regulē ALTUM darbību, un neierobežo tā iespējas apvienoties vai slēgt citus nozīmīgus darījumus, kas var būtiski nelabvēlīgi ietekmēt Obligācijas un Obligacionārus. Šādu

		darījumu slēgšana no ALTUM puses var atstāt būtisku nelabvēlīgu ietekmi uz Obligacionāriem. Turklāt attiecīgu normatīvo aktu grozījumu gadījumā ALTUM pašreizējais akcionārs – Latvijas valsts – var atsavināt jebkuras vai visas tai piederošās daļas. ▪ Jebkādas nelabvēlīgas izmaiņas ALTUM finanšu stāvoklī vai nākotnes prognozēs var būtiski nelabvēlīgi ietekmēt Obligāciju likviditāti un var novest pie būtiska to tirgus cenas krituma, un tādejādi samazinot iespēju, ka pilna samaksa Obligacionāriem tiks veikta laikā. ▪ ALTUM nav noteikts aizliegums palielināt parādsaistības. Tas attiecīgi var palielināt prasījumu skaitu, ieskaitot to prasījumu skaitu, kas saistīti ar ALTUM maksātnespējas gadījumu, kas ir proporcionāli apmierināmi no izmaksātajiem līdzekļiem. Turklāt attiecībā uz trešajām personām nav piemērojami noteikumi, kas regulē nodrošinājuma līdzdalības nodibināšanas tiesības trešo personu interesēs, kā, piemēram, Īpašuma ieķīlāšanas/apgrūtināšanas aizliegums (Negative pledge), kas nozīmē, ka gadījumā, ja šāds nodrošinājums ir nodibināts kādas trešās personas labā, pat ja tas ir nodibināts pārkāpjot ALTUM noteiktās saistības un pienākumus, tad šāds nodrošinājums ir spēkā un realizējams attiecībā uz ieķīlātajiem/apgrūtinātajiem aktīviem. ▪ ALTUM veiksmīgas parādsaistību pārfinansēšanas iespēja ir atkarīga no konkrētajā brīdī pastāvošajiem aizņemtā kapitāla tirgus apstākļiem un ALTUM finanšu stāvokļa. ALTUM nespēja pārfinansēt pastāvošās parādsaistības vai pārfinansēt tās uz labvēlīgiem nosacījumiem var nelabvēlīgi ietekmēt ALTUM koncerna darbību, tā finanšu stāvokli, peļņu un Obligacionāru iespēju atgūt veiktos ieguldījumus. ▪ Pastāv risks, ka aktīvs Obligāciju tirgus var neizveidoties vai arī, ka šāda tirgus uzturēšana nebūs iespējama, tāpat to var ietekmēt gan izmaiņas tirgū, gan ekonomiskajos apstākļos, finanšu stāvoklī un ALTUM prognozēs, kas savukārt, var ietekmēt Obligāciju likviditāti un tirgus cenu. ▪ Obligāciju procentu likme ir fiksēta, kas attiecīgi rada risku, ka šādu vērtspapīru cenu var ietekmēt izmaiņas tirgus procentu likmēs. Turklāt arī inflācija var radīt Obligāciju tirgus cenas kritumu, tā kā tiek samazināta valūtas vienības pirktspēja un izrietoši – saņemto procentu apmērs. ▪ Maksājumi par Obligācijām tiek veikti EUR, kā rezultātā valūtas maiņas kursu svārstības un procentu likmju svārstības var nelabvēlīgi ietekmēt Obligāciju vērtību gadījumā, ja investora finanšu darbība galvenokārt tiek īstenota citā valūtā. ▪ Gadījumā, ja kredītreitingu Obligācijām ir piešķīrusi kāda no neatkarīgām kredītreitingu aģentūrām, tad šāds reitings var neatspoguļot visu ar Obligācijām saistīto risku potenciālo ietekmi, turklāt reitingu aģentūra var jebkurā brīdī pārskatīt vai atcelt piešķirto reitingu. Papildus tam, jebkādas nelabvēlīgas izmaiņas ALTUM piešķirtajā reitingā var nelabvēlīgi ietekmēt Obligāciju pārdošanas cenu. ▪ Obligācijām tiek piemēroti Latvijas Republikas tiesību akti, kas Obligāciju termiņa laikā var tikt grozīti vai mainīti, tādējādi nav iespējams sniegt jebkādas garantijas par šādu likumu vai noteikumu potenciālo grozījumu ietekmi, un šādas izmaiņas var būtiski nelabvēlīgi ietekmēt gan ALTUM, gan Obligācijas. ▪ Noteiktu ieguldītāju ieguldījumu darbība ir pakļauta ieguldījumu darbību reglamentējošiem likumiem un noteikumiem, kā arī noteiktu iestāžu atzinumiem un noteikumiem. Katram potenciālajam ieguldītājam nepieciešams konsultēties ar savu juridisko padomnieku, lai noskaidrotu

		vai un kādā apmērā Obligācijas ir uzskatāmas par tiesisku ieguldījuma priekšmetu konkrētajam ieguldītājam, vai tās var izmantot kā nodrošinājumu, kā arī, lai pārliecinātos, vai nepastāv kādi citi ierobežojumi Obligāciju iegādei vai ieķīlāšanai. ▪ Pastāv risks, ka Obligāciju tirgus vērtība būs augstāka nekā Obligāciju pirmstermiņa izpirkšanas cena, iestājoties Akcionāru maiņas gadījumam, un ka Obligacionāri nespēs reinvestēt iegūtos līdzekļus pie tādas efektīvās procentu likmes, kas būtu vienlīdz augsta kā Obligāciju procentu likme, īstenojot ieguldīšanas iespēju tikai pie ievērojami zemākas likmes. Pastāv iespējamība, ka obligātās Obligāciju atpirkšanas gadījumā ALTUM rīcībā var nebūt pietiekami līdzekļi, lai veiktu obligāto pirmstermiņa atpirkšanu. ▪ Tikai ALTUM akcionāram ir balsstiesības ALTUM akcionāru sapulcēs. Obligācijas nepiešķir Obligāciju turētājiem šādas balsstiesības. Attiecīgi Obligacionāri nevar ietekmēt ALTUM akcionāra lēmumus, piemēram, attiecībā uz ALTUM kapitāla struktūru. ▪ Obligacionāru lēmumi (ieskaitot grozījumus Obligāciju Vispārīgajos noteikumos) ir saistoši visiem Obligacionāriem, ieskaitot tos, kas nebalsoja, un Obligacionārus, kas balsoja pretēji vairākumam. ▪ Vienīgais Emisijas Aģents savas ierastās komercdarbības ietvaros ir sniedzis un potenciāli var sniegt ALTUM koncernam investīciju bankas un/vai komercbankas un citus pakalpojumus. Tādējādi Vienīgā Emisijas Aģenta agrākā vai iespējamā līdzdalība darījumos ar citām līgumslēdzējām pusēm, pildot dažādas funkcijas vai slēdzot citus darījumus, kuros ir iesaistītas trešās puses ar konfliktējošām interesēm, var izraisīt interešu konfliktu. ▪ Obligācijas tiks iegrāmatotas Nasdaq CSD SE kontu sistēmā un netiek emitētas papīra formā. Norēķinu veikšana par Obligācijām, ieskaitot procenta maksājumu veikšana un pamatsummas atmaksāšana, tiek nodrošināta, izmantojot Nasdaq CSD SE sistēmu, kā rezultātā ieguldītāji ir atkarīgi no Nasdaq CSD SE kontu sistēmas darbības. ▪ Obligācijas nav un netiks reģistrētas atbilstoši Amerikas Savienoto Valstu 1933. gada Vērtspapīru likumam (U.S. Securities Act 1933) ar grozījumiem, vai jebkura cita Amerikas Savienoto Valstu štata vērtspapīru likuma noteikumiem. Izņemot atsevišķus izņēmuma gadījumus, Obligācijas nevar tikt piedāvātas vai pārdotas Amerikas Savienotajās Valstīs. ALTUM nav izteicis apņemšanos reģistrēt Obligācijas atbilstoši Amerikas Savienoto Valstu 1933. gada Vērtspapīru likumam vai kāda cita Amerikas Savienoto Valstu štata vērtspapīru likuma noteikumiem vai arī izteikt kādu Obligāciju apmaiņas piedāvājumu. ALTUM nav reģistrējis Obligācijas atbilstoši kādas citas valsts vērtspapīru likumiem, izņemot Latvijas Republikas likumus. Ikvienam potenciālam ieguldītājam ir jāiepazīstas ar informāciju par Obligāciju nodošanas ierobežojumiem. Ikvienam Obligacionāram jānodrošina izteikto Obligāciju piedāvājumu un pārdošanas darījumu atbilstību piemērojamo vērtspapīru likumu noteikumu prasībām.

E daļa - Piedāvājums

E.2b	Piedāvājuma iemesli un ieņēmumu izmantošana, ja tie nav peļņas gūšana un/vai	ALTUM izmantos no Obligāciju emisijas gūtos neto ieņēmumus vispārējo uzņēmuma mērķu nodrošināšanai. Gadījumā, ja kādai konkrētai Obligāciju Sērijai tiks paredzēts konkrēts neto ieņēmumu izmantošanas mērķis, tas tiks norādīts attiecīgajos Galīgajos noteikumos.

	nodrošināšanās pret dažādiem riska veidiem	Konkrētās emisijas kopsavilkums: [ALTUM izmantos no katra Laidiena iegūtos tīros ieņēmumus vispārējo uzņēmuma mērķu nodrošināšanai] / [ALTUM izmantos no katra Laidiena iegūtos tīros ieņēmumus [●]].
E.3	Piedāvājuma nosacījumu apraksts	Programmas Organizators un Vienīgais Emisijas Aģents Programmas Organizators un Vienīgais Emisijas Aģents ir AB SEB bankas (reģistrācijas numurs: 112021238, juridiskā adrese: Gedimino ave. 12, LT-01103, Viļņa, Lietuva). Emisijas datums Emisijas datums tiks norādīts konkrētā Laidiena Galīgajos noteikumos. Konkrētās emisijas kopsavilkums: Emisijas datums: [●] Kopējā pamatsumma Katra Laidiena kopējā pamatsumma sākotnēji tiks noteikta Galīgajos noteikumos. Emitentam ir tiesības Laidiena Izvietošanas periodā palielināt vai samazināt Galīgajos noteikumos sākotnēji noteikto Laidiena kopējo pamatsummu. Konkrētās emisijas kopsavilkums: Kopējā pamatsumma: [EUR[●] [papildus [●]]] Obligācijas nominālvērtība Katras Obligācijas nominālvērtība būs vismaz EUR 1,000. Konkrētās emisijas kopsavilkums: Obligācijas nominālvērtība: [●] Minimālā ieguldījuma summa Minimālā ieguldījuma summa, par kādu varēs parakstīties uz Obligācijām, tiks noteikta Galīgajos noteikumos. Konkrētās emisijas kopsavilkums: Minimālā ieguldījuma summa: [●] Izvietošanas periods Katra Obligāciju Laidiena Izvietošanas periods tiks noteikts Galīgajos noteikumos. Konkrētās emisijas kopsavilkums: Izvietošanas periods: [●] Ierobežojošie noteikumi Emitenta Akcionāru maiņa (Change of Control), Īpašuma iekīlāšanas/apgrūtināšanas aizliegums (Negative pledge), no kāda cita līguma izrietoša saistību neizpildes gadījuma iestāšanās (Cross default) un citi. Depozitārijs Obligācijas tiks reģistrētas Nasdaq CSD SE. Piemērojamie tiesību akti Latvijas Republikas tiesību akti.

E.4	Intereses, kas ir būtiskas emisijai/ piedāvājumam, tostarp konfliktējošas intereses	Atbilstoši ALTUM rīcībā esošajai informācijai, izņemot Programmas Organizatoram un Vienīgajam Emisijas Aģentam maksājamās komisijas maksas, nevienai personai, kas iesaistīta Obligāciju piedāvājumā, nepastāv intereses, kas ir būtiskas emisijai/piedāvājumam, kā arī nepastāv interešu konflikts.
E.7	No emitenta vai piedāvātāja puses noteiktie uz ieguldītāju attiecināmie izdevumi	ALTUM nepiemēro ieguldītājiem nekādus maksājumus vai nodokļus Obligāciju emisijas sakarā. Tomēr ieguldītājiem var tikt pieprasīts segt izdevumus, kas ir saistīti ar vērtspapīru kontu atvēršanu kredītiestādēs vai pie ieguldījuma pakalpojumu sniedzējiem, kā arī veikt komisijas maksājumus kredītiestādēm vai ieguldījumu pakalpojumu sniedzējiem saistībā ar ieguldītāju Obligāciju pirkšanas vai pārdošanas pieteikumiem, Obligāciju turēšanu vai citām ar Obligācijām saistītām darbībām. Ne ALTUM, ne Programmas Organizators vai Vienīgais Emisijas Aģents nekompensēs šādas Obligacionāru izmaksas.

SANTRAUKA

Ši santrauka sudaryta pagal informacijos atskleidimo reikalavimus, kurie yra įvardyti kaip Punktai. Šie Punktai yra sunumeruoti A–E skirsniuose (A.1–E.7). Šioje santraukoje pateikti visi Punktai, kurie turi būti įtraukti šio tipo vertybinių popierių ir emitento santraukoje. Kadangi kai kurie Punktai nėra reikalingi, Punktų numeravimo eilėje galimi tarpai. Net jeigu Punktas turi būti įtrauktas į santrauką pagal vertybinių popierių tipą ir emitentą, gali būti, kad jokia svarbi informacija negalės būti pateikta šiame Punkte. Tokiu atveju santraukoje pateikiamas trumpas Punkto apibūdinimas su nuoroda „netaikoma“.

Pabrėžtina, jog pasviruoju šriftu (angl. Italic) pažymėti Punktai žymi vietas, kurios bus užpildytos parengus konkrečios emisijos santrauką, susijusią su Obligacijų Dalies platinimu.

Žodžiai bei jų junginiai, apibrėžti “Sąvokos” skiltyje ar kitur Baziniame prospekte, šioje santraukoje turi tą pačią reikšmę.

A skirsnis - Įvadas ir Įspėjimai

A.1	Įspėjimas	Ši santrauka turi būti suprantama kaip šio Bazinio prospekto įvadas ir visi sprendimai investuoti į Obligacijas turėtų būti priimami susipažinus su visu Baziniu prospektu, įskaitant dokumentus, kurie yra pridedami prie Bazinio prospekto, taip pat atitinkamų Obligacijų Galutinėmis sąlygomis. Jei dėl šiame Baziniame prospekte pateiktos informacijos ieškinys pateikiamas kurios nors Valstybės narės teismui, pagal valstybės narės, kurioje ieškinys buvo pateiktas, įstatymus, ieškovui gali tekti prieš teisminio proceso pradžią apmokėti Bazinio prospekto vertimo išlaidas. Civilinė atsakomybė asmenims už šioje santraukoje pateiktą informaciją, įskaitant jos vertimus, yra taikoma tiktai tada, kai joje pateikta informacija yra klaidinanti, netiksli ar prieštaringa, lyginant su kitomis šio Bazinio prospekto dalimis, arba joje nepateikta svarbi informacija, kuri kartu su kitomis Bazinio prospekto dalimis padėtų investuotojams priimti sprendimą dėl investavimo į šiuos vertybinius popierius.
A.2	Sutikimas dėl Bazinio prospekto naudojimo	Netaikoma.

B skirsnis - Emitentas

B.1	Teisinis ir komercinis pavadinimas	Akciju sabiedrība "Attīstības finanšu institūcija Altum".
B.2	Emitento buveinės vieta, teisinė forma, teisės aktai, pagal kuriuos emitentas veikia, ir įsteigimo šalis	ALTUM yra ribotos atsakomybės bendrovė (latviškai - akciju sabiedrība) įsteigta pagal Latvijos Respublikos įstatymus 2013 m. Gruodžio 27 d. ALTUM Emitentas yra įregistruotas Latvijos Respublikos Komerciniame registre, kuriame jo registracijos numeris yra 50103744891, juridinio asmens identifikatoriaus (angl. Legal Entity Identifier, LEI) kodas: 5493007HPQSSX8BJ4315, kurios buveinė registruota adresu Doma laukums 4, Ryga, LV-1050, Latvija, telefono numeris: +371 67774010, el-paštas: altum@altum.lv, internetinė svetainė: www.altum.lv. Emitentas savo veiklą vykdo vadovaudamasis Latvijos Respublikos teisės aktais. Pagrindiniai Latvijos Respublikos teisės aktai, reglamentuojantys ALTUM veiklą yra šie: ▪ Finansinės plėtros institucijos įstatymas (latviškai - Attīstības finanšu institūcijas likums);

		▪ Viešųjų asmenų kapitalo dalių ir kapitalo bendrovių valdymo įstatymas (latviškai - Publiskas personas kapitāla daļu un kapitālsabiedrību pārvaldības likums); ir ▪ Prekybos įstatymas (latviškai - Komerclikums).
B.4b	Kitų žinomų tendencijų, turinčių įtakos emitentui ir sektoriams, kuriuose jis veikia, apibūdinimas	Šio Bazinio prospekto sudarymo dieną nėra jokios informacijos apie visas žinomas tendencijas, neaiškumus, poreikius, įsipareigojimus ar įvykius, kurie pagrįstai gali turėti esminį poveikį ALTUM ar ALTUM grupės perspektyvai ir veiklos sritims, kuriose ALTUM ar ALTUM grupė vykdo savo veiklą 2019 finansiniais metais.
B.5, B.14	Grupės ir emitento padėties toje grupėje apibūdinimas, jeigu emitentas priklauso tai grupei Jeigu emitentas yra priklausomas nuo kitų grupės subjektų, tai turi būti aiškiai nurodyta	ALTUM yra patronuojančioji ALTUM grupės bendrovė. Bazinio prospekto sudarymo dieną ALTUM grupę sudaro ALTUM ir du uždari investiciniai fondai (Latviškai – slēgtie ieguldījuma fondi) Hipo Latvia Real Estate Fund I ir Hipo Real Estate Fund II, kuriuose ALTUM yra vienintelis investuotojas, taip pat žemiau išvardintos dukterinės ir susijusios bendrovės (finansinės apskaitos tikslais rizikos kapitalo fondai (ir investicijos į juos) traktuojami kaip dukterinės ir susijusios bendrovės): ▪ KS "Otrais Eko fonds" (33 procentų investicija į kapitalą); ▪ KS "BaltCap Latvia Venture Capital Fund" (67 procentų investicija į kapitalą); ▪ KS "AIF Imprimatur Capital Technology Venture Fund" (67 procentų investicija į kapitalą); ▪ KS "AIF Imprimatur Capital Seed Fund" (100 procentų investicija į kapitalą); ▪ KS "ZGI-3" (95 procentų investicija į kapitalą); ▪ KS "FlyCap Investment Fund I AIF" (95 procentų investicija į kapitalą); ▪ KS "Expansion Capital Fund AIF" (95 procentų investicija į kapitalą); ▪ "Baltic Innovation Fund" (20 procentų investicija į kapitalą); ▪ KS "Buildit Latvia Pre-Seed Fund" (100 procentų investicija į kapitalą); ▪ KS "Buildit Latvia Seed Fund" (80 procentų investicija į kapitalą); ▪ KS "Overkill Ventures Fund I AIF" (100 procentų investicija į kapitalą); ▪ KS "Overkill Ventures Fund II AIF" (80 procentų investicija į kapitalą); ▪ KS "Commercialization Reactor Pre-seed Fund" (100 procentų investicija į kapitalą); ▪ KS "Commercialization Reactor Seed Fund" (80 procentų investicija į kapitalą); ▪ KS "ZGI-4" (60 procentų investicija į kapitalą); ▪ KS "INEC 1" (75 procentų investicija į kapitalą); ▪ KS "INEC 2" (90 procentų investicija į kapitalą); ▪ KS "FlyCap Mezzanine Fund II" (60 procentų investicija į kapitalą).
B.9	Kai pateikiama pelno prognozė arba duomenys apie preliminarų pelną, nurodomi skaičiai	Netaikoma. Šiame Baziniame prospekte ALTUM nepateikė pelno prognozės ar jo apskaičiavimo.

B.10	Istorinės finansinės informacijos audito ataskaitoje nurodytų išlygų apibūdinimas	Netaikoma. ALTUM grupės audituotose konsoliduotose metinėse ataskaitose už metus, pasibaigusius 2016 m. gruodžio 31 d., 2017 m. gruodžio 31 d. ir 2018 m. gruodžio 31 d., nėra nurodyta jokių išlygų.
B.12	Atrinkta istorinė pagrindinė finansinė informacija apie emitentą, pateikta apie kiekvienus istorinės finansinės informacijos laikotarpio finansinius metus ir apie bet kurį paskesnį tarpinį finansinį laikotarpį kartu su praėjusių finansinių metų to paties laikotarpio palyginamaisiais duomenimis, tačiau reikalavimas pateikti lyginamąjį balanso informaciją įvykdomas pateikus metų pabaigos balanso informaciją Pareiškimas, kad nuo paskutinių audituotų finansinių ataskaitų paskelbimo dienos neįvyko jokių esminių neigiamų emitento perspektyvos pokyčių, arba bet kokio esminio neigiamo pokyčio apibūdinimas Reikšmingų finansinės ar verslo padėties pokyčių, įvykusių po istorinės finansinės informacijos laikotarpio, apibūdinimas	Šie ALTUM grupės trejų finansinių metų, pasibaigusių 2016, 2017 ir 2018 m. gruodžio 31 d., suvestiniai konsoliduoti veiklos rezultatai ir pagrindiniai veiklos rodikliai, paimti iš ALTUM grupės konsoliduotų finansinių atskaitomybių pagal šias datas ir laikotarpius be jokių esminių pakeitimų.

	Metai, pasibaigę Gruodžio 31 d.		
	2016 (Patikslinta*)	2017 (Patikslinta*)	2018 (Audituota)
Pagrindinai finansiniai rodikliai (ALTUM Grupės)			
Grynosios pajamos iš palūkanų, mokesčių ir komisinių (tūkst. EUR) 1)	11,024	11,602*	11,554
Pelnas (periodo) (tūkst. EUR)	2,170	8,709*	4,092
Sąnaudų ir pajamų santykis) 2)	88.4%	50.3%*	77.1%
Darbuotojų skaičius 3)	242	230	222

	Metai, pasibaigę Gruodžio 31 d.		
	2016 (Patikslinta*)	2017 (Patikslinta*)	2018 (Audituota)
Pagrindinai finansiniai rodikliai (ALTUM grupės)			
Visas turtas (tūkst. EUR)	443,400*	453,668*	495,939
Materialioji bendroji nuosavybė (TCE) /Materialus valdomas turtas (TMA) 4)	36.5%*	35.1%*	31.7%
Nuosavas kapitalas ir rezervai (tūkst. EUR)	210,406*	222,848*	221,590
Bendras rizikos padengimas (tūkst. EUR) 5)	66,508*	67,593*	77,815
Rizikos padengimo rezervas	63,636*	62,651*	85,276
Rizikos padengimo rezervas, naudojamas atidėjimams	-4,323	-4,753	-19,268
Portfelio nuostolių rezervas (specialus rezervinis kapitalas)	7,195	9,695	11,807
Likvidumo rodiklis 180 dienų 6)	449%*	482%*	227%

	Metai, pasibaigę Gruodžio 31 d.		
	2016 (Patikslinta*)	2017 (Patikslinta*)	2018 (Audituota)
Finansiniai instrumentai (bendra vertė)			
Likutis (tEUR) (pagal finansinį instrumentą)			
Paskolos	217,429	207,585	217,131
Garantijos	147,175	182,376	236,895
Rizikos kapitalas	64,785**	62,299**	59,698
Viso	429,389**	452,260**	513,724
Kontraktų skaičius	11,449	14,402	18,280
Garantuotos sumos (tEUR) (pagal finansinį instrumentą)			
Paskolos	59,465	51,869	66,443
Garantijos	56,109	68,615	88,765
Rizikos kapitalas	21,356	2,638	4,149
Viso	136,929	123,122	159,357
Kontraktų skaičius	4,461	4,697	5,464
Privataus finansavimo svertas7)	162%	185%	162%

* Dėl pasikeitusių apskaitos reikalavimų investicijoms į rizikos kapitalo findus, patikslinti palyginamieji 2017 ir 2016 metų veiklos rezultatai.

		** Rizikos kapitalo fondai nurodyti bendrąja verte. 1) Grynąsias pajamas iš palūkanų, mokesčių ir komisinių sudaro šie pelno- nuostolio ataskaitos elementai: Grynosios palūkanų pajamos ir Grynosios pajamos iš mokesčių ir komisnių. ALTUM šį esminį rodiklį naudoja įvertinti grynąsias ALTUM Grupės finansinių instrumentų portfelio pajamas, įtrauktas į pelno-nuostolio ataskaitą. Rodiklis kas ketvirtį skaičiuojamas ir palyginamas su ALTUM Grupės biudžete patvirtintu lygiu. 2) Sąnaudų ir pajamų santykis (CIR) apskaičiuotas prie personalo kaštų pridėjus administracines išlaidas, nematerialaus bei materialaus turto nusidėvėjiimą ir padalijus iš veiklos pajamų, prieš veiklos sąnaudas. ALTUM rodiklį naudoja veiklos efektyvumo vertinimui. Tai vienas iš kas ketvirtį skaičiuojamų rodiklių, kurio pagalba vertinamos skirtingų veiklų dedamosios ir efektyvumą gerinančios priemonės. 3) Darbuotojų skaičius – vidutinis bendrovės įmonių skaičius per periodą, neįskaitant Stebėtojų tarybos ir Audito komiteto narių. 4) Materialioji bendroji nuosavybė (TCE) / Materialus valdomas turtas (TMA) (TCE/TMA). Materialioji bendroji nuosavybė (TCE) apskaičiuojama iš bendrosios nuosavybės atimant galimo parduoti investicijų perkainojimo rezervą. Materialus valdomas turtas (TMA) apima visą ALTUM Grupės turtą, pridedant ne balanse apskaitomas garantijas be grynųjų atidėjinių ir atimant atidėtas išlaidas, bei pridedant sukauptas pajamas, materialų bei nematerialų turtą, kitą turtą, bei galimą parduoti turtą. Duomenys šių rodiklių skaičiavimui pateikiami ALTUM Grupės finansinėse atskaitose: Balanse ir Nuosavo kapitalo pokyčių ataskaitoje, pastabose: nebalanso straipsniai, neapibrėžtieji įsipareigojimai bei atidėjiniai. ALTUM TCE/TMA rodiklį naudoja kapitalo pakankamumo vertinimui ir ALTUM Grupės materialios bendrosios nuosavybės palyginimui su ALTUM Grupės materialiuoju valdomu turtu, įskaitant garantijų portfelį. Rizikos ir likvidumo valdymo komitetas rodiklį skaičiuoja kas ketvirtį. 5) Bendras rizikos padengimas yra grynosios lėšos skirtos padengti tikėtiniems nuostoliams susijusiems su ALTUM įgyvendinamomis plėtros grupėmis. Bendras rizikos padengimas yra rizikos padengimo rezervo bei portfelio nuostolių rezervo suma atėmus rizikos padengimo rezervą skirtą atidėjiniams. Tikėtini nuostoliai yra įvertinami prieš konkrečios programos įgyvendinimą ir dalis viešojo finansavimo skirto nuostoliams dengti yra apskaitoma, kaip ALTUM Grupės specifinis kapitalo rezervas, Portfelio nuostolių rezerve arba atskirai, kaip atidėjiniai skirti rizikos padengimui apskaitomi įsipareigojimuose. Portfelio nuostolių rezervas yra atskleistas pastabose prie „Rezervų“ o rizikos padengimo rezervas pastabose prie „Plėtros programų finansavimo ir valstybės paramos“. Rizikos padengimo rezervas skirtas atidėjiniams atspindi rezervą skirtą nuostolių susijusių su garantijų ar paskolų portfeliu nurašymu, atksleistu pastabose prie „Paskolų“ bei „Atidėjinių. Bendras rizikos padengimas yra pagrindinis rodiklis vertinant ALTUM rizikos padengimą finansuojant plėtros programas ir atspindi ilgalaikį finansinį stabilumą. 6) Likvidumo rodiklis 180-iai dienų skaičiuojamas prie iki 1 mėn. trukmės gautinų sumų iš kredito institucijų bei Valstybės Iždo pridedant galimus parduoti vertybinius popierius ir padalinant iš įsipareigojimų kurių įvykdymo terminas yra iki 6 mėnesių ir finansinių įsipareigojimų, kurių įvykdymo terminas yra iki 6 mėn., sumos (nebalansinis elementas). Duomenys likvidumo rodiklio 180-iai dienų skaičiavimui yra pateikiami ALTUM Grupės finansinėse atskaitose: Balanse ir Nuosavo kapitalo pokyčių ataskaitoje ir pastabose dėl nebalansinių įsipareigojimų, bei turto ir įsipareigojimų terminų struktūros. Likvidumo rodiklis 180-iai dienų parodo ALTUM Grupės gebėjimą vykdyti įsipareigojimus tam tikru įvardintu laikotarpiu, pasinaudojant šiuo metu prieinamu likvidžiu turtu. Rodiklio pagalba vertinamas ALTUM Grupės gebėjimas įvykdyti sutartinius įsipareigojimus su turimais likvidžiais resursais per ateinančius 6 mėn. Rodiklis padeda valdyti ALTUM Grupės likvidumą riziką atsižvelgiant į iškeltus tikslus ir patvirtintą rizikos gaires. Rizikos ir likvidumo valdymo komitetas rodiklį skaičiuoja kas ketvirtį. 7) Finansinis svertas privataus finansavimo pritraukimui parodo papildomų privačių lėšų sumą, investuotą į projektą kartu su ALTUM suteiktu finansavimu. Finansinis svertas nustatomas atsižvelgiant į lėšas, investuotas privataus finansuotojo ir projekto įgyvendintojo, kurios vidutiniškai sudaro iki 50 proc. suteiktų paskolų, iki 70 proc. suteiktų garantijų ir rizikos kapitalo (išskyrus namų ūkių paskolų garantijų programų su pirmąja įmoka ir 795 proc. koeficientu) papildomai su ALTUM teikiamu finansavimu. Nuo ALTUM grupės audituotos konsoliduotos metinės ataskaitos už 2018 metus datos neįvyko jokių esminių neigiamų ALTUM ar ALTUM grupės perspektyvos pokyčių. Nuo 2018 m. gruodžio 31 d. neįvyko jokių esminių neigiamų ALTUM ar ALTUM grupės perspektyvos pokyčių finansų ar prekybos pozicijose.

B.13	Bet kokių su emitentu susijusių pastarųjų įvykių, kurie turi esminės reikšmės vertinant emitento mokumą, apibūdinimas	Netaikoma. Nuo paskutinių audituotų ar neaudituotų finansinių ataskaitų paskelbimo nėra įvykę jokių esminių įvykių, kurie būtų reikšmingi ALTUM ar ALTUM grupės mokumui įvertinti.
B.15	Emitento pagrindinių veiklų aprašymas	ALTUM yra finansų plėtros įstaiga, teikianti finansinę paramą verslams ir specialioms gyventojų grupėms Latvijoje. ALTUM vykdo savo įsipareigojimus užtikrinant finansavimo galimybę smulkiam ir vidutiniam verslui įvairių finansinių instrumentų pavidalu (daugiausiai paskolų bei garantijų) bei rizikos kapitalo pagalba. ALTUM taip pat siūlo techninę pagalbą konsultuodami bei apmokydami įvairiose, pavyzdžiui, pastatų renovacijos ir energijos vartojimo efektyvumo srityse bei žemės ūkio verslo plėtojime.
B.16	Kiek tai žinoma emitentui, nurodoma, ar emitentas tiesiogiai arba netiesiogiai kam nors priklauso arba yra kieno nors kontroliuojama, apibūdinamas tokios kontrolės pobūdis	Pagal Latvijos Respublikos įstatymus, ALTUM įkurta kaip ribotos atsakomybės bendrovė(Latviškai - akciju sabiedrība). Latvijos Respublika yra vienintelis ALTUM akcininkas. Latvijos Respublikos Finansų ministerijai priklauso 40 procentų, Latvijos Respublikos Ekonomikos ministerijai 30 procentų, Latvijos Respublikos Žemės ūkio ministerijai – 30 procentų viso ALTUM akcinio kapitalo ir balsavimo teisių.
B.17	Emitento arba jo skolos vertybinių popierių kredito reitingai, nustatyti emitento prašymu arba emitentui dalyvaujant reitingavimo procese	2019 m. kovo 25 d. Moody's Investors Service pakartotinai patvirtino ALTUM kredito reitingą Baa1 su stabilia perspektyva. Bazinis kredito vertinimas pagerintas į baa3 iš ba2. Patvirtintas ir P-2 trumpalaikis emitento reitingas. Pagal Programą išleistų Obligacijų emisija gali būti reitinguojama arba nereitinguojama. Jeigu reitinguojama, tokiu atveju šie reitingai nebūtinai bus tokie patys kaip tie, kurie yra nustatyti ALTUM. Kredito reitingas nėra rekomendacija pirkti, parduoti ar išlaikyti vertybinius popierius ir gali būti reitingą nustatančios agentūros sustabdytas, sumažintas ar atšauktas. Akcijos emisijos santrauka: Išleidžiamos obligacijos [nėra/buvo/bus] reitinguojamos ir reitingą nustatys: [●]]

C skirsnis – Vertybiniai popieriai

C.1	Siūlomų ir (arba) į prekybos sąrašą įtraukiamų vertybinių popierių tipo ir klasės apibūdinimas, įskaitant visus vertybinių popierių identifikavimo kodus	Nekonvertuojamos, neapdraustos ir negarantuotos obligacijos, kurių bendra nominalioji vertė yra iki 70,000,000 EUR. Obligacijos yra pareikštinės formos nematerialūs skolos vertybiniai popieriai. Obligacijos bus išleidžiamos atskiromis Emisijomis. Kiekvieną Emisiją gali sudaryti viena arba daugiau Dalių. Tos pačios Emisijos Obligacijoms bus taikomos identiškos sąlygos, išskyrus Emisijos įsigaliojimo datą ir Emisijos kainą, kurios nustatomos kiekvienai atskirai Daliai. Tam, kad būtų galima identifikuoti atskiras Emisijas ir Dalis, Galutinėse sąlygose pateikiamas atitinkamos Emisijos serijos numeris ir atitinkamos Dalies serijos numeris. Atskiros emisijos santrauka: Obligacijų emisijos numeris: [●] Dalies numeris: [●]

		Prieš pradedant platinti kiekvienos Emisijos pirmos Dalies Obligacijas, tai atitinkamai Emisijai bus suteikiamas ISIN kodas. Kai išleidžiama paskesnė Dalis, kuri yra skirta suformuoti vieną Emisiją su esama Dalimi po esamos Dalies Emisijos įsigaliojimo dienos, tokioms paskesnės Dalies Obligacijoms gali būti suteikiamas laikinas ISIN kodas, kuris skiriasi nuo ISIN kodo, skiriamo atitinkamai Emisijai, iki tol, kol Dalys yra konsoliduojamos ir sudaro vieną Emisiją. Atskiros emisijos santrauka: ISIN kodas: [[●]] / Laikinas ISIN kodas: [●]. Po Obligacijų *įtraukimo į* prekybos *sąrašą* reguliuojamoje rinkoje Obligacijos bus konsoliduojamos ir sudarys *vieną* emisij*ą* su [●] ir turės bendr*ą* ISIN kod*ą* [●].
C.2	Vertybinių popierių emisijos valiuta	EUR
C.5	Visų apribojimų laisvai perleisti vertybinius popierius apibūdinimas	Obligacijos yra laisvai perleidžiami vertybiniai popieriai, kurie gali būti įkeičiami Tačiau Obligacijos negali būti siūlomos, parduodamos, perparduodamos, perleidžiamos ar pateikiamos tose šalyse ar jurisdikcijose ar esant kitokioms aplinkybėmis, kur ir kai tai yra neteisėta ar reikalauja priemonių, kurių Latvijos įstatymai nenumato, įskaitant Jungtines Amerikos Valstijas, Australiją, Kanadą, Honkongą, Pietų, Afriką, Singapūrą ir Japoniją, ir kai kurias kitas jurisdikcijas. Taip pat, vertybinių popierių savininkams draudžiama perparduoti, perduoti ar įteikti Obligacijas žmonėms, kurie yra susiję su viešu Obligacijų platinimu.
C.8, C.9	Vertybinių popierių suteikiamų teisių apibūdinimas, įskaitant • eiliškumą • šių teisių apribojimus • nominaliąją palūkanų normą • datą, nuo kurios skaičiuojamos palūkanos, ir palūkanų mokėjimo terminą • kai palūkanų norma nenustatyta, bazinių priemonių, kuriomis ji grindžiama, apibūdinimą • išpirkimo datą ir paskolos amortizavimo tvarką, įskaitant grąžinimo procedūras • informaciją apie pelningumą • skolos vertybinių popierių savininkų atstovo pavadinimą	Eiliškumas Obligacijos yra tiesioginiai, neapdrausti ir negarantuoti Emitento įsipareigojimai ir bus lygiaverčiai (pari passu) su visais kitais Emitento neapdraustais, negarantuotais ir nesubordinuotais įsipareigojimais, neteikiant jiems jokios pirmenybės, išskyrus tuos atvejus, kai įsipareigojimams teikiama pirmenybė, nes to reikalauja imperatyviosios teisės normos. Emisijos kaina Obligacijos gali būti išleidžiamos (parduodamos) už nominaliąją vertę, su nuolaida arba su priemoka prie jų nominaliosios vertės. Palūkanų norma Už Obligacijas mokama Metinė Palūkanų Norma. Palūkanos už Obligacijas bus mokamos kiekvienais metais tomis dienomis, kurios nurodytos Galutinėse sąlygose. Palūkanos kiekvienam palūkanų laikotarpiui pradedamos skaičiuoti nuo ir įskaitant pirmą palūkanų laikotarpio dieną iki (tačiau neįskaitant) paskutinės palūkanų laikotarpio dienos už tuo metu likusią pagrindinę (nominaliąją) Obligacijų vertę. Pirmas palūkanų laikotarpis prasideda Emisijos įsigaliojimo dieną ir baigiasi pirmą Palūkanų mokėjimo dieną. Visi po to einantys palūkanų laikotarpiai prasideda ankstesnę Palūkanų mokėjimo dieną ir baigiasi kitą Palūkanų mokėjimo dieną. Paskutinis palūkanų laikotarpis baigiasi Išpirkimo dieną. Palūkanos už obligacijas bus skaičiuojamos pagal faktinį atitinkamo palūkanų laikotarpio dienų skaičių, padalintą iš 365 (arba 366, keliamųjų metų atveju), t. y. bus vadovaujamasi dienų skaičiavimo principu „Act/Act (Tarptautinė kapitalo rinkų asociacija, angl. ICMA)“. Atskiros emisijos santrauka: Palūkanų mokėjimo data: [●] kiekvienais metais Informacija apie pajamingumą

		Numatomos siūlomų Obligacijų Pajamingumo iki Išpirkimo ribos (intervalas) bus apibrėžtos Emitento prieš prasidedant platinimo laikotarpiui, paskelbiant atitinkamą pranešimą Emitento internetiniame puslapyje www.altum.lv . Tačiau Emitentas turi teisę numatomo Pajamingumo iki Išpirkimo ribas atnaujinti Obligacijų Platinimo laikotarpiu. Galutinio pajamingumo iki išpirkimo, Metinės palūkanų normos ir Emisijos kainos nustatymas Galutinis pajamingumas iki išpirkimo bus nustatomas po Platinimo laikotarpio pagal investuotojų pateiktus pirkimo pasiūlymus. Galutinis pajamingumas iki išpirkimo bus toks pats visiems investuotojams, platinimo metu įsigijusiems atitinkamos Dalies Obligacijų. Nustatytas Galutinis pajamingumas iki išpirkimo nurodomas Galutinėse sąlygose, kurios bus skelbiamos po Obligacijų paskirstymo investuotojams. Atskiros emisijos santrauka: Galutinis pajamingumas iki išpirkimo: [●] Metinė palūkanų norma (atkarpa) turi būti nustatyta, suapvalinant Galutinį pajamingumą iki išpirkimo iki artimiausios skaičiaus (kuris pateikiamas procentine išraiška) dešimtosios dalies po kablelio. Nustatyta Metinė palūkanų norma nurodoma Galutinėse sąlygose, kurios bus skelbiamos po Obligacijų paskirstymo investuotojams. Atskiros emisijos santrauka: Metinė palūkanų norma: [●] Obligacijų emisijos kaina nustatoma pagal formulę, pateiktą atitinkamos Dalies Galutinėse sąlygose ir yra suapvalinama iki artimiausios tūkstantosios apvalinamo skaičiaus dalies pagal aritmetines apvalinimo taisykles. Nustayta Emisijos kaina nurodoma Galutinėse sąlygose, kurios bus skelbiamos po Obligacijų paskirstymo investuotojams. Atskiros emisijos santrauka: Emisijos Kainos apskaičiavimo formulė: [●] Atskiros emisijos santrauka: Emisijos kaina: [●] Atnaujintos Galutinės sąlygos, kuriose pateikiama informacija apie nustatytą Metinę palūkanų normą, Emisijos kainą, Bendrą atitinkamos Dalies vertę ir galutinį išleidžiamų Obligacijų kiekį, bus paskelbtos Emitento internetiniame puslapyje adresu www.altum.lv ir taip pat pateiktos Finansų ir kapitalų rinkos komisijai po Obligacijų paskirstymo investuotojams. Išpirkimo terminai Kiekvienos Obligacijų emisijos trukmė gali būti iki 10 (dešimt) metų. Atskiros emisijos santrauka: Išpirkimo terminas: [●] Išpirkimas Obligacijos turi būti visiškai išpirktos sumokant jų nominaliąją vertę suėjus Išpirkimo terminui. Emitentas neturi teisės išpirkti Obligacijų anksčiau nei Išpirkimo dieną, nebent Emitentas iš anksto sumokėjo už Obligacijas Kontrolės pasikeitimo ar įsipareigojimų nevykdymo atveju, arba tuo atveju, kai Emitento siūlymu sušauktas Obligacijų savininkų susirinkimas priima sprendimą išpirkti Obligacijas nesuėjus Išpirkimo terminui.

		Skolos vertybinių popierių savininkų atstovas Obligacijų savininkų teisės nustatyti ir / ar įgalioti organizaciją / asmenį atstovauti visų ar dalies Obligacijų savininkų interesams nėra numatytos, tačiau, kita vertus, jos nėra apribotos. Obligacijų savininkai turi patys padengti visas su atstovu(-ais) susijusias(-ius) išlaidas/mokesčius.
C.10	Kai vertybiniai popieriai turi palūkanų mokėjimo išvestinį komponentą, pateikiamas aiškus ir išsamus paaiškinimas, padedantis investuotojams suprasti, kaip jų investicijos vertė priklauso nuo bazinės (-ių) priemonės (-ių) vertės, visų pirma, kai rizika yra ypač akivaizdi	Netaikoma. Obligacijos neturi palūkanų mokėjimo išvestinio komponento.
C.11	Nurodykite, ar siūlomi vertybiniai popieriai yra įtraukti ar juos bus siekiama įtraukti į prekybos sąrašą, siekiant juos platinti reguliuojamoje rinkoje arba kitose lygiavertėse rinkose, konkrečiai nurodant tas rinkas	Emitentas pateiks prašymą įtraukti kiekvieną Dalį į oficialų (Baltijos šalių obligacijų sąrašą) Nasdaq Riga sąrašą. Prašymas bus parengtas pagal Nasdaq Riga reikalavimus ir bus pateiktas Nasdaq Riga per 3 (tris) mėnesius nuo atitinkamos Dalies Emisijos įsigaliojimo datos.

D skirsnis - Rizikos

D.2	Pagrindinė informacija apie pagrindines rizikas, būdingas emitentui	Makroekonominės ir politinės rizikos ▪ Ryškus pasaulinės, regioninės ar nacionalinės ekonomikos būklės ir/arba Latvijos vyriausybės finansinės pozicijos pablogėjimas. ▪ Galimas Latvijos ekonomikos susitraukimas. ▪ Staigus ekonomikos susitraukimas pagrindinėse Latvijos eksporto rinkose. ▪ Netikėtas ir reikšmingas ES struktūrinių fondų paramos sumažėjimas, galintis turėti neigiamą įtaką Latvijos ekonominiam augimui. ▪ Reikšmingas Latvijos finansinės būklės pablogėjimas. ▪ Makroekonominio disbalanso atsiradimas, galintis neigiamai paveikti Latvijos ekonominę būklę. ▪ Galimas reikšmingas nekilnojamojo turto rinkos būklės pablogėjimas Šiaurės šalyse, galintis paveikti motininių bankų skolinimosi kaštus, tuo pačiu darydamas neigiamą poveikį Latvijos galimybėms skolintis. ▪ Reikšminga klientų ne rezidentų indėlių suma vietiniuose bankuose. ▪ Kiti ekonominiai faktoriai (nedarbo lygis, migracija ir pan.) ▪ Kadangi ALTUM yra Valstybinė finansinė institucija, politiniai ir socialiniai sprendimai, priimti Latvijos vyriausybės, gali turėti neigiamą efektą verslo operacijoms ir ALTUM grupės finansinei pozicijai.

		Rizikos, susijusios su verslo operacijomis ▪ Latvijos Respublikos ministrų kabinetas nukreipia viešojo finansavimo srautus, jog būtų galima tęsti ALTUM finansinių instrumentų programas ir naujų programų įgyvendinimą. Gali kilti rizika, jog Latvijos Respublikos ministrų kabinetas gali nuspręsti stabdyti naujų operacijų refinansavimą, tokiu atveju ALTUM gautų mažesnį finansavimą. Tai gali padidinti finansavimosi kaštus, kas, savo ruožtu, gali turėti neigiamą poveikį ALTUM grupės likvidumui, verslo operacijoms ir finansinei pozicijai. ▪ ALTUM yra stipriai priklausomas nuo Europos Regioninės Plėtros Fondo finansavimo. Egzistuoja tikimybė, kad 2021-2027 ES programų periodo fondų finansavimas gali būti mažesnis. Finansavimo sumažėjimas įtakotų garantijų programas, dėl tos priežasties 2014-2020 ES programų periodo fondų įsipareigojimas finansinių instrumentų programoms gali būti nukreiptas į garantijų programas, taigi ALTUM įsisavintas ES finansavimas, skirtas finansinių instrumentų programoms, gali sumažėti. Siekiant apsaugoti ALTUM programų operacinį tęstinumą, ALTUM ieško kitų finansavimo šaltinių. Nesant kitų viešųjų finansavimo šaltinių ar sumažėjus Europos Regioninės Plėtros Fondo finansavimui, kyla grėsmė, jog ALTUM programų apimtis gali būti sumažinta, programų refinansavimas gali brangti dėl administravimo kaštų, o dalis naujų programų būtų atšaukta. Tai gali turėti neigiamą poveikį ALTUM verslo operacijoms ir finansinei pozicijai. ▪ Programoms, finansuojamoms iš 2014 – 2020 ES programų periodo fondų, numatyta pasiekti pažangos pagal nustatytus stebėsenos rodiklius ir specifines finansines apimtis iki 2023-ųjų. Jei ALTUM nepavyks pasiekti planuotų finansinių apimčių iki 2023-ųjų, esamų finansinių instrumentų pagalba siūlomas finansavimas gali sumažėti, kas gali turėti esminį neigiamą poveikį ALTUM grupės likvidumui, veiklos operacijoms ir finansinei pozicijai. Prospekto patvirtinimo dieną rizika dėl galimo apimčių neatitikimo iki 2023-ųjų nebuvo identifikuota. ▪ Rizikos kapitalo fondai, palaikomi ES fondų 2014 – 2020 metų programų, turi galimybę dalyvauti bendrame projekto finansavime, o jų įnašo dalis priklauso nuo projekto etapo ir numatytų pagrindinių investicijų. Šios programos finansavimo tempas priklauso nuo fondo valdytojų gebėjimo pritraukti bendrus privačius investuotojus. Jei ALTUM atrinkti fondų valdytojams nepavyktų pritraukti privačių investuotojų ir/ar atitinkamų sumų iki nustatytos datos, tai numatytas ALTUM investicijų, tinkamų pagal ES fondo taisykles, dydis gali būti nepasiektas. Tai gali turėti esminį neigiamą poveikį ALTUM grupės veiklos operacijoms ir finansinei pozicijai. ▪ ALTUM veikla gali būti įtakota galimų ES žemės ūkio plėtros finansavimo pokyčių, kurie sumažintų tiesiogines išmokas Latvijos ūkininkams. ▪ Yra rizika, jog ilgalaikėje perspektyvoje kai kurie ALTUM verslo segmentai gali susitraukti dėka ALTUM klientų išaugusių galimybių gauti finansavimą iš kitų finansavimo šaltinių (tiekėjų) ir/ar ALTUM siūlomų produktų nebeatitikimo besikeičiančios rinkos ar tam tikro segmento, kuriame veikia ALTUM, dalyvių poreikiams. Sumažėjęs ALTUM konkurencingumas ir/ar pastebimo klientų dalies praradimas gali turėti neigiamą poveikį ALTUM grupės verslo operacijoms ir finansinei pozicijai. ▪ Remiantis Bendrosios Institucinės plėtros įstatymu, Valstybė atskaitinga už garantijas, kurias išduoda ALTUM. Taip pat, Šalies Biudžeto įstatymas nustato bendrą garantijų kiekį, kuriuo ALTUM gali operuoti. Gali kilti rizika, jog maksimalus garantijų limitas bus sumažintas arba atšauktas, priversiantis ALTUM sumažinti išduodamų garantijų kiekį arba nutraukti

		tam tikrą garantinę veiklą. Tai gali turėti neigiamą poveikį ALTUM grupės verslo operacijoms ir finansinei pozicijai. ▪ Pagal Finansinės pletros institucijos įstatymą, Latvijos vyriausybė yra atskaitinga už ALTUM išleistas garantijas, kurių suma kiekvienais metais įtvirtinama Valstybės biudžeto įstatyme. Yra rizika, kad maksimali, su valstybės parama išleidžiamų, garantijų suma galėtų būti sumažinta ar netgi atšaukta, kas priverstų ALTUM sumažinti išleidžiamų garantijų apimtis ir/ar padidinti komisinį mokestį už garantijų išleidimą, dėl ko, abiem atvejais, ALTUM paslaugos pabrangtų. Be to, jeigu rizikos padengimas pagal patvirtintas garantijas taptų nepakankamas, Latvijos Respublikos Finansų ministerija gali priimti sprendimą nutraukti naujų garantijų išleidimą. Tai gali turėti neigiamą poveikį ALTUM grupės verslo operacijoms ir finansinei pozicijai. ▪ Europos Komisija yra pritarusi ALTUM verslo operacijoms iki 2020 m. gruodžio 31 d. Patvirtinimas gali būti pratęstas po pakartotinio Europos Komisijos vertinimo. Yra rizika, jog 2023 m. sausio 1d. ALTUM verslo operacijos gali skirtis, kai kurios iš esamų verslo operacijų gali būti nepratęstos ir/ar pakeistos naujomis verslo operacijomis. Tai gali turėti neigiamą poveikį ALTUM grupės verslo operacijoms ir finansinei pozicijai. ▪ Valstybės paramos programų įgyvendinimas turi atitikti reikalavimus nustatytus ES teisės aktuose, dėl to kyla rizika, jog ALTUM ir su ja bendradarbiaujantys partneriai (finansų tarpininkai) gali interpretuoti ir taikyti ES teisės aktus skirtingai nuo procesą kontroliuojančių institucijų. Todėl ALTUM įsteigė rizikos valdymo sistemą, siekiant užtikrinti aktyvų rizikos valdymą bei operatyvų įvedimą ir taikymą priemonių, kurios sušvelnina ar panaikina veiklos atitikimo rizikas. Nepaisant ALTUM pastangų, įgyvendinamų programų neatitikimas teisės aktams gali turėti neigiamą poveikį ALTUM grupės finansinei pozicijai bei reputacijai. ▪ ALTUM imasi visų būtinų priemonių, jog sumažintų tikimybę vykdyti verslą su klientais, susijusiais su su pinigų plovimu ar terorizmo finansavimu, laikydamiesi visų teisinių reikalavimų ir įgyvendindami „pažink savo klientą“ principus savo verslo operacijose. Egzistuoja rizika, jog ALTUM taikomų priemonių gali nepakakti siekiant pinigų plovimo ar terorizmo finansavimo prevencijos, dėl ko ALTUM patirtų nuostolius, gali būti taikomos tesinės sankcijos ar nukentėti reputacija. Tai gali turėti neigiamą poveikį finansinei pozicijai ir ALTUM reputacijai. ▪ Egzistuoja tikimybė, kad ALTUM nesiėmė būtinų priemonių užtikrinti 2016 m. balandžio 27 d. Europos Parlamento ir Tarybos reglamento (ES) 2016/679 dėl asmenų apsaugos tvarkant asmens duomenis ir laisvo tokių duomenų judėjimo laikymosi. Tai gali turėti neigiamą poveikį ALTUM finansinei padėčiai ir reputacijai. Finansinės rizikos ▪ ALTUM vykdo valstybės paramos programas, kuriose nevisiškai kontroliuoja išlaidas. Egzistuoja rizika, jog Latvijos Centrinių finansų ir Pirkimų Agentūra dalį išlaidų gali palaikyti netinkamomis finansavimui. Tokiu atveju, ALTUM turėtų padengti kaštus iš savo fondo ir siekti susigrąžinti lėšas iš skolininkų per priverstinį išieškojimą. Tai taip pat reiškia riziką, jog toks susigrąžinimas nebus įmanomas ar bus apsunkintas, o papildomi kaštai turės neigiamą poveikį ALTUM finansiniams rodikliams. ▪ Nustatant ALTUM programų kompensacinių mokėjimų dydį pagal Paslaugų teikimo sąlygas (patvirtintas Latvijos Respublikos Ministrų kabineto) numatyta, jog skirtumas tarp taikytinuose ES reglamentuose nustatytos ribos ir verslo plane numatytos sumos yra padengiamas iš ES

		struktūrinio fondo ir į nacionalinį biudžetą sugrįžtančių finansavimo lėšų. Egzsituoja rizika, jog nacionaliniai ir ES reguliaciniai pokyčiai, apimantys šiuos klausimus, gali turėti neigiamą poveikį ALTUM finansinei pozicijai, jei kompensaciniams mokėjimams bus įvesti papildomi limitai. ▪ Egizstuoja rizika patirti nuostolius dėl ALTUM klientų ar verslo partnerių, kurie nesugeba ar atsisako vykdytį įsipareigojimus ALTUM pagal susitarimus ir nustatytas paslaugų teikimo sąlygas. Kredito rizika gali būti sušvelninta vykdant įkeitimą ar kitu būdu gaunant užstatą bei užtikrinant nuostolių padengimą, susijusį su aukštesnio lygio kredito rizika vykdant Valstybės paramos programas ir skatinamąsias programas iš Valstybės lėšų. ▪ Egzistuoja rizika patirti nuostolius, jei ALTUM nesugebėtų laiku patenkinti savo kreditorių teisėtų reikalavimų ar, nenumatytais atvejais, pavyzdžiui, dėl netikėto pinigų srautų paskolų portfelyje ar kitų turto klasių sumažėjimo susidarytų likvidaus turto trūkumas. ▪ Egzistuoja tikimybė patirti nuostolius dėl balanso perkainojimo ar nebalansinių daiktų, denominuotų užsienio valiuta, valiutų svyravimų. ▪ Egizstuoja rizika patirti nuostolius dėl ALTUM pajamoms ir/ar išlaidoms bei ekonominei vertei taikomų palūkanų normų pokyčių.
D.3	Pagrindinė informacija apie pagrindinę riziką, būdingą vertybiniams popieriams	▪ Obligacijos gali būti ne visiems investuotojams tinkama investicija. Todėl kiekvienas galimas investuotojas į Obligacijas privalo įvertinti šių investicijų tinkamumą pagal savo aplinkybes, įskaitant įtaką šių Obligacijų vertei ir šių investicijų poveikį jo bendram investicijų portfeliui. ▪ Investuotojai gali netekti palūkanų ir pagrindinės investuotos sumos, ALTUM tapus nemokiam arba jei yra inicijuojamos ALTUM teisinės apsaugos procedūros arba neteisminės teisinės apsaugos procedūros. ▪ Obligacijos laikomos neapdraustais ALTUM įsipareigojimais, be jokių papildomų garantijų ir apdraudimo priemonių; ALTUM tapus nemokiu, Obligacijų savininkai taps neapdraustais kreditoriais. 2018 m. gruodžio 31 d. apdrausti ALTUM kreditoriai buvo Latvijos Respublikos Iždas (38,215 milijonų eurų) ir Europos Investicijų Bankas (38,194 milijono eurų). Nemokumo atveju, atsiskaityti su Obligacijų savininkais ALTUM turtas būtų panaudotas po to, kai bus atsiskaityta su Latvijos Respublikos Iždu, Europos Investicijų Banku ir kitais privilegijuotais kreditoriais. ▪ Obligacijos neapima jokių susitarimų dėl ALTUM veiklos ir neriboja jo galimybės susijungti, parduoti turtą ar vykdyti kitus reikšmingus sandorius, kurie gali turėti reikšmingą neigiamą poveikį Obligacijoms ir Obligacijų savininkams. Todėl, ALTUM sudarius tokį sandorį, galima esminė neigiama įtaka Obligacijų savininkams. Be to, esant atitinkamiems įstatymo pakeitimams, dabartinis ALTUM akcininkas- Latvijos vyriausybė gali perleisti visas turimas akcijas ar jų dalį. ▪ Bet koks neigiamas ALTUM finansinių sąlygų ar veiklos perspektyvų pokytis gali turėti neigiamą esminį efektą Obligacijų likvidumui, sukelti esminį jų kainos nuosmukį ir sumažinti tikimybę, jog Obligacijų savininkams bus visiškai atlyginta laiku. ▪ ALTUM nedraudžiama leisti papildomų skolos vertybinių popierių. Tai gali atitinkamai padidinti reikalavimų, turinčių teisę kartu su Obligacijų savininkais gauti pajamas, skaičių, ALTUMi tapus nemokiu. Be to, nuostatos, kuriomis suteikiama, siekiama suteikti ar atsisakoma teisė sukurti užtikrinimo interesą trečiųjų asmenų naudai (pavyzdžiui, neigiamas įkeitimas) negalioja santykiuose su trečiaisiais asmenimis; dėl šios priežasties toks užtikrinimo interesas trečiojo asmens naudai, net jei

		sukurtas pažeidžiant šiame dokumente numatytus ALTUM įsipareigojimus, būtų laikomas galiojančiu ir priverstinai vykdomu užtikrinimo interesu įkeisto turto atžvilgiu. ▪ ALTUM galimybė sėkmingai refinansuoti savo skolas priklauso nuo skolos kapitalo rinkų sąlygų bei savos finansinės padėties. ALTUM negalėjimas refinansuoti savo skolos įsipareigojimų palankiomis sąlygomis ar visiškai, gali sukelti neigiamą poveikį ALTUM grupės operacijoms, finansinei padėčiai, pajamoms ir Obligacijų savininkų lėšoms gautinoms už turimas Obligacijas. ▪ Antrinė ALTUM obligacijų rinka gali būti nepakankamai aktyvi arba nepalaikoma, taip pat gali būti paveikta rinkos pokyčių ir ekonominių salygų, ALTUM finansinės padėties ir veiklos perspektyvų. Savo ruožtu tai gali turėti poveikį Obligacijų likvidumui ar/ir rinkos kainai. ▪ Už Obligacijas bus mokama fiksuota palūkanų norma, tačiau tai gali iššaukti riziką, jog tokių vertybinių popierių kaina bus paveikta rinkos palūkanų normos pokyčių. Infliacija taip pat gali sukelti Obligacijų kainos nuosmukį, numušdama vieneto vertę ir gaunamas palūkanas. ▪ Mokėjimai už obligacijas bus vykdomi eurais, tačiau valiutų kursų bei palūkanų normų pokyčiai gali neigiamai paveikti Obligacijų vertę, jei investuotojo finansinė veikla iš esmės susieta su kita užsienio valiuta. ▪ Jei Obligacijos yra įvertinamos nepriklausomos kredito reitingų agentūros, tokie reitingai gali neatspindėti visų potencialių su Obligacijomis susijusių rizikų, kaip ir kredito agentūrų reitingai gali bet kuriuo metu būti pakeisti arba pašalinti. Taip pat, bet koks neigiamas ALTUM kredito reitingo pokytis gali neigiamai paveikti Obligacijų rinkos kainas. ▪ Obligacijos išleidžiamos vadovaujantis Latvijos Respublikos įstatymais, kurie Obligacijų gyvavimo laikotarpiu gali keistis, tokiu būdu nėra galimybės suteikti garantijų dėl galimų įstatymų ir reguliacijų pokyčių. Tokie pokyčiai gali turėti esminį neigiamą poveikį ALTUM ir Obligacijoms. ▪ Tam tikrų investuotojų investicinei veiklai taikomi investavimo įstatymai ir kiti teisės aktai, tam tikrų valdžios institucijų peržiūros ar reguliacijos. Kiekvienas potencialus investuotojas turėtų pasikonsultuoti su teisiniais patarėjais, ar ir kokiu mastu Obligacijos skaitomos legalia investavimo priemone konkrečiam investuotojui, ar Obligacijos gali būti panaudotos kaip užstatas ir ar egzistuoja kiti Obligacijų pirkimo ir įkeitimo apribojimai. ▪ Egzistuoja rizika, kad Obligacijų rinkos vertė yra didesnė negu pirmalaikio išpirkimo, nulemto Kontrolės pasikeitimo, kaina ir kad Obligacijų savininkui gali būti neįmanoma pakartotinai investuoti už Obligacijas gautų pajamų taikant efektyvią palūkanų normą (tokio dydžio koks buvo taikomas Obligacijoms) ir tai gali būti padaryta tik taikant žymiai mažesnę palūkanų normą. Taip pat yra įmanoma ir tai, kad ALTUM neturės pakankamai lėšų privalomam išankstiniam apmokėjimui, kuris turi būti atliktas pareikalavus pirmalaikio Obligacijų išpirkimo. ▪ Akcininkų susirinkimo metu teisę balsuoti turi tik ALTUM akcininkas. Obligacijos nesuteikia balsavimo teisių. Obligacijų savininkai negali daryti įtakos ALTUM akcininko sprendimams, pavyzdžiui, daryti įtaką ALTUM kapitalo struktūrai. ▪ Obligacijų savininkų sprendimai (įskaitant Obligacijų Terminų ir Sąlygų pakeitimus) taikomi visiems Obligacijų savininkams, įskaitant savininkus, kurie nebalsavo ir savininkus, kurie balsavo prieš daugumą.

		▪ Programos organizatorius ir Agentas (Platintojas) yra susijęs, ir gali būti susijęs ateityje, su investicinės bankininkystės ir/ar kasdienės bankininkystės bei susijusių paslaugų teikimu ALTUM grupei įprasto verslo būdu. Taip pat, interesų konfliktas gali būti ar atsirasti Programos organizatoriui ir Agentui (Platintojui) įsitraukiant į esamus ar būsimus sandorius su kitomis šalimis, atliekant įvairiaplanius vaidmenis ar įgyvendinant projektus trečiųjų šalių, turinčių besikertančius interesus, naudai. ▪ Obligacijos bus susietos su Nasdaq CSD SE apskaitos sistema, todėl fizinių Obligacijų išleista nebus. Kliringas ir atsiskaitymas, susijęs su Obligacijomis, bus vykdomas Nasdaq CSD SE apskaitos sistemą. Tokiu pačiu principu vykdomas ir palūkanų mokėjimas bei pagrindinės sumos išmokėjimas. Investuotojai yra priklausomi nuo Nasdaq CSD SE apskaitos sistemos funkcionalumo. ▪ Obligacijos nėra ir nebus registruojamos pagal 1933 m. JAV Vertybinių popierių įstatymą su pakeitimais ar bet kurios JAV valstijos vertybinių popierių įstatymą. Dėl tam tikrų išimčių Obligacijų savininkas negali Obligacijų platinti ir parduoti Jungtinėse Valstijose. ALTUM nėra įsipareigojęs Obligacijas įregistruoti pagal JAV Vertybinių popierių įstatymą ar bet kurios JAV valstijos vertybinių popierių įstatymą ar ateityje Obligacijas platinti biržoje. Be to, ALTUM Obligacijų nėra užregistravęs pagal jokios kitos valstybės vertybinių popierių įstatymus, išskyrus Latvijos Respublikos įstatymus. Kiekvienas potencialus investuotojas turėtų žinoti apie Obligacijoms taikomus perdavimo apribojimus. Obligacijų turėtojas prisiima atsakomybę, kad Obligacijos būtų platinamos ir parduodamos laikantis taikytinų vertybinių popierių įstatymų.

E skirsnis - Siūlymas

E.2b	Siūlymo priežastys ir pajamų naudojimas, kai siūlymas skelbiamas ne siekiant uždirbti pelno ir (arba) apsidraudžiant nuo tam tikros rizikos	Grynąsias pajamas, gautas iš Obligacijų emisijos, Emitentas panaudos bendriesiems įmonės tikslams. Jei pajamoms, gautoms iš tam tikros Obligacijų emisijos, yra numatyta tam tikra panaudojimo paskirtis, tai bus nurodyta atitinkamose Galutinėse sąlygose. Atskiros emisijos santrauka: [Grynąsias pajamas už kiekvieną išleistą Dalį ALTUM panaudos bendriesiems įmonės tikslams] / [Grynąsias pajamas už kiekvieną išleistą Dalį ALTUM panaudos [●]].
E.3	Siūlymo sąlygų apibūdinimas	Programos organizatorius ir Agentas (Platintojas) Programos organizatorius ir Agentas yra AB SEB bankas (registracijos numeris: 112021238, juridinis adresas: Gedimino pr. 12, LT-01103 Vilnius, Lietuva). Emisijos data Emisijos data bus nurodyta atitinkamos Dalies Galutinėse sąlygose. Atskiros emisijos santrauka: Emisijos data: [●] Bendra pagrindinė suma Bendra kiekvienos Dalies pagrindinė vertė pirmiausiai nurodoma Galutinėse sąlygose. Per atitinkamos Dalies Platinimo laikotarpį Emitentas gali didinti arba mažinti Galutinėse salygose nurodytą bendrą tos Dalies pagrindinę vertę.

		Atskiros emisijos santrauka: Bendra pagrindinė suma: [EUR [●] [kaip priedas prie [●]]] Nominali Obligacijos vertė Nominali kiekvienos Obligacijos vertė bus ne mažesnė kaip 1,000 EUR. Atskiros emisijos santrauka: Obligacijos nominalioji vertė: [●] Minimali investavimo suma Obligacijos bus platinamos už minimalią investavimo sumą, kuri bus nurodyta Galutinėse sąlygose. Atskiros emisijos santrauka: Minimali investavimo suma: [●] Platinimo laikotarpis Kiekvienos Dalies platinimo laikotarpis bus nurodytas Galutinėse sąlygose. Atskiros emisijos santrauka: Platinimo laikotarpis: [●] Susitarimai Kontrolės pasikeitimas, neigiamas įkeitimas, kryžminės netesybos ir kiti. Depozitoriumas Obligacijos bus užregistruotos – Nasdaq CSD SE. Taikytina teisė Latvijos teisė.
E.4	Bet kokių interesų, įskaitant konfliktinio pobūdžio, kurie yra reikšmingi atsižvelgiant į emisiją (siūlymą), apibūdinimas	Išskyrus komisinius, kurie yra mokami Programos organizatoriui ir Agentui, kiek ALTUM yra žinoma, nėra su šių Obligacijų siūlymu susijusių asmenų, turinčių emisijai/siūlymui reikšmingų interesų, o taip pat nėra konfliktinio pobūdžio interesų.
E.7	Numatomos emitento arba siūlytojo išlaidos, kurias dengia investuotojas	ALTUM neprašys investuotojų padengti jokių išlaidų ar mokesčių, susijusių su Obligacijų išleidimu. Tačiau investuotojams gali tekti padengti išlaidas, susijusias su vertybinių popierių sąskaitų atidarymu kredito institucijose ar finansų maklerio įmonėse, taip pat ir komisinius, kurie mokami kredito institucijoms ar finansų maklerio įmonėms už investuotojo vykdomas Obligacijų pirkimo ar pardavimo operacijas, Obligacijų saugojimą ar bet kurias kitas operacijas, susijusias su Obligacijomis. Nei ALTUM, nei Programos organizatorius ar Agentas tokių išlaidų Obligacijų savininkams nekompensuos.

RISK FACTORS

Prospective investors are advised to carefully consider the risk factors and other information provided in this Base Prospectus. Investing in the Notes involves certain risks including but not limited to the following risks described herein.

ALTUM believes that if one or more of the risk factors described herein realises, it may have a negative effect on ALTUM's or ALTUM Group's business operations, financial position and/or business results and, thereby ALTUM's ability to fulfil its obligations under the Notes, as well as the market price and value of the Notes. If these risks were to lead to a decline in the market price of the Notes, prospective investors may lose all or part of their investment.

The risks and uncertainties described hereafter are the risks which ALTUM has deemed material. However, they are not the only factors affecting ALTUM's and ALTUM Group's activities. Therefore, ALTUM does not allege that the statements below regarding the risks of acquiring and/or holding any Notes are exhaustive. Other factors and uncertainties than those mentioned herein, which are currently unknown or deemed immaterial, may negatively affect ALTUM's or ALTUM Group's business operations, financial position and/or business results and, thereby, ALTUM's ability to fulfil its obligations under the Notes, as well as the market price and value of the Notes.

The below description of the risk factors does not reflect the probability of the materialisation of the respective risk. Most of these risk factors are contingencies which may or may not occur and ALTUM is not in a position to assess or express a view on the likelihood of any such contingency occurring.

All investors should make their own evaluations of the risks associated with an investment in the Notes and should consult with their own professional advisers if they consider it necessary.

Macroeconomic and Political Risks

Risks related to macroeconomic conditions

The results of the business operations of ALTUM Group are dependent on Latvia's macroeconomic situation. Severe deterioration of either global, regional or national economic situation and/or financial position of the Latvian government may impede the capacity of ALTUM to honour its financial obligations.

Financial stability of ALTUM Group could potentially be impaired by materialisation of the following risks:

- Large-scale downturn in the Latvian economy or one of its main sectors;
- Steep economic slowdown in Latvia's main export markets – weakening of economic conditions in the EU, reflecting the fact that many EU Member States are major trading partners of Latvia. In 2017, the EU Member States accounted for 70.8 per cent of Latvia's exports and 77.6 per cent of its imports;
- An unexpected or significant reduction of EU funds that could have an adverse impact on Latvia's economic growth;
- Material deterioration of Latvia's fiscal stance (given ALTUM's high level of dependence on state funding);
- Emergence of macroeconomic imbalances that could adversely affect Latvia's economic stability (e.g., in the real estate market);
- A significant amount of the total banking sector assets are held by foreign banks, mostly of Nordic origin. Accordingly, a significant downturn in the Nordic real estate market and the impact that this would have on the Nordic economies may increase the cost of the parent banks' wholesale funding and, consequently, have an adverse impact on the economic growth and lending volumes in Latvia;
- Large number of domestic (mostly small sized) banks in Latvia are reliant on non-resident deposits for a significant part of their funding, which presents a risk to these banks as non-resident deposits are generally subject to a higher degree of volatility and greater money

laundering and terrorist financing risks, as well as risks relating to foreign political developments.

Other factors that could potentially affect the financial performance of ALTUM Group include the level of unemployment in Latvia, migration trends, consumer purchasing power and price level dynamics, changes in the Eurozone's monetary environment and overall political stability in the EU.

Political risk

The ability of ALTUM to achieve its business goals, inter alia, depends on the legislative environment and on political and social decisions made by the Latvian government. Although, ALTUM's shares are solely held by the Ministry of Finance of the Republic of Latvia, the Ministry of Economics of the Republic of Latvia and the Ministry of Agriculture of the Republic of Latvia, and its operations are governed by special law, the Development Finance Institution Law, it cannot be excluded that political decisions may have an adverse effect on business operations and financial position of ALTUM Group.

Risks Related to Business Operations

Risk related to public funding reflows

The public funding reflows are all repayments, revenues, gains and other earnings received from loans, loan guarantees and equity and quasi-equity investments that are financed from the EU funds and which are paid back within respective programme's implementation period.

The EU funding available for the implementation of state support programmes constitutes ALTUM's obligations towards the Ministry of Economics of the Republic of Latvia and the Central Finance and Contracting Agency of the Republic of Latvia, providing that ALTUM has to repay respective portion of the funding reflows at the end of the implementation period of the respective programme. At the same time, the Cabinet of the Ministers of the Republic of Latvia may decide on channelling of the repayable funding reflows towards continuation of the financial instruments' programmes and implementation of new programmes.

Thus far, the Cabinet of Ministers of the Republic of Latvia has channelled all the reflows into the implementation of ALTUM's financial instruments. Nevertheless, there is a risk that the Cabinet of Ministers of the Republic of Latvia may decide to halt the reinvestment of reflows into new operations, as a result of which ALTUM may receive less funding. This would increase funding costs leading to adverse effect on the liquidity, business operations and financial position of ALTUM Group.

Risks related to access to financing from the EU funds

Within the framework of the 2014-2020 programming period of the EU funds, total funds available to ALTUM from the European Regional Development Fund amount to 231 million euros, which makes a significant part of the total funding that ALTUM makes available to entrepreneurs.

There is a risk that in the 2021-2027 programming period of the EU funds Latvia will receive less funding from the European Regional Development Fund. The reduction of funding will affect the grant programmes, as a result of which the funding of the 2014-2020 programming period of the EU funds committed to the financial instruments could be partially transferred to the grant programmes, and, as such, the EU funding available to financial instruments implemented by ALTUM could be reduced. Therefore, ALTUM seeks for other funding sources to ensure operational continuity of financial instruments' programmes.

In the event other funding sources than public funding are not available and the funding provided by the European Regional Development Fund is decreased, it is possible that the scope of ALTUM's programmes will be reduced, with larger portion of programmes' reflows consumed by administrative costs, and part of the new programmes discarded. This may have an adverse effect on the liquidity, business operations and financial position of ALTUM Group.

Risks related to absorption of funding

The programmes financed from the funding of the 2014-2020 programming period of the EU funds stipulate that ALTUM has to achieve progress as measured by monitoring indicators (e.g., a certain number of supported entrepreneurs) and specific financial volumes by 2023. If ALTUM fails to reach the planned financial volumes by 2023, the funding available to the financial instruments could be reduced. This may have a material adverse effect on the business operations and financial position of ALTUM Group.

For the time being, no risks are identified in terms of reaching the funding volumes by the end of 2023 as it will be possible to shift the funding from less popular programmes to more demanded ones in view of the market situation and assessment of the needs for particular instruments.

This risk does not affect those state support programmes that are financed by sources other than EU funds.

Additionally, the venture capital funds supported by the EU funds of the 2014-2020 programming period allow different portion of private co-funding, the share of which is being determined by respective public procurement procedure depending on the maturity stage of the foreseen underlying investments.

The pace of investments in the programme depends on the ability of the fund managers to attract private co-funding. In order to prevent the occurrence of the risk related to the absorption of funding, ALTUM has included in the public procurement procedure high requirements for qualification and professional experience for the key personnel of fund management teams, thus ensuring their capability to perform the entrusted assignments on a timely basis. Since the selection of all fund managers was completed in 2018, for majority of funds the investment period commenced in second half of 2018. The investors in the Baltic region have a broad range of opportunities in terms of expected return, risk appetite and investment stake, which further tightens competition among fund managers. Considering these significant challenges one of the selected fund managers of seed fund and venture fund was not in a position to attract private co-funding in adequate amount by the agreed term. ALTUM will consider to divert respective public funding meant for those two funds to other venture capital funds in order not to lose the pace of investments.

Although, the fund managers have successfully raised the necessary private co-funding in the set amounts that allowed to commence the investment period (minimum private co-funding to be raised amounts to 50 per cent of total private co-funding to be raised) in 2018, the remaining portion of private co-funding should be raised in set terms in order to continue with further investments. For growth fund the investment period commences in summer 2019, therefore, a time is still available for raising the minimal private co-funding amount at 50 per cent level. The managers of the venture capital funds selected by ALTUM might face further challenges in attracting remaining/necessary portion of private co-funding. Furthermore, it could significantly impair the ability of the venture capital funds to raise adequate underlying investment portfolio on a timely basis and as such to reach necessary volume of ALTUM's investments in venture capital funds within the eligibility period set by the EU fund rules. The positive track record of raised private co-funding and adequate timing available should mitigate the occurrence of the risk related to the absorption of funding. If growth fund will not be in a position to raise necessary portion of private co-funding within a certain time period then ALTUM will consider to divert respective funding meant for this fund to other venture capital funds in order not to lose the pace of investments.

Notwithstanding the foregoing, a materialisation of this risk may have an adverse effect on the business operations and financial position of ALTUM Group.

Potential change of EU agricultural funding policy

If due to any reason there is a change in the EU agricultural funding policy, that would decrease the direct payments to the Latvian farmers, then this might affect ALTUM's performance.

Since the amount of direct payments is one of the drivers (although, the minor one) for setting the market value of agricultural land, then in case of decrease of direct payments the market value of agricultural land might decrease and consequently also the collateral value of the loan portfolio to

farmers would decrease, since the current loan-to-value ratio is set at 100 per cent level. Decreased market value would also lead to lower investment returns of investment properties (agricultural land) acquired by ALTUM within the activities of the Land Fund.

As the income of the farmers is very much dependant on direct payments not only in Latvia, but also across the EU, then decrease of direct payments to Latvian farmers might affect the debt service capacity of the respective customers and, as a consequence, the quality of ALTUM's loan portfolio to the farmers.

Since direct payments to Latvia farmers as well as to other Baltic countries currently are the lowest in the Eastern Europe, then the risk that amount of direct payments to Latvia would decrease as a result of change in the EU agricultural funding policy is remote. Furthermore, the current market value of agricultural land value in Latvia, irrespective the region within the country, is substantially lower than the market value of comparable land plots in neighbouring countries such as Poland, Finland and Sweden. In addition, such factors as actual demand, limited supply and expected returns of the respective land plots are the key drivers of the market value of the agricultural land in Latvia, and lower direct payments should not much negatively affect the market value of agricultural land in Latvia.

In the event the amount of direct payments to Latvia would decrease as a result of change in the EU agricultural funding policy, then ALTUM will reset the loan to value ratio for agricultural land as collateral to loans to farmers at more conservative level, as well as reconsider the debt service capacity of the farmers in light of the adjusted income, thus minimizing losses on new portfolio volume. In respect of existing loan portfolio for customers, that might face debt service challenges, ALTUM will offer other state support products for stressed working capital and revise the payment terms of the respective loans, if still necessary.

Notwithstanding the foregoing, a materialisation of this risk may have an adverse effect on the business operations and financial position of ALTUM Group.

Business environment and competitive risks

There is a risk that in the long-term ALTUM's operational niches could shrink as a result of improved capacity of ALTUM's customers to gain access to financial instruments offered by private funding providers and/or the products offered by ALTUM becoming outdated due to changing business environment in the particular market gap niche operated by ALTUM.

Companies that set up their businesses successfully and stay in business for a longer period become attractive customers for private market participants, such as commercial banks, leading to their ability to refinance loans with credit institutions. Hence, there is a risk of loss of existing customers in case they decide to switch to the unified services provided by commercial banks.

ALTUM follows the market situation persistently by adjusting the terms of the programmes and the list of offered products to current market needs, including through active and pro-active co-operation with credit institutions. ALTUM implements state support programmes based on ex-ante assessment of market or implements specific assignments delegated by the Latvian government to promote the development of the national economy. It supplements the private market supply by implementing state support programmes in the spheres where there are market gaps or sub-optimal circumstances for investments.

In case other market participants fill the market gap in which ALTUM is operating, ALTUM would be forced to terminate or reduce the scope of certain business operations within the said market gap and look for current market needs where private funding is not available.

Therefore, deterioration of ALTUM's competitive position and/or loss of a considerable share of the customer base, may have an adverse effect on the business operations and financial position of ALTUM Group.

Insufficient state-backed guarantee risk

According to the Development Finance Institution Law, the Latvian government is accountable for the guarantees issued by ALTUM in the amount specified each year by the Law on the State Budget.

In 2019, the portfolio of outstanding guarantees is secured by state backed guarantees in the amount of 270 million euros. ALTUM may issue guarantees above the limits stipulated by the Law on the State Budget, however, in such event the Latvian government would not be accountable for guarantees excessing the permitted limit. Since large share of expected losses to be covered by public funding is incorporated in the guarantee products, then, even if the issued guarantee portfolio exceeds the amount backed by the state, there is appropriate coverage of expected losses to be taken by risk coverage reserve originated by public funding.

Although, ALTUM is taking all the appropriate measures to meet its short-to long-term guarantee obligations, there is a risk that the maximum total guarantee exposure having the status of state-backed guarantees could possibly be reduced or even revoked, as a result of which ALTUM would be forced to lower the volume of the issued guarantees and/or to increase ALTUM's commissions for issuance of guarantees, in which case ALTUM's services would become more expensive if the available risk coverage reserve to cover expected losses for respective guarantees is not at sufficient amount. Furthermore, in the event ALTUM lacks sufficient risk coverage for guarantee activities, the Ministry of Finance of the Republic of Latvia may take a decision to cease the issuance of new guarantees. This may have an adverse effect on business operations and financial position of ALTUM Group.

Limitation of the scope of ALTUM's business operations by the European Commission

In its decision of 9 June 2015, the European Commission concluded that the proposal of Latvia to establish ALTUM as a Latvian single development institution is compatible with the EU state support rules.

The European Commission has granted approval for ALTUM's business operations until 31 December 2022. The approval may be prolonged, following a reassessment by the European Commission. In case ALTUM is assigned with other responsibilities and/or functions outside the agreed remit in the future, approval by the European Commission has to be received.

There is a risk that as of 1 January 2023 the scope of ALTUM's business operations may differ, some of the current business operations may not be prolonged and/or may be replaced with new business operations. This may have an adverse effect on the business operations and financial position of ALTUM Group.

Compliance risk

Compliance risk is a probability for ALTUM Group to incur losses, be subjected to legal sanctions imposed on ALTUM Group, or a probability for its reputation to deteriorate in case ALTUM Group fails to adhere to or breaches any applicable compliance laws, regulations and standards (i.e., laws and other legal enactments, as well as standards, codes of professional conduct and ethics established by self-governing institutions related to ALTUM Group's business).

Since the implementation of state support programmes requires compliance with a broad regulatory framework, including the EU regulatory framework and national laws and regulations, the compliance risk for the implementation of ALTUM's programmes is of particular importance. Namely, there is a risk that ALTUM and its cooperation partners (financial intermediaries) may interpret and apply the EU law differently than the supervisory authorities during their inspections. This risk stems from the fact that EU legislative acts in respect to the implementation of state support programmes may be interpreted differently and that no detailed guidelines or methodologies have been developed by the supervising authorities.

ALTUM has established a risk management system to ensure pro-active risk management, as well as timely introduction of corrective measures for mitigation or elimination of the compliance risks. In order to manage the risks, ALTUM uses various risk management methods and instruments, as well as risk limits and restrictions. The risk management methods are chosen depending on materiality of the particular risk and its impact on ALTUM's operations.

In addition, ALTUM consults with the responsible ministries of the Republic of Latvia on implementation of most suitable solutions.

Once the compliance risk that is classified as an operational risk materialises, the non-compliant transaction is excluded from the respective portfolio and financial intermediaries are requested to cover the losses incurred or pay back in advance the non-eligible expenditures to cover the loss on financial corrections to the attribution of funding of the European Regional Development Fund; however, such cases are exceptional. ALTUM keeps improving its operations and internal control system so that non-compliant transactions are not concluded.

Notwithstanding ALTUM's efforts, a non-compliance with regulations in respect of implementation of programmes may have an adverse effect on the financial position and reputation of ALTUM Group.

Money laundering and terrorism financing risk

Money laundering and terrorism financing risk is a probability for ALTUM to incur losses or a probability for its reputation to deteriorate in case ALTUM engages in business with customers conducting or being involved in money laundering and/or terrorism financing.

ALTUM is an obliged entity within the meaning of the Law on the Prevention of Money Laundering and Terrorism Financing and complies with international legal acts and legal acts of the Republic of Latvia regulating prevention of legalization of proceeds derived from criminal activity and financing of terrorism and ensures compliance with applicable sanctions lists as provided in accordance with, among others, the Law on International and National Sanctions of the Republic of Latvia.

ALTUM takes all the measures necessary to reduce the probability of conducting business with customers involved in or allegedly involved in money laundering and terrorism financing by adhering to the requirements of the Law on the Prevention of Money Laundering and Terrorism Financing and by implementing the "know your customer" principles in its business operations.

Notwithstanding the foregoing, there is a risk that the measures adopted by ALTUM may be insufficient for prevention of money laundering and terrorism financing. This may have an adverse effect on the financial position and reputation of ALTUM.

General data protection regulation compliance risk

There is a risk that ALTUM has not taken the necessary measures to ensure compliance with Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of individuals with regard to the processing of personal data and the free movement of such data and repealing Directive 95/46/EC (General Data Protection Regulation). This may have an adverse effect on the financial position and reputation of ALTUM.

ALTUM ensures that personal data of customers is always safe and that the processing of personal data is consistent with existing data protection legislation, internal policies, guidelines and procedures. ALTUM has developed and implemented the necessary internal standards and personal data protection system. ALTUM has also appointed a data protection officer. The primary role of the data protection officer is to ensure that ALTUM complies with the requirements, guidelines and procedures of personal data protection regulation.

ALTUM constantly reviews and improves protection measures to protect personal data from unauthorised access, accidental loss, disclosure or destruction. To do this, ALTUM applies modern technology, technical and organisational requirements.

Financial Risks

Eligibility of public funds expenditure risk

The EU and national legislation have an established procedure for determining eligibility for funding under the state support programmes financed from the EU's structural funds and national budget. ALTUM implements a number of such programmes, in some of which it is acting as an intermediary (grant programmes), where ALTUM does not exercise full control over the funds' expenditure (they are granted in advance).

This entails a risk that the Central Finance and Contracting Agency of the Republic of Latvia may regard part of the expenditure as not eligible for funding. In such case ALTUM would have to cover

the costs from its own funds and seek recovery of funds from the debtor by enforced collection. There is a risk that recuperation on funds will not be possible or feasible and these expenses will have a negative impact on ALTUM's financial indicators. To preclude adverse effect of such situations, ALTUM negotiates with relevant ministries of the Republic of Latvia on a compensatory mechanism from the national funds.

Risks related to compensation payments

Part of ALTUM's revenue from programmes that are implemented by employing the EU funds, due to limitations to the maximum possible loan interest rate or ALTUM's status of agent in programme implementation, consists of compensations, the maximum amount of which is established by the EU regulations. According to the programme performance evaluation, the necessary amount of compensations exceeds the maximum limit established by the applicable EU regulations. The terms and conditions of the programme (as approved by the Cabinet of Ministers of the Republic of Latvia) provide that the difference between the limit established by the applicable EU regulations and the amount estimated in the business plan is covered from the EU's structural fund and national budget funding reflows. There is a risk that national and EU regulatory changes covering these matters may have an adverse effect on ALTUM's financial position, if additional limitations on compensation payments are imposed.

Credit risk

ALTUM has established a risk management system that is relevant to its operations and which is regulated by ALTUM's internal regulatory documents. The risk management system provides a comprehensive credit risk assessment of ALTUM's customers or business partners prior to initiating cooperation, as well as enables a continuous monitoring of credit risk transactions, credit risk assessment and management of credit risk transactions in ALTUM's portfolio. The exposure to credit risk is mitigated by obtaining pledges relevant to the risk transaction or other types of collateral, as well as by securing a coverage of expected losses arising from higher level of credit risk while implementing state support programmes from public funding.

Notwithstanding the foregoing, there is a risk to incur losses in the event ALTUM's customers or business partners are not able or refuse to comply with their liabilities towards ALTUM pursuant to the terms and conditions of the concluded agreements.

Liquidity risk

For liquidity risk assessment purposes ALTUM analyses and assesses the coverage of outbound cash flows by inbound cash flows and liquid assets.

Notwithstanding the foregoing, there is a risk to incur losses in case ALTUM is unable to satisfy the legally valid claims of its creditors in a timely manner, or, in the case of contingency, such as, for instance, unexpected reduction in the volume of cash flows from the loan portfolio and other assets, resulting in a material shortage of liquid assets at ALTUM's disposal.

Foreign exchange risk

ALTUM conducts foreign currency risk identification and assessment by analysing the structure of assets, liabilities and off-balance items by foreign currency profile and estimating the amount of probable losses due to foreign exchange rate fluctuations.

Notwithstanding the foregoing, there is a risk to incur losses from revaluation of balance and off-balance items denominated in foreign currencies due to exchange rate fluctuations.

Interest rate risk

ALTUM identifies and assesses the interest rate risk by analysing the structure of assets, liabilities and off-balance sheet items sensitive to interest rate movements and estimates the maximum amount of potential losses from interest rate changes, as well as the impact on ALTUM's business result.

Notwithstanding the foregoing, there is a risk to incur losses due to changes in interest rates applicable to ALTUM's income and/or expense and its economic value.

Risks Related to the Notes

The following risk factors are, among other things, material in order to assess the risks associated with the Notes.

The Notes may not be a suitable investment for all investors

The Notes may not be a suitable investment for all investors. Thus, each potential investor in the Notes must assess the suitability of that investment in light of their own circumstances. A potential investor should not invest in the Notes unless it has the expertise (either personal or with the relevant support from a financial advisor) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the potential investor's overall investment portfolio. In particular, each potential investor should:

- have a sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or referred to in this Base Prospectus, the Final Terms and documents attached or incorporated by reference to this Base Prospectus;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes;
- understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant financial markets; and
- be able to evaluate either independently or with the relevant support from a financial adviser possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the associated risk.

Possibility to forfeit interest and principle amount invested

Should ALTUM become insolvent, legal protection proceedings or out-of-court legal protection proceedings of ALTUM are initiated during the term of the Notes, an investor may forfeit interest payable on, and the principle amount of, the Notes in whole or in part. An investor is always solely responsible for the economic consequences of its investment decisions.

No guarantee or security

The Notes will not constitute an obligation of anyone other than ALTUM and they will not be guaranteed. No one other than ALTUM will accept any liability whatsoever in respect of any failure by ALTUM to pay any amount due under the Notes.

The Notes are unsecured debt instruments and the Noteholders would be unsecured creditors in the event of ALTUM's insolvency. As of 31 December 2018, the secured creditors of ALTUM are the Treasury of the Republic of Latvia (in the amount of 38,215 million EUR) and the European Investment Bank (in the amount of 38,194 million EUR). In the event of insolvency, ALTUM's assets will be used for settling the Noteholders' claims only after the claims of the Treasury of the Republic of Latvia, the European Investment Bank and other preferential creditors are satisfied.

The Notes do not contain covenants governing ALTUM's operations and do not limit its ability to merge or otherwise affect significant transactions that may have a material adverse effect on the Notes and the Noteholders

The Notes do not contain provisions designed to protect the Noteholders from a reduction in the creditworthiness of ALTUM. In particular, the General Terms and Conditions of the Notes do not,

except for the Change of Control and Events of Default conditions (see Clause 14 and Clause 16 of the General Terms and Conditions of the Notes), restrict ALTUM's ability to increase or decrease its share capital, to enter into a merger or other significant transaction that could materially alter its existence, jurisdiction of organization or regulatory regime and/or its composition and business. In the event that ALTUM enters into such a transaction, Noteholders could be materially adversely affected. Furthermore, the Change of Control condition does not restrict the current shareholder of ALTUM, namely, the Republic of Latvia, from disposing any or all of its shareholdings, in case the law, which at the date of this Base Prospectus restricts privatisation or alienation of the shares of ALTUM, is changed.

Adverse change in the financial condition or prospects of ALTUM

Any adverse change in the financial condition or prospects of ALTUM may have a material adverse effect on the liquidity of the Notes, and may result in a material decline in their market price. Such adverse change may result in a reduced probability that the Noteholders will be fully repaid on time. This provision concerns for the principal and interest amounts and/or any other amounts and items payable to the Noteholders pursuant to the General Terms and Conditions of the Notes from time to time.

No limitation on issuing additional debt

ALTUM is not prohibited from issuing further debt. If ALTUM incurs significant additional debt of an equivalent seniority with the Notes, it will increase the number of claims that would be equally entitled to receive the proceeds, including those related to ALTUM's possible insolvency. Further, any provision which confers, purports to confer, or waives a right to create security interest in favour of third parties, such as a negative pledge, is ineffective against third parties since: (i) it is an issue of a contractual arrangement only being binding upon the parties to such contractual arrangement; (ii) there is no specific legislation in Latvia providing beneficiaries of negative pledge undertakings or covenants with a preferred position vis-a-vis the claims of third parties; and (iii) no registry or public record exists in Latvia through which negative pledge undertakings or covenants could be filed to obtain a preferred position. Should ALTUM breach its obligations under such undertakings and covenants and create a security interest in favour of a third party, such third party would obtain a valid and enforceable security interest over the pledged asset.

Refinancing risk

ALTUM may be required to refinance certain or all of its outstanding debt, including the Notes. ALTUM's ability to successfully refinance its debt depends on the conditions of debt capital markets and its own financial condition. ALTUM's inability to refinance its debt obligations on favourable terms, or at all, could have a negative impact on ALTUM Group's operations, financial condition, earnings and on the Noteholders' recovery under the Notes.

An active market for the Notes may not develop

Although application(s) will be made for the Notes to be admitted to trading on Nasdaq Riga stock exchange, there is no assurance that such application(s) will be accepted and the Notes will be admitted to trading. In addition, admission of the Notes on a regulated market will not guarantee that a liquid public market for the Notes will develop or, if such market develops, that it will be maintained, and neither ALTUM, nor the Arranger of the Programme or the Sole Bookrunner is under any obligation to maintain such market. If an active market for the Notes does not develop or is not maintained, it may result in a material decline in the market price of the Notes, and the liquidity of the Notes may be adversely affected. In addition, the liquidity and the market price of the Notes can be expected to vary along with the changes in market and economic conditions, the financial condition and the prospects of ALTUM, as well as many other factors that generally influence the market price for securities. Accordingly, due to such factors the Notes may trade at a discount to the price at which the Noteholders purchased the Notes. Therefore, investors may not be able to sell their Notes at all or at a price that will provide them with a yield comparable to similar financial instruments that are traded on a developed and functioning secondary market. Further, if additional and competing financial instruments are introduced on the markets, this may also result in a material

decline in the market price and value of the Notes.

Fixed interest rate and inflation

The Notes will bear interest on their outstanding principal at a fixed interest rate. A holder of a security with a fixed interest rate is exposed to the risk that the price of such security could fall as a result of changes in the market interest rate. Market interest rates follow the changes in general economic conditions, and are affected by, among many other things, demand and supply for money, liquidity, inflation rate, economic growth, central banks' benchmark rates, and changes and expectations related thereto.

While the nominal compensation rate of a security with a fixed interest rate is fixed during the term of such security or during a certain period of time, market interest rates typically change continuously. In case market interest rates increase, the market price of such a security typically falls, until the yield of such security provides competitive risk-adjusted return. If market interest rates fall, the price of a security with a fixed interest rate typically increases, until the yield of such a security provides competitive risk-adjusted return. Consequently, the Noteholders should be aware that movements of market interest rates may result in a material decline in the market price of the Notes and can result in losses for the Noteholders if they sell the Notes. Furthermore, past performance of the Notes is not an indication of their future performance.

Also, inflation may result in a decline of the market price of the Notes, as it decreases the purchasing power of a currency unit and respectively the received interest.

Exchange rate risk

ALTUM will pay principal and interest on the Notes in EUR. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "Investor's Currency") other than EUR. These include the risk that exchange rates may significantly change (including changes due to devaluation of EUR or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify currency exchange controls. An appreciation in the value of the Investor's Currency relative to EUR would decrease the Investor's Currency-equivalent: (i) yield on the Notes; (ii) value of the principal payable on the Notes; and (iii) market value of the Notes.

Credit ratings

One or more independent credit rating agencies may assign credit ratings to the Notes. In case the Notes are rated by the credit rating agencies, such ratings may not reflect the potential impact of all risks related to the structure, market, additional factors discussed above, or other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time. Any adverse change in an applicable credit rating of ALTUM could adversely affect the trading price of the Notes.

No assurance on change of laws or practices

The Notes are governed by the laws of the Republic of Latvia. Latvian laws (including but not limited to tax laws) and regulations governing the Notes may change during the life of the Notes, and new judicial decisions can be issued and/or new administrative practices be adopted. No assurance can be given as to the impact of any of such possible changes of laws or regulations, or new judicial decision or administrative practice taking place after the date of this Base Prospectus. Hence, such change may have a material adverse effect on ALTUM's business, financial condition, results of operations and/or future prospects and, thereby, ALTUM's ability to fulfil its obligations under the Notes, as well as taxation of the Notes, and the market price of the Notes. Such events may also result in material financial losses or damage to the Noteholders.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or reviews or regulations by certain authorities. Each potential investor should consult its legal advisers

to determine whether and to what extent: (i) the Notes constitute a legal investments from the part of the investor; (ii) the Notes can be used as collateral for various types of borrowings; and (iii) other restrictions apply to the purchase or pledge of the Notes.

Risks related to early redemption

There is a risk that the market value of the Notes is higher than the early redemption amount following a Change of Control and that it may not be possible for Noteholders to reinvest such proceeds at an effective interest rate as high as the interest rate on the Notes and may only be able to do so at a significantly lower rate. It is further possible that ALTUM will not have sufficient funds at the time of the mandatory prepayment to make the required redemption of Notes.

No voting rights

Only the shareholder of ALTUM has voting rights in the shareholders' meetings of ALTUM. The Notes carry no such voting rights. Consequently, the Noteholders cannot influence any decisions by ALTUM's shareholder concerning, for instance, the capital structure of ALTUM.

Amendments to the Notes bind all Noteholders

The General Terms and Conditions of the Notes contain provisions for Noteholders to consider matters affecting their interests generally. The decisions of Noteholders (including amendments to the General Terms and Conditions of the Notes), subject to defined majorities requirements, will be binding to all Noteholders, including Noteholders who did not vote and Noteholders who voted in a manner contrary to the majority. This may cause financial losses, among other things, to all Noteholders, including the Noteholders who did not vote and Noteholders who voted in a manner contrary to the majority.

Certain material interests

The Sole Bookrunner has engaged in, and may in the future engage in, investment banking and/or commercial banking or other services provided to ALTUM Group in the ordinary course of business. Therefore, conflicts of interest may exist or may arise as a result of the Sole Bookrunner's current or future engagement in transactions with other parties, having multiple roles or carrying out other transactions for third parties with conflicting interests.

Risks relating to the clearing and settlement in the Depository's book-entry system

The Notes will be affiliated to the account-based system of the Depository, and no physical notes will be issued. Clearing and settlement relating to the Notes will be carried out within the Depository's book-entry system as well as payment of interest and repayment of the principal. Investors are therefore dependent on the functionality of the Depository's account-based system.

Restrictions on the transferability of the Notes

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended, or any U.S. state securities laws. Subject to certain exemptions, a holder of the Notes may not offer or sell the Notes in the United States. ALTUM has not undertaken to register the Notes under the U.S. Securities Act or any U.S. federal or state securities laws or to effect any exchange offer for the Notes in the future. Furthermore, ALTUM has not registered the Notes under any other country's securities laws, other than laws of the Republic of Latvia. Each potential investor should read the information under the heading "Selling Restrictions" for further information about the transfer restrictions that apply to the Notes. It is the Noteholder's obligation to ensure that the offers and sales of Notes comply with all applicable securities laws.

PARTY RESPONSIBLE FOR THE BASE PROSPECTUS

Party Responsible for the Base Prospectus

Akciju sabiedrība "Attīstības finanšu institūcija Altum"

Registration number: 50103744891

Legal entity identifier (LEI code): 5493007HPQSSX8BJ4315

Legal address: Doma laukums 4, Riga, LV-1050, Latvia

Assurance of the Information Given in the Base Prospectus

ALTUM and its management board are responsible for the information contained in this Base Prospectus. ALTUM and its management board, having taken all reasonable care to ensure that such is the case, confirms that the information contained in the Base Prospectus is, to the best of their knowledge, in accordance with the facts and contains no omission likely to affect its import.

Riga, 9 MAY 2019

Management board of Akciju sabiedrība "Attīstības finanšu institūcija Altum":

Chairman of management board
Reinis Bērziņš

Member of management board
Jēkabs Krieviņš

Member of management board
Juris Vaskāns

Member of management board
Inese Zīle

Member of management board
Aleksandrs Bimbirulis

GENERAL INFORMATION

Management Board of ALTUM

Name	Position
Reinis Bērziņš	Chairman of management board
Jēkabs Krieviņš	Member of management board
Juris Vaskāns	Member of management board
Inese Zīle	Member of management board
Aleksandrs Bimbirulis	Member of management board

Supervisory Board of ALTUM

Name	Position
Līga Kļaviņa	Chairman of supervisory board
Kristaps Soms	Member of supervisory board
Jānis Šņore	Member of supervisory board

ALTUM's Auditor

PricewaterhouseCoopers SIA

Registration number: 40003142793

Legal address: Kr.Valdemāra street 21-21, Riga, LV – 1010, Latvia

Auditor in charge: Terēze Labzova-Ceicāne (number of certificate: 184)

Arranger of the Programme and Sole Bookrunner

ALTUM has appointed AB SEB bankas (registration number: 112021238, legal address: Gedimino ave. 12, LT-01103 Vilnius, Lithuania) as the Arranger of the Programme and as the Sole Bookrunner. AB SEB bankas shall also act in the capacity of an "Issuer Agent" (as defined in the Rules of Nasdaq CSD) for the Issuer.

Legal Adviser to the Arranger of the Programme and to the Sole Bookrunner

Attorneys at Law COBALT
Legal Address: Marijas 13 k-2, Riga, LV-1050, Latvia

Interests of Natural and Legal Persons Involved in the Issue/Offer

Save for commissions to be paid to the Arranger of the Programme and the Sole Bookrunner, so far as ALTUM is aware, no person involved in the offer of the Notes has an interest material to the issue/offer, nor any conflicting interests.

Credit Ratings

Moody's Investors Service on 25 March 2019 has confirmed ALTUM long-term issuer rating Baa1 with stable outlook and the baseline credit assessment (BCA) was upgraded to baa3 from ba2. The short-term issuer rating was affirmed at P-2.

The Series of Notes issued under the Programme may be rated or unrated. If rated, such ratings will not necessarily be the same as the rating assigned to ALTUM. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Use of Proceeds

The net proceeds of the issue of Notes will be used by ALTUM for its general corporate purposes. If in respect of any particular Series of Notes there is a particular identified use of proceeds, then this will be stated in the relevant Final Terms.

Availability of the Base Prospectus and Final Terms

The copies of the Base Prospectus and any Final Terms are available at the legal address of ALTUM at Doma laukums 4, Riga, LV-1050, Latvia on business days within the limits of normal business hours upon request, and in electronic format on ALTUM's website www.altum.lv.

Third Party Information and Statement by Experts and Declarations of any Interest

The audited consolidated annual reports of ALTUM Group for the years ended 31 December 2016, 2017 and 2018 attached to the Base Prospectus contain auditor's reports. During the preparation of the Base Prospectus, information provided on the websites of European Commission and the Bank of Latvia was used. This information has been accurately reproduced and as far as ALTUM is aware and was able to ascertain from the information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

Other Information on the Website is not Part of the Base Prospectus

The Base Prospectus and the Final Terms, as well as documents attached to the Base Prospectus will be published on ALTUM's website www.altum.lv. For the avoidance of doubt, other than the documents incorporated by reference (see Section "Documents Incorporated by Reference") the contents of the aforementioned website or on any other website does not, however, form part of the Base Prospectus or the Final Terms.

Sole Bookrunner's Right to Invest

ALTUM has agreed that the Sole Bookrunner and any legal entity within the SEB Group has a right to invest in the Notes.

Governing Law

The Base Prospectus and any Final Terms, as well as the issuance and/or offering of Notes at the time shall be governed by and construed in accordance with the laws of the Republic of Latvia. Any disputes relating to or arising from the aforementioned will be settled solely by the courts of the Republic of Latvia of competent jurisdiction.

Resolutions of ALTUM

The shareholder of ALTUM has at the shareholders' meeting on 29 April 2019 authorised the issue of the Notes and authorised the management board of ALTUM to approve the characteristics of the Notes, the Base Prospectus and any of the documents thereto, as well as any amendments and supplements thereof.

Management board of ALTUM has at its meeting on 9 May 2019 approved the Base Prospectus and the General Terms and Conditions of the Notes.

GENERAL TERMS AND CONDITIONS OF THE NOTES

1. Principal Amount and Issuance of the Notes

1.1. Under this second programme for the issuance of notes (the "Programme") the Issuer may issue notes up to an aggregate principal amount of EUR 70,000,000 (seventy million euro) (the "Notes"), including the Notes that will form a single series with the existing tranche of the notes (ISIN code: LV0000880037) issued under the General Terms and Conditions of the Notes included in the Base Prospectus of ALTUM's First Programme for the Issuance of Notes in the Amount of EUR 30,000,000 dated 30 August 2017 (the "2017 General Terms and Conditions"), which are incorporated herein by reference (see Section "Documents Incorporated by Reference").

1.2. The Notes shall be issued in series (the "Series").

1.3. Each Series may comprise one or more tranches of Notes (the "Tranches"). The Notes of each Tranche will all be subject to identical terms, except that the Issue Dates (as defined below) and the Issue Prices (as defined below) thereof may be different in respect of different Tranches.

1.4. In order to identify each Series and Tranches, the Final Terms (as defined below) shall stipulate a serial number of a respective Series and a serial number of a respective Tranche.

1.5. The terms and conditions of each Tranche shall consist of these general terms and conditions of the Notes (the "General Terms and Conditions") and the final terms (the "Final Terms"). The General Terms and Conditions shall apply to each Tranche. However, in case the Issuer issues the Notes that will form a single series with the existing tranche of the notes (ISIN code: LV0000880037) issued under the 2017 General Terms and Conditions, such Notes will be governed by the 2017 General Terms and Conditions and the Final Terms.

1.6. The aggregate principal amount of a Tranche shall be initially specified in the Final Terms. The Issuer may increase or decrease the aggregate principal amount of a Tranche as initially set out in the Final Terms during the Placement Period of that Tranche.

1.7. The nominal amount of each Note shall be specified in the Final Terms and shall be at least EUR 1,000.

1.8. The Notes will be offered for purchase for a minimum investment amount (the "Minimum Investment Amount"), which will be specified in the Final Terms.

2. Form of the Notes and ISIN Code

2.1. The Notes are freely transferable non-convertible debt securities, which contain payment obligations of the Issuer towards the holders of the Notes (the "Noteholders").

2.2. The Notes are dematerialized debt securities in bearer form which are disposable without any restrictions and can be pledged. However, the Notes cannot be offered, sold, resold, transferred or delivered in such countries or jurisdictions or otherwise in such circumstances in which it would be unlawful or require measures other than those required under Latvian laws, including the United States, Australia, Japan, Canada, Hong Kong, South Africa, Singapore and certain other jurisdictions. In addition, the Noteholders are prohibited to resell, transfer or deliver the Notes to any person in a manner that would constitute a public offer of securities.

2.3. The Notes shall be book-entered with Nasdaq CSD SE (registration number: 40003242879, legal address: Vaļņu 1, Riga, LV-1050, Latvia) (the "Depository").

2.4. A separate ISIN code will be assigned to each Series, which will be different from ISIN code of other Series.

2.5. Before commencement of the offering of the Notes of the first Tranche of each Series, the Depository upon request of the Issuer will assign to the respective Series the ISIN code. Where a further Tranche is issued, which is intended to form a single Series with an existing Tranche at any point after the Issue Date of the existing Tranche, a temporary ISIN code may be assigned

to the Notes of such further Tranche, which is different from the ISIN code assigned to the relevant Series, until such time as the Tranches are consolidated and form a single Series.

2.6. The ISIN code of respective Series and a temporary ISIN code of respective Tranche, if applicable, will be specified in the Final Terms.

3. Status and Security

The Notes constitute direct, unsecured and unguaranteed obligations of the Issuer ranking pari passu without any preference among each other and with all other unsecured, unguaranteed and unsubordinated indebtedness of the Issuer, save for such obligations as may be preferred by mandatory provisions of law.

4. Currency of the Notes

The Notes will be issued in EUR.

5. Issue Price

The Notes may be issued at their nominal amount or at a discount or a premium to their nominal amount (the "Issue Price"). The Issue Price shall be determined by the Issuer according to the Section "Placement of the Notes" of this Base Prospectus and shall be specified in the updated Final Terms, which will be published after allotment of the Notes to the investors.

6. Underwriting

None of the Tranches will be underwritten.

7. Issue Date

The issue date of each Tranche (the "Issue Date") shall be specified in the Final Terms.

8. Interest

8.1. The Notes shall bear interest at a fixed annual interest rate (the "Annual Interest Rate") which shall be determined by the Issuer according to the Section "Placement of the Notes" of this Base Prospectus and shall be specified in the updated Final Terms, which will be published after allotment of the Notes to the investors.

8.2. The interest on the Notes will be paid annually on the dates specified in the Final Terms ("Interest Payment Date") until the Maturity Date (as defined below) and will be calculated on the aggregate outstanding principal amount of the Notes of the respective Series.

8.3. Interest shall accrue for each interest period from and including the first day of the interest period to (but excluding) the last day of the interest period on the principal amount of Notes of the respective Series outstanding from time to time. The first interest period commences on the Issue Date and ends on a day preceding the first Interest Payment Date (the "First Interest Period"). Each consecutive interest period begins on the previous Interest Payment Date and ends on a day preceding the following Interest Payment Date. The last interest period ends on the Maturity Date (as defined below).

8.4. Interest in respect of the Notes will be calculated on the basis of the actual number of days elapsed in the relevant interest period divided by 365 (or, in the case of a leap year, 366), i.e. a day count convention Act/Act (ICMA) will be used.

8.5. When interest is required to be calculated in respect of a period of less than a full year (other than in respect of the First Interest Period) it shall be calculated on the basis of (i) the actual number of days in the period from and including the date from which interest begins to accrue (the "Accrual Date") to but excluding the date on which it falls due, divided by (ii) the actual number of days from and including the Accrual Date to but excluding the next following Interest Payment Date.

8.6. Interest on the Notes shall be paid through the Depository in accordance with the applicable rules of the Depository to the persons which were registered as the Noteholders by the end of 8th (eighth) Business Day immediately preceding the Interest Payment Date.

8.7. Should any Interest Payment Date fall on a date which is not a Business Day, the payment of the interest due will be postponed to the next Business Day. The postponement of the payment date shall not have an impact on the amount payable.

"Business Day" means a day on which the Depository is open for general business.

9. Maturity and Principal Payment

9.1. The Notes shall be repaid in full at their nominal amount on the date which will be specified in the Final Terms (the "Maturity Date"). The Issuer does not have a right to redeem the Notes prior to the Maturity Date, unless the Issuer has prepaid the Notes in accordance with Clause 14 (Change of Control) or 16 (Events of Default) below or in case the Noteholders, upon proposal of the Issuer, has decided that the Notes shall be redeemed prior to the Maturity Date.

9.2. Each Series of Notes may have a maturity up to 10 (ten) years.

9.3. The principal of the Notes shall be paid through the Depository in accordance with the applicable rules of the Depository to the persons which were registered as the Noteholders by the end of Business Day immediately preceding the Maturity Date.

9.4. Should the Maturity Date fall on a date which is not a Business Day, the payment of the amount due will be postponed to the next Business Day. The postponement of the payment date shall not have an impact on the amount payable.

10. Taxation

All payments in respect of the Notes by the Issuer shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature ("Taxes"), unless the withholding or deduction of the Taxes is required by laws of the Republic of Latvia. In such case, the Issuer shall make such payment after the withholding or deduction has been made and shall account to the relevant authorities in accordance with the applicable laws for the amount so required to be withheld or deducted. The Issuer shall not be obligated to make any additional compensation to the Noteholders in respect of such withholding or deduction.

11. Publication of the Final Terms

11.1. The initial Final Terms of each Tranche will be approved by the management board of the Issuer.

11.2. Before the offering of the respective Tranche commences, the Final Terms:

(a) will be submitted to the Financial and Capital Market Commission, which will forward the Final Terns to the Bank of Lithuania (in Lithuanian - Lietuvos Bankas); and

(b) will be published on the Issuer's website www.altum.lv.

11.3. Final Terms containing information about the established Yield to Maturity (as defined in Section "Placement of the Notes" of this Base Prospectus), Annual Interest Rate, Issue Price, the aggregate principal amount of the respective Tranche and definitive amount of the Notes to be issued will be published on the Issuer's website www.altum.lv and submitted to the Financial and Capital Market Commission after allotment of the Notes to the investors.

12. Estimated Expenses Charged to the Investors

No expenses or taxes will be charged to the investors by the Issuer in respect to the issue of the Notes. However, the investors may be obliged to cover expenses which are related to the opening of securities accounts with the credit institutions or investment brokerage firms, as well as commissions which are charged by the credit institutions or investment brokerage firms in relation to the execution

of the investor's purchase or selling orders of the Notes, the holding of the Notes or any other operations in relation to the Notes. Neither the Issuer, nor the Arranger of the Programme or the Sole Bookrunner shall compensate the Noteholders for any such expenses.

13. Admission to Trading

13.1. The Issuer shall submit an application regarding inclusion of each Tranche in the official list of Akciju sabiedrība "Nasdaq Riga", registration number: 40003167049, legal address: Vaļņu 1, Riga, LV-1050, Latvia ("Nasdaq Riga"). An application shall be prepared according to the requirements of Nasdaq Riga and shall be submitted to Nasdaq Riga within 3 (three) months after the Issue Date of the respective Tranche.

13.2. The Issuer shall use its best efforts to ensure that the Notes remain listed in the official list of Nasdaq Riga or, if such listing is not possible, to obtain or maintain, listed or traded on another regulated market. The Issuer shall, following a listing or admission to trading, take all reasonable actions on its part required as a result of such listing or trading of the Notes.

13.3. The Issuer will cover all costs which are related to the admission of the Notes to the relevant regulated market.

14. Change of Control

If, after the Issue Date, at any time, the Republic of Latvia ceases to own, directly or indirectly, at least 51 (fifty one) per cent of the issued share capital of the Issuer or ceases to have the power, directly or indirectly, to cast, or control the casting of, at least 51 (fifty one) per cent of the maximum number of votes that might be casted at a shareholders' meeting of the Issuer (the "Change of Control"), the Issuer immediately and without any delay after it becomes aware of the Change of Control shall notify the Noteholders in accordance with Clause 21 (Notices) about the occurrence of the Change of Control and within 45 (forty-five) Business Days after the Issuer becomes aware of the occurrence of the Change of Control shall prepay all Noteholders the principal amount of and the interest accrued on the Notes, but without any premium or penalty. Interest on the Notes accrues until the prepayment date (excluding the prepayment date).

15. Negative Pledge

So long as any Note remains outstanding, the Issuer shall not, and shall procure that none of its Subsidiaries creates mortgage, pledge or any other security interest (each a "Security Interest"), other than a Permitted Security Interest, upon the whole or any part of its undertaking or assets, present or future, to secure their obligations in respect of any present or future Relevant Indebtedness, unless prior to or simultaneously therewith the Issuer's obligations under the Notes are secured equally and rateably therewith.

"Subsidiary" means a company: (i) in which the Issuer holds a majority of the voting rights; or (ii) of which the Issuer is a shareholder or participant and has the right to appoint or remove a majority of the members of the management board; or (iii) of which the Issuer is a shareholder or participant and controls a majority of the voting rights, and includes any company which is a subsidiary of a Subsidiary of the Issuer.

"Group" means the Issuer and its Subsidiaries from time to time.

"Permitted Security Interest" means any Security Interest created over any asset of any company which becomes a member of the Group after the issue of the Notes where such Security Interest is created: (i) prior to the date on which the company becomes a member of the Group, provided that such Security Interest was not created in contemplation of the acquisition of such company; or (ii) simultaneously with the acquisition of such company for the sole purpose of financing the acquisition of such company.

"Relevant Indebtedness" means any Indebtedness which is in the form of, or represented by, bonds, notes, debentures or other similar securities which are issued by the Issuer or any of its Subsidiaries and which are, or are capable of being, quoted, listed or ordinarily traded on any regulated market or market place or other established securities.

"Indebtedness" means any indebtedness (whether principal, premium, interest or other amounts) in respect of any borrowed money of the Issuer or any of its Subsidiaries.

16. Events of Default

16.1. If an Event of Default (as defined below) occurs, the Issuer immediately and without any delay shall notify the Noteholders in accordance with Clause 21 (Notices) about the occurrence of an Event of Default. Accordingly, within 10 (ten) Business Day after the occurrence of an Event of Default the Issuer shall prepay all Noteholders the outstanding principal amount of the Notes and the interest accrued on the Notes, but without any premium or penalty. Interest on the Notes accrues until the prepayment date (excluding the prepayment date).

16.2. Each of the following events shall constitute an event of default (an "Event of Default"):

(a) Non-Payment: Any amount of interest on or principal of the Notes has not been paid within 5 (five) Business Days from the relevant due date;

(b) Breach of Other Obligations: The Issuer does not comply with these General Terms and Conditions in any other way than as set out under paragraph (a) above, unless the non-compliance (i) is capable of being remedied and (ii) is remedied within 20 (twenty) Business Days after the Issuer becomes or should have become aware of the non-compliance;

(c) Disposal of Assets: The Issuer or any of its Subsidiaries enters into a single transaction or a series of transactions (whether related or not) to sell, transfer or otherwise dispose of whole or a substantial part of the undertaking, assets and revenues of the Issuer or any of its Subsidiaries;

(d) Cross Default: Any outstanding Indebtedness (including guarantees) of the Issuer or any of its Subsidiaries in a minimum amount of EUR 5,000,000 (five million euro) or its equivalent in any other currency, is accelerated prematurely because of default, howsoever described, or if any such Indebtedness is not paid or repaid on the due date thereof or within any applicable grace period after the due date, or if any security given by the Issuer or any Subsidiary for any such Indebtedness becomes enforceable by reason of default;

(e) Cessation of Business: The Issuer or any of its Subsidiaries cease to carry on its current business in its entirety or a substantial part thereof, other than: (i) pursuant to any sale, disposal, demerger, amalgamation, reorganization or restructuring or any cessation of business in each case on a solvent basis and within the Group, or (ii) for the purposes of, or pursuant to any terms approved by the Noteholders;

(f) Liquidation: An effective resolution is passed for the liquidation of the Issuer or any of its Subsidiaries other than, in case of a Subsidiary: (i) that Subsidiary is a closed investment fund Hipo Latvia Real Estate Fund I and/or Hipo Real Estate Fund II, and is liquidated following completion of its investment activities; (ii) that Subsidiary is a venture capital fund, and is liquidated following completion of its investment activities or in case it does not commence its investment activities; (iii) pursuant to an amalgamation, reorganization or restructuring in each case within the Group, or (iv) for the purposes of, or pursuant to any terms approved by the Noteholders;

(g) Insolvency: (i) the Issuer or any of its Subsidiaries is declared insolvent or bankrupt by a court of competent jurisdictions or admits inability to pay its debts; (ii) the Issuer or any of its Subsidiaries enters into any arrangement with majority of its creditors by value in relation to restructuring of its debts or any meeting is convened to consider a proposal for such arrangement; or (iii) an application to initiate insolvency, restructuring (including procedures such as legal protection process and out of court legal protection process) or administration of the Issuer or any of its Subsidiaries or any other proceedings for the settlement of the debt of the Issuer or of any of its Subsidiaries is submitted to the court by the Issuer or any of its Subsidiaries.

16.3. In case of the Issuer's liquidation or insolvency the Noteholders shall have a right to receive payment of the outstanding principal amount of the Notes and the interest accrued on the Notes according to the relevant laws governing liquidation or insolvency of the Issuer.

17. Force Majeure

17.1. The Issuer, the Arranger of the Programme and the Sole Bookrunner shall be entitled to postpone the fulfilment of their obligations hereunder, in case the performance is not possible due to continuous existence of any of the following circumstances:

(a) action of any authorities, war or threat of war, rebellion or civil unrest;

(b) disturbances in postal, telephone or electronic communications which are due to circumstances beyond the reasonable control of the Issuer, the Arranger of the Programme or the Sole Bookrunner and that materially affect operations of any of them;

(c) any interruption of or delay in any functions or measures of the Issuer, the Arranger of the Programme or the Sole Bookrunner as a result of fire or other similar disaster;

(d) any industrial action, such as strike, lockout, boycott or blockade affecting materially the activities of the Issuer, the Arranger of the Programme or the Sole Bookrunner even if it only affects part of the employees of any of them and whether any of them is involved therein or not; or

(e) any other similar force majeure or hindrance which makes it unreasonably difficult to carry on the activities of the Issuer, the Arranger of the Programme or the Sole Bookrunner.

17.2. In such case the fulfilment of the obligations may be postponed for the period of the existence of the respective circumstances and shall be resumed immediately after such circumstances cease to exist, provided that the Issuer, the Arranger of the Programme and the Sole Bookrunner shall put all best efforts to limit the effect of the above referred circumstances and to resume the fulfilment of their obligations, as soon as possible.

18. Further Issues

The Issuer may from time to time, without the consent of and notice to the Noteholders, create and issue further Notes whether such further Notes form a single Series with already issued Notes or not. For the avoidance of doubt, this Clause 18 shall not limit the Issuer's right to issue any other notes.

19. Purchases

The Issuer or any of its Subsidiaries may at any time purchase the Notes in any manner and at any price in the secondary market. Such Notes may be held, resold or surrendered by the purchaser through the Issuer for cancellation. Notes held by or for the account of the Issuer or any of its Subsidiaries for their own account will not carry the right to vote at the Noteholders' Meetings or within Written Procedures and will not be taken into account in determining how many Notes are outstanding for the purposes of these General Terms and Conditions.

20. Time Bar

In case any payment under the Notes has not been claimed by the respective Noteholder entitled to this payment within 10 (ten) years from the original due date thereof, the right to such payment shall be forfeited by the Noteholder and the Issuer shall be permanently released from such payment.

21. Notices

Noteholders shall be advised of matters relating to the Notes by a notice published in English and Latvian in the Central Storage of Regulated Information, on the Issuer's website www.altum.lv and, after the Notes are admitted to the regulated market, also on the website of Nasdaq Riga. Any such notice shall be deemed to have been received by the Noteholders when published in the manner specified in this Clause 21.

22. Representation of the Noteholders

Within the Programme, rights of the Noteholders to establish and/or authorize an organization/person to represent interests of all or a part of the Noteholders are not contemplated, but on the other hand these are not restricted. The Noteholders should cover all costs/fees of such representative(s) by themselves.

23. Decisions of the Noteholders

23.1. General Provisions

(a) The decisions of the Noteholders (including decisions on amendments to these General Terms and Conditions or the Final Terms of the Tranches of the relevant Series or granting of consent or waiver) shall be passed at a meeting of the Noteholders (the "Noteholders' Meeting") or in writing without convening the Noteholders' Meeting (the "Written Procedure") at the choice of the Issuer. However, the Issuer shall have a right to amend the technical procedures relating to the Notes in respect of payments or other similar matters without the consent of the Noteholders, if such amendments are not prejudicial to the interests of the Noteholders.

(b) The Issuer shall have a right to convene the Noteholders' Meeting or instigate the Written Procedure at any time and shall do so following a written request from the Noteholders who, on the day of the request, represent not less than one-tenth of the principal amount of the Notes outstanding or the principal amount of the Notes of the relevant Series outstanding (as applicable) (excluding the Issuer and its Subsidiaries).

(c) In case convening of the Noteholders' Meeting or instigation of Written Procedure is requested by the Noteholders, the Issuer shall be obliged to convene the Noteholders' Meeting or instigate the Written Procedure within 1 (one) month after receipt of the respective Noteholders' written request.

(d) Only those who were registered as the Noteholders by the end of 6th (sixth) Business Day prior to convening the Noteholders' Meeting or instigation of the Written Procedure or proxies authorised by such Noteholders, may exercise their voting rights at the Noteholders' Meeting or in the Written Procedure.

(e) Quorum at the Noteholders' Meeting or in respect of a Written Procedure only exists if one or more Noteholders holding 50 (fifty) per cent in aggregate or more of the principal amount of the Notes outstanding or the principal amount of the Notes of relevant Series outstanding (as applicable):

(i) if at a Noteholders' Meeting, attend the meeting; or

(ii) if in respect of a Written Procedure, reply to the request.

If the Issuer and/or its Subsidiaries are the Noteholders, their principal amount of the Notes will be excluded when a quorum is calculated.

(f) If quorum does not exist at the Noteholders' Meeting or in respect of a Written Procedure, the Issuer shall convene a second Noteholders' Meeting (in accordance with Clause 23.2 (a)) or instigate a second Written Procedure (in accordance with Clause 23.3 (a)), as the case may be. The quorum requirement in paragraph (e) above shall not apply to such second Noteholders' Meeting or Written Procedure, except for exclusion of Issuer and its Subsidiaries from calculation of a quorum.

(g) Consent of the Noteholders holding at least 75 (seventy-five) per cent of the aggregate principal amount of the outstanding Notes attending the Noteholders' Meeting or participating in the Written Procedure is required for agreement with the Issuer to amend Clause 3 (Status and Security), Clause 14 (Change of Control), Clause 15 (Negative Pledge), Clause 16 (Events of Default), Clause 23 (Decisions of the Noteholders) or Clause 24 (Governing Law and Dispute Resolution).

(h) Consent of at least 75 (seventy-five) per cent of the aggregate principal amount of the outstanding Notes of the respective Series attending the Noteholders' Meeting or participating in the Written Procedure is required for the following decisions:

(i) agreement with the Issuer to change the date, or the method of determining the date, for the payment of principal, interest or any other amount in respect of the relevant Series, to reduce or cancel the amount of principal, interest or any other amount payable on any date in respect of the relevant Series or to change the method of calculating the amount of interest or any other amount payable on any date in respect of the relevant Series;

(ii) agreement with the Issuer to change the currency of the relevant Series;

(iii) agreement with the Issuer on any exchange or substitution of the Notes of relevant Series for, or the conversion of the Notes of relevant Series into, any other obligations or securities of the Issuer or any other person;

(iv) in connection with any exchange, substitution or conversion of the type referred to in paragraph (iii) agreement with the Issuer to amend any of the provisions of the relevant Series describing circumstances in which the relevant Series may be redeemed or declared due and payable prior to their scheduled maturity.

(i) Consent of simple majority of all Noteholders or the Noteholders of the respective Series (as applicable) attending the Noteholders' Meeting or participating in the Written Procedure is required to the decisions not covered in paragraph (f) or (h) above (as applicable).

(j) The Issuer shall have a right to increase the aggregate principal amount of the Notes to be issued under the Programme without the consent of the Noteholders.

(k) Information about decisions taken at a Noteholders' Meeting or by way of a Written Procedure shall promptly be provided to the Noteholders in accordance with Clause 21 (Notices), provided that a failure to do so shall not invalidate any decision made or voting result achieved.

(l) Decisions passed at the Noteholders' Meeting or in the Written Procedure shall be binding on all Noteholders irrespective of whether they participated at the Noteholders' Meeting or in the Written Procedure.

(m) All expenses in relation to the convening and holding the Noteholders' Meeting or a Written Procedure shall be covered by the Issuer.

23.2. Noteholders' Meetings

(a) If a decision of the Noteholders is intended to be passed at the Noteholders' Meeting, then a respective notice of the Noteholders' Meeting shall be provided to the Noteholders in accordance with Clause 21(Notices) no later than 10 (ten) Business Days prior to the meeting. Furthermore, the notice shall specify the time, place and agenda of the meeting, as well as any action required on the part of the Noteholders that will attend the meeting. No matters other than those referred to in the notice may be resolved at the Noteholders' Meeting.

(b) The Noteholders' Meeting shall be held in Riga, Latvia, and its chairman shall be the Issuer's representative appointed by the Issuer.

(c) The Noteholders' Meeting shall be organised by the chairman of the Noteholders' Meeting.

(d) The Noteholders' Meeting shall be held in English with translation into Latvian, unless the Noteholders present in the respective Noteholders' Meeting unanimously decide that the respective Noteholders' Meeting shall be held only in Latvian or English.

(e) Minutes of the Noteholders' Meeting shall be kept, recording the day and time of the meeting, attendees, their votes represented, matters discussed, results of voting, and

resolutions which were adopted. The minutes shall be signed by the keeper of the minutes, which shall be appointed by the Noteholders' Meeting. The minutes shall be attested by the chairman of the Noteholders' Meeting, if the chairman is not the keeper of the minutes, as well as by one of the persons appointed by the Noteholders' Meeting to attest the minutes. The minutes from the relevant Noteholders' Meeting shall at the request of a Noteholder be sent to it by the Issuer.

23.3. Written Procedure

(a) If a decision of the Noteholders is intended to be passed by a Written Procedure then a respective communication of the Written Procedure shall be provided to the Noteholders in accordance with Clause 21 (Notices).

(b) Communication in paragraph (a) above shall include:

(i) each request for a decision by the Noteholders;

(ii) a description of the reasons for each request;

(iii) a specification of the Business Day on which a person must be registered as a Noteholder in order to be entitled to exercise voting rights;

(iv) instructions and directions on where to receive a form for replying to the request (such form to include an option to vote yes or no for each request) as well as a form of a power of attorney;

(v) the stipulated time period within which the Noteholder must reply to the request (such time period to last at least 10 (ten) Business Days from the communication pursuant to paragraph (a) above) and a manner of a reply; and

(vi) a statement that if the Noteholder does not reply to the request in the stipulated time period, then it shall be deemed that the Noteholder has voted against each request.

(c) When the requisite majority consents pursuant to paragraphs (g), (h) or (i) (as applicable) of Clause 23.1 have been received in a Written Procedure, the relevant decision shall be deemed to be adopted pursuant paragraphs (g), (h) or (i) (as applicable) of Clause 23.1 even if the time period for replies in the Written Procedure has not yet expired.

24. Governing Law and Dispute Resolution

24.1. The issue of the Notes and the General Terms and Conditions are governed by the laws of the Republic of Latvia, in particular:

(a) Financial Instruments Market Law;
(b) Development Finance Institution Law;
(c) Law on the Management of Public Persons' Capital Shares and Capital Companies; and
(d) Commercial Law;

as well as other applicable legal acts of the Republic of Latvia, including regulations of the Depository and Nasdaq Riga.

24.2. Any disputes relating to or arising in relation to the Notes shall be settled solely by the courts of the Republic of Latvia of competent jurisdiction.

PLACEMENT OF THE NOTES

1. Distribution Account

Initially the Notes of the respective Tranche will be book-entered in the distribution account of the Sole Bookrunner with the Depository.

2. Placement Period

The placement period for each Tranche (the "Placement Period") will be specified in the Final Terms.

3. Submission of Purchase Orders

3.1. The investors wishing to purchase the Notes shall submit their orders to purchase the Notes (the "Purchase Orders") at any time during the Placement Period to the Sole Bookrunner and its sub-agents, which will be specified in the Final Terms. The procedure of submission of the Purchase Orders will be specified in the Final Terms.

3.2. Total amount of the Notes to be purchased and provided in each Purchase Order shall be no less than the Minimum Investment Amount.

3.3. The Purchase Order shall also indicate the lowest acceptable yield to maturity of the Notes (the "Yield to Maturity") within the established Yield to Maturity Range (as defined below) (the "Competitive Purchase Orders") or an acceptance to acquire the Notes at any Yield to Maturity within the established Yield to Maturity Range that shall be established by the Issuer in the manner provided in this Base Prospectus (the "Non-competitive Purchase Orders"). Yield to Maturity is the percentage rate of return paid if the Note is held to its Maturity Date, assuming that interest paid over the life of the Note is reinvested at the same rate.

3.4. Only the following Purchase Orders shall be considered as valid and processed (the "Qualifying Purchase Orders":

(a) Non-competitive Purchase Orders;

(b) Competitive Purchase Orders that indicate the Yield to Maturity that is less or equal to the Final Yield to Maturity (to be established as described below);

(c) Purchase Orders where a specified purchase amount is for at least the Minimum Investment Amount; and

(d) Purchase Orders which are received within the Placement Period.

3.5. Purchase Orders by the same legal entity or person will be aggregated into one if all order parameters (except the purchase amount) are the same.

3.6. Neither the Issuer, nor the Sole Bookrunner has any obligation to inform investors about the fact that their Purchase Orders are invalid.

3.7. All Purchase Orders are binding and irrevocable commitment to acquire the allotted Notes, with the exceptions stated below.

4. Yield to Maturity

4.1. An expected yield to maturity range (the "Yield to Maturity Range") for the Notes being offered shall be determined by the Issuer before the beginning of the Placement Period by publishing a respective announcement on the Issuer's website www.altum.lv.

4.2. During the Placement Period the Issuer has a right to amend the Yield to Maturity Range and announce an updated Yield to Maturity Range (the "Updated Yield to Maturity Range") by publishing a respective announcement on the Issuer's website www.altum.lv. Investors should follow the information on the aforementioned website and have a right to modify or cancel their Purchase Orders if the Yield to Maturity Range has been updated, provided that such modification or cancellation of the Purchase Order is received by the Sole Bookrunner before the end of the Placement Period.

5. Cancellation of Issuance

5.1. On the same Business Day following the Placement Period the Issuer will decide whether to proceed with the issuance of the Notes of a respective Tranche or cancel the issuance.

5.2. In case the issuance of the Notes of a respective Tranche is cancelled, the Issuer will publish an announcement on the Issuer's website www.altum.lv, as well as submit this information to the Financial and Capital Market Commission.

6. Establishment of Final Yield to Maturity, Annual Interest Rate and Issue Price, Allotment

In case the Issuer decides to proceed with the issuance of the Notes of a respective Tranche, the following actions shall be taken on the same Business Day following the Placement Period:

6.1. Determination of Final Yield to Maturity

(a) The Issuer together with the Sole Bookrunner, on the basis of the submitted Purchase Orders and indicated Yield to Maturity shall establish the final Yield to Maturity (the "Final Yield to Maturity") payable to the investors. The established Final Yield to Maturity shall be specified in the Final Terms, which will be published after allotment of the Notes to the investors.

(b) The Final Yield to Maturity shall be the same for all investors acquiring the Notes of the respective Tranche during the offering.

(c) Based on the established Final Yield to Maturity the Issuer together with the Sole Bookrunner shall determine which Purchase Orders can be treated as Qualifying Purchase Orders, and the extent of their satisfaction.

6.2. Determination of Annual Interest Rate and Issue Price

(a) The Annual Interest Rate shall be set by rounding down the Final Yield to Maturity (expressed as percentage rate) to the nearest tenth of the rounded digit (which itself is set in percentage terms). The established Annual Interest Rate shall be specified in the Final Terms to be published after allotment of the Notes to the investors.

(b) The Issue Price of the Notes shall be established according to a formula provided in the Final Terms and shall be rounded to the nearest thousandth of the rounded digit under arithmetic rounding rules. The established Issue Price shall be specified in the updated Final Terms to be published after allotment of the Notes to the investors.

6.3. Allotment of the Notes to the Investors

Notes shall be allotted to each Qualifying Purchase Order proportionally to the total amount of the Notes subscribed, based on the investor type. The Issuer has a right to determine different allotment ratios for different types of investors. The Issuer reserves a right to reject any Qualifying Purchase Order, in whole or in part, at its sole discretion.

6.4. Announcement

Updated Final Terms containing the information about the Final Yield to Maturity, Annual Interest Rate, Issue Price, the aggregate principal amount of the respective Tranche and a definitive amount of the Notes to be issued will be published on the Issuer's website www.altum.lv, as well as submitted to the Financial and Capital Market Commission.

6.5. Confirmations

The Sole Bookrunner shall send to each investor by way of fax or e-mail a confirmation which will contain information on the extent of satisfaction or rejection of the Purchase Order submitted by the investor, the number of Notes allotted to the investor, the Final Yield to Maturity, Annual Interest Rate, Issue Price and the amount (price) payable for the Notes.

7. Settlement

7.1. The settlement for the Notes will take place on the Issue Date and will be carried out by the Sole Bookrunner in accordance with the DVP (Delivery vs Payment) principle pursuant to the applicable rules of the Depository.

7.2. All paid up Notes shall be treated as issued. The Notes which are not paid up shall be cancelled.

FORM OF THE FINAL TERMS

Final Terms dated [●]
Akciju sabiedrība "Attīstības finanšu institūcija Altum"
Issue of [●] Notes due [●]
under the Second Programme for the Issuance of Notes
in the Amount of EUR 70,000,000
[to be consolidated and form a single series with [●]]

PROHIBITION OF SALES TO EEA RETAIL INVESTORS: The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail investor as defined in Regulation (EU) No 1286/2014 (the "PRIIPs Regulation"); or (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended) (the "Prospectus Directive"). Consequently, no key information document required by the PRIIPs Regulation for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

MiFID II product governance/Professional investors and eligible counterparties (ECPs) only target market: Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "distributor") should take into consideration the target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

Terms used herein shall be deemed to be defined as such for the purposes of [the General Terms and Conditions set forth in the Base Prospectus of the First Programme for the Issuance of Notes in the Amount of EUR 30,000,000 of Akciju sabiedrība "Attīstības finanšu institūcija Altum" dated 30 August 2017 which are incorporated by reference to the Base Prospectus of the Second Programme for the Issuance of Notes in the Amount of EUR 70,000,000 of Akciju sabiedrība "Attīstības finanšu institūcija Altum" dated 9 May 2019]/[the General Terms and Conditions set forth in the Base Prospectus of the Second Programme for the Issuance of Notes in the Amount of EUR 70,000,000 of Akciju sabiedrība "Attīstības finanšu institūcija Altum" dated 9 May 2019] [as supplemented by supplement(s) to it dated [●] [and [●]] (the "Base Prospectus"), which constitutes a base prospectus for the purposes of Directive 2003/71/EC, as amended, (the "Prospectus Directive").

This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Base Prospectus.

Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus. However, a summary of the issue of the Notes is annexed to these Final Terms.

The Base Prospectus has been published on the Issuer's website www.altum.lv.

1.	Issuer:	Akciju sabiedrība "Attīstības finanšu institūcija Altum"
2.	Series Number:	[●]
3.	Tranche Number:	[●]

4.	ISIN code:	[[●]]/[Temporary ISIN code: [●]. Upon admission of the Notes to the regulated market the Notes will be consolidated and form a single series with [●] and will have a common ISIN code [●]]
5.	Aggregate principal amount:	[EUR [●][1] [in addition to [●]]]
6.	Nominal amount of the Note:	EUR [●]
7.	Issue Date:	[●]
8.	Annual Interest Rate	[●][2]
9.	Interest Payment Date:	[●] each year
10.	Maturity Date:	[●]
11.	Minimum Investment Amount:	[●]
12.	Final Yield to Maturity[3]:	[●]
13.	Formula for calculation of the Issue Price:	The Issue Price of the Notes will be established by the Issuer according to the following formula: [●]
14.	Issue Price:	[●][4]
15.	Placement Period:	[●]
16.	Procedure for submission of the Purchase Orders:	[●]
17.	Procedure for allotment of the Notes:	[●]
18.	Indication of the material features of the agreement with the Sole Bookrunner, including quotas:	[●]
19.	Sub-agents of the Sole Bookrunner:	[●]

[1] The Issuer may increase or decrease the aggregate principal amount of the Tranche during the Placement Period of the Tranche. The final aggregate principal amount of the Tranche will be specified in the updated Final Terms, which will be published after allotment of the Notes to the investors.

[2] Annual Interest Rate shall be determined by the Issuer according to the Section "Placement of the Notes" of the Base Prospectus. Annual Interest Rate will be specified in the updated Final Terms, which will be published after allotment of the Notes to the investors.

[3] An expected yield to maturity range (the "Yield to Maturity Range") for the Notes being offered shall be determined by the Issuer before the beginning of the Placement Period by publishing a respective announcement on the Issuer's website www.altum.lv. During the Placement Period the Issuer has a right to amend the Yield to Maturity Range and announce an updated Yield to Maturity Range (the "Updated Yield to Maturity Range"), by publishing a respective announcement on the Issuer's website www.altum.lv. Investors should follow the information on the aforementioned website and have a right to modify or cancel their Purchase Orders if the Yield to Maturity Range has been updated, provided that such modification or cancellation of the Purchase Order is received by the Sole Bookrunner before the end of the Placement Period. The Final Yield to Maturity shall be determined by the Issuer according to the Section "Placement of the Notes" of the Base Prospectus. Final Yield to Maturity will be specified in the updated Final Terms, which will be published after allotment of the Notes to the investors.

[4] Issue Price shall be determined by the Issuer according to the Section "Placement of the Notes" of the Base Prospectus. Issue Price will be specified in the updated Final Terms, which will be published after allotment of the Notes to the investors.

20.	Rating:	the Notes to be issued [are not/have been/are expected to be] rated [by:[●]]
21.	Use of Proceeds:	[The net proceeds of the issue of each Tranche will be used by the Issuer for its general corporate purposes] / [The net proceeds of the issue of each Tranche will be used by the Issuer for [●]].
22.	Information about the notes of the Issuer that are already admitted to trading on regulated markets:	[●]

These Final Terms have been approved by the management board of the Issuer at its meeting on [date] [month] [year] [and will be updated after allotment of the Notes to the investors, as well as published on the Issuer's website www.altum.lv and submitted to the Financial and Capital Market Commission] / [and have been updated on [date] [month] [year] after allotment of the Notes to the investors].

Riga, [date] [month] [year]

[●]

Annex - Issue Specific Summary
(Issuer to annex an issue specific summary and its translation to the Final Terms)

INFORMATION ABOUT ALTUM GROUP

General Information

The legal and commercial name of the Issuer is Akciju sabiedrība "Attīstības finanšu institūcija Altum". ALTUM is a joint stock company (in Latvian – akciju sabiedrība) incorporated pursuant to the laws of the Republic of Latvia on 27 December 2013. ALTUM is registered with the Commercial Register of the Republic of Latvia and operates according to the legislation of the Republic of Latvia. ALTUM is a 100 per cent state-owned financial institution acting as national financial development institution and strategic venture focusing on the economic development of Latvia.

The role of ALTUM is to provide state support and implement development programmes. The mission of ALTUM is to ensure access of enterprises and households to the financing resources in areas defined by the Cabinet of Ministers of the Republic of Latvia as important and to be supported, transposing national policy into the national economy and by such way enhancing mobilisation of private capital and financial resources, as well as taking care of accomplishment of other governmental assignments defined in the regulatory enactments. The primary purpose for ALTUM's business operations is to ensure the coverage of existing market gaps by using various financial support instruments, thus contributing to the development of national economy.

ALTUM is one of the few state-owned companies operating in accordance with a special law adopted by the Parliament of the Republic of Latvia – the Development Finance Institution Law.

Basic information

Registration number:	50103744891
Legal entity identifier (LEI code):	5493007HPQSSX8BJ4315,
Registered address:	Doma laukums 4, Riga, LV-1050, Latvia
Website:	www.altum.lv
Telephone number:	+371 67 774 010
E-mail:	altum@altum.lv

History and Development of ALTUM

The current structure of ALTUM was established on 15 April 2015 after successful merger of three independently operating enterprises providing state support financial instruments. The aim of the merger was to concentrate the national resources for implementation of state support and development programmes in a format of financial instruments in one integrated development financial institution.

The merged enterprises were:

- Valsts akciju sabiedrība "Latvijas Attīstības finanšu institūcija Altum", until 1 January 2014 – Valsts akciju sabiedrība "Latvijas Hipotēku un zemes banka" (the "Mortgage and Land Bank of Latvia"), specialised in credit activities.

  Mortgage and Land Bank of Latvia was established on 19 March 1993 and for the entire time of its existence it carried out implementation of the development programmes as mandated by the Cabinet of Ministers of the Republic of Latvia, providing support to certain target groups of entrepreneurs and population. It also provided services of a commercial bank.

  As of 1 January 2014, Mortgage and Land Bank of Latvia was operating as a financial institution bearing the name of ALTUM, and proceeding with the provision of services to customers under state support programmes and also performing other tasks assigned by the Latvian government.

- Sabiedrība ar ierobežotu atbildību "Latvijas Garantiju aģentūra" (the "Latvian Guarantee Agency"), specialised in guarantees and investments in venture capital.

  Latvian Guarantee Agency was established in 1998 to provide support to entrepreneurs in raising funds in case of insufficient loan security. Latvian Guarantee Agency implemented the following

state support programmes: credit guarantees, short-term export credit guarantees, mezzanine loans, venture capital and microloans, support to start-ups for creating start-up ecosystem.

- Valsts akciju sabiedrība "Lauku attīstības fonds" (the "Rural Development Fund"), specialised in credit activities for farmers.

  Rural Development Fund was established in 1994 and its primary focus of operation was to ensure provision of state support to rural entrepreneurs in cases of insufficient loan security. Rural Development Fund implemented the following state support programmes: credit guarantees, granting credit fund loans to those seeking state support for acquisition of agricultural land for producing agricultural products via Mortgage and Land Bank of Latvia.

Following the merger, ALTUM became a legal successor of all rights and liabilities of Mortgage and Land Bank of Latvia, Latvian Guarantee Agency and Rural Development Fund, including contractual liabilities under the effective agreements with customers and cooperation partners. As of 15 April 2015, ALTUM bears its current legal and commercial name.

There have not been any recent material events that would be relevant for assessing the solvency of ALTUM.

Investments

There are no principal investments made since the date of the last published financial statements of ALTUM Group.

BUSINESS OWERVIEW

Principal Activities

ALTUM provides support to specific target groups by various means of financial instruments. The main purpose for ALTUM's business operations is to provide access to the financing in areas identified as inefficiently supplied with financial resources on the private market.

The operations and areas of ALTUM's business operations are governed by the Development Finance Institution Law. A comprehensive ex-ante assessment has to be carried out to assess the existence of a market gap and develop investment strategy in order to correct the deficiencies discovered. The assessment of market gap and design of the investment strategy in close cooperation with ALTUM is carried out by the Ministry of Finance of the Republic of Latvia, the Ministry of Economics of the Republic of Latvia and the Ministry of Agriculture of the Republic of Latvia, setting the policy in particular field. Before starting to provide new support programmes or new products, they have to be approved by the Cabinet of Ministers of the Republic of Latvia.

According to the Development Finance Institution Law, before approval of a specific programme, ALTUM performs assessment of risks, expected loss, feasibility and projected financial results related to the product or the programme. In assessment of expected loss for the programme ALTUM evaluates incorporated credit risk, operational risk and other risks like market risks. Afterwards, an assessment is provided to the Cabinet of Ministers of the Republic of Latvia together with the programme to be approved. For coverage of the programme's expected loss on credit risk, a respective portion of public funding available for that programme is allocated at full or partial extent of total expected credit loss, depending on the agreed programme's structure. Thus, large share of loss coverage is incorporated in the funding programmes.

ALTUM operates in line with the medium-term strategy, which is elaborated in close cooperation with the relevant sectoral ministries and the Cross-Sectoral Coordination Centre of the Republic of Latvia and approved by the supervisory board of ALTUM.

As of 31 December 2018, ALTUM's portfolio of the financial instruments granted within the state support programmes was for the total value of 514 million euros consisting of 18,280 projects, including:

- guarantee portfolio of 237 million euros (the total number of transactions – 11,924);
- loan portfolio of 217 million euros (the total number of transactions – 6,150);
- investments into venture capital funds for the total value of 60 million euros (the total number of projects financed by venture capital funds – 206).

Already in second quarter of 2018, the volume of the guarantee portfolio exceeded the loan portfolio reaching the target set in ALTUM's strategy for 2016-2018 – to achieve a significant augmentation of the operational volumes through the focus on the indirect financial instruments (guarantees).

Main Customer Segments and Services

SMEs and midcaps

The main target for ALTUM's business operations is the improvement of access to financing of investments and working capital by small and medium enterprises (the "SMEs"), innovations, expansion and promotion of beginner entrepreneurs and start-ups in order to facilitate their growth and expansion.

The main problems for ALTUM's customers and typical solutions that ALTUM may offer are:

- lack of collateral – to provide guaranty or special loan;
- lack of track record – to provide special start-up loan;
- lack of capital – to provide risk capital or mezzanine loan;

- new economy sectors – to provide special loan.

The main services provided by ALTUM are loans, export credit guarantees, loan guarantees, mezzanine loans, venture capital investments, start-up loans, micro-loans and other support (training and events).

According to ALTUM's strategy for the years 2016–2018, ALTUM has expanded its business of loan guarantees for promotion of entrepreneurship and access to the funding by offering both – new guarantee products and improving the existing products.

Agriculture companies

The main target of ALTUM is to support development of agriculture and rural businesses.

The main problems for ALTUM's customers and typical solutions that ALTUM may offer are:

- lack of collateral – to provide guaranty or special loan;
- lack of track record – to provide special start-up loan;
- need to support strengthening of farms' ability to finance acquisition of land – to provide long term agricultural land financing programme.

The main services provided by ALTUM are guarantees and loans for financing of the agricultural activities, working capital and investments for business development of rural areas, long term financing for acquisition of agricultural land.

To ensure easier access to funding for entrepreneurs performing commercial activities outside big towns and having relatively small annual turnover (up to EUR 70 thousand) ALTUM in autumn 2018 has launched a new loan product.

In 2018, also significant amendments were introduced into loans for acquisition of agricultural land – new agricultural entrepreneurs were made eligible for the loans and requirements were alleviated for the farmers whose income plummeted due to unfavourable weather (incessant rain, frost, draught).

In order to simplify implementation of loan guarantees for farmers, in 2018 ALTUM has reviewed and streamlined the rules for issue of guarantees to farmers, thus improving access to the funding for farmers significantly.

In addition, in accordance with the decree issued by the Cabinet of Ministers of the Republic of Latvia, ALTUM is the administrator (operator) of the Land Fund of Latvia. ALTUM conducts economically effective transactions with agricultural land in accordance with the aim of the Land Fund of Latvia defined in the Law on Land Privatization in Rural Areas – to ensure protection and access to agricultural land resources at national level, their rational, effective and sustainable use, as well as preservation of agricultural land areas. The Land Fund of Latvia operates in two main directions: agricultural land as investment property leased out to farmers and sale and lease back of agricultural land as working capital funding for farmers operating respective land plots.

Energy efficiency and renewables' related projects

The aim of ALTUM is to support the implementation of energy efficient technologies, promotion of renewable energy, housing renovation, as well as renovation of public and industrial buildings.

In autumn 2017, ALTUM launched two new loan products – to energy service companies (ESCO) operating in corporates segment, as well as to general corporates for investments ensuring improved energy efficiency, promotion of renewable energy, passive house and sustainable transportation. For this purpose, under its Green Bond Framework ALTUM attracted funding in the capital markets in the amount of 20 million euros. To increase the number of target customers for those two loan products ALTUM provides small grants for drafting the energy efficiency project documentation, that is supported by ELENA (European Local Energy Assistance) – a joint initiative of the European Investment Bank and the European Commission.

ALTUM provides long-term funding for the companies and the owners of residential buildings, as well as shares its expertise in energy efficiency. ALTUM also provides guaranties to the companies with insufficient collateral to obtain financing from the commercial banks.

Households

Support for households (special target groups) by ALTUM contains: housing loan guarantees for families with children, housing loan guarantees to young professionals, financial support (guarantees, loans, grants, consultations) on the energy efficiency improvement measures of multi-apartment residential buildings provided to owners of the apartments of multi-apartment buildings.

Management of fund of funds

In order to introduce new financial instruments, in 2016 ALTUM launched the fund of funds. Within the context of the EU structural funds, the fund of funds is an investment strategy whereupon several financial instruments (i.e., loans, guarantees and equity instruments) are managed under a single financing agreement between ALTUM and the Central Finance and Contracting Agency, which is Intermediate Body – Cooperation Institution of the EU structural funds in Latvia. The implementation of fund of funds provides administrative simplification, efficiency and flexibility in redistributing financing amongst the financial instruments.

Coordination of activities of the European Fund for Strategic Investments

ALTUM is a national contact point in Latvia for the European Fund for Strategic Investments or so called "Juncker Plan", created in cooperation with the European Investment Advisory Hub.

ALTUM provides advisory services to support large investment project (total project costs above 30 million euros) promoters for applying to the European Investment Bank. ALTUM's activities include not only evaluation of the applicants, investment opportunities and feasibility of investments, but also arrangement of meetings with stakeholders to reach the optimal investment structure for the project promoters in cooperation with the Investment and Development Agency of Latvia, the Central Finance and Contracting Agency, associations and chambers of commerce, as well as representative office of the European Commission.

Main support programmes by products

ALTUM implements the support programmes and offers financial instruments directly and indirectly, i.e., in cooperation with financial intermediaries, enhancing the mobilisation of private capital and financial resources this way.

Direct loans

ALTUM provides the following direct loans:

- Loans for growth of SMEs: provision of loans for investments and working capital with reduced requirements for collateral and an option to receive interest rate subsidies or guarantee for a loan;
- Loans to corporates for energy efficiency improvement, promotion of renewable energy and sustainable transportation: provision of loans both to corporates and ESCO companies;
- Start-up loans: provision of loans to facilitate engagement of Latvian inhabitants in business;
- Loans for acquisition of agricultural land: provision of loans with favourable conditions for the purchase of agricultural land for production of agricultural products;
- Loans for enterprises in rural areas: this loan product not exceeding EUR 100 thousand is intended for investments and working capital, attractive for new agricultural entrepreneurs, small-scale and

bio-farmers, as well as service providers in rural territories. The advantages of the said loan product can be used also by fishery companies irrespective of turnover and location;

- Working capital loans for farmers: provision of different size loans for primarily agricultural production, co-operatives and the fruit and vegetable producer groups;
- Microloans: provision of small loans for investment and working capital at favourable conditions;
- Loans for energy efficiency improvement of multi-apartment residential buildings: provision of financial support for energy efficiency improvement measures of multi-apartment residential buildings provided to apartment owners of multi-apartment buildings;
- Mezzanine loans: provision of loans for entrepreneur's co-financing in cases when commercial banks require larger amount than the entrepreneur is able to provide.

In autumn 2018, ALTUM launched European Investment Fund (EIF) COSME (Programme for the Competitiveness of Enterprises and Small and Medium-sized Enterprises) and EaSI (Employment and Social Innovation Programme) counter guarantees for loans up to EUR 25 thousand issued within the scope of following loan products – start-up loans, micro loans, funding for working capital for farmers, loans for enterprises in rural territories. The loans eligible according to the terms and conditions of COSME or EaSI counter guarantees are issued without additional collaterals, with a personal guarantee only, and at a lower interest rate compared with unsecured loans.

Guarantees

In 2018, the credit institutions selected by ALTUM started to offer with great success the new guarantee product developed by ALTUM – portfolio guarantees. As opposed to individual guarantees, a credit institution may itself apply a portfolio guarantee instrument to its own financial services, including, to loans of up to EUR 250 000, offering better terms to the entrepreneurs – lower interest rates and also faster receiving of the loan (probably within a couple of days).

In order to promote availability of funding for feasible projects, the maximum individual guarantee amount for SME segment as of 2017 was increased from EUR 1,5 million to EUR 3 million, followed by further increase to EUR 5 million approved in April 2019. By way of ensuring access to the funding for a broader range of clients, significant improvements were made to the SME loans for new entrepreneurs that became effective in early 2018 – the maturity of the loan was extended from 8 years to 10 years, but in the event of funding for real estate – up to 15 years. Also, the companies that had been in the business for less than 5 years (instead of the previous criterion of 3 years) and self-employed persons were included as eligible loan applicants. As of 2018, the range of the eligible recipients in SME segment of the guarantee products was also expanded. Now also the companies renting vehicles, personal goods, domestic hardware and appliances, electricity and heat producers and real estate developers working for the hotel and service operator are eligible for guarantees.

Streamlined criteria for loan guarantees for farmers as of 2018 includes: the guarantee coverage was set at up to 80 per cent (formerly from 50 per cent to 80 per cent) and uniform maximum guarantee cap – EUR 1 million (formerly from EUR 43 thousand to EUR 712 thousand) envisaging also guarantees for financial leasing.

The amendments to housing loan guarantee programme framework expanding the product to young professionals, effective as of early 2018, gave a new impetus to implementation of this product.

The most important guarantee programmes provided by ALTUM are as follows:

- Loan guarantees: provision of guarantees to entrepreneurs for receipt of bank loans for business development, if their own collateral is not sufficient to receive funding from a bank;
- Loan guarantees for farmers: provision of guarantees to entrepreneurs operating in the field of agricultural and rural development for receipt of bank loans for business development, if their collateral is not sufficient to receive funding from a bank;

- Capped portfolio guarantees: incentive to credit institutions to increase lending to SMEs, provision of credit risk coverage on a loan-by-loan basis for the creation of a portfolio of new loans to SMEs up to a maximum loss amount (cap);
- Housing loan guarantees for the first instalment: provision of housing loan guarantees to families with children and to young professionals with steady income, but insufficient savings for the first instalment;
- Short-term export credit guarantees: provision of guarantees to exporters to secure themselves against the insolvency of a foreign customer or long-term non-payment when selling goods or providing services with a deferred payment;
- Guarantees for improvement of energy efficiency of multi-apartment residential buildings: provision of financial support for improvement of energy efficiency of multi-apartment residential buildings.

Venture capital

Investments into venture capital funds are being financed from the European Regional Development Fund and resources returned to financial instruments financed by public resources.

ALTUM selects high quality professional fund managers through the public procurement procedure. Investment decisions in all companies are made by the fund managers. However, it is subject for further ALTUM approval in respect of state support and AML compliance as well as investment feasibility.

Within the framework of the fund of funds for 2014-2020 programming period, in 2016 ALTUM initiated selection process for managers of acceleration, seed, venture and growth funds via public procurement process. In 2018, the selection of managers for Stage 4 venture capital funds was finalised. A term for the Stage 4 funds is 10 years, plus potential extension up to 2 years.

As of third quarter of 2018, the venture capital accelerator investments for very early stage innovative companies have been made available in Latvia, which is a novelty in the Latvian start-ups ecosystem. Each of three fund managers run both pre-seed and seed funds within the acceleration fund programme specialised either in deep tech & science or internet of things & hardware or B2B software & smart workplace. The investment ticket size is up to EUR 50 thousand and EUR 250 thousand respectively. The total public funding for ALTUM Group's investments in these 6 funds would amount to EUR 15 million (100 per cent stake in acceleration pre-seed and 80 per cent stake in acceleration seed funds) with EUR 1,35 million private investors co-funding for 20 per cent stake in acceleration seed funds.

In the second half of 2018, the investment period commenced for three Stage 4 venture capital funds: one seed fund, one venture fund and one growth fund. For the other growth fund with total public funding stake of EUR 15 million and respective portion of private co-funding the investment period will start in June 2019. The investment ticket size per investee in seed fund is up to EUR 250 thousand, while ticket size in venture fund and growth fund is EUR 0,5 – 2,1 million and EUR 1,0 – 3,75 million respectively caped at 15 per cent of respective fund amount. The total public funding for ALTUM investments in the seed, venture and growth funds is EUR 60 million (90 per cent stake in seed funds, 75 per cent stake in venture funds and 60 per cent in growth funds) with EUR 28 million private investors co-funding in seed, venture and growth funds. Currently, investment period has not yet started for public funding of EUR 15 million with respective portion of private co-funding that is subject to further allocation during 2019.

A term for the Stage 3 venture capital funds (one seed fund, two venture funds and three growth funds) is 5 years, expiring by the end of 2020 with potential extension up to 2 years. A term for the Baltic Innovation Fund (fund of funds), set with co-investors European Investment Fund and development financial institutions from Estonia and Lithuania, managed by EIF, is 16 years, expiring on 2028.

New products and activities

In 2019-2020, the development of the next EU funds programming financial instruments will take place, in which ALTUM's participation and contribution in developing proposals for funding availability solutions will be essential.

ALTUM continues to improve the efficiency and availability of existing financial instruments to customers. In the nearest future it is planned to increase the maximum amount of the individual guarantee from EUR 3 million to EUR 5 million and make the acquisition of capital shares eligible for guarantees. The decisions on these issues are expected to be taken in second quarter of 2019. ALTUM is working to attract the guarantee funding from European Investment Bank's instrument "Private Financing for Energy Efficiency" to address the limited access to adequate and affordable financing for energy efficiency investments, thus promoting also loan to corporates for energy efficiency improvement product. ALTUM also intends to participate in the implementation of the study crediting programme by elaborating the proposal for capped portfolio guarantee instrument which will provide a guarantee for study loans (funds to cover tuition fees) and student loans (funds to cover students' daily needs during studies) issued by the commercial banks.

ALTUM will continue to elaborate counter guarantees for its loan and guarantee instruments to make the loan and guarantee products more affordable to wider range of SMEs.

Recently in spring 2019, ALTUM received an approval of the European Investment Bank support – grant to large investment project promoters for applying to the European Investment Bank to recover up to 75 per cent from the project application (business plan, financial forecasts and other outsourced project preparing services) costs. By this ALTUM develops and strengthens "Juncker Plan" investment advisory services at national level, allowing more qualitative applicants to submit their projects.

ALTUM is working actively to introduce customer service improvements and make the process of reviewing applications more efficient – already in autumn 2018 the customers of ALTUM were able to register, submit their applications for loans and upload the required documents only electronically. It speeds up the decision-making for issue of the state support funding. Along with implementation of an entirely electronic application system the number of documents that the customers have to submit has also decreased. The first to benefit from a faster review of their applications were the customers applying for new entrepreneurs or business development loans in the amount of up to EUR 25 thousand. Now the customers are able to complete all steps of the loan application remotely and visit ALTUM only to sign the loan agreement.

Cooperation with Partners

To expand the reach of various customer segments, ALTUM intends to increase the involvement of its cooperation partners (various government institutions, associations, international financial institutions and business bodies) into the project implementation process, as well as introduction of new financial instruments, such as portfolio guarantees and acceleration funds, also maintaining direct and indirect implementation of state support programmes.

ALTUM and its partners promote a long-term and successful cooperation, are open for new initiatives, encourage fair business principles based approach in decision making, focus on use of e-services, encourage provision of feedback, conduct cooperation assessment survey and make improvements based on the assessment, pursue the good industry practice standards and adhere to professional standards.

ALTUM is an active member in international organizations, which aim to improve the financing of various industries of national economy and access to finance, complementing and stimulating the market, meanwhile retaining its balance in areas as SMEs, long-term financing, exports insurance and others.

Principal Markets

ALTUM plays an important role to facilitate access to financing for Latvian SMEs and private individuals. As in any emerging market economy, due to various objective limitations, natural risk aversion and information asymmetry, the private market participants are inactive within specific lending, equity and quasi-equity financing, and risk insurance segments. Hence, ALTUM helps to fill these identified market gaps or sub-optimal market conditions by providing an extensive range of financing instruments.

In accordance with the Development Financial Institution Law and in line with the European Commission's decision of 9 June 2015 on the creation and activity of the Latvian single development institution, ALTUM operates only in the Latvian market and does not distort competition. Rather, ALTUM's co-lending, co-investment, and risk-sharing instruments anticipate co-operation with other market players and encourages their activity in the respective segments. In particular, these co-operations have been and continue to be pivotal in the advancement of the Latvian start-up ecosystem within lending, leasing and factoring, export credit financing, technology transfer and venture capital markets.

Specifically, as permitted by the Development Financial Institution Law, ALTUM shall implement the financing programmes in the following fields and for the following purposes:

- development of small and medium-sized economic operators, as well as starting a business activity;
- micro-crediting;
- construction, reconstruction and renovation of dwellings;
- development of the State and municipal infrastructure;
- environmental protection;
- development of a business infrastructure;
- innovation and the development of technologies;
- formation of venture capital;
- development of agriculture, processing of agricultural products, rural areas, fisheries and forestry;
- facilitation of the employment of socially sensitive population group and the implementation of other social support programmes;
- promotion of cooperation between ALTUM and its business partners (e.g., various government institutions, associations, international financial institutions and business bodies);
- support to specially assisted regions;
- facilitation of exports;
- implementation and co-funding of the European Union programmes and projects;
- implementation and co-funding of the programmes and projects of international financial institutions, as well as in other support fields or for other purpose specified in the regulatory enactments.

ORGANISATIONAL STRUCTURE

ALTUM is a parent company of ALTUM Group. As of the date of this Base Prospectus, ALTUM Group includes ALTUM and two closed investment funds Hipo Latvia Real Estate Fund I and Hipo Real Estate Fund II in which ALTUM is the sole investor. The below listed subsidiaries and associates in which ALTUM has significant influence (investments in venture capital funds) are treated as subsidiaries or associates only for purposes of financial accounting.

In 2018, active co-operation with Stage 4 venture capital funds was started. In order to establish existence of control or significant influence, ALTUM assessed thoroughly the concluded co-operation agreements applying IFRS 10 control criteria and IAS 28 significant influence criteria. Upon assessment of all the factors, the rights and obligations arising under the agreements demonstrate that those venture capital funds over which ALTUM exercises a sole right of dismissing a fund's manager without any additional reasons is treated as the subsidiaries of ALTUM. While the investments in those venture capital funds over which ALTUM exercises no such right is treated as associates over which ALTUM has no control, but significant influence.

The management of ALTUM is aware that on most occasions the circumstances that point to the power of ALTUM over the investment in particular venture capital fund will cease to exist within two years after the amount of the minimum capital investment is reached. For this reason, once the term has expired, the management of ALTUM will do a repeated assessment of the presence of the control indicators.

Investments in venture capital funds (Stage 4 venture capital funds) classified as ALTUM's subsidiaries:

- KS "Overkill Ventures Fund I AIF" (100 per cent investment in capital);
- KS "Buildit Latvia Pre-Seed Fund" (100 per cent investment in capital);
- KS "Commercialization Reactor Pre-seed Fund" (100 per cent investment in capital);
- KS "INEC 1" (75 per cent investment in capital);
- KS "INEC 2" (90 per cent investment in capital);
- KS Imprimatur Seed Fund 2 *
- KS Imprimatur Venture Fund 2 *

Investments in venture capital funds classified as ALTUM's associates:

- KS "Otrais Eko fonds" (33 per cent investment in capital);
- KS "BaltCap Latvia Venture Capital Fund" (67 per cent investment in capital);
- KS "AIF Imprimatur Capital Technology Venture Fund" (67 per cent investment in capital);
- KS "AIF Imprimatur Capital Seed Fund" (100 per cent investment in capital);
- KS "ZGI-3" (95 per cent investment in capital);
- KS "FlyCap Investment Fund" (95 per cent investment in capital);
- KS "Expansion Capital Fund" (95 per cent investment in capital);
- "Baltic Innovation Fund" (20 per cent investment in capital);
- KS "Buildit Latvia Seed Fund" (80 per cent investment in capital), Stage 4 venture capital fund;
- KS "Overkill Ventures Fund II AIF" (80 per cent investment in capital), Stage 4 venture capital fund;
- KS "Commercialization Reactor Seed Fund" (80 per cent investment in capital), Stage 4 venture capital fund;
- KS "ZGI-4" (60 per cent investment in capital), Stage 4 venture capital fund;

- KS “FlyCap Mezzanine Fund II” (60 per cent investment in capital), Stage 4 venture capital fund.

* Due to fund manager’s failure of raising private co-funding to the extent and time stipulated in the agreement, decision about termination of operations of KS AIF Imprimatur Seed Fund 2 and KS AIF Imprimatur Venture Fund 2 (before investment period commenced) and initiation of liquidation of the limited partnerships has been taken by unanimous decision of the shareholders in March 2019.

ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES

In accordance with the Development Finance Institution Law and the Articles of Association of ALTUM, as approved by the Cabinet of Ministers of the Republic of Latvia, ALTUM has the following management and supervisory bodies:

- shareholders' meeting;
- supervisory board; and
- management board.

Shareholders' Meeting

Since the Ministry of Finance of the Republic of Latvia, the Ministry of Economics of the Republic of Latvia and the Ministry of Agriculture of the Republic of Latvia are the holders of state capital shares, decisions of the holders of capital shares shall be taken by the state secretary of the respective ministry or another official of the ministry determined by an order of the state secretary, who has all the rights, obligations and responsibilities of the representative of the holder of capital shares provided for in laws and regulations.

As of the date of this Base Prospectus, shareholders' representatives are Baiba Bāne, State Secretary of the Ministry of Finance of the Republic of Latvia, Dace Lucaua, State Secretary of the Ministry of Agriculture of the Republic of Latvia, and Ēriks Eglītis, State Secretary of the Ministry of Economics of the Republic of Latvia.

The shareholders' meeting has the power of decision if all representatives of shareholders are participating in the shareholders' meeting. One share gives one vote.

According to the Law on the Management of Public Persons' Capital Shares and Capital Companies, the shareholders' meeting takes decisions on, inter alia, approval of the annual report of ALTUM, distribution of profits, election and revocation of the members of the supervisory board, election and revocation of auditors, bringing a claim or withdrawing a claim brought against a member of the supervisory board or the management board of ALTUM or an auditor, the amount of remuneration to be paid to auditors and members of the supervisory board and the management board of ALTUM, increasing or decreasing of ALTUM's equity capital, reorganisation of ALTUM, and election and revocation of a liquidator. The management board of ALTUM also needs a prior consent of the shareholders' meeting for taking a decision on the acquisition or alienation of an undertaking and termination of specific kinds of business operations and commencement of new kinds of business operations.

In addition to the tasks provided in the Law on the Management of Public Persons' Capital Shares and Capital Companies, at the shareholders' meeting decisions shall be taken on:

- the amount of reserve capital and a policy for accumulation of savings;
- approval of an operational plan and budget;
- appointment and dismissal of head of internal audit service;
- determination of remuneration for auditor and head of internal audit service;
- approval of the bargain that ALTUM concludes with head of internal audit service;
- approval of the operational plan, estimate of expenditure and list of personnel of internal audit service;
- approval of an internal control system;
- cover of losses from the funds of reserve capital in cases when losses have incurred to ALTUM.

In addition to the rights and obligations provided in the Law on the Management of Public Persons' Capital Shares and Capital Companies and the Commercial Law, the representative of a shareholder has a right to convene meetings of the supervisory board of ALTUM by indicating the necessity and purpose of convening the meeting.

The shareholders' meeting shall be chaired by the representative of a shareholder – the Ministry of Finance of the Republic of Latvia. Each shareholder has the right to nominate one candidate for a position of the supervisory board of ALTUM.

Supervisory Board

The same requirements that are prescribed in the Credit Institution Law for the members of supervisory board of credit institution apply also to the members of supervisory board of ALTUM. Therefore, all members of supervisory board of ALTUM must:

- have competence in the financial management matters;
- have necessary education and at least three years of professional experience in an undertaking, organisation or institution of similar size to ALTUM;
- have an impeccable reputation;
- have not been deprived of the right of engaging in commercial activities.

According to the law, all members of the supervisory board are state officials.

Chairman of the supervisory board is a member of the supervisory board and is nominated by the Ministry of Finance of the Republic of Latvia. A term of office for members of the supervisory board of ALTUM is three years.

In addition to the tasks provided in the Law on the Management of Public Person's Shares and Capital Companies, the supervisory board of ALTUM has the following tasks:

- to provide the development, approval of ALTUM's operational plan and to supervise its implementation;
- to constantly supervise operation of ALTUM's internal control system;
- to evaluate and reconcile or reject the acquisition, confiscation and burdening of immovable property with rights in rem if transactions with such property include recovery of debts;
- to carry out ALTUM`s financial resources management and risk management activities.

If the supervisory board of ALTUM does not have a power of decision, the shareholders' meeting has a right to examine the matters to be addressed at the meeting of the supervisory board of ALTUM.

As of the date of this Base Prospectus, the members of the supervisory board of ALTUM are:

- Līga Kļaviņa, chairman of the supervisory board (deputy state secretary on Financial Policy Issues of the Ministry of Finance of the Republic of Latvia). She has significant experience in working with international financial institutions. She holds a master's degree in law. Līga Kļaviņa has been working in many positions within the Ministry of Finance of the Republic of Latvia and has represented the interests of the Latvian government and the Ministry of Finance of the Republic of Latvia in directly and indirectly state-owned enterprises;
- Jānis Šnore, member of the supervisory board, with 15 years of experience in finance in budgeting. The current position of Jānis Šnore is Deputy State Secretary of the Ministry of Agriculture of the Republic of Latvia. Jānis Šnore graduated from the Institute of International Affairs of the University of Latvia. In addition, he holds a degree in agricultural sciences;

- Kristaps Soms, member of the supervisory board, with 12 years of experience in finance, policy coordination, and entrepreneurship development. The current position of Kristaps Soms is Director of Entrepreneurship Competitiveness Department of the Ministry of Economics of the Republic of Latvia. Kristaps Soms graduated from the University of Latvia and holds degrees in Business Management and Economics.

All members of the supervisory board of ALTUM were appointed on 29 December 2016. The registered address of each member of the supervisory board of ALTUM is Doma laukums 4, Riga, LV-1050, Latvia.

Management Board

The same requirements that are prescribed in the Credit Institution Law for the members of management board of credit institutions apply also to the members of management board of ALTUM. Therefore, all members of the management board of ALTUM must:

- have competence in the financial management matters;
- have necessary education and at least three years of professional experience in an undertaking, organisation or institution of similar size to ALTUM;
- have an impeccable reputation;
- have not been deprived of the right of engaging in commercial activities.

According to the law, all members of the management board are state officials.

ALTUM has five members of the management board elected by the supervisory board. The management board is in charge of daily operations of ALTUM.

Members of the management board of ALTUM are elected for three years. Members of the management board jointly represent ALTUM. The chairperson of the management board is elected from the members of the management board by the supervisory board of ALTUM.

The management board of ALTUM needs a prior consent of the Cabinet of Ministers of the Republic of Latvia for obtaining or terminating participation, as well as for obtaining or terminating decisive influence in other undertaking.

The management board of ALTUM shall need a prior consent of the meeting of shareholders for taking a decision on the following matters:

- acquisition or alienation of an undertaking;
- termination of specific kinds of business operations and commencement of new kinds of business operation.

The management board shall need a prior consent from the supervisory board of ALTUM on deciding the following matters:

- opening or closing of branches and representative offices;
- entering into such transactions, which exceed the sum stipulated in the Articles of Association or decisions of the supervisory board of ALTUM;
- issuing of such loans, which are not related to the regular commercial activity of the company;
- issuing of credits to employees of ALTUM;
- determining of the general principles of commercial activity of ALTUM.

Additionally, the management board needs a prior consent of a shareholders' meeting in order to obtain or terminate, increase or decrease a participation or decisive influence in other capital company, for acquisition or confiscation of an enterprise, as well as for making investments in funds, inter

alia, in alternative investment funds. The activities mentioned in the previous sentence shall be implemented within programmes or the delegated public administration tasks.

As of the date of this Base Prospectus, the members of the management board of ALTUM are:

- Reinis Bērziņš, chairman of the management board. He is a professional in business management and finance with extensive experience in business and institution management. He has an MBA degree in International Banking and Finance, Business Management (Swiss Business School) and a degree in law. His main responsibilities include financial management, as well as human resources and legal matters.
- Jēkabs Krieviņš, member of the management board. He is an expert in the financial industry with more than 20 years of experience in organizing and managing business credit processes. He has gained his experience working both in the private banking and public finance institution sectors. He has an executive MBA degree in business and institution management, certificate of bank's specialist and bachelor's degree in economics. Jēkabs Krieviņš is responsible for the information technology scope, ALTUM's customer and regional service centres, and overseeing the Land Fund of Latvia;
- Inese Zīle, member of the management board. She has 20 years of experience in the financial sector, including more than 15 years in the management of various departments, as well as experience of working in the public sector. Inese Zīle has an MBA degree in International Economics and Business. Her main areas of responsibilities include corporate governance, marketing, public relations and development of ALTUM's state support programs. Inese Zīle is a member of supervisory board of Finance Latvia association;
- Juris Vaskāns, member of the management board. He has gained his financial education in the United States of America (Eastern Michigan University), and is continuing his studies in obtaining an MBA degree at the Riga Business School. He has also gained health and athletic education at the Murjani Sports Gymnasium. At ALTUM Juris Vaskāns is responsible for the venture capital financial instruments and supporting promotion of start-ups' eco environments;
- Aleksandrs Bimbirulis, member of the management board. He has more than 20 years of experience in banking and finance. He has graduated from the Faculty of Law of the University of Latvia and holds professional master's degree in law from Turiba University. He was appointed as a member of the management board of ALTUM on 7 July 2017, and his main responsibilities include risk and administrative management, as well as overseeing matters related to lending.

All members of the management board of ALTUM (except for Aleksandrs Bimbirulis who was appointed on 7 July 2017) were re-appointed on 11 June 2018. The registered address of each member of the management board is Doma laukums 4, Riga, LV-1050, Latvia.

Conflict of Interest

In accordance with the Law on Prevention of Conflict of Interest in Activities of State Officials, all members of the supervisory and management boards of state owned companies have the status of state officials. As such, all supervisory board and management board members of ALTUM are state officials, and subject to detailed requirements of this law. The abovementioned law permits to combine their office of state official only with activities which are indicated by the law as compatible (e.g., offices in a trade union, an association or similar organisation, the work of teacher, scientist and creative work) in order to prevent personal or material interest in the activity of the state official. In accordance with the abovementioned law, all state officials are obliged to submit an annual declaration of interest.

ALTUM confirms that members of the supervisory board and management board of ALTUM do not have conflict of interest between their duties performed in ALTUM and their private interests and/or their other duties.

Employees

Following implementation of several centralization of operations and automation projects at ALTUM, including development of new IT solutions and optimization of the operations and support functions for the regional customer service network, the number of employees at ALTUM reduced by 12 per cent from 231 employees in 2017 to 203 employees in 2018. As of 31 December 2018, 39 employees were employed in the branch offices and 158 – in the main office. In addition, 6 employees were on a parental leave. 67 per cent of all employees were women, 33 per cent were men. The average age of the employees was 42 years. 92 per cent of all staff had higher education. ALTUM provides an effective human resource management to retain and attract qualified, professional and motivated employees for achievement of high operational efficiency of the company and its goals.

BOARD PRACTICES

Management of ALTUM is organized in accordance with good corporate governance practices, in line with the Development Finance Institution Law, the Law on the Management of Public Persons' Capital Shares and Capital Companies, Commercial Law, Financial Instruments Market Law and other binding regulatory enactments. The Articles of Association of ALTUM are approved by the Cabinet of Ministers of the Republic of Latvia.

ALTUM has established an internal control system in accordance with its operational profile, including risk management and management of capital adequacy maintenance.

In its operation, ALTUM adheres to the international financial reporting standards and the applicable capital requirements provided in the relevant EU regulations and directives, as much as they pertain to the peculiarities of ALTUM's business operations and are effectively applicable.

The internal control system of ALTUM is based on the "know your customer" principle. The policies and procedures in place for anti-money laundering and combating the financing of terrorism ("AML/CFT") and compliance with applicable sanctions lists, as well as other corresponding control measures, are developed on the basis of international legal acts and legal acts of the Republic of Latvia that regulate AML/CFT and enforcement of sanctions. In addition, international standards, best practice guidelines and policy guidance and guidelines of the Finance Latvia Association in the area of AML/CFT and enforcement of sanctions are followed as well.

ALTUM ensures compliance with the requirements of sanctions lists defined by the rules and regulations of, among others, the Republic of Latvia, the EU, the Office of Foreign Assets Control of the United States Department of the Treasury and the United Nations.

The most important processes that ensure AML/CFT and sanctions risk management in ALTUM are as follows:

- identification and assessment of risks;
- proper governance arrangements;
- customer acceptance procedures.

Customer acceptance procedures include:

- customer and ultimate beneficial owner identification and verification;
- understanding of the intended purpose and nature of the business relationship;
- customer risk profiling and determining the extent of the applicable due diligence measures;
- ongoing monitoring of the business relationship and customer transactions;
- detection and reporting of unusual and suspicious transactions;
- management of information, record keeping and updating of information provided by customers;
- training of ALTUM's employees.

Since September 2018, ALTUM has centralized AML/CFT and sanctions compliance function with the Risk Management Department of ALTUM which carries digital on-boarding of customers with respect to the AML/CFT and sanctions compliance through an automated loan assessment system.

In February 2019, ALTUM launched customer's AML/CFT scoring system. According to the scoring system, each customer who applies to loan, grant or export credit guarantee instrument as well as each investee under venture capital instruments has been assigned the AML/CFT risk score.

ALTUM has established independent Internal audit unit directly reporting to ALTUM supervisory board. Audit work is carried out in accordance with the risk-based audit plan approved annually by the representatives of ALTUM shareholder and take account of internationally accepted audit standards and the international standards of the Institute of Internal Auditors. These standards require that the Internal audit unit complies with ethical requirements, plans and performs the audit work in order to obtain reasonable assurance for the purpose of the audit opinion. As of the date of this Base Prospectus, Roberts Jansons is the acting head of the Internal audit unit of ALTUM appointed by the representatives ALTUM shareholder. He has more than 10 years' experience working in audit field out of which 6 years he has worked as Head of EU fund Audit Unit in Finland.

ALTUM has established an audit committee in accordance with the requirements set forth by the Financial Instruments Market Law. The audit committee was established and all members of the audit committee were elected on 1 December 2017 at the shareholders' meeting of ALTUM for a period of three years.

As of the date of this Base Prospectus, the members of the audit committee of ALTUM are:

- Gunta Darkevica, the chairperson of the audit committee, sworn auditor;
- Gints Trupovnieks, member of the audit committee, deputy director – head of the division at the Fiscal Policy Department of the Ministry of Finance;
- Kristaps Soms, member of the audit committee, member of the supervisory board of ALTUM.

The audit committee has, inter alia, the following functions:

- to supervise the preparation process of consolidated and separate annual report of ALTUM Group, and to provide proposals to the supervisory board of ALTUM for ensuring the credibility and objectivity of the consolidated and separate annual report of ALTUM Group;
- to supervise the efficiency of operation of the internal control, risk management, and internal audit system of ALTUM insofar as it applies to ensuring the credibility and objectivity of consolidated and separate annual report of ALTUM Group, and to provide proposals for eliminating deficiencies of the relevant system;
- to supervise the course of audit of the consolidated and separate annual report of ALTUM Group;
- to verify and supervise whether ALTUM's auditor prior to commencing and during the course of audit of the consolidated and separate annual report of ALTUM Group complies with the requirements of independence and objectivity laid down in the Audit Services Law, Article 6 of Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC ("Regulation 537/2014") regarding preparation for the statutory audit and assessment of threats to independence, and the prohibition of the provision of non-audit services specified in Article 5 of Regulation 537/2014;
- to inform the supervisory board of ALTUM about the conclusions drawn by ALTUM's auditor during the audit of the consolidated and separate annual report of ALTUM Group, and to provide an opinion on how the audit has promoted the credibility and objectivity of the consolidated and separate annual report of ALTUM Group, as well as to inform the supervisory board of ALTUM on significance of the audit committee during this process;
- to ensure the selection process of candidates for ALTUM's auditors in accordance with Article 16 of Regulation No 537/2014; and
- to perform other tasks specified for the audit committee in Regulation 537/2014.

For purposes of strengthening ALTUM's operations, the following independent and collegial decision-making committees also have been established and functioning at ALTUM as of the date of this Base Prospectus:

- Risk and liquidity management committee is conducting liquidity management, managing risks affecting ALTUM's operation, managing capital adequacy maintenance to cover these risks, increasing the efficiency and ensuring optimal functioning of the internal control system;
- Credit committee, based on its analysis, provides objective and independent decision making in matters concerning certain state support financial instruments provided by ALTUM;
- Stressed assets management committee carries out work to improve the efficiency of debtors' management and control process, improve the quality of ALTUM's loan portfolio, monitors stressed assets workout, as well as serves as an objective and independent decision-making body in respect of debtors' matters;
- Information systems management committee is supporting the management board of ALTUM in monitoring and managing the development of information systems and providing such development that is required in accordance with ALTUM`s business development strategy and current priorities; and
- Program management committee is supporting the management board of ALTUM in financial and risk assessment of state support programmes, evaluates the proposals for new state support programmes and proposals for improvement of existing state support programmes, as well as approves the programmes' development and implementation plan.

Save for the audit committee, in each remaining committee the management board of ALTUM appoints specialists of the respective field and employees in charge. Operating principles of each committee are regulated and committee meetings are recorded by taking the minutes. Decisions pertaining to the state support instruments are made by adhering to a minimum of "four eyes principle".

SHAREHOLDER

All shares of ALTUM are owned by the Republic of Latvia. The Ministry of Finance of the Republic of Latvia holds 40 per cent, while the Ministry of Economics of the Republic of Latvia and the Ministry of Agriculture of the Republic of Latvia each holds 30 per cent of share capital of and voting rights in ALTUM.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following table is a summary of ALTUM Group's consolidated financial performance and key performance indicators for three financial years ended 31 December 2016, 2017 and 2018. The information set out in the table below has been extracted (without any material adjustment) from, and is qualified by reference to and should be read in conjunction with the audited consolidated annual reports of ALTUM Group for the years ended 31 December 2016, 2017 and 2018, each of which is attached to this Base Prospectus and forms an integral part of this Base Prospectus. Annual reports of ALTUM Group are prepared according to the International Financial Reporting Standards (the "IFRS").

	Year ended 31 December		
	2016 (restated*)	2017 (restated*)	2018 (audited)
Key financial data (ALTUM Group)			
Net income from interest, fees and commissions (tEUR)[1]	11,024	11,602*	11,554
Profit (period) (tEUR)	2,170	8,709*	4,092
Cost to income ratio[2]	88.4%	50.3%*	77.1%
Employees[3]	242	230	222

	Year ended 31 December		
	2016 (restated*)	2017 (restated*)	2018 (audited)
Key financial data (ALTUM Group)			
Total assets (tEUR)	443,400*	453,668*	495,939
Tangible common equity (TCE)/Tangible managed assets (TMA)[4]	36.5%*	35.1%*	31.7%
Equity and reserves (tEUR)	210,406*	222,848*	221,590
Risk coverage, total:[5](tEUR)	66,508*	67,593*	77,815
Risk coverage reserve	63,636*	62,651*	85,276
Risk coverage reserve used for provisions	-4,323	-4,753	-19,268
Portfolio loss reserve (specific reserve capital)	7,195	9,695	11,807
180-days liquidity ratio[6]	449%	482%*	227%

	Year ended 31 December		
	2016 (restated*)	2017 (restated*)	2018 (audited)
Financial instruments (gross value)			
Outstanding (tEUR) (by financial instrument)			
Loans	217,429	207,585	217,131
Guarantees	147,175	182,376	236,895
Venture capital	64,785**	62,299**	59,698
Total	429,389**	452,260**	513,724
Number of contracts	11,449	14,402	18,280
Volumes granted (tEUR) (by financial instrument)			
Loans	59,465	51,869	66,443
Guarantees	56,109	68,615	88,765
Venture capital	21,356	2,638	4,149
Total	136,929	123,122	159,357
Number of contracts	4,461	4,697	5,464
Leverage for raised private funding[7]	162%	185%	162%

* Due to change of accounting policy regarding investments in venture capital funds the comparatives for 2017 and 2016 have been restated.
** Venture capital funds presented at gross value.

1) "Net income from interest, fees and commissions" consists of the following items in the Statement of Comprehensive Income: "Net interest income" and "Net income from fees and commissions". ALTUM uses this indicator as the key

financial metric for profitability by evaluating ALTUM Group's net income amount generated by the portfolio of financial instruments and recognised in the Statement of Comprehensive income. ALTUM management measures and monitors the actual performance of this indicator on a quarterly basis compared to the approved level in ALTUM Group's budget.

2) "Cost to income ratio" (CIR) is calculated by dividing the amount of "Staff costs", "Administrative expense", "Amortisation of intangible assets and depreciation of property, plant and equipment" by "Operating income before operating expenses" included in the Statement of Comprehensive Income. ALTUM uses CIR to evaluate the operational efficiency. This is one of the measures of operational efficiency which ALTUM management assesses on a quarterly basis in the management reports to evaluate the outputs from different operational activities and efficiency improving measures.
3) "Employees" is the average number of employees in the period, excluding members of the Supervisory Board and the Audit Committee.
4) "Tangible common equity" (TCE)/"Tangible managed assets" (TMA) (TCE/TMA).
   "Tangible Common Equity" (TCE) is calculated by subtracting the revaluation reserve of available for sale investments from total equity.
   "Tangible Managed Assets" (TMA) is calculated by adding the guarantees shown as off-balance sheet items to the total assets of ALTUM Group taking into account provisions for these guarantees and subtracting "Deferred expense", "Accrued income", "Property, plant and equipment", "Intangible assets", "Other assets" and "Assets held for sale".
   Data for the calculation of both indicators (TCE, TMA) are obtained from ALTUM Group's Financial statements: Statement of Financial Position and Statement of changes in equity, notes - Off balance sheet items and contingent liabilities and Provisions. ALTUM uses the ratio "TCE/TMA" to evaluate ALTUM Group's capital position adequacy and to measure ALTUM Group's tangible common equity in terms of ALTUM Group's tangible managed assets including the off-balance sheet item Guarantee portfolio. The Risk and Liquidity Management Committee of ALTUM monitors its level on a quarterly basis.
5) "Risk coverage, total" is net funding available for coverage of expected credit losses of development programmes implemented by ALTUM. "Risk coverage, total" is sum of "Risk coverage reserve" and "Portfolio loss reserve" (specific reserve capital) deducted by "Risk coverage reserve" used for provisions. Expected losses are estimated prior to implementation of particular development programme and part of the public funding received under respective development programme for coverage of expected losses on credit risk is transferred either to "Portfolio loss reserve" as ALTUM Group's specific reserve capital or accounted separately as provisions for risk coverage "Risk coverage reserve" classified within liabilities. "Portfolio loss reserve" (specific reserve capital) is disclosed in note to ALTUM Group's Financial statements "Reserves". "Risk coverage reserve" is disclosed in note to ALTUM Group's Financial statements "Support programme funding and state aid". "Risk coverage reserve" used for provisions represents amount of "Risk coverage reserve" allocated to allowance for impairment loss on loan portfolio and guarantee portfolio, disclosed in respective notes to ALTUM Group's Financial statements "Loans" and "Provisions".
   "Risk coverage, total" is key indicator to be used for assessment of ALTUM's risk coverage on implemented programmes and long-term financial stability.
6) "180-days-liquidity ratio" is calculated by dividing the amount of the balances "Due from other credit institutions and the Treasury" with a maturity of up to 1 month and "Financial assets at fair value through other comprehensive income and Investment securities" by the amount of the total liabilities maturing within 6 months and total financial commitments maturing within 6 months (off-balance sheet items). The data required for the calculation of the "180-days liquidity ratio" is disclosed in the following ALTUM Group's Financial statements: Statement of Financial Position and notes – Off-balance sheet items and contingent liabilities and Maturity analysis of assets and liabilities. ALTUM uses the "180-days-liquidity ratio" to assess and monitor ALTUM Group's ability to fulfil ALTUM Group's contractual and/or contingent liabilities during 6 (six) month with the currently available liquidity resources. "180-days-liquidity ratio" helps to manage ALTUM Group's liquidity risk in line with ALTUM Group's/ALTUM's funding management objectives and risk framework. Risk and Liquidity Management Committee of ALTUM monitors its level on a regular basis.
7) "Leverage for raised private funding" indicates the amount of additional private funds invested in a project in addition to ALTUM's financing. "Leverage for raised private funding" is determined considering the financing invested by a private co-financier and a project's implementer, which, on average, makes up to 50 per cent for loans, up to 70 per cent for guarantees and venture capital (except for housing loan guarantees' programme for the first instalment with a ratio of 795 per cent) in addition to ALTUM's funding.

FINANCIAL AND TREND INFORMATION

Historical Financial Information

ALTUM Group's consolidated audited annual reports as of and for the financial years ended 31 December 2016, 2017 and 2018 (prepared according to the IFRS) are attached to this Base Prospectus and forms an integral part of this Base Prospectus.

Legal and Arbitration Proceedings

ALTUM Group is not engaged in any governmental, legal or arbitration proceedings, and is not aware of any such proceedings pending or threatened against it during the 12 month-period prior to the date of this Base Prospectus that may have, or have had in the recent past, significant effect on ALTUM and/or the ALTUM Group's financial position or profitability.

Significant Changes in Financial or Trading Position

There has been no material adverse change in ALTUM's or ALTUM Group's financial or trading position since 31 December 2018.

Trend Information

There has been no material adverse change in the prospects of ALTUM or ALTUM Group since the date of the audited consolidated annual report of ALTUM Group for 2018.

As of the date of this Base Prospectus there are no information on any known trends, uncertainties, demands, commitments or events that are reasonably likely to have a material effect on ALTUM's or ALTUM Group's prospects and the industries in which ALTUM or ALTUM Group operates.

Future Outlook

ALTUM has not made any profit forecast or profit estimate in this Base Prospectus.

ADDITIONAL INFORMATION

Share Capital

The amount of the share capital of ALTUM is EUR 204,862,333 and it is composed of 204,862,333 shares. All shares are paid up. All shares are registered shares and they are dematerialised. The nominal value of a share is EUR 1.

According to the Development Finance Institution Law, all the shares and voting rights in ALTUM are owned by the Republic of Latvia. The Ministry of Finance of the Republic of Latvia holds 40 per cent, while the Ministry of Economics of the Republic of Latvia and the Ministry of Agriculture of the Republic of Latvia each holds 30 per cent of share capital of and voting rights in ALTUM. It is prohibited to pledge or to encumber in any other way the shares of ALTUM.

Articles of Association

The Articles of Association of ALTUM were approved by the decree No. 180 of the Cabinet of Ministers of the Republic of Latvia of 9 April 2015 "On Approval of Articles of Association of Development Finance Institution Altum".

The objectives and purposes of ALTUM are stated in Clause 2 of the Articles of Association of ALTUM. According to the NACE classification the economic activities of ALTUM are as follows:

- other credit granting;
- other financial service activities not identified elsewhere, except insurance and pension funding;
- activities of head offices, business and management consulting;
- management consultancy activities;
- business and other management consultancy activities;
- market research and public opinion polling.

Material Contracts

Except as described below, ALTUM Group has not entered into any material contracts outside the ordinary course of business, which could result in ALTUM Group coming under an obligation or entitlement that is material to ALTUM's ability to meet its obligations to the Noteholders in respect of the Notes.

In ALTUM's view the following contracts are considered as material:

- Loan agreement with European Investment Bank (EIB). Under the agreement ALTUM has borrowed 100 million euros for realizing the loan programme for growth of SMEs. Repayment of the loan is made in instalments. As of 31 December 2018 the outstanding amount of the loan was 38,194 million euros. Maturity date of the loan is 20 August 2024;

- Agreement with European Investment Fund, Fund KredEx and UAB „Investicijų ir verslo garantijos" (INVEGA) on the implementation of the Baltic Innovation Fund to provide private equity capital for SMEs and small midcap enterprises in the Baltic area. The total amount of the agreement is 130 million euros, including commitment from ALTUM in the amount of 26 million euros. The agreement is effective until 26 September 2028;

- Financing agreement with the Ministry of Agriculture of the Republic of Latvia on the implementation of loan programme for rural SMEs. Pursuant to the agreement, ALTUM must comply with Regulations No. 446 of the Cabinet of Ministers of the Republic of Latvia of 24 July 2018 and realize financing in amount of 7,81 million euros. The funding will be used to cover the credit risk expenses and ALTUM management expenses related to the implementation of the programmes. The agreement expires on 31 December 2036;

- Financing agreement with the Ministry of Economics of the Republic of Latvia on the implementation of development programmes financed by reflows of public funding (resources returned from investments attributable to the structural funds and state budget contribution). The funding will be used to cover the credit risk expenses and ALTUM management expenses related to the implementation of the programmes. The agreement expires on 31 December 2036;
- Agreement with the Ministry of Welfare of the Republic of Latvia on the implementation of the social entrepreneurship programme, co-financed by the European Social Fund. Pursuant to the agreement, ALTUM must comply with Regulations No. 467 of the Cabinet of Ministers of the Republic of Latvia of 11 August 2015 and realize grant financing for both existing and start-up social enterprises in total amount of 12,16 million euros. The funding will be used to grant the social entrepreneurs and cover ALTUM management expenses related to the implementation of the programme. Agreement expires on 31 December 2022;
- Financing agreements with the Central Finance and Contracting Agency of the Republic of Latvia:
  - on the implementation of the fund of funds and financial instruments. Pursuant to the agreement, ALTUM must comply with the Regulations No. 118 of the Cabinet of Ministers of the Republic of Latvia of 1 March 2016 and realize financing in the amount of 93,29 million euros. The funding will be used to cover the credit risk expenses and ALTUM management expenses related to the implementation of the programmes. Agreement expires on 31 December 2023;
  - on the implementation of financial instruments. Pursuant to the agreement, ALTUM must comply with the Regulations No. 160 of the Cabinet of Ministers of the Republic of Latvia of 15 March 2016 and realize financing in the amount of 30,09 million euros. The funding will be used to cover the credit risk expenses and ALTUM management expenses related to the implementation of the programmes. Agreement expires on 31 December 2023;
  - on the implementation of the project of the EU funds. Pursuant to the agreement, ALTUM must comply with Regulations No. 160 of the Cabinet of Ministers of the Republic of Latvia of 15 March 2016 and realize financing in the amount of 122,95 million euros. The funding will be used to grant the energy efficiency projects for multi-apartment residential buildings and ALTUM management expenses related to the implementation of the programme. Agreement expires on 31 December 2023;
- Loan agreements with the Treasury of the Republic of Latvia:
  - for implementation the loan programme for the purchase of agricultural land to produce agricultural products. Pursuant to the agreement, ALTUM must comply with the Regulations No. 295 of the Cabinet of Ministers of the Republic of Latvia of 22 May 2018 and the financing is available in the amount of 80 million euros. Outstanding amount as at 31 December 2018 was 38,22 million euros. Maturity date of the loan is 31 December 2050;
  - for implementation the loan programme for promoting the development of micro, SMEs and agricultural service co-operative societies. Pursuant to the agreement, ALTUM must comply with the Regulations No. 1065 of the Cabinet of Ministers of the Republic of Latvia of 15 September 2009 and the financing is available in the amount of 10 million euros. As of 31 March 2019 ALTUM has not utilized the loan. The loan is expected to be disbursed by 31 January 2021. Maturity date of the loan is 31 December 2040.
  - for implementation the loan programme for micro loans and start-up loans. Pursuant to the agreement, ALTUM must comply with the Regulations No. 328 of the Cabinet of Ministers of the Republic of Latvia of 31 May 2016 and the financing is available in the amount of 23 million euros. As of 31 March 2019 ALTUM has not utilized the loan. The loan

is expected to be disbursed by 29 January 2021. Maturity date of the loan is 31 December 2028.

- for implementation the loan programme of parallel loans for improvement of competitiveness of business. Pursuant to the agreement, ALTUM must comply with the Regulations No. 469 of the Cabinet of Ministers of the Republic of Latvia of 15 July 2016 and the financing is available in the amount of 20 million euros. As of 31 March 2019 ALTUM has not utilized the loan. The loan is expected to be disbursed by 29 January 2021. Maturity date of the loan is 31 January 2036.
- for purchase, leas, selling or exchange of agricultural land on behalf of the Land Fund of Latvia. Financing is available in the amount of 15 million euros. Pursuant to the agreement, ALTUM must comply with the Regulations No. 748 of the Cabinet of Ministers of the Republic of Latvia of 2 December 2014. As of 31 March 2019 ALTUM has not utilized the loan. The loan is expected to be disbursed by 1 June 2028. Maturity date of the loan is 29 December 2028.

- Loan agreement with the Council of Europe Development Bank (CEB). Under the agreement the financing is available in the amount of 50 million euros for realizing the loan programme for energy efficiency improvement measures of multi-apartment residential buildings. As of 31 March 2019 ALTUM has not disbursed any loan. Due to low demand the available loan funds are not expected to be disbursed.

LATVIAN ECONOMY

General

2018 has been another successful year for Latvian economy, which grew by 4.8 per cent. Although the rise is remarkable, nearly half of the growth was generated by construction industry and improved collection of taxes. This year GDP growth will slow down to 3.5 per cent and 3.2 per cent in 2020. Private consumption will be one of the major drivers in the nearest future. Conditions are favourable because of the labour market and solid growth of real wages. This should boost consumption by around 4 per cent in 2019. Capital expenditure will be stimulated by the EU funds, however, entrepreneurs' appetite for investment might decrease due to external uncertainty and surging construction costs. Weakening external demand means sluggish export expansion.

In the coming two years the focus will be on the construction sector, where more signs of overheating are emerging. In 2018, industry shot up by 22 per cent. Cost surge is turning into side effects. Spare capacity and efficiency limits to sustain growth are unknown. We are particularly pleased to see expansion in information and communication services, which increased by 13 per cent, and its exports. Hence, we believe this robust growth will continue this year. A more modest growth of 3.5 per cent is expected in retail. Outlook for manufacturing is souring, but it will be supported by the domestic demand, and we foresee an expansion at a pace of 3 – 3.5 per cent in 2019.

GDP, per cent	2013	2014	2015	2016	2017	2018
Latvia	2.4	1.9	3.0	2.1	4.6	4.8
EU (28) average	0.3	1.8	2.3	2.0	2.4	1.9

Source: European Commission

Inflation

In January 2019, the annual inflation stood at 3 per cent. The inflation outlook for the coming two years is twofold. On the one hand, external inflationary pressure is still subdued. On the other hand, we see mounting cost pressure that should manifest itself in higher prices for services. We see higher prices for food, electricity, heating and excise goods. Inflation forecast is 2.6 per cent for 2019 and 2.5 per cent for 2020.

Inflation, HICP, average, per cent	2013	2014	2015	2016	2017	2018
Latvia	0.0	0.7	0.2	0.1	2.9	2.6
EU (28) average	1.5	0.6	0.1	0.2	1.7	1.9

Source: European Commission

Unemployment

In the final quarter of 2018 unemployment rate dropped to 6.9 per cent, which is close to pre-crisis levels. Meanwhile employment reached an unprecedented level at 64.7 per cent. Demand for employees will stay pronounced, but further opportunities for a faster fall in unemployment are limited. By the end of this year, the unemployment rate could approach 6 per cent. The number of vacancies will continue to grow. The necessity to address the issue of immigration of labour will become more pronounced. It is important to note that last year migration balance finally drew close to zero. However, it will take some more years of current wage growth to stop emigration.

Unemployment, per cent	2013	2014	2015	2016	2017	2018
Latvia	11.9	10.8	9.9	9.6	8.7	7.4
EU (28) average	10.9	10.2	9.4	8.6	7.6	7.0

Source: European Commission

Public Finances

In 2018, general government budget deficit accounted for 285,4 million euro or 1 per cent of the GDP and general government consolidated gross debt at the end of 2018 amounted to EUR 10,608 million or 35.9 per cent of the GDP. The table below shows the government balance as a percentage of GDP in Latvia from 2013 to 2018, compared to the average of the 28 EU Member States, as calculated by the European Commission.

General government balance, as a per cent of GDP	2013	2014	2015	2016	2017	2018
Latvia	-1.2	-1.5	-1.4	0.1	-0.6	-1.0
EU (28) average	-3.3	-2.9	-2.3	-1.7	-1.0	-0.6

Source: European Commission; Central Statistical Bureau of Latvia

Compared to 2017, the general government consolidated gross debt decreased in 2018 to 35,9 per cent of GDP. The decrease mainly related to the expected shrink of public sector debt. The table below shows public debt as a percentage of GDP in Latvia, compared to the average of the 28 EU Member States, as reported by the European Commission.

General government gross debt, as a per cent of GDP	2013	2014	2015	2016	2017	2018
Latvia	39.0	40.9	36.8	40.3	40.0	35.9
EU (28) average	85.7	86.4	84.4	83.3	81.6	80.0

Source: European Commission; Central Statistical Bureau of Latvia

Foreign Trade

In 2018, total export growth was 7.2 per cent, while imports increased by 10.1 per cent. In 2018, exports of commodity groups accounted for the largest share of export growth in exports. The export value of machinery and equipment (plus 26 per cent), iron and steel products (plus 15 per cent) and vehicles (plus 12 per cent) also increased significantly. At the same time, exports of cereals, oilseeds, aircraft parts and electrical appliances and equipment had a negative impact on export development last year. It should be noted that the impact of the decrease in exports of these product groups on total exports was not significant.

It is expected that the export dynamics will decrease this year. Growth rates in EU Member States in 2019 are projected to be slower than a year ago. Export dynamics will also be constrained by weak demand in CIS markets. Third countries are a significant export development, but currently their share in the export structure is still relatively small. Overall, uncertainty in external markets does not allow for a tangible expansion of export opportunities.

Balance of Payments

In 2018, the general government deficit was 1 per cent of GDP or 284 million euros.

On 3 April 2019, the Parliament of the Republic of Latvia (Saeima) approved Latvia's budget for 2019. In 2019, revenue in the government consolidated budget are planned at 9,2 billion euros and expenditure at 9,4 billion euros. In the government basic budget, revenue is planned at 6,4 billion euros and expenditure at 6,8 billion euros. In the government special budget, revenue is planned at 3 billion euros and expenditure at 2,8 billion euros.

General budget deficit is planned at 0.5 per cent of GDP for 2019. GDP growth, on the other hand, is planned at 3 per cent for 2019. The deficit budget in the context of rapid economic growth is not in line with long-term development interests. That is why Latvia should aim at budget surplus instead of deficit. However, there is broad understanding that budget deficit should be kept under control.

Current account balance, as a per cent of GDP	2013	2014	2015	2016	2017	2018
Latvia	-2.7	-1.7	-0.5	1.6	0.7	-1.0
EU (28) average	1.4	1.4	2.0	2.1	1.6	1.2

Source: European Commission; Bank of Latvia

TAXATION

The following is a general summary of certain tax consideration in the Republic of Latvia and the Republic of Lithuania in relation to the Notes. It is not exhaustive and does not purport to be a complete analysis of all tax consequences relating to the Notes, as well as does not take into account or discuss the tax implications of any country other than the Republic of Latvia and the Republic of Lithuania. The information provided in this section shall not be treated as legal or tax advice; and prospective investors are advised to consult their own tax advisors as to the tax consequences of the subscription, ownership and disposal of the Notes applicable to their particular circumstances.

This summary is based on the laws of Latvia and Lithuania as in force on the date of this Base Prospectus and is subject to any change in law that may take effect after such date, provided that such changes could apply also retroactively.

The Republic of Latvia

Latvia has entered into number of tax conventions on elimination of the double taxation, which may provide more favourable taxation regime. Therefore, if there is a valid tax convention with the country of a non-resident prospective investor, it should be also examined. The procedures for application of tax conventions are provided in the Republic of Latvia Cabinet of Ministers' Regulations No. 178 "Procedures for Application of Tax Relief Determined in International Agreements for Prevention of Double Taxation and Tax Evasion" of 30 April 2001.

Taxation of the Noteholders Individuals

Resident Individuals

An individual will be considered as a resident of Latvia for taxation purposes:

- if the individual's declared place of residence is in the Republic of Latvia; or
- if the individual stays in the Republic of Latvia 183 days or more within any 12-month period, starting or ending in the taxation year; or
- if the individual is a citizen of the Republic of Latvia employed abroad by the government of the Republic of Latvia.

In accordance with the Law on Personal Income Tax the interest income from the Notes for resident individuals will be subject to 20 per cent withholding tax, deductible by the Issuer before the payment. The income from the alienation of the Notes will be subject to 20 per cent tax, but the tax would be payable by the individual him/herself.

Non-Resident Individuals

In accordance with the Law on Personal Income Tax the interest income from the Notes being circulated publicly as well as income from the alienation of the publicly circulated Notes will not be subject to tax in Latvia. If the Notes will not be publicly circulated, the interest income will be subject to 20 per cent withholding tax, deductible by the Issuer before the payment. If the Notes will not be listed, upon disposal a 3 per cent withholding tax will be applied if the payment will be made by a legal entity or individual registered as economic operator located in Latvia. The Latvian payer is required to withhold such tax from the gross payment.

Non-resident individuals may file tax return and declare gain from the disposal of the Notes in order to pay 20 per cent from the difference between the costs of acquisition and income received from the disposal of the Notes.

Taxation of the Noteholders Entities

Resident Entities

An entity will be considered as a resident of Latvia for tax purposes if it is or should have been established and registered in the Republic of Latvia in accordance with the legislative acts of the Republic of Latvia. This also include permanent establishments of foreign entities in Latvia.

Interest payments on the Notes and proceeds from the disposal of the Notes received by Latvian resident companies will not be subject to withholding tax in Latvia. Under the new Corporate Income Tax Law retained earnings are exempt from corporate income tax and only distributions are taxed. Corporate income tax rate on gross profit distribution is 20 per cent. Corporate income tax on net amount of profit distribution is determined by dividing net amount with a coefficient of 0.8 (i.e., effective tax rate on net distributed profit is 25 per cent).

Non-Resident Entities

In accordance with the Corporate Income Tax Law the interest income and income from the alienation of the Notes for non-resident entities will not be taxable in Latvia.

Taxation of Low-Tax Non-Residents

In general, payments (including interest payments) to non-residents located, registered or incorporated in a no-tax or low-tax country or territory as defined in the Regulations of the Cabinet of Ministers No.665 "Regulations on No-Tax or Low-Tax Countries and Territories", adopted on 7 November 2017; effective as of 1 January 2018 ("Low-Tax Non-Latvian Residents") are subject to withholding tax of 20 per cent if the payer is a Latvian legal entity or 23 per cent if the payer is a Latvian individual resident having obligation to withhold tax. However, pursuant to Article 5(6) of the Corporate Income Tax Law payments by Latvian legal entities to Low-Tax Non-Latvian Residents for securities publicly circulated in the EU or EEA are exempt from withholding tax if made at the market price. The Ministry of Finance of the Republic of Latvia in a legally non-binding explanation has confirmed that pursuant to Article 5(6) of the of the Corporate Income Tax Law there is no withholding tax also on the interest payments made by the issuer to the holders of the notes publicly circulated in the EU or EEA who are Low-Tax Non-Latvian Residents, provided that the payments are made at the market price.

The Republic of Lithuania

In accordance with the Law on Tax Administration of the Republic of Lithuania where any international treaties to which Lithuania is a party provide for the rules on taxation different from those of the relevant taxation legislation, and provided the international treaties have been ratified, enacted and enforceable in the Republic of Lithuania, the rules of such international treaties shall prevail. Lithuania and Latvia have entered into a tax convention on elimination of the double taxation, which provides more favourable taxation regime (effective from 1 January 1995). The rules for application of tax conventions are provided in the Law on Tax Administration of the Republic of Lithuania and in the Order No. 159 of the Head of State Tax Inspectorate under the Ministry of Finance of the Republic of Lithuania of 27 June 2001.

Taxation of the Noteholders Individuals

Resident Individuals

Only permanent residents of Lithuania have an obligation to declare and to pay personal income tax from the foreign source income (if such income, eliminating the double taxation, is not exempt from the income tax).

An individual will be considered as a resident of Lithuania during the calendar year for taxation purposes if he/she meets at least one of the criteria laid out in paragraph 1 of Article 4 of the Law on Personal Income Tax of the Republic of Lithuania, i.e.:

- if the individual's permanent place of residence is in Lithuania during the calendar year;
- if the individual's place of personal, social or economic interests is in Lithuania rather than in a foreign country during the calendar year;
- if the individual is present in Lithuania for a period or periods in the aggregate of 183 days or more during the calendar year;
- if the individual is present in Lithuania for a period or periods in the aggregate of 280 days or more during successive calendar years and who stayed in Lithuania for a period or periods in the aggregate of 90 days or more in any of such periods (in such case a person is deemed to be a resident of Lithuania for both years of presence in Lithuania).

From 1 January 2019 and subsequent tax periods income earned by the resident from non-individual activity (excluding income from distributed profits) exceeding 120 average wages (applicable to the calculation of the social contribution base of insured persons for the relevant tax period) will be taxed at a rate of 20 per cent.

In accordance with the Law on Personal Income Tax of the Republic of Lithuania any interest generated by a resident of Lithuania from Notes up to approximately EUR 100,000 shall be taxed by a 15 per cent rate personal income tax and interest exceeding 120 average wages shall be taxed by a 20 per cent rate personal income tax, except EUR 500 non-taxable minimum applicable to interest from the Notes.

The resident of Lithuania shall be taxed at a rate of 15 per cent on gains up to approximately EUR 100 000 and at a rate of 20 per cent on gains exceeding 120 average wages from disposal of the Notes, except EUR 500 non-taxable minimum applicable to gains from disposal of the Notes.

Non-Resident Individuals

Since the Issuer is a non-resident entity for Lithuanian taxation purposes, the income of the non-resident individual from the Notes (i.e. interest income and income from the transfer of the Notes) will not be subject to tax in Lithuania.

Taxation of the Noteholders Entities

Resident Entities

An entity will be considered as a resident of Lithuania for tax purposes if it is established and registered in the Republic of Lithuania. This may also include permanent establishments of foreign entities in Lithuania.

In accordance with provisions of the Law on Corporate Income Tax of the Republic of Lithuania any income of a Lithuanian entity (legal person) from the Notes, including an interest, shall be considered as the taxable income of the entity. Having disposed of the Notes a Lithuanian entity shall recognize the gain (the difference between the Notes purchase and sale price). The income from the Notes interest and the gain from the disposal of the Notes shall be included into the overall taxable result of the Lithuanian entity that shall be subject to taxation in the manner set forth in the Law on Corporate Income Tax of the Republic of Lithuania.

Non-Resident Entities

Since the Issuer is a non-resident entity for Lithuanian taxation purposes, the income of the non-resident entity from the Notes (i.e. interest income and income from the transfer of the Notes) will not be subject to tax in Lithuania.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents which have previously been published by ALTUM and have been filed with the Financial and Capital Market Commission shall be incorporated in, and form part of, this Base Prospectus:

- General Terms and Conditions of the Notes contained in the Base Prospectus of ALTUM's First Programme for the Issuance of Notes in the Amount of EUR 30,000,000 dated 30 August 2017 and set out on pages 63 to 72 under the heading "General Terms and Conditions of the Notes", available at https://www.altum.lv/files/doc_altum_base_prospectus_8fcdceng_fc567.pdf

DOCUMENTS ON DISPLAY

In addition to the documents incorporated by reference, copies of the following documents during validity of this Base Prospectus are available on ALTUM's website www.altum.lv and at the legal address of ALTUM at Doma laukums 4, Riga, LV-1050, Latvia on business days within the limits of normal business hours:

- ALTUM's Annual Report of the Group for the period from 1 January 2016 to 31 December 2016 (prepared according to IFRS);
- ALTUM's Annual Report of the Group for the period from 1 January 2017 to 31 December 2017 (prepared according to IFRS); and
- ALTUM's Annual Report of the Group for the period from 1 January 2018 to 31 December 2018 (prepared according to IFRS).

DEFINITIONS

Accrual Date	shall have the meaning assigned to it in Clause 8 of the General Terms and Conditions
ALTUM or Issuer	means Akciju sabiedrība "Attīstības finanšu institūcija Altum" (registration number: 50103744891, legal entity identifier (LEI code): 5493007HPQSSX8BJ4315, Doma laukums 4, Riga, LV-1050, Latvia)
ALTUM Group or Group	means ALTUM together with its consolidated subsidiaries and associates (investments in venture capital funds are classified as subsidiaries or associates only for purposes of financial accounting)
AML/CFT	means anti-money laundering and combating the financing of terrorism
Annual Interest Rate	means the fixed annual interest rate
Arranger of the Programme	means AB SEB bankas (registration number: 112021238, legal address: Gedimino ave. 12, LT-01103 Vilnius, Lithuania)
Base Prospectus	means this Base Prospectus
Business Day	means a day on which the Depository is open for general business
Change of Control	shall have the meaning assigned to it in Clause 14 of the General Terms and Conditions
Competitive Purchase Orders	shall have the meaning assigned to in Clause 3 of Section "Placement of the Notes"
Depository	means Nasdaq CSD SE, registration number: 40003242879, legal address: Vaļņu 1, Riga, LV-1050, Latvia
EEA	means European Economic Area
Elements	means disclosure requirements, as described in the Summary
EU	means European Union
EUR, euro or €	means the single currency introduced at the start of the third stage of the European economic and monetary union, and as defined in Article 2 of the Council Regulation (EC) No 974/98 of 3 May 1998 on the introduction of the Euro, as amended.
Event of Default	shall have the meaning assigned to in Clause 16 of the General Terms and Conditions
FCMC	means the Financial and Capital Market Commission of Republic of Latvia (in Latvian - Finanšu un kapitāla tirgus komisija)
Final Terms	means the final terms of the relevant Tranche of the Notes
Final Yield to Maturity	shall have the meaning assigned to in Clause 6 of the Section Placement of the Notes
First Interest Period	shall have the meaning assigned to it in Clause 8 of the General Terms and Conditions

General Terms and Conditions	means the general terms and conditions of the Notes
IFRS	means International Financial Reporting Standards
Indebtedness	shall have the meaning assigned to in Clause 15 of the General Terms and Conditions
Interest Payment Date	means the interest payment date specified in the Final Terms
Investor`s Currency	shall have the meaning assigned to it in risk factor "Exchange rate risk"
Issue Date	means the issue date of each Tranche of the Notes
Issue Price	means the issue price of the Notes
Latvian Guarantee Agency	means Sabiedrība ar ierobežotu atbildību "Latvijas Garantiju aģentūra"
Low-Tax Non-Latvian Residents	means non-residents located, registered or incorporated in a no-tax or low-tax country or territory as defined in the Regulations of the Cabinet of Ministers No.665 "Regulations on No-Tax or Low-Tax Countries and Territories", adopted on 7 November 2017; effective as of 1 January 2018
Maturity Date	means the date specified in the Final Terms on which the Notes shall be repaid in full at their nominal amount
Member State	means Member State of the European Economic Area
MiFID II	means the Markets in Financial Instruments Directive 2014/65/EU, as amended
MiFID Product Governance Rules	means the MiFID Product Governance rules issued under EU Delegated Directive 2017/593
Minimum Investment Amount	means the minimum investment amount for subscription of the Notes, as specified in the Final Terms
Mortgage and Land Bank of Latvia	means Valsts akciju sabiedrība "Latvijas Hipotēku un zemes banka"
Nasdaq Riga	means Akciju sabiedrība "Nasdaq Riga" (registration number: 40003167049, legal address: Vaļņu 1, Riga, LV-1050, Latvia)
Non-competitive Purchase Orders	shall have the meaning assigned to in Clause 3 of Section "Placement of the Notes"
Noteholders	means the holders of the Notes
Noteholders' Meeting	means the meeting of the Noteholders or meeting of the Noteholders of the relevant Series of Notes
Notes	means the notes to be issued under the Programme
Placement Period	means the placement period for each Tranche of the Notes
Permitted Security Interest	shall have the meaning assigned to in Clause 15 of the General Terms and Conditions
PRIIPs Regulation	means Regulation (EU) No 1286/2014
Programme	means Second Programme for the Issuance of Notes of ALTUM in the Amount of EUR 70,000,000

Prospectus Directive	means Directive 2003/71/EC, as amended
Prospectus Regulation	means Regulation (EC) No 809/2004, as amended
Purchase Orders	means orders of the investors for purchase the Notes
Qualifying Purchase Orders	shall have the meaning assigned to in Clause 3 of Section "Placement of the Notes"
Relevant Indebtedness	shall have the meaning assigned to in Clause 15 of the General Terms and Conditions
Rural Development Fund	means Valsts akciju sabiedrība "Lauku attīstības fonds"
Securities Act	means the U.S. Securities Act of 1933
Security Interest	shall have the meaning assigned to in Clause 15 of the General Terms and Conditions
Series	means any series of Notes
Sole Bookrunner	means AB SEB bankas (registration number: 112021238, legal address: Gedimino ave. 12, LT-01103 Vilnius, Lithuania), which shall also act in the capacity of an "Issuer Agent" (as defined in the Rules of Nasdaq CSD) for the Issuer.
SME	means small and medium-sized enterprise
Subsidiary	shall have the meaning assigned to in Clause 15 of the General Terms and Conditions
Tranche	shall have the meaning assigned to in Clause 1 of the General Terms and Conditions
Updated Yield to Maturity Range	shall have the meaning assigned to in Clause 4 of Section "Placement of the Notes"
Written Procedure	shall have the meaning assigned to in Clause 23.1 of the General Terms and Conditions
Yield to Maturity	shall have the meaning assigned to in Clause 3 of Section "Placement of the Notes"
Yield to Maturity Range	shall have the meaning assigned to in Clause 4 of Section "Placement of the Notes"
2017 General Terms and Conditions	means the General Terms and Conditions of the Notes included in the Base Prospectus of ALTUM's First Programme for the Issuance of Notes in the Amount of EUR 30,000,000 dated 30 August 2017

CROSS-REFERENCE LIST

A cross-reference list below identifies the pages where each item of Annexes IV and V of the Prospectus Regulation can be found in the Base Prospectus.

	Items of Annexes IV of the Prospectus Regulation	Page number
1.	PERSONS RESPONSIBLE	
1.1.	All persons responsible for the information given in the Registration Document and, as the case may be, for certain parts of it, with, in the latter case, an indication of such parts. In the case of natural persons including members of the issuer's administrative, management or supervisory bodies indicate the name and function of the person; in case of legal persons indicate the name and registered office.	63
1.2.	A declaration by those responsible for the registration document that, having taken all reasonable care to ensure that such is the case the information contained in the registration document is, to the best of their knowledge, in accordance with the facts and contains no omission likely to affect its import. As the case may be, declaration by those responsible for certain parts of the registration document that, having taken all reasonable care to ensure that such is the case, the information contained in the part of the registration document for which they are responsible is, to the best of their knowledge, in accordance with the facts and contains no omission likely to affect its import.	63
2.	STATUTORY AUDITORS	
2.1.	Names and addresses of the issuer's auditors for the period covered by the historical financial information (together with their membership in a professional body).	64
2.2.	If auditors have resigned, been removed or not been re-appointed during the period covered by the historical financial information, details if material.	N/A
3.	SELECTED FINANCIAL INFORMATION	
3.1.	Selected historical financial information regarding the issuer, presented, for each financial year for the period covered by the historical financial information, and any subsequent interim financial period, in the same currency as the financial information. The selected historical financial information must provide key figures that summarise the financial condition of the issuer.	102-103
3.2.	If selected financial information for interim periods is provided, comparative data from the same period in the prior financial year must also be provided, except that the requirement for comparative balance sheet data is satisfied by presenting the year end balance sheet information.	102-103
4.	RISK FACTORS Prominent disclosure of risk factors that may affect the issuer's ability to fulfil its obligations under the securities to investors in a section headed "Risk Factors".	52-62
5.	INFORMATION ABOUT THE ISSUER	
5.1.	History and development of the Issuer:	
5.1.1.	the legal and commercial name of the issuer;	82
5.1.2.	the place of registration of the issuer and its registration number;	82
5.1.3.	the date of incorporation and the length of life of the issuer, except where indefinite;	82
5.1.4.	the domicile and legal form of the issuer, the legislation under which the issuer operates, its country of incorporation, and the address and telephone	82

	number of its registered office (or principal place of business if different from its registered office);	
5.1.5.	any recent events particular to the issuer which are to a material extent relevant to the evaluation of the issuer's solvency.	N/A
5.2.	Investments	
5.2.1.	A description of the principal investments made since the date of the last published financial statements.	83
5.2.2.	Information concerning the issuer's principal future investments, on which its management bodies have already made firm commitments.	N/A
5.2.3.	Information regarding the anticipated sources of funds needed to fulfil commitments referred to in item 5.2.2.	N/A
6.	BUSINESS OVERVIEW	
6.1.	Principal activities:	
6.1.1.	A description of the issuer's principal activities stating the main categories of products sold and/or services performed; and	84-88
6.1.2.	an indication of any significant new products and/or activities	89
6.2.	Principal markets A brief description of the principal markets in which the issuer competes	90
6.3.	The basis for any statements made by the issuer regarding its competitive position.	90
7.	ORGANISATIONAL STRUCTURE	
7.1.	If the issuer is part of a group, a brief description of the group and of the issuer's position within it.	91-92
7.2.	If the issuer is dependent upon other entities within the group, this must be clearly stated together with an explanation of this dependence.	N/A
8.	TREND INFORMATION	
8.1.	Include a statement that there has been no material adverse change in the prospects of the issuer since the date of its last published audited financial statements. In the event that the issuer is unable to make such a statement, provide details of this material adverse change.	104
8.2.	Information on any known trends, uncertainties, demands, commitments or events that are reasonably likely to have a material effect on the issuer's prospects for at least the current financial year.	104
9.	PROFIT FORECASTS OR ESTIMATES If an issuer chooses to include a profit forecast or a profit estimate, the registration document must contain the information items 9.1 and 9.2:	N/A
9.1.	A statement setting out the principal assumptions upon which the issuer has based its forecast, or estimate. There must be a clear distinction between assumptions about factors which the members of the administrative, management or supervisory bodies can influence and assumptions about factors which are exclusively outside the influence of the members of the administrative, management or supervisory bodies; the assumptions must be readily understandable by investors, be specific and precise and not relate to the general accuracy of the estimates underlying the forecast.	N/A
9.2.	A report prepared by independent accountants or auditors stating that in the opinion of the independent accountants or auditors the forecast or estimate has been properly compiled on the basis stated, and that the basis of accounting used for the profit forecast or estimate is consistent with the accounting policies of the issuer. Where financial information relates to the previous financial year and only contains non-misleading figures substantially consistent with the final figures	N/A

	to be published in the next annual audited financial statements for the previous financial year, and the explanatory information necessary to assess the figures, a report shall not be required provided that the prospectus includes all of the following statements: (a) the person responsible for this financial information, if different from the one which is responsible for the prospectus in general, approves that information; (b) independent accountants or auditors have agreed that this information is substantially consistent with the final figures to be published in the next annual audited financial statements; (c) this financial information has not been audited.	
9.3.	The profit forecast or estimate must be prepared on a basis comparable with the historical financial information.	N/A
10.	ADMINISTRATIVE, MANAGEMENT, AND SUPERVISORY BODIES	
10.1.	Names, business addresses and functions in the issuer of the following persons, and an indication of the principal activities performed by them outside the issuer where these are significant with respect to that issuer: (a) members of the administrative, management or supervisory bodies; (b) partners with unlimited liability, in the case of a limited partnership with a share capital.	93-96
10.2.	<u>Administrative, Management, and Supervisory bodies conflicts of interests</u> Potential conflicts of interests between any duties to the issuing entity of the persons referred to in item 10.1 and their private interests and or other duties must be clearly stated. In the event that there are no such conflicts, make a statement to that effect.	96
11.	BOARD PRACTICES	
11.1.	Details relating to the issuer's audit committee, including the names of committee members and a summary of the terms of reference under which the committee operates.	98-100
11.2.	A statement as to whether or not the issuer complies with its country's of incorporation corporate governance regime(s). In the event that the issuer does not comply with such a regime a statement to that effect must be included together with an explanation regarding why the issuer does not comply with such regime.	98
12.	MAJOR SHAREHOLDERS	
12.1.	To the extent known to the issuer, state whether the issuer is directly or indirectly owned or controlled and by whom and describe the nature of such control, and describe the measures in place to ensure that such control is not abused.	101
12.2.	A description of any arrangements, known to the issuer, the operation of which may at a subsequent date result in a change in control of the issuer.	N/A
13.	FINANCIAL INFORMATION CONCERNING THE ISSUER'S ASSETS AND LIABILITIES, FINANCIAL POSITION AND PROFITS AND LOSSES	
13.1.	Historical Financial Information Audited historical financial information covering the latest 2 financial years (or such shorter period that the issuer has been in operation), and the audit report in respect of each year. Such financial information must be prepared according to Regulation (EC) No 1606/2002, or if not applicable to a Member States national accounting standards for issuers from the Community.	104, Appendices

	The most recent year's historical financial information must be presented and prepared in a form consistent with that which will be adopted in the issuer's next published annual financial statements having regard to accounting standards and policies and legislation applicable to such annual financial statements. If the audited financial information is prepared according to national accounting standards, the financial information required under this heading must include at least: (a) balance sheet; (b) income statement; (c) cash flow statement; and (d) accounting policies and explanatory notes. The historical annual financial information must have been independently audited or reported on as to whether or not, for the purposes of the registration document, it gives a true and fair view, in accordance with auditing standards applicable in a Member State or an equivalent standard.	
13.2.	Financial statements If the issuer prepares both own and consolidated financial statements, include at least the consolidated financial statements in the registration document.	104, Appendices
13.3.	Auditing of historical annual financial information	
13.3.1.	A statement that the historical financial information has been audited. If audit reports on the historical financial information have been refused by the statutory auditors or if they contain qualifications or disclaimers, such refusal or such qualifications or disclaimers must be reproduced in full and the reasons given.	104, Appendices
13.3.2.	An indication of other information in the registration document which has been audited by the auditors.	N/A
13.3.3.	Where financial data in the registration document is not extracted from the issuer's audited financial statements state the source of the data and state that the data is un-audited.	N/A
13.4.	Age of latest financial information	
13.4.1.	The last year of audited financial information may not be older than 18 months from the date of the registration document.	104, Appendices
13.5.	Interim and other financial information	
13.5.1.	If the issuer has published quarterly or half yearly financial information since the date of its last audited financial statements, these must be included in the registration document. If the quarterly or half yearly financial information has been reviewed or audited the audit or review report must also be included. If the quarterly or half yearly financial information is un-audited or has not been reviewed state that fact.	N/A
13.5.2.	If the registration document is dated more than nine months after the end of the last audited financial year, it must contain interim financial information, covering at least the first six months of the financial year. If the interim financial information is un-audited state that fact. The interim financial information must include comparative statements for the same period in the prior financial year, except that the requirement for	N/A

	comparative balance sheet information may be satisfied by presenting the years end balance sheet.	
13.6.	Legal and arbitration proceedings Information on any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the issuer is aware), during a period covering at least the previous 12 months which may have, or have had in the recent past, significant effects on the issuer and/or group's financial position or profitability, or provide an appropriate negative statement.	104
13.7.	Significant change in the issuer's financial or trading position A description of any significant change in the financial or trading position of the group which has occurred since the end of the last financial period for which either audited financial information or interim financial information have been published, or an appropriate negative statement.	104
14.	ADDITIONAL INFORMATION	
14.1.	Share Capital	
14.1.1.	The amount of the issued capital, the number and classes of the shares of which it is composed with details of their principal characteristics, the part of the issued capital still to be paid up, with an indication of the number, or total nominal value, and the type of the shares not yet fully paid up, broken down where applicable according to the extent to which they have been paid up.	105
14.2.	Memorandum and Articles of Association	
14.2.1.	The register and the entry number therein, if applicable, and a description of the issuer's objects and purposes and where they can be found in the memorandum and articles of association.	105
15.	MATERIAL CONTRACTS A brief summary of all material contracts that are not entered into in the ordinary course of the issuer's business, which could result in any group member being under an obligation or entitlement that is material to the issuer's ability to meet its obligation to security holders in respect of the securities being issued.	105-107
16.	THIRD PARTY INFORMATION AND STATEMENT BY EXPERTS AND DECLARATIONS OF ANY INTEREST	
16.1.	Where a statement or report attributed to a person as an expert is included in the Registration Document, provide such person's name, business address, qualifications and material interest if any in the issuer. If the report has been produced at the issuer's request a statement to that effect that such statement or report is included, in the form and context in which it is included, with the consent of that person who has authorised the contents of that part of the Registration Document.	65
16.2.	Where information has been sourced from a third party, provide a confirmation that this information has been accurately reproduced and that as far as the issuer is aware and is able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading. In addition, the issuer shall identify the source(s) of the information	65
17.	DOCUMENTS ON DISPLAY A statement that for the life of the registration document the following documents (or copies thereof), where applicable, may be inspected: - the memorandum and articles of association of the issuer;	115

	- all reports, letters, and other documents, historical financial information, valuations and statements prepared by any expert at the issuer's request any part of which is included or referred to in the registration document; - the historical financial information of the issuer or, in the case of a group, the historical financial information of the issuer and its subsidiary undertakings for each of the two financial years preceding the publication of the registration document. An indication of where the documents on display may be inspected, by physical or electronic means.	

	Items of Annexes V of the Prospectus Regulation	Page number
1.	PERSONS RESPONSIBLE	
1.1.	All persons responsible for the information given in the prospectus and, as the case may be, for certain parts of it, with, in the latter case, an indication of such parts. In the case of natural persons including members of the issuer's administrative, management or supervisory bodies indicate the name and function of the person; in case of legal persons indicate the name and registered office.	63
1.2.	A declaration by those responsible for the prospectus that, having taken all reasonable care to ensure that such is the case, the information contained in the prospectus is, to the best of their knowledge, in accordance with the facts and contains no omission likely to affect its import. As the case may be, declaration by those responsible for certain parts of the prospectus that the information contained in the part of the prospectus for which they are responsible is, to the best of their knowledge, in accordance with the facts and contains no omission likely to affect its import.	63
2.	RISK FACTORS	
2.1.	Prominent disclosure of risk factors that are material to the securities being offered and/or admitted to trading in order to assess the market risk associated with these securities in a section headed "Risk Factors".	52-62
3.	KEY INFORMATION	
3.1.	Interest of natural and legal persons involved in the issue/offer A description of any interest, including conflicting ones, that is material to the issue/offer, detailing the persons involved and the nature of the interest.	64
3.2.	Reasons for the offer and use of proceeds Reasons for the offer if different from making profit and/or hedging certain risks. Where applicable, disclosure of the estimated total expenses of the issue/offer and the estimated net amount of the proceeds. These expenses and proceeds shall be broken into each principal intended use and presented by order of priority of such uses. If the issuer is aware that the anticipated proceeds will not be sufficient to fund all the proposed uses, state the amount and sources of other funds needed.	65
4.	INFORMATION CONCERNING THE SECURITIES TO BE OFFERED/ADMITTED TO TRADING	
4.1.	A description of the type and the class of the securities being offered and/or admitted to trading, including the ISIN (International Security Identification Number) or other such security identification code.	66-67
4.2.	Legislation under which the securities have been created.	74
4.3.	An indication of whether the securities are in registered form or bearer form and whether the securities are in certificated form or book-entry form. In the latter case, name and address of the entity in charge of keeping the records.	66
4.4.	Currency of the securities issue.	67
4.5.	Ranking of the securities being offered and/or admitted to trading, including summaries of any clauses that are intended to affect ranking or subordinate the security to any present or future liabilities of the issuer	67
4.6.	A description of the rights attached to the securities, including any limitations of those rights, and procedure for the exercise of those rights.	66-74

4.7.	The nominal interest rate and provisions relating to interest payable. ▪ The date from which interest becomes payable and the due dates for interest ▪ The time limit on the validity of claims to interest and repayment of principal Where the rate is not fixed, description of the underlying on which it is based and of the method used to relate the two and an indication where information about the past and the further performance of the underlying and its volatility can be obtained. - A description of any market disruption or settlement disruption events that affect the underlying - Adjustment rules with relation to events concerning the underlying - Name of the calculation agent If the security has a derivative component in the interest payment, provide a clear and comprehensive explanation to help investors understand how the value of their investment is affected by the value of the underlying instrument(s), especially under the circumstances when the risks are most evident.	67-68
4.8.	Maturity date and arrangements for the amortization of the loan, including the repayment procedures. Where advance amortization is contemplated, on the initiative of the issuer or of the holder, it shall be described, stipulating amortization terms and conditions.	68
4.9.	An indication of yield. Describe the method whereby that yield is calculated in summary form.	75-76
4.10.	Representation of debt security holders including an identification of the organisation representing the investors and provisions applying to such representation. Indication of where the public may have access to the contracts relating to these forms of representation	72
4.11.	In the case of new issues, a statement of the resolutions, authorisations and approvals by virtue of which the securities have been or will be created and/or issued.	65
4.12.	In the case of new issues, the expected issue date of the securities.	N/A
4.13.	A description of any restrictions on the free transferability of the securities.	66
4.14.	In respect of the country of registered office of the issuer and the country(ies) where the offer being made or admission to trading is being sought: - Information on taxes on the income from the securities withheld at source; - Indication as to whether the issuer assumes responsibility for the withholding of taxes at the source.	111-113
5.	TERMS AND CONDITIONS OF THE OFFER	
5.1.	Conditions, offer statistics, expected timetable and action required to apply for the offer	
5.1.1.	Conditions to which the offer is subject	N/A
5.1.2.	Total amount of the issue/offer; if the amount is not fixed, of the arrangements and time for announcing to the public the definitive amount of the offer.	66 and 76

5.1.3.	The time period, including any possible amendments, during which the offer will be open and description of the application process.	75
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7.3.	Where a statement or report attributed to a person as an expert is included in the Securities Note, provide such persons' name, business address, qualifications and material interest if any in the issuer. If the report has been produced at the issuer's request a statement to that effect that such statement or report is included, in the form and context in which it is included, with the consent of that person who has authorised the contents of that part of the Securities Note.	65
7.4.	Where information has been sourced from a third party, provide a confirmation that this information has been accurately reproduced and that as far as the issuer is aware and is able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading. In addition, identify the source(s) of the information.	65
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APPENDICES

JSC DEVELOPMENT FINANCE INSTITUTION ALTUM

Annual report of the Group for the period from 1 January 2016 to 31 December 2016 (the 3rd reporting period)

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JSC DEVLOPMENT FINANCE INSTITUTION
REPORT OF THE BOARD OF DIRECTORS OF THE GROUP

Activity during reporting period

The joint stock company Development Finance Institution Altum (hereinafter referred to as the Group) is a state-owned development finance group 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 the Group fills in the market gaps and ensures accessibility to the funding in the areas the state has identified as priority.
The mission of the Group is – We help Latvia to thrive!
The vision of the Group is – Co-operation partner and financial expert in the 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 the Group. The Ministry of Finance holds 40% of the Group's shares, the Ministry of Economics and Ministry of Agriculture – 30% each.
During 12 months of 2016 the Group made a profit of 2,170 mln euros.

Operational Volumes

As at 31 December 2016 the Group's books and records held a portfolio of the financial instruments granted within the state aid programmes for the total value of 430,9 mln euros made up of 11,449 projects, including:

- guarantee portfolio of 147,2 mln euros, the total number of transactions – 4 937;
- loan portfolio of 217,4 mln euros, the total number of transactions – 6 327;
- investments in venture capital funds for the total value of 58,5 mln euros, the total number of projects financed by funds – 185.

Promotion of Business

In the reporting period lasting from 1 January 2016 till 31 December 2016 the funding granted within the state aid programmes amounted to 131,5 mln euros (increase by 11.4% compared to year 2015), the total number of supported projects – 4 461 (increase by 58.2% compared to year 2015). In year 2016 the increase in the number of projects was due to the high demand for the Housing Guarantee Programme developed for families with children. In year 2016, apart from the aid provided to natural persons (Housing Guarantee Programme), the aid provided to businesses amounted to 111,6 mln euros supporting 1643 business projects.
Fund of funds. On 8 June 2016, in order to introduce new financial instruments for the benefit of the Latvian companies, the Group signed a covenant with the Central Finance and Contracting Agency (CFCA) on implementation of the Fund of funds. It is estimated that the total funding of the European Regional and Development Fund (ERDF) available through the aid programmes under the Fund of funds will amount to 126 mln euros. In addition, private funds will be attracted to implementation of the Fund of funds programmes increasing the total funding available to the entrepreneurs under these programmes to 376 mln euros.
The Start-up Programme, Micro-lending Programme, Credit Guarantee Programme for Businesses and Parallel Loan Programme were launched within the framework of the Fund of funds in June, 2016. By December-end the Fund of funds programmes had approved 134 loans totalling 2,86 mln euros and issued 68 guarantees for 13,6 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), the 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. On 14 October 2016 the Group concluded an agreement 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 the Group to issue guarantees to the eligible projects at lower rates, thus reducing the costs for attracting financing for these projects. As at December 31, 2016 there were 2 guarantees for 0.8 mln euros issued under InnovFIN Facility. Within EFSI co-operation framework the Group has submitted to EIF an application for COSME programme to obtain counter-guarantees for the guarantee portfolio worth 15 mln euros.
Venture capital investments. In the reporting period the following expansion venture capital funds - Expansion Capital, FlyCap and ZGI-3 funds, having been in the business since 2013, closed their investment periods.

REPORT OF THE BOARD OF DIRECTORS (continued)

The aforementioned funds were financed within the Structural Funds 2007-2013 Programming Period with Altum being the largest investor. The funding of the European Union Structural Funds earmarked for investments in companies has been fully absorbed with 35,7 mln euros invested in 81 companies. In terms of branch representation, the majority of investments – 44% were made in development of production projects.
Starting a business. Promotion of start-ups is a significant business segment of the Group. In the reporting period the start-ups were granted loans totalling 4,3 mln euros financing 223 start-ups projects under the Start-ups Programme. In year 2016, in order to inform the start-ups about the state aid options, the Group, having involved the governmental and private sector partners, organised free of charge informative workshops in Riga and regional cities.

Aid for Improvement of Energy Efficiency of Multi-apartment Buildings

In year 2016 the Group started to implement the Energy Efficiency Programme of Multi-apartment Buildings. 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 the 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 2016, to consult about the programme:

- 54 workshops with 2 350 participants were organized in 21 towns of Latvia;
- 694 consultations were held at the Altum Competence Centre.

On 13 September 2016 a co-operation agreement on participation in the programme and receipt of grant was signed with CFCA whereby the Group was entitled to conclude co-operation agreements with the commercial banks. On 28 September 2016 the Group started to accept the grant, loan and guarantee applications for the Energy Efficiency Programme of Multi-apartment Buildings.

Support to Families with Children for Buying Housing

As at 31 December 2016, the Housing Guarantee Programme had granted 4 106 guarantees worth 27 mln euros to the families with children. The demand for guarantees has remained high throughout the reporting period with an upward tendency. Around 75% of the volume of guarantees has 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 6122 children among them.

Activities of Land Fund of Latvia

As at 31 December 2016, the balance sheet of the Land Fund administered by Group enlisted 112 properties with the total land area of 2,038 ha worth 4,635 mln euros.
In year 2016 the activities of the Land Fund had exceeded the estimated figures both in terms of property acquisition offers and demand for lease of the land parcels owned by the fund. As at 31 December 2016, 92% of the fund's properties had been found 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 – 863 ha;
- in Vidzeme – 475 ha;
- in Kurzeme – 238 ha;
- in Latgale – 180 ha;
- in Rīga region – 282 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.

Future Outlook

The Group, based on the market gap analysis and in co-operation with the responsible ministries, drafts and implements new state aid programmes.
Within the framework of the Fund of funds the Group has initiated selection process of the managers of accelerator funds. Acceleration is an activity not yet practised in Latvia intended to support the companies being in a very early development stage. ERDF funding of 15 mln euros is earmarked for the activity. Around 120 perspective ideas will receive accelerator and investment services. Selection of financial intermediaries for the seed, start-up and expansion-stage funds is scheduled to start in year 2017.
In year 2017 the volume of new transactions performed with Group '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 3100 new work places. The total investment of the Group's financial instruments, including the co-financing of the aid beneficiaries, in the national economy, is expected to be around 290 mln euros.

Reinis Bērziņš
Chairman of the Board

24 April 2017

SUPERVISORY COUNCIL AND BOARD OF DIRECTORS

The Supervisory Council

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

Name, surname	*Position*	*Date appointed*
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.

Name, surname	*Position*	*Date appointed / removed*
Reinis Bērziņš	Chairman of the Board	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
Jēkabs Krieviņš	Board Member	12/10/2015 - present
Juris Vaskāns	Board Member	12/10/2015 - present
Inese Zīle	Board Member	12/10/2015 - present

STATEMENT OF RESPONSIBILITY OF THE MANAGEMENT

Riga 24 May 2017

Group Management is responsible for preparing the consolidated financial statements from the books of prime entry of the Group for each financial period that present fairly the state of affairs of the Group as at the end of the financial period and the results of their operations and cash flows for that period according to the International Financial Reporting Standards as adopted by the European Union. The judgments and estimates made by the Management in the preparation of the financial statements have been prudent and reasonable.

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 7 to 73 for the period from 1 January 2015 to 31 December 2016. The Management also confirms that applicable International Financial Reporting Standards as adopted in the EU have been used in preparation of the financial statements and that these financial statements have been prepared on a going concern basis.

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

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

	Notes	01/01/2016 - 31/12/2016	01/01/2015- 31/12/2015 Restated
Interest income	4	12,584	18,610
Interest expense	5	(1,707)	(2,342)
Net interest income		**10,877**	**16,268**
Fee and commission income	6	446	703
Fee and commission expense	7	(299)	(552)
Net income from fees and commissions		**147**	**151**
Net trading income	8	(203)	983
Share of (loss) of investment in joint venture and associate	18	(1,758)	(2,198)
Other income	9	5,528	7,294
Operating income before operating expenses		**14,591**	**22,498**
Staff costs	10	(6,782)	(6,679)
Administrative expense	11	(5,581)	(5,129)
Amortisation of intangible assets and depreciation of property, plant and equipment	21, 22	(529)	(743)
Net impairment provisions	12	471	(5,023)
Profit / (loss) before corporate income tax		**2,170**	**4,924**
Corporate income tax	13	-	-
Profit for the period		**2,170**	**4,924**
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Net profit / (loss) on available for sale investments	35	467	(1,988)
Total comprehensive income for the period		**2,637**	**2,936**

The notes on pages 11 to 73 are an integral part of these financial statements.

Reinis Bērziņš
Chairman of the Board

Marina Baranovska
Chief accountant

24 April 2017

CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF GROUP
(all amounts in thousands of euro)

	Notes	31/12/2016	31/12/2015 Restated	31/12/2014 Restated
Assets				
Due from other credit institutions and Treasury	16	89,553	46,882	60,245
Investment securities - available for sale	14	64,294	88,002	102,536
Investment securities – held to maturity	14	1,531	1,541	4,911
Loans and receivables	19	201,250	201,518	215,770
Investments in venture capital funds – associates	18	58,296	39,929	24,638
Deferred expense and accrued income	24	2,059	1,561	2,714
Investment property	15	17,087	12,247	11,704
Property, plant and equipment	22	3,507	4,628	4,822
Intangible assets	21	168	123	153
Deferred tax asset	13	-	-	253
Corporate income tax overpaid		-	523	26
Other assets	23	4,014	9,964	6,884
Assets held for sale	25	1,367	-	-
Total assets		**443,126**	**406,918**	**434,656**
Liabilities				
Due to credit institutions	26	56,195	67,166	80,208
Derivatives	17	854	345	1,218
Due to general governments	27	46,914	39,561	42,680
Deferred income and accrued expense	31	1,975	1,664	1,500
Provisions	29	16,864	17,327	14,760
Support programme funding	28	96,822	56,288	84,956
State aid	28	6,849	16,166	9,477
Other liabilities	30	6,559	8,791	4,737
Total liabilities		**233,032**	**207,308**	**239,536**
Capital and reserves				
Share capital	32	204,862	204,862	204,862
Reserves	20	(8,235)	(16,082)	(17,636)
Available for sale reserve	35	9,092	8,625	10,613
Accumulated profit		4,375	2,205	(2,719)
Total capital and reserves		**210,094**	**199,610**	**195,120**
Total liabilities, capital and reserves		**443,126**	**406,918**	**434,656**

The notes on pages 11 to 73 are an integral part of these financial statements.

Reinis Bērziņš
Chairman of the Board

Marina Baranovska
Chief accountant

24 April 2017

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

	Share capital	Reserves (Restated)	Available for sale reserve	Retained earnings (Restated)	Total capital
As at 31 December 2014	**204,862**	**(17,636)**	**10,613**	**(2,719)**	**195,120**
Other comprehensive (loss)	-	-	(1,988)	-	**(1,988)**
Profit for the period	-	-	-	4,924	**4,924**
Total comprehensive income / (loss) for the period	**-**		**(1,988)**	**4,924**	**2,936**
Changes to increase of reserve capital (see Note 20)	-	(81)	-	-	**(81)**
Increase of reserve capital (see Note 20)	-	1,635	-	-	**1,635**
As at 31 December 2015	**204,862**	**(16,082)**	**8,625**	**2,205**	**199,610**
Other comprehensive increase	-	-	467	-	**467**
Profit for the period	-	-	-	2,170	**2,170**
Total comprehensive income for the period	**-**	**-**	**467**	**2,170**	**2,637**
Changes to increase of reserve capital (see Note 20)	-	458	-	-	**458**
Increase of reserve capital (see Note 20)	-	5,560	-	-	**5,560**
Distribution of 2015 year profit	-	1,829	-	-	**1,829**
As at 31 December 2016	**204,862**	**(8,235)**	**9,092**	**4,375**	**210,094**

The notes on pages 11 to 73 are an integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT OF GROUP (all amounts in thousands of euro)

	Notes	01/01/2061-31/12/2016	01/01/2015-31/12/2015 Restated
Profit before taxes		2,170	4,924
Amortisation of intangible assets and depreciation of property, plant and equipment	20, 21	529	564
Interest income	4	(12,584)	(18,610)
Interest received		10,713	13,088
Interest expenses	5	1,707	2,342
Interests paid		(720)	(2,425)
(Decrease) / increase in provisions for impairment	12	(471)	5,023
Revaluation of investments in venture capital funds		1,758	2,198
Increase in deferred income and accrued expense		311	164
(Decrease) / increase in deferred expense and accrued income		(497)	1,153
Decrease / (increase) of other assets		7,736	(5,075)
Increase / (decrease) in other liabilities		20,386	(29,892)
(Decrease) / increase of cash and cash equivalents used before changes in assets and liabilities		**31,038**	**(26,546)**
Due from credit institutions (increase)/decrease		(1,832)	7,064
(Increase) / decrease of loans		(2,042)	13,633
Due to credit institutions increase / (decrease)		7,354	(3,119)
Corporate income tax		-	-
Net cash flow from operating activities		**34,518**	**(8,966)**
Cash flows from investment activities			
Sale of investment securities, net		25,521	19, 851
Acquisition of property, plant and equipment and intangible assets		(777)	(340)
Purchase of investment properties		(3,615)	(991)
Investments in venture capital funds, net		(20,370)	(17,488)
Net cash flow of investment activities		**759**	**1,032**
Cash flows from financing activities			
Increase in share capital		5,560	1,635
Net cash flow from financing activities		**5,560**	**1,635**
Increase in cash and cash equivalents		**40, 837**	**(6,299)**
Cash and cash equivalents at the beginning of period		43,716	50,015
Cash and cash equivalents at the end of period	34	**84,553**	**43,716**

NOTES TO FINANCIAL STATEMENTS

APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The management of the Group has approved these financial statements on 24 May 2017. The Commercial Law of the Republic of Latvia as well as Development Finance Institution Law stipulates that the shareholders' meeting is entitled to pass a decision on approval of the financial statements.

1 GENERAL INFORMATION

(1) Background information

The joint-stock company Development Finance Institution Altum (Group) 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 financial statements are consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union, on a going concern basis. In preparation of the financial statements on a going concern basis the management considered the Group's financial position, access to financial resources and analysed the impact of the external factors on future operations of the Group.

The financial statements are prepared under the historical cost convention as modified by the fair valuation of financial assets held as available-for-sale, trading securities, derivative financial instruments and investment properties.

The preparation of financial statements in accordance with International Financial Reporting Standards as adopted by European Union requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of

NOTES TO FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

(1) Basis of preparation (continued)

revenues and expenses during the reporting period. Although these estimates are based on the Management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

In the financial statements the amounts are given in thousands of euros, unless specified otherwise. The functional and presentation currency of the Group has been the euro.

(2) Consolidation, reorganisation and investments in subsidiaries

Consolidation
The subsidiaries where the Group has direct or indirect control over the financial and operational policies and whose operational volumes are substantial have been consolidated in these statements by merging the respective assets, liabilities, income and expense items.

The consolidated financial statement doesn't contain the mutual balances and transactions presented in the profit or loss statement of the consolidated companies forming the Group, inter alia interest income and expense and unrealised profit and loss on reciprocal transactions.
The Group controls a subsidiary when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Thus, the Group controls an subsidiary if and only if the investor has all the following:

- power over the investee;
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect the amount of the investor's returns.

Investments in associates
Associates are all entities over which the Group has significant influence but no control. The investments in associates are accounted for using the equity method.

(3) Foreign currency translation

During the reporting period the transactions in foreign currencies were converted into euro based on the foreign exchange rate of the European Central Bank effective on the day of the transaction. The monetary assets and liabilities as well as off-balance sheet claims and foreign currency liabilities were converted in euro based on the foreign exchange rate of the European Central Bank effective at the end of the reporting period. Income or loss on foreign exchange rate fluctuations was included in the statement of comprehensive income of the reporting period.

The applicable rates for the principal currencies at the end of the reporting period were the following:

as on 31 December 2016	as on 31 December 2015
1 USD = EUR 1.05410	1 USD = EUR 1.08870
1 GBP = EUR 0.85618	1 GBP = EUR 0.73395
1 CHF = EUR 1.07390	1 CHF = EUR 1.08350
1 NOK = E UR 9.08630	1 NOK = EUR 9.60300

NOTES TO FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

(4) Income and expense recognition

Income and expense accounting of the Group is based on accrual basis, i.e.:

- income and expense, pertaining to the reporting period, are included in the statement of comprehensive income regardless of the day of their receipt or origination;
- income is included in the statement of comprehensive income, when obtained, or there is no doubt about receiving it on the expected time, and expense is accounted as soon as there is evidence clearly indicating the occurrence of expense.

Foreign income and expense are calculated and presented in euro based on the foreign exchange rate of the European Central Bank on the respective day.

Foreign exchange income and expense are recognised in the profit or loss of the reporting period.

Interest income and expense are recognised in profit or loss for all interest bearing instruments on an accrual basis using the effective interest rate method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options), but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Interest accrued on loans is included in profit or loss based on the following complementary principles:

- interest accrual calculation uses various day accounting methods, specified in agreements with customers (30/360 or actual days / 360);

The following principles are applied with respect to contractual penalties (late payment charge):

- contractual penalties are calculated for each day;
- included in the profit or loss only when being paid by the customer;
- subject to grace days – i.e., if customer pays the entire amount in full within 3 days after the scheduled payment date, contractual penalties are not calculated.

Commissions from advancing loans and their management are included in profit or loss based on the following principles:

- loan processing and disbursement commissions (including loan application fee) together with related direct costs – straight line over the loan term;
- other commissions (loan account management, amendment of terms, reservation fee, a.o.) – are recognised on an accrual basis.

Commissions from granting and maintenance of financial guarantees are included in the profit or loss following the principles below:

- commissions from granted financial guarantees – according to principles described in Note 2 (21);
- other commissions – are recognised on an accrual basis.

Interest accrued on loans and commissions from financial guarantees exclude pricing for credit risk if such is covered by allocated support programme funding. See Note 28.

NOTES TO FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

(4) Income and expense recognition (continued)

Other commission income and expense, which are not related to financial guarantees, are recognized as they occur. Income and expense in foreign currencies are calculated and presented in euro by the official exchange rate as set by the European Central Bank on the respective day.

The income and expense resulting from changes in exchange rates are included in the profit or loss for the period.

(5) Financial instruments - initial recognition and subsequent measurement

(i) Date of recognition

Purchase and sale of trading securities and investment securities that require delivery within the time frame established by regulation or market convention ("regular way" purchase and sale), are recognised on the settlement date, which is the date, when the asset is delivered or given to the Group. Any change in the fair value of the asset during the period between the purchase date and settlement date is recognised in the profit or loss or statement of other comprehensive income, as appropriate.

(ii) Initial measurement of financial instruments

Trading securities, derivatives and other financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions for the same instrument.

(iii) Trading and investment securities

Trading and investment securities are comprised of the following categories:

- *Trading securities* comprise fixed income securities and equity shares held by the Group for trading purposes. They are accounted for at fair value and all gains and losses arising from changes in the fair value are included in the profit or loss as part of net trading income.
- *Investment securities available-for-sale* comprise treasury bills and other fixed income securities held by the Group for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. They are stated at fair value with all gains and losses from revaluation recognised in the other comprehensive income, which is reclassified to profit/loss in subsequent periods, except for impairment losses, which are recognized in the profit or loss until derecognition. The cumulative change recognised as other comprehensive income is presented as Available for sale reserve under equity. The Group reviews its debt securities classified as available-for-sale investments at each statement of financial position date to assess whether they are impaired. This requires estimates similar to those applied to the individual assessment of loans and advances. The Group also records impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Group evaluates, among other factors, historical share price fluctuations and duration and extent to which the fair value of an investment is less than its cost.
- *Investment securities held-to-maturity* comprise debt securities with fixed or determinable payments and fixed maturities that the Group's management has a positive intention and ability to hold to maturity. They are carried at amortised cost, that is calculated based on the purchase price of the securities adjusted by discount or premium amortised over the term of the securities, using the effective interest rate method. If the Group was to sell or reclassify more than an insignificant amount of held-to-maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the Group would be prohibited from classifying any financial asset as held to maturity during the following two years.

NOTES TO FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

(5) Financial instruments - initial recognition and subsequent measurement (continued)

(iv) Investment in venture capital funds

The Group has significant influence over the venture capital funds in which it participates. The Group's investments in venture capital funds are treated as associates. An associate is a company in which the Group has significant influence, but not control. Significant influence is defined as the power to affect the financial and operating policy decisions of the investee. Significance of influence is classified based on the same parameters that are applied to the branches. The Group's investments in an associate are initially recognised at acquisition cost using the equity method. The carrying value of the investment is adjusted to recognise changes in the Group's net assets in the associate since acquisition date. Associate-related goodwill risk is included in the carrying value of investment without verifying impairment. The profit or loss shows the Group's share in the operational results of the associate. Changes to the investees' other comprehensive income are presented as part of the Group's other comprehensive income.

Moreover, if the changes have been recognised directly in the capital of the associate, the Group, if required, recognises its share of changes in the statement of changes in equity. The unrealised gains and losses on transactions between the Group and associate are eliminated in proportion to the ownership investment in the associate. The financial statements of the associate and Group cover the same reporting period. Adjustments are made to co-ordinate the accounting policy of the associate with accounting policy of the Group.

Once the equity method has been applied, the Group decides on recognition of impairment of the investments in the associate. On the reporting dates the Group establishes whether there is an impartial evidence of impairment of the investments in the associate.

The Group makes sure that the venture capital fund has a business plan for the investment or other supporting and sufficient information confirming that the recoverable amount is not below the carrying value. Based on the available information, the Group subsequently establishes whether the operations of the enterprise proceed as planned (for example, if losses are earmarked in the estimated cash flows for the first years, it has to be verified that the actual losses are not higher and that operational results follow the proposed targets). Should materially adverse differences be identified in the actual operations, the Group has to establish whether the venture capital fund possesses adequate supporting information confirming that the investment is not facing value impairment. The Group has to decide whether, for example, deviations point to the investee's inability to achieve the planned results. The fact that the actual cash flows tally with the estimated indicates an absence of value impairment of the investment. The actual cash flows used for making of the estimates are assessed by comparing them with the available financial statements. If the recoverable amount of the venture capital fund investment has been established based on the discounted cash flow calculation, the calculation and supporting date are verified.

If the impairment test is prepared by a third party, the Group checks that the assessment has not been done more than a year ago.

Should another method be used, the Group checks on the substantiation of the choice of the method provided by the fund's manager, data and indicators used.

If there is evidence of value impairment, the Group calculates impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the loss in the profit or loss calculation.

The management fees of the venture capital funds referring to the reporting period (previous periods) are treated as received service and included in the profit or loss calculation.

As foreseen by the new wording of the agreement No 2015/15 On Implementation of the Holding Fund dated 23 December 2015 concluded between the Group and Ministry of Economics, the Group is reimbursed from the funding of the Ministry of Economics for the following:

- management fees of the financial intermediaries for implementation of the financial engineering instruments;
- value impairment of the investments of the financial engineering instruments due to valuation or revaluation.

The above risk cover mechanism is valid only for the second and third generation venture capital funds, such as BaltCap LatviaVenture Capital Fund, Imprimatur Capital Technology Venture Fund, Imprimatur Capital Seed Fund, ZGI-3 fund, FlyCap Investment Fund I and Expansion Capital Fund (Note 18).

NOTES TO FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

(5) Financial instruments - initial recognition and subsequent measurement (continued)

(v) Loans and receivables

For purposes of this section, loans are:

- direct lending products, i.e., the Group grants a loan to a borrower, who is the end beneficiary of funds;
- indirect lending products without assuming risk, i.e., the Group grants a loan to a borrower, who is an intermediary. The intermediary then grants the received loan further to borrowers, who are the end beneficiaries of funds. The Group recognizes loan impairment loss only when resulting from solvency problems of the intermediary;
- indirect lending products with risk assumption, i.e., the Group grants a loan to a borrower, who is an intermediary. The intermediary then grants the received loan further to borrowers, who are the end beneficiaries of funds. The Group recognizes loan impairment loss both when resulting from solvency problems of the intermediary, as well as when resulting from solvency problems of the end beneficiary, proportionate to the share of risk.

The loans granted to customers are accounted for as loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables initially are recognised at fair value and subsequently at amortised cost.

The loans and receivables are recognised in the financial statements of the Group when cash is advanced to borrowers. Granted, but not yet disbursed loans are recognised as off-balance sheet liabilities.

Management considers risks for all loans to determine the provision for loan impairment. Provisions for individual loan impairment are established if there is objective evidence that it will not be possible to collect all amounts due according to the original contractual terms of loans. The amount of the provision is the difference between the carrying amount and the recoverable amount, being determined as the present value of expected cash flows, including amounts recoverable from guarantees and collateral. Impairment losses are recognised through an allowance account.

In addition to provisions for individual loans, provisions for homogeneous groups of loans based on similarities of credit risk involved, loan size, quality and loan terms are also established. The provisions for loan impairment losses for the loans included in homogeneous groups have been estimated based upon historical patterns of losses in each group, the historic pattern of timeliness of payments and current economic climate in which the borrowers operate.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss and disclosed as part of provision for impairment loss.

The methodology and assumptions used are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

When a loan or receivable is not recoverable, it is written off against the pre-arranged provisions for loan or receivable impairment, further recovery of this loan or receivable is stated as earnings in the profit or loss.

NOTES TO FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

(5) Financial instruments - initial recognition and subsequent measurement (continued)

(vi) Due from other credit institutions and Treasury

Amounts due from other credit institutions and Treasury are recorded when the Group advances money to a credit institution with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from credit instructions are carried at amortised cost.

(vii) Derivative financial instruments

Derivative financial instruments including foreign currency swaps are initially recognised at fair value and subsequently measured at their fair value. Fair values are obtained from quoted market prices and discounted cash flow models as appropriate. All derivatives are carried as assets when fair value is positive and liabilities when the fair value is negative. Changes in the fair value of derivatives are reported in the profit or loss. The Group does not use hedge accounting.

(viii) Financial liabilities carried at amortised cost

Financial liabilities carried at amortised cost are mainly amounts due to the Treasury and credit institutions. These are initially recognised at cost, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Financial liabilities are subsequently measured at amortised cost and any difference between net proceeds and the redemption value is recognised in the profit or loss over the period of the borrowings using the effective interest method, less any impairment. In cases of early repayment, any difference between the refunded and carried amounts is immediately included in the profit or loss.

(6) Derecognition of financial assets

The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

(7) Fair values of assets and liabilities

Fair value is the price that would be received when selling an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. Fair values of financial assets and liabilities, including derivative financial instruments, are based on market prices quoted in active markets.

If the market for a financial asset or liability (and for unlisted securities) is not active, the Group establishes fair value by using valuation techniques. These include the use of discounted cash flow analysis, option pricing models and recent comparative transactions as appropriate. Where, in the opinion of the Management of the Group, the fair values of financial assets and liabilities differ materially from their book values, such fair values are separately disclosed in the notes to the accounts.

The Group measures financial instruments, such as AFS securities, derivatives, and non-financial assets, such as investment properties, at fair value at each balance sheet date. The information about financial and non-financial assets, which are measured at fair value or which values are disclosed, are summarised in the following notes:

• Disclosures for valuation methods, significant estimates and assumptions	Note 2 (5), 2 (12), 2 (18), 2 (22), 2 (23)
• Quantitative disclosures of fair value measurement hierarchy	Note 38
• Investment property	Note 2 (13)
• Financial instruments (including those carried at amortised cost)	Note 2 (5), 2 (9), 2 (21)

NOTES TO FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

(8) Off-setting financial instruments

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

(9) Impairment of financial assets

The Group first assesses whether objective evidence of impairment exists individually for financial assets at amortised cost (such as due from banks, loans and held-to-maturity investments) and assesses whether each individual financial asset should be considered significant. Financial assets are considered impaired, supported by objective evidence, when loss events have occurred and they are highly likely not fully recoverable. Such include overdue financial assets, i.e., that have their regular principal and interest payments past due, as well as financial assets with other defaulted significant agreement terms. Financial assets are not considered impaired when having sufficient collateral, the disposal of which would result in full recovery of the financial asset.

Impaired financial assets that each are considered significant, are assessed individually and are not included in homogenous groups of financial assets for collective assessment of their impairment. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, it is included in a group of loans with similar credit risk characteristics and collectively assessed for impairment. For the purposes of a collective evaluation of impairment the loans are grouped on a basis of similar credit risk characteristics.

The cumulative impairment loss - measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred) discounted at the financial asset's original effective interest rate - is reduced through use of an allowance account and the amount of the loss is recognised in the profit and loss. Interest income continues to be accrued on the reduced carrying amount at the interest rate used to discount the future cash flows for the purpose of measuring impairment loss, and is recognised as 'Interest income'. When a loan is uncollectible, it is written off against the related allowances for credit losses; subsequent recoveries, if any, are credited to the profit or loss.

The Group reviews impairment of its financial assets at least once a quarter. In determining whether an impairment loss should be recorded in the profit or loss, the Group makes judgments as to whether there is any objective indication that there is a measurable decrease in the estimated future cash flows before the decrease can be identified with an individual financial asset. The Management uses estimates based on historical loss experience for assets with similar credit risk characteristics and current economic climate in which the borrowers operate. The methodology and assumptions used are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Nevertheless, it is reasonably possible, based on the current experience and existing knowledge that outcomes within the next financial year will differ from the current assumptions, whereby the carrying amount of the asset or liability affected might require a material adjustment.

(i) Available for sale financial instruments

At each balance sheet date the Group assesses whether there is objective evidence that available-for-sale securities are impaired. If any such evidence exists, for available for sale investments the cumulative impairment loss - measured as the difference between the amortised cost of the asset and the current fair value, less any impairment loss previously recognised - is removed from other comprehensive income and recognised in the profit or loss.

Impairment losses recognised in the profit or loss are subsequently reversed if a fair value increase is observed that can be objectively related to an event occurring after the impairment loss was recognised. The assessment of the evidence for impairment and determination of the amount of impairment or its reversal require application of management's judgement and estimates.

NOTES TO FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

(9) Impairment of financial assets (continued)

The Group reviews its debt securities classified as available-for-sale investments at each statement of financial position date to assess whether they are impaired. This requires similar judgment as applied to the individual assessment of loans and advances. The Group also records impairment charges on available-for- sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Group evaluates, among other factors, historical share price fluctuations and duration and extent to which the fair value of an investment is less than its cost. No reversal of impairment is applicable.

(ii) Restructured loans

Where possible, the Group seeks to restructure loans rather than take possession of collateral. This mostly involves adjusting payment made by a borrower in a manner matching such a borrower's financial capacity (temporarily reducing principal repayments, extending payment terms) and agreement of new loan conditions. Once the terms have been renegotiated and executed a loan is no longer considered non-performing as long as a borrower complies with the renegotiated terms and conditions. Such loans are continuously reviewed to ensure that all criteria are met and that future payments are likely to occur and interest and fee income is accrued and recognised as for other performing loans. If the terms of the financial assets have been reviewed, each restructured loan is assessed quarterly to identify possible impairment that otherwise would be treated as overdue or impaired. When a loan is restructured, it is also assessed for derecognition (See Note 2 (6) on derecognition policy of assets).

(10) Intangible assets

Acquired computer software and licences are recognised as intangible assets on the basis of the costs incurred to acquire and bring to use the software. Intangible assets are amortised on the basis of their expected useful lives (5 years) and less impairment, if there is an indication that intangible asset may be impaired. The costs associated with developing or maintaining computer software programs are recognised as an expense when incurred.

(11) Property, plant and equipment and depreciation

All property, plant and equipment are stated at historical cost less accumulated depreciation and impairment, if any. Depreciation is provided using the straight-line method to write off the cost of each asset to its residual value over the estimated useful life of the asset. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

The annual depreciation rates are as follows:

Category	Depreciation rate
Land and buildings	2% p.a.
Furniture and fittings	10 - 20% p.a.
Computers and equipment	10 - 33% p.a.
Vehicles	17% p.a.
Leasehold improvements	over the term of the lease agreements

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains and losses on disposals of property and equipment are recognised in the profit or loss in the period of disposal. Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Property, plant and equipment are periodically reviewed for impairment.

NOTES TO FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

(12) Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the profit or loss. Goodwill impairment losses cannot be reversed over the next reporting periods.

(13) Investment property

Investment property comprises land or buildings, which are held in order to earn rentals or for capital appreciation or both, and which are not occupied by the Group or otherwise held for sale. Property held under operating lease is classified as investment property if, and only if, it meets the definition of an investment property.

Investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, to any difference in the nature, location or condition of the asset. The fair value of investment property is based on a valuation by an independent valuator who holds a recognised and relevant professional qualification and who has recent experience in the location and category of the investment property being valued. If this information is not available, the Group uses alternative valuation methods such as discounted cash flow projections. Changes in the fair value of investment property are recorded in the profit or loss as part of Operating income.

Revenue on sale of investment properties is recognised at sale as the difference between revaluation and acquisition cost as at the moment of sale.

(14) Inventory (included in Other assets)

Inventory includes movable assets, lands and buildings that have been acquired in the debt collecting process, for the purpose to hold them and sell in an ordinary course of business. Inventory is reported at the lower of cost or net realizable value. Net realizable value is a selling price during an ordinary course of business of the Group less selling expenses. Depreciation of Inventory is not calculated. Changes in value of Inventory are recognised in the statement of profit or loss. The value of Inventory is measured at least once per year. The inventory consists of properties taken over with an aim to sell them in the near future.

Realised gains and losses on sale of the properties taken over are recognised at sale as the difference between revaluation of inventory and acquisition cost as at the moment of sale.

(15) Leases - when the Group is a lessor

The income from operating lease is included in the profit or loss for the duration of the lease contract using the straight-line method and is recognised under item Operating income.

Lease income is recognized evenly over the term of the lease using the net investment method which reflects a constant periodic rate of return.

Assets under operating leases are recognised as property, plant and equipment at historical cost net of accumulated depreciation. The property, plant and equipment of the Group are used in its ordinary course of business.

NOTES TO FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

(15) Leases - when the Group is a lessor (continued)

Depreciation is calculated on a straight-line basis over the estimated useful life of property, plant and equipment to write off the cost of each asset to its estimated residual value that is determined based on useful lives of similar assets of the Group.

(16) Corporate income tax

Corporate income tax for the reporting period is included in the financial statements based on the management's calculations prepared in accordance with tax legislation of the Republic of Latvia.

The tax rate of corporate income tax in the end of reporting period is 15%.

Deferred tax is provided in full, using liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The deferred tax is calculated based on currently enacted tax rates that are expected to apply when the temporary differences reverse. The principal temporary differences arise from different fixed asset depreciation rates, revaluation of investment properties, as well as tax losses carried forward.

Where an overall deferred taxation asset arises, it is only recognised in the financial statements where it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(17) Due from other credit institutions and the State Treasury

Item *Due from other credit institutions and the State Treasury* comprises cash and demand deposits with the Bank of Latvia and other credit institutions with original maturity of 3 months or less (See Note 34) and demand deposits with the Bank of Latvia and other credit institutions with original maturity of more than 3 months.

(18) Provisions

The Group utilises off-balance sheet financial instruments that include commitments to grant loans and commercial letters of credit. Such financial transactions are recorded in the financial statements as of the respective agreement dates.

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the income statement net of any reimbursement.

(19) Vacation reserve

Provisions for employee leaves are recognised on an accrual basis.

The volume of provisions for leaves is calculated, based on the number of leave days earned but unused by the staff members of the Group, and following the principles listed below:

- provisions are built for payment for all unused leave days of staff members;
- the value of one unused leave day is defined as the staff members' average salary per day at the end of the reporting year, plus the appropriate compulsory social insurance contributions;
- movements in provisions are recognised in the profit or loss.

(20) Employee benefits

The Group pays social security contributions for state pension insurance and to the state funded pension scheme in accordance with Latvian legislation. State funded pension scheme is a defined contribution plan under which the Group pays fixed contributions determined by the law and has no legal or constructive obligations to pay further contributions if the state pension insurance system or state funded pension scheme are not able to settle their liabilities to employees. The social security contributions are recognised as an expense on an accrual basis and are included within staff costs.

(21) Financial guarantees

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument.

NOTES TO FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

(21) Financial guarantees (continued)

The Group accounts for the guarantee commissions received in deferred income, to the extent they relate to prepayment for upcoming 12-18 months, and linearly recognizes the income in profit or loss (estimated to reflect the Effective Interest rate (EIR) amortisation). The difference between the present value of total commissions receivable for the guarantee and market price of those commissions, is recognised as a loss in profit or loss on the day of guarantee issuance, and as provisions for onerous contracts in the statement of financial position. Subsequently, the financial guarantees are measured at the higher of the amount determined in accordance with IAS 37 and the amount initially recognised less cumulative amortisation, on a straight line basis over the life of the guarantee.

Under IAS 37, the best estimate of expenditure required to settle the commitment at a balance sheet date is stated as provisions for financial guarantees and is determined in full, when reliable information is obtained about a necessity to settle particular assumed liabilities (for instance, a request to cover an issued guarantee is received).

(22) State aid

The Group implements the state aid programmes by pursuing the government's policy in the national economy and supporting specific branches of the national economy where the market instruments fail to provide the required accessibility of funds or where aims crucial for development of the economy are not attained.

The funding of the state aid programmes may be comprised of (i) the following public funding sources –European Union funds, other foreign financial aid, funding from the state budget as well as (ii) own funds of the very implementing body. The conditions for use of the public funding of each state aid programme, including covering of the management expenses and credit risk losses, are stipulated by agreement between the implementing body and line ministry and/or state-owned Central Finance and Contracting Agency. According to IAS 20 this type of state aid granted to the implementing body of the state aid programme is treated as a government grant. When the public funding for implementation of the state aid programmes is given with an interest rate below the effective market rate, the effect of such favourable interest rate is treated by IAS 20 as additional government assistance.

The financing received in order to implement the programs, e.g. by issuing loans to SMEs, is interest free. In accordance with IFRS, when a financial liability is recognised initially, it shall be measured at fair value plus, in the case of a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the issue of the financial liability. Therefore, financing received from the government is discounted using a prevailing market interest rate. The difference between the fair value of the liability and the proceeds received is considered to be a government grant according to IAS 20.

The Group recognises the state aid when there is reasonable assurance of receipt of the government grant and compliance with all the related conditions. According to IAS 20.12 the government grants are recognised on a systematic basis as income over the period necessary to match them with the related costs, for which they are intended to compensate. The Group receives government grants provided it complies with all the grant related conditions and obligations. For this reason the grants are recognised in income and matched with the related expenses for which they are intended to compensate. Thus the Group applies the income method to the recognition of the government grants. The government grants related to assets are carried as deferred income and recognised in income in equal amounts over the useful life of the asset. The additional government assistance of the favourable interest rate is recognised as income during implementation of the state aid programmes.

(23) Critical accounting estimates and judgements

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

NOTES TO FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

(23) Critical accounting estimates and judgements (continued)

The estimates and assumptions are evaluated regularly and are based on the historic experience and other factors, including expectations of future events that are believed to be reasonable under the current circumstances. Such estimates are made below:

- ***Impairment losses of loans and advances.*** In order to assess impairment allowance, the management needs to make assumptions regarding the estimated cash flows and their timing related to loans. Significant estimates need to be made in relation to value of the collateral of the loans and advances. The assessment of the collateral includes the amounts of such impairment losses covered by support programme funding provided by state, see Note 28. The management has not significantly changed the estimates made during the prior period. Further details disclosed in Note 19;
- ***Impairment losses of investments in venture capital funds.*** The Group's management checks regularly that the value of the underlying investments of the venture capital funds is properly reflected. If the information about investments' evaluation is not sufficient or does not confirm the value, the management needs to make assumptions about the value impairment of venture capital funds. The management has not significantly changed the estimates made during the prior period. Further details disclosed in Note 18.
- ***Impairment of non-financial assets.*** The Group has evaluated its non-financial assets, such as property, plant and equipment and other assets (hereinafter referred to as the Group of assets), for impairment, which is not within the scope of IAS 39. The management has assessed the need for impairment by comparing the fair value less cost to sell to the carrying value of the group of assets, except for certain Property, plant and equipment which will not be used in the Group's operations and have been impaired as disclosed in Notes 2 (12), (21), (22). More information on the value of property, plant and equipment and intangible assets is disclosed in Note 22 and Note 21.
- ***Impairment allowance for securities held to maturity and available for sale.*** The Group performs credit risk evaluation of the issuer of securities on a regular basis for a timely identification of eventual loss events, which might occur due to issuer's default. The Group uses the following criteria for evaluation of quality of securities and building of provisions:
    - changes in credit risk of the issuer of securities since the moment of financial asset procurement, upon evaluation of changes in internal or external international credit ratings;
    - changes in the fair value of the respective security and potential losses, if the respective security would be sold at a market price on a regulated market;
    - changes in estimated future cash flow and date of maturity due to late payments (except for cases when delays were caused by payment system errors) or due to negative changes in creditworthiness of the issuer, bankruptcy, liquidation or reorganization of the issuer.

Such judgments are outlined below:

- Revaluation of investment properties. The Group carries its investment properties at fair value, with changes in fair value being recognised in the statement of profit or loss. The Group engaged an independent valuation specialist to assess fair value as at 31 December 2016 for investment properties. For investment properties, a valuation methodology based on a discounted cash flow (DCF) model was used, as there is a lack of comparable market data because of the nature of the properties. In addition, it measures the office property at revalued amounts, with changes in fair value being recognised in the statement of profit or loss. The office property was valued by reference to transactions involving properties of a similar nature, location and condition. More information is provided in Notes 2 (13) and 15.
- ***Classification of venture capital funds.*** The Group considers that it does not control the venture capital funds even though it owns more than 50% in majority of the funds. Instead, it has been concluded that the Group has significant influence over venture capital funds and therefore investments in venture capital funds are classified as associates and are measured at cost, less impairment, in the separate financial statements of the Group. The

NOTES TO FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

(23) Critical accounting estimates and judgements (continued)

- Group has invested in several venture capital funds having ownerships of 20% and 33% in two of the funds and 64%- 100% in rest of them (for more details, please see Note 18). The main reason for the Group to invest in these funds is to implement a public funding function imposed by the government. Despite the high direct investments and ownership above 50% in most of the funds, Group's ability to exercise its power over the venture capital funds is limited by the terms of the agreements signed between Group and the fund managers. Group is forbidden to take part in the management of the Funds' businesses. However, Group's representatives are present in different bodies of the funds (e.g. Advisory Board, Investment Committee, etc.) granting it a right to approve or reject certain limited transactions and advising the fund manager. Group doesn't control the funds, but can exercise significant influence over them. Group is obliged to implement the Investment Fund in line with the business plan and agreement signed with the State. Group has to monitor the implementation of financing instruments, select financial intermediaries according to legal acts and aim to increase the amount of Investment Fund. The Group could stop the cooperation with the fund managers only in cases when the fund managers cease their operations or illegal actions would be discovered. Under these circumstances, the funds in question would be closed - the liquidation process would be initiated, no new investments would be made or a search for a new fund manager would be initiated through public tender. The selection of a fund manager for implementation of the state aid programmes requires following the legislation on public tenders, as would the change of fund managers. According to the law, the replacement of the fund manager can occur only as a result of reorganization and selection procedure is costly and time-consuming. The disruption of the cooperation with the fund manager would put under threat the implementation of State and EU support programs which is the main goal of the Group given it is a finance development institution. The Group's management considers that the monetary amounts required to change the fund manager are material and substantial (the estimated expenses and penalties for fund manager removal would range from 2.6% to 5.9% of the net investment in the fund) and along with the abovementioned circumstances constitute an obstacle to exercising its power over the venture capital funds.

- ***Deferred tax asset.*** Deferred tax assets are recognized in respect to tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Judgement is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. For further details please see Note 13.

- ***Agent vs Principal.*** For majority of state aid programs, the Group acts as a *Principal.* The management of the Group believes that the Group is a *Principal* since the loan agreements concluded with the clients entail contractual rights to loan repayments from the borrowers or other beneficiaries of the investments. Moreover, the loan agreements are concluded for full amount of the loan and granted loans are carried as assets in the Group's statement of financial positon. The investments made comply with a definition of an asset. The Group is responsible for providing of the service and can affect the interest rate. However, some programmes have been imposed with a limit on the interest rates that cannot be exceeded.

  The Group believes that the Group is a *Principal* also for state aid programs, which are based on guarantee products.

  The Group recognises its expenses due to impairment of the loans, guarantees or venture capital funds in profit or loss for the portion of impairment that refers to the Group (ranging from 20% to 100%). The portion of losses that the government reimburses by decreasing the amount of the loan repayable to the government, does not affect the Group's profit or loss as the loan received from the government is debited.

  In *Loan Fund Programe*, as well as in some *Fund of funds'* and *Energy Efficiency Programe's of Multi-apartment Buildings* activities, the Group acts as an *Agent.* In this case the Group is an intermediator and no material risk is borne.

  The interest income received on the loans issued from *above mentioned activities and programs* includes the amounts collected on behalf of and for the benefit of other entities that do not increase the equity capital of the

NOTES TO FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

(23) Critical accounting estimates and judgements (continued)

Group and therefore cannot be considered as the Group's income. For this reason, the Group carries as income only that part of the financial resources of the Loan Fund that is used to cover the management costs of the Loan Fund and this amount is included in the profit or loss calculation.

- ***Below market rate loans.*** The Group implements the state aid programs by pursuing the government's policy in the national economy and supporting small and medium sized entities (SMEs). The funding of the state aid programs may be comprised of the following public funding sources – (i) European Union funds, other foreign financial aid, funding from the state budget as well as (ii) own funds of the very implementing body. The financing received for implementation of the programs, i.e. for issuing loans to SMEs, is interest free. When the public funding for implementation of the state aid programmes is given with an interest rate below the effective market rate, the effect of such favourable interest rate, i.e. the difference between the fair value of the liability and proceeds received is treated as income-generating government grant.

  Although a fraction of the public funding of some of the state aid programmes implemented by Group may include the state budget funds and funds from Group's shareholders, this type of the government grant is not treated as a shareholder's equity contribution since the amount of the public funding earmarked for implementation of the specific state aid programme is received *in the capacity of the implementing body of the specific state aid programme chosen as a result of public selection* and not in the capacity of entity implementing the assignment or instructions of its shareholder.
  For more details on the accounting policy applied, see Note 2 (22). Further details on guarantees are disclosed in Notes 12, 18, 33.

  The funding received from the state can be classified into three categories – equity financing (guarantees, see Notes 2 (22), 12, 18, 33, loans (Notes 27, 28) and grants (state aid, Note 28).

- ***Below market rate guarantees.*** Up to mid-2016 the state aid programmes issuing guarantees to the economic operators of Latvia were implemented with the state aid funding invested in equity capital of Group. The guarantee programmes issue guarantees to Group clients at the rate that is below the currently effective market rate. The difference between the market rate and rate used in the guarantee agreements was covered by provisioning for onerous contracts, as required by IAS 37.

  In year 2016 two guarantee programmes whose funding was attracted through non-current liabilities were included in Group's portfolio of state aid programmes. As at 31 December 2016 such programmes were: the Guarantee Programme of the Fund of funds and sub-activity 2.2.1.4.2. *Mezzanine Loans and Guarantees for Improvement of Competitiveness of Economic Operators.*

  As of 8 June 2016 no provisions for onerous contracts are built for the *Guarantee Programme of the Fund of funds* as the principle of *Agent* is applied to the programme. With regard to this programme the Group functions as an intermediary and therefore assumes no risk.

  As of 31 October 2016, with regard to the sub-activity 2.2.1.4.2. *Mezzanine Loans and Guarantees for Improvement of Competitiveness of Economic Operators*, Group is entitled to use the funding attracted to implementation of the programme to cover the implementation-related losses once the funding has been absorbed. The funding may be used both for the losses having originated from the issued guarantees and expected losses on the new guarantees (IAS 37). As at 31 December 2016 the available funding amounted to 5,3 mln euros. Since the contract stipulates that the funding earmarked for covering of the losses can be used also for the credit risk, Group holds a view that the co-financing offsets the credit risk component in the calculation of the market rate by reducing it and that the funding may be used to build the required provisions for onerous contracts. The amount of the available funding is reduced at the moment when the credit risk manifests itself i.e. when the guarantee is written off as lost or disbursed.

- ***State aid*** Now, just as earlier, the implementing body of each state aid programme is identified as a result of selection of applicants. The management of each applicant, including also JSC Development Finance Institution Altum (or any of 3 companies existing before reorganisation and establishment of the Group –

NOTES TO FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

(23) Critical accounting estimates and judgements (continued)

state-owned JSC Latvian Development Finance Institution ALTUM, Ltd Latvian Guarantee Agency or state-owned JSC Rural Development Fund), decides to participate in the selection by signing and submitting on behalf of the respective company the project application and business plan for the selection of the implementing body of the specific state aid programme.

Although a fraction of the public funding of some of the state aid programmes implemented by Group may include the state budget funds and funds from Group's shareholders, could be any of the ministries through which the public funding of the specific state aid programme is channelled, this type of the government grant has never been/currently cannot be treated as a shareholder's equity contribution since the amount of the public funding earmarked for implementation of the specific state aid programme is received *in the capacity of the implementing body of the specific state aid programme chosen as a result of public selection* and not in the capacity of entity implementing the assignment or instructions of its shareholder.

- ***Expected losses on credit risk.*** State support programmes implemented by Group are designed according to the market gap to ensure access of enterprises and residentials to finance resources in areas that the government has defined as important and to be supported, fielding national policy in to the national economy or that access is not sufficient with available financial instruments in the market. Expected loss along with programme's impact, risk assessment, financial feasibility and implementation expenses are estimated prior to approval of respective programme at the Cabinet of Ministers.

  In assessment of expected loss for the programme the Group evaluates incorporated credit risk, operational risk and other risks like market risks. For coverage of the programme's expected loss on credit risk respective portion of public funding available for that programme is allocated at full or partial extent of total expected credit loss depending on the agreed programme's structure. That public funding part allocated for the coverage of programme's expected loss on credit risk is transferred to particular support programme reserve capital within the Group's Reserve capital, for example Reserve capital for Housing Cuarantee Programme (see Note 20), or accounted separately as provisions for risk coverage (Risk coverage reserve) classified within the liabilities (see Note 28).

  If public funding classified within Risk coverage reserve for coverage of particular programme's expected loss on credit risk exceeds actual credit loss incurred during the implementation of the programme, then respective excess portion of that public funding is repayable according to the terms of programme funding agreement.

  Support programme reserve capital concept has been implemented in 2015. However *Risk coverage reserve* concept has been implemented as of 2016. Accordingly comparatives for *Risk coverage reserve* have been disclosed as at 31 December 2016, without any reclassification effect on comparatives since included in *Support programme funding* position in the liabilities both as at 31 December 2016 and 31 December 2015.

(24) Assets held for sale

Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

The resulting profit or loss (after taxes) is recognized separately in the statement of comprehensive income.

NOTES TO FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

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

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Group as of 1 January 2016:

- **Amendments to IAS 1 Presentation of financial statements: Disclosure Initiative**

  The amendments aim at clarifying IAS 1 to address perceived impediments to preparers exercising their judgment in presenting their financial reports. The implementation of this amendment has no impact on the financial statements of the Group.

- **Amendments to IAS 16 Property, Plant & Equipment and IAS 38 Intangible assets: Clarification of Acceptable Methods of Depreciation and Amortization**

  The amendment provides additional guidance on how the depreciation or amortisation of property, plant and equipment and intangible assets should be calculated. It is clarified that a revenue-based method is not considered to be an appropriate manifestation of consumption. The implementation of this amendment has no impact on the financial statements of the Group, as the Group does not use revenue-based depreciation and amortisation methods.

- **Amendments to IAS 19 Employee Benefits**

  The amendment addresses accounting for the employee contributions to a defined benefit plan. The objective of the amendment is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. The implementation of this amendment has no impact on the financial statements of the Group.

- **Amendments to IAS 27 Equity method in separate financial statements**

  The amendments reinstate the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements. Management had not made use of this amendment.

- **Amendment to IFRS 11 Joint arrangements: Accounting for Acquisitions of Interests in Joint Operations**
  IFRS 11 addresses the accounting for interests in joint ventures and joint operations. The amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business in accordance with IFRS and specifies the appropriate accounting treatment for such acquisitions. The Group had no transactions in scope of this amendment.

- The IASB has issued the Annual Improvements to IFRSs 2010 – 2012 Cycle which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 February 2015. None of these had an effect on the Group's financial statements:
  - IFRS 2 Share-based Payment;
  - IFRS 3 Business Combinations;
    IFRS 8 Operating Segments;
  - IFRS 13 Fair value Measurement;
  - IAS 16 Property, Plant and Equipment;
  - IAS 24 Related Party Disclosures;
  - IAS 38 Intangible Assets.

NOTES TO FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

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

- The IASB has issued the Annual Improvements to IFRSs 2012 – 2014 Cycle, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2016. None of these had an effect on the Group's financial statements:
    - IFRS 7 Financial Instruments: Disclosures;
    - IAS 19 Employee Benefits;
    - IAS 34 Interim Financial Reporting.

  The implementation of the following amendment has no significant impact on the financial statements of the Group.
    - IFRS 5 Non-current Assets Held for Sale and Discontinued Operation

Standards issued but not yet effective

The Group has not applied the following IFRS and IFRIC interpretations that have been issued as of the date of authorization of these financial statements for issue, but which are not yet effective:

IFRS 9 Financial Instruments (effective for financial years beginning on or after 01.01.2018)

IFRS 9 replaces IAS 39 and introduces new requirements for classification and measurement, impairment and hedge accounting. The Group plans to adopt the new standard on the required effective date. During 2016, the Group has performed preliminary assessment of IFRS 9 to the Group's assets and liabilities classifications. The Group expects that IFRS 9 implementation will not have a significant impact on classification of financial assets and financial liabilities in the separate financial statements of Altum.

The Group expects a higher loss allowance resulting in a negative impact on equity and will perform a detailed assessment in the future to determine the extent.
Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory.

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

IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer, regardless of the type of revenue transaction or the industry. Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates.
During 2016, the Group performed a preliminary assessment of IFRS 15. IFRS 15 implementation is not expected to have a significant impact on the recognition and measurement principles of Group revenue as Group has no bundled packages falling under the scope of IFRS 15. Neither the requirements for extensive disclosures is expected to have a significant impact on the financial statements as these refer mostly to disaggregation of contracts and principles applied to allocation of the transaction price.

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

The objective of the Clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15 Revenue from Contracts with Customers, particularly the accounting of identifying performance obligations amending the wording of the "separately identifiable" principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The Clarifications also provide additional

NOTES TO FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

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

practical expedients for entities that either apply IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach. The implementation of the following amendment is not expected to have a significant impact on the financial statements of the Group.

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

IFRS 16 replaces IAS 17 and specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessor accounting is substantially unchanged. Management has not assessed impact of this amendment on the financial statements of the Group.

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)

The amendments improve information provided to users of financial statements about an entity's financing activities. Entities are required to disclose changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes, for example, by providing reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities. The implementation of these amendments will not have any impact on the financial position or performance of the Group but may result in changes in disclosures.

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)

The amendments clarify how to account for deferred tax assets for unrealized losses on debt instruments measured at fair value. The Group has not yet evaluated the impact of the implementation of this standard.

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)

The Amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications 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 has not yet evaluated the impact of the implementation of this standard.

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.)

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business and partial gain or loss is recognised when a transaction involves assets that do not constitute a business. The Group has not yet evaluated the impact of the implementation of this standard.

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

The Amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The Amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The implementation of the following amendment will have no impact on the financial statements of the Group.

NOTES TO FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

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

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)

The Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The implementation of the following amendment will have no impact on the financial statements of the Group.

The IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2017 for IFRS 12 Disclosure of Interests in Other Entities and on or after 1 January 2018 for IFRS 1 First-time Adoption of International Financial Reporting Standards and for IAS 28 Investments in Associates and Joint Ventures. Earlier application is permitted for IAS 28 Investments in Associates and Joint Ventures. These annual improvements have not yet been endorsed by the EU. Management has assessed that there will no significant impact of the Annual Improvements on the Group's financial statements.

- **IFRS 1 First-time Adoption of International Financial Reporting Standards**: This improvement deletes the short-term exemptions regarding disclosures about financial instruments, employee benefits and investment entities, applicable for first time adopters.
- **IAS 28 Investments in Associates and Joint Ventures:** The amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.
- **IFRS 12 Disclosure of Interests in Other Entities:** The amendments clarify that the disclosure requirements in IFRS 12, other than those of summarized financial information for subsidiaries, joint ventures and associates, apply to an entity's interest in a subsidiary, a joint venture or an associate that is classified as held for sale, as held for distribution, or as discontinued operations in accordance with IFRS 5.

The Group plans to adopt the above mentioned standards and interpretations on their effectiveness date provided they are endorsed by the EU.

(26) Changes and restatement for errors in comparative indicators

A recurrent analysis of the venture capital funds' investments revealed that the values of two venture capital funds – Baltic Innovation Fund and limited partnership BaltCap Latvia Venture Capital Fund – established in the Group's reports for years 2014 and 2015 using the equity method included investment values measured at fair value that didn't comply with the Group's methodology for accounting for venture capital fund investments. Also due diligence, assessment and calculations were performed to adjust the figures from the financial statements of the venture capital funds to IFRS reporting standards.

Alongside reviewing of the aforementioned values, also the impairment measurement of the venture capital funds was reviewed. The reviewed measurement proves that the venture capital funds are not impaired and no provisioning is needed.

Impact from incorrect accounting methods was corrected retrospectively resulting in changes to the figures of balances/turnover in the report of the previous reporting period.

NOTES TO FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

(26) Changes and restatement for errors in comparative indicators (continued)

Details about the adjustments made are available below:

	Notes	Balance 31/12/2014 before restatement (EUR, thsd)	Restatement (EUR, thsd)	Restated balance as at 31/12/2014 (EUR, thsd)
Items restated in Financial Position Statement:				
Investments in venture capital funds	Note 18 – correction due to the fact that the values of two venture capital funds – Baltic Innovation Fund and limited partnership BaltCap Latvia Venture Capital Fund – presented using equity method included investment values measured at fair value that didn't comply with the Group's methodology for accounting for venture capital fund investments. Also due diligence, assessment and calculations were performed to adjust the reports of the venture capital funds to IFRS reporting standards.	25,342	(704)	24,638
Reserve capital	Note 20 – an arithmetical error occurred due to reversal of 687 thsd euros of the provisions for venture capital funds and adjustment of 894 thsd euros for the methodology applied to the venture capital funds. Adjustment of the opening balances affected the balances for the situation as at 31/12/2015 (see the respective item below).	(17,429)	(207)	(17,636)
Retained earnings for the period		(2,222)	(497)	(2,719)

NOTES TO FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

(26) Changes and restatement for errors in comparative indicators (continued)

	Notes	Balance 01/01/2015 before restatement (EUR, thsd)	Restatement (EUR, thsd)	Restated balance as at 01/01/2015 (EUR, thsd)
Items restated in Financial Position Statement:				
Investments in venture capital funds	Note 18 – correction due to the fact that the values of two venture capital funds – Baltic Innovation Fund and limited partnership BaltCap Latvia Venture Capital Fund – presented using equity method included investment values measured at fair value that didn't comply with the Group's methodology for accounting for venture capital fund investments. Also due diligence, assessment and calculations were performed to adjust the reports of the venture capital funds to IFRS reporting standards.	25,342	(704)	24,638
Reserve capital	Note 20 – an arithmetical error occurred due to reversal of 687 thsd euros of the provisions for venture capital funds and adjustment of 894 thsd euros for the methodology applied to the venture capital funds. Adjustment of the opening balances affected the balances for the situation as at 31/12/2015 (see the respective item below).	(17,429)	(207)	(17,636)
Retained earnings for the period		(2,222)	(497)	(2,719)

NOTES TO FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

(26) Changes and restatement for errors in comparative indicators (continued)

	Notes	Balance 31/12/2015 before restatement (EUR, thsd)	Restatement (EUR, thsd)	Restated balance as at 31/12/2015 (EUR, thsd)
Items restated in Financial Position Statement:				
Investments in venture capital funds	Note 18 – correction due to the fact that the values of two venture capital funds – Baltic Innovation Fund and limited partnership BaltCap Latvia Venture Capital Fund – presented using equity method included investment values measured at fair value that didn't comply with the Group's methodology for accounting for venture capital fund investments. Also due diligence, assessment and calculations were performed to adjust the reports of the venture capital funds to IFRS reporting standards.	45,289	(5,361)	39,928
Provisions for venture capital funds	Note 18 – reversal of impairment recorded following correction on the valuation methodology and policy referred to above.	(3,154)	3,154	0
Support programme funding	Note 28 – correction due to restatement of the Holding Fund's liabilities for 2,113 thsd euros following the restatement of the provision amount of the investment in venture capital funds referred to above.	70,340	2,114	72,454
Reserve capital	Note 20 – correction due to restatement of the balances for the situation as at 01/01/2015 (see the respective item below).	(15,875)	(207)	(16,082)
Retained earnings		6,318	(4,113)	2,205

NOTES TO FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

(26) Changes and restatement for errors in comparative indicators (continued)

	Notes	Balance before restatement 2015	Restatement	Restated balance 2015
Impact of restatement in the Statement of Comprehensive income:				
Retained earnings for the period		8,540	(3,616)	4,924
Share of profit/ (loss) of investment in joint venture and associate	Impact from the equity method, Note 18, the new methodology explained in Note 2 (21).	1,543	(3,741)	(2,198)
Provisions for impairment, net	Changes to the item *Impairment Provisions*: - 125 thsd euros were reversed due to value impairment of the venture capital funds (see Note 18). Correction.	(5,148)	125	(5,023)

NOTES TO FINANCIAL STATEMENTS

3 RISK MANAGEMENT

For risk management, the Group has developed a risk management system that takes into account its size, structure and operational characteristics as well as restricted options for management of certain risks. The Group manages the risks affecting its operations in compliance with the risk management internal regulatory documents approved by the Group that detail and establish the aggregate of measures used in management of the risks inherent to its operations.

The following major risk management principles are followed:

- risk management is a component of every-day functions;
- the Group identifies and assesses the probable risks before launching of new products or services;
- while assuming the risks the companies forming the Group are capable of long-term pursuit of the delegated aims and assignments;
- the Group does not enter into transactions, operations, etc. entailing risks that endanger its operational stability or may result in substantial damage to its reputation.

In its risk management the Group makes use of various risk analysis methods and instruments as well as establishes risk limits and restrictions.

The major risks that the Group is exposed to are: credit, liquidity and operational risks.

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. Since the Group is delegated implementation of the state aid programmes, it is mainly exposed to credit risk through its lending, guarantees to the third parties and other off-balance liabilities towards the third parties. The Group is also subject to the credit risk due to its investment activities.

The key principle of credit risk management in the Group is the ability of the customers or cooperation partners to meet their liabilities towards the Group, which is achieved by assessment of the customer and co-operation partner prior to transaction, as well as further continuous monitoring and evaluation. The Group reduces its exposure to credit risk by securing a pledge or other collateral adequate to the risk transaction and provisions of the target programme.

Within the framework of credit risk management, the Group has set risk limits for transactions, which includes decision-making limits; in the event of significant risks being involved the decisions are made by credit committees or boards of directors of the companies.

The analysis of the assets and off-balance sheet liabilities subject to the credit risk is outlined in Note 37 to the financial statements.

Liquidity Risk

The liquidity risk entails the risk that the Group might fail to meet legally valid claims of its customers and other creditors in due time and that, in case of necessity, the resources might not be available to it on the market, and/or it might be unable to dispose of positions (for example, sell the assets) without considerable losses and in a short period of time.

The goal of liquidity risk management is to provide adequate liquidity in normal operating environment as well as stress situations without material expenses or losses. The Group maintains liquid assets sufficient for meeting its liabilities at all times.

The Group performs the term structure assessment of its assets and liabilities to evaluate the liquidity risk, as well as cash flow analysis whereby the volume of minimum required liquid assets is established.

Note 39 to the financial statements provides data on the Group's assets and liabilities by maturity profile.

NOTES TO FINANCIAL STATEMENTS

3 RISK MANAGEMENT (continued)

Operational Risk

The operational risk results from intentional or unintentional deviations from the standards adopted in daily operation of the Group, for example human mistake or fraud, malfunction of information systems, insufficient control procedures or their ignorance altogether, etc.

The goal of the operational risk management is timely identification of the potential operational risks and implementation of countermeasures to minimize the effect of operational risk on the Group's financials as much as possible and maintain the Group's operational continuity. The Group achieves the established goal via identification of operational risk causes and taking preventive and corrective measures to eliminate them.

Interest Risk

The interest rate risk is related to unfavourable impact of the changes of the market interest rates on the Company's interest income and economic value.

The management of the interest rate risk aims to measure and manage the interest rate risk ensuring that its impact on the Company's income and economic value is curbed as much as possible.

In order to measure the interest rate risk, the Company analyses regularly the interest rate risk-sensitive assets, liabilities and off-balance sheet items, their maturity structures and sensitivity to probable interest rate changes.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The management believes that the Group's exposure to foreign currency risk is not significant as the major part of transactions are made in euro. The Group manages its foreign currency risk by attracting financing and issuing financial instruments in euros.

NOTES TO FINANCIAL STATEMENTS

4 INTEREST INCOME

	01/01/2016 - 31/12/2016	01/01/2015 - 31/12/2015
- interest on balances due from credit institutions	47	142
- interest on loans and guarantees*	10,286	11,314
including on impaired loans (see Note 19)	*1,005*	*1 076*
- interest on securities at amortised cost	78	175
- interest on securities at fair value *	2,173	3,743
- other interest income**	-	3,236
	12,584	**18,610**

* Based on the Mezzanine and Guarantee Fund Activity Agreement concluded with the Ministry of Economics (agreement No 2011/16) in year 2016, the financing given by the Ministry of Economics must be increased by income of the Mezzanine and Guarantee Fund on placement of the free funds, interest income on the loans, premium income on the issued guarantees, commissions, contractual penalties, etc. As a result, the Group's sub-item *Interest income on loans and guarantees* is reduced by 646 thsd euros and sub-item *Interest income on securities at fair value* is reduced by 531 thsd euros.
** Item *Other interest income* includes state aid interest of EUR 3,192 thsd. In July 2015 the Group signed amendments to the agreement No 2DP/2.2.1.4/09/IPIA/EM/001/001 concluded with the Ministry of Economics concerning the updated investments of the parties in the Loan Fund. As a result, the amount of the state aid was recalculated for the Structural Funds' investments in the capital of the Group.
The information about state aid interest, which refers to 2016 year, is disclosed in Note 5. For more information see Note 2 (22) and 2 (23).

5 INTEREST EXPENSE

	01/01/2016 - 31/12/2016	01/01/2015 - 31/12/2015
Interest expense:		
- interest on balances due to credit institutions	314	479
- other interest expense*	1,393	1,863
	1,707	**2,342**

* Item *Other interest expense* includes the state aid interest of 1,060 thsd euros. The increase in state aid interest is connected with new state funding received in 2016. See Note 2 (22).

6 FEE AND COMMISSION INCOME

	01/01/2016 - 31/12/2016	01/01/2015 - 31/12/2015
Fee and commission income:		
- from lending activities	433	526
- other fee and commission income	13	177
	446	**703**

NOTES TO FINANCIAL STATEMENTS

7 FEE AND COMMISSION EXPENSE

	01/01/2016 - 31/12/2016	01/01/2015 - 31/12/2015
Fee and commission expense:		
- on venture capital fund management fee*	226	479
- on securities portfolio maintenance	59	51
- on administration of land programme	-	-
- other fee and commission expense**	14	22
	299	**552**

*As regards the Holding Fund Programme the expenses of the Group for the reporting period include management fees of the venture capital funds amounting to 2,066 thsd euros (2015: 1,323 thsd euros) of which 1,840 thsd euros (2015: 1,120 thsd euros) were reimbursed. The reimbursement scheme is stipulated by the new wording of the agreement No 2011/15 On Implementation of the Holding Fund dated December 23, 2015.
The management fee of 226 thsd euros includes the management fees of the first generation venture capital funds where the fee of the limited partnership *Otrais EKO fonds* accounts for 5 thsd euros and fee of the Baltic Innovation Fund - 221 thsd euros.
** Item *Other fee and commission expense* includes asset management fee of the financial intermediaries JSC SEB and JSC Swedbank. As regards the Holding Fund Programme the expenses of the Group for the reporting period include the management fees of 43 thsd euros (2015: 54 thsd euros) of the financial intermediaries JSC SEB and JSC Swedbank that, according to the agreement No 2011/15 On Implementation of the Holding Fund, were reimbursed for 30 thsd euros (2015: 41 thsd euros).
The management fee of the financial intermediaries amounting to 13 thsd euros is considered as non-eligible and non-reimbursable expense and recognised in the Group's profit or loss. See Note 2 (5) *i*.

8 NET TRADING INCOME

	01/01/2016 - 31/12/2016	01/01/2015 - 31/12/2015
Profit from sales of available for sale securities	-	1,120
Loss on currency exchange and trade and revaluation of other financial instruments, net	(203)	(137)
	(203)	**983**

9 OTHER INCOME

	01/01/2016 - 31/12/2016	01/01/2015 - 31/12/2015
Compensations*	2,324	906
Other operating income **	2,559	5,321
Income from property privatisation services	254	572
Income from investment property revaluation	29	-
Income from lease payments for operational leases ***	195	144
Income from compensation for loan provisions****	167	351
	5,528	**7,294**

* Compensations include the compensation for management expenses of state aid programs implemented by the Group in amount of EUR 2,324 thsd. Increase in received compensations during 2016 is connected with new state aid programs' realisation such as Fund of funds and Energy Efficiency Programme of Multi-apartment Buildings.
The compensation for management expenses includes personnel expenses of 1,733 thsd euros (Note 10) and administrative and other operating expenses of 591 thsd euros (Note 11).
Expenses in amount of EUR 1,583 thsd are compensated to the Group according to terms and budget of each particular programme.

NOTES TO FINANCIAL STATEMENTS

9 OTHER INCOME (continued)

** Item *Other operating income* includes income of 2,453 thsd euros from sale of properties taken over.
***A significant portion of the income from the premises' rentals is derived from the real estates of the Group that are recognized as property and equipment in this financial statement, whereas the only property that was classified as an investment property yielded insignificant rentals.
****This item also includes compensations of loan funds for the provisions of EUR 167 thsd (2015: EUR 351 thsd) built by the Group. In the reporting period the Group wrote off the loan principals of EUR 492 thsd euros (2015: 1,137 thsd euros) from the loan funds under its management of which only 26 thsd euros (2015: 351 thsd euros) were reimbursed.

10 STAFF COSTS

	01/01/2016 - 31/12/2016	01/01/2015 - 31/12/2015
Remuneration to the Council and the Board	268	224
Remuneration to staff	5,235	5,164
Social security contributions	1,279	1,291
	6,782	**6,679**

In year 2016, based on the implementation agreements of the state aid programmes concluded with the Responsible Institutions, the Group was compensated the personnel expenses of 1,733 thsd euros (Note 9).

During the reporting period the Group employed 242 employees on average (2015: 282).

11 ADMINISTRATIVE AND OTHER OPERATING EXPENSE

	01/01/2016 - 31/12/2016	01/01/2015 - 31/12/2015
Information system and communication expense	1,086	1,062
Expense of assets that have been taken over in the debt collection process	991	303
Premises and equipment maintenance expense	857	886
Other expense*	760	-
Revaluation of assets that have been taken over in the debt collection process**	612	402
Advertising and public relations	495	445
Professional services*	388	205
Training and other staff expense	243	339
Real estate tax	149	189
Conference expense	-	1,298
	5,581	**5,129**

* Largest amounts under item *Other expense*:

- 216 thsd euros related to the decision passed by Central Finance and Contracting Agency (CFCA) on repayment of non-eligible expenditure based on the report No OF/2013/1112/B5 (Report) of the European Anti-Fraud Office (OLAF).
  CFCA informed that it had received a report No OF/2013/1112/B5 (hereinafter – Report) from the European Anti-Fraud Office (hereinafter – OLAF). According to the Report, OLAF had investigated the project No VPD1/ERAF/CFLA/05/NP/2.4.3./0001/000001 Development of Venture Capital System (hereinafter – Project) under measure 2.4. Access to Finance for SMEs of 2004 – 2006 programming period. OLAF established that the venture capital fund *Otrais Eko fonds* (hereinafter the Fund) had made investments (co-financed within the framework of the Project by European Regional Development Fund) in the companies connected to the Board members of the Fund's manager (JSC *Eko investors*) resulting in a conflict of interest. Since the Fund's manager had entered a conflict of interests, as defined by Article 52 (2) of the Council Regulation No 1995/2006, due to investing in JSC *PET Baltija* and JSC *Eko Riga*, the ERDF co-financing of 216 thsd euros that the Fund had invested in JSC *PET Baltija* and JSC *Eko Riga* was considered non-eligible

NOTES TO FINANCIAL STATEMENTS

11 ADMINISTRATIVE AND OTHER OPERATING EXPENSE (continued)

expenditure. Based on Section 20 of the Cabinet of Ministers Regulations No 706 of June 30, 2009 *Procedure for Reporting Irregularities in Implementation of the Projects Financed by Structural Funds and Deciding on Usage of the Allotted Financing*, CFCA ordered the Group, having taken over the obligations of LGA, to repay the non-eligible expenditure by May 23, 2016.
The Group complied with the requirement and repaid the aforementioned amount.

- 254 thsd euros was VAT on sale of the Group's movable property where the Group lost its right to recover the property.

In year 2016, based on the implementation agreements of the state aid programmes concluded with the Responsible Institutions, the Group was compensated the administrative and other operating expenses of 591 thsd euros (Note 9).

** The accounting policy of the assets that have been taken over in the debt collection process is described in Note 2 (14).

12 IMPAIRMENT PROVISIONS, NET

	01/01/2016 - 31/12/2016	01/01/2015 - 31/12/2015 Restated
Provisions for impairment on:		
- loans	6,474	6,094
- other assets	635	6,968
- debt securities	24	-
- investments in venture capital funds	246	-
- guarantees	12,397	10,032
	19,776	**23,094**
Release of provisions for impairment on:		
- loans	(2,674)	(3,314)
- other assets	(3,168)	(195)
- debt securities	(481)	(4,769)
- guarantees	(12,957)	(8,208)
	(19,280)	**(16,486)**
Recovery of loans written off in previous periods	**(967)**	**(1,585)**
Total provisions for impairment	**(471)**	**5,023**

Item *Provisions for impairment* was restated for the previous period (see Note 2 (26)).

13 CORPORATE INCOME TAX

	01/01/2016 - 31/12/2016	01/01/2015 - 31/12/2015
Corporate income tax	-	-
Deferred tax	-	-
Total corporate income tax (income)	**-**	**-**

NOTES TO FINANCIAL STATEMENTS

13 CORPORATE INCOME TAX (continued)

	31/12/16	31/12/15
Income before tax	**2,170**	**4,924**
Theoretically calculated tax at a tax rate of 15%	326	739
Net income / expenses non-deductible for tax purposes	1,443	401
Change in unrecognized deferred tax asset	(1,769)	(1,140)
Tax (income) / expense for the year ended 31 December	**-**	**-**

Change in provisions for deferred tax assets:

	31/12/2016	31/12/2015
Deferred tax asset at the beginning of the reporting year	**-**	**253**
Change in deferred tax asset		(253)
Deferred tax asset at the end of the reporting year	**-**	**-**

Calculation of deferred tax:

	31/12/2016	31/12/2015
Deferred tax liabilities:	**(493)**	**(531)**
Temporary difference of depreciation of property, plant and equipment	(493)	(531)
Other temporary differences	-	-
Deferred tax assets:	**42,396**	**44,203**
Provision for employee holiday pay	56	48
Other temporary differences	1,468	1,697
Tax loss carried forward	40,872	42,458
Net deferred tax asset	41,903	43,672
Provisions for unrecognized deferred tax asset	(41,903)	(43,672)
Recognized deferred tax asset *	**-**	**-**

* Deferred tax asset was not fully recognized according to Note 2 (23).

The Group is not subject to special tax treatment.

Significant part of the accrued corporate income tax losses of ALTUM, LAF and LGA were taken over by the Group after the reorganization was completed . Deferred tax asset was not fully recognized in respect to tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. According to Latvian legislation, losses calculated for taxation purposes can be settled from future profits over an unlimited period of time. Tax losses available for the Group to be carried forward amount to 272,480 thsd euros.

NOTES TO FINANCIAL STATEMENTS

14 INVESTMENT SECURITIES

	31/12/2016	31/12/2015
Held to maturity		
Latvian Treasury bills and government bonds	459	439
Non-OECD government bonds	1,027	1,027
OECD corporate bonds	4,516	4,852
Total securities held to maturity	**6,002**	**6,318**
Impairment allowance	(4,471)	(4,777)
Net securities held to maturity	**1,531**	**1,541**
Available for sale		
Latvian Treasury bills and government bonds	64,294	88,002
Total securities available-for-sale	**64,294**	**88,002**
Total investment securities	**65,825**	**89,543**

When making investments in securities, the Group analyses the external credit ratings assigned to these financial institutions and entities and their financial and operational standing. Once funds are placed, the Group monitors the monetary financial institutions and follows the compliance of the imposed limits to the credit risk rating.

The following table provides the Group's debt securities profile by the assigned long-term credit ratings (*Moody`s Investors Service*) as at 31 December 2016:

	Available-for-sale	Held to maturity	Total net
A1 - A3			
Baa1 - Baa3	64,294	459	64,753
Below Baa3	-	1,027	1,027
Unrated	-	45	45
Total	**64,294**	**1,531**	**65,825**

The following table provides the Group's debt securities profile by the assigned long-term credit ratings (*Moody`s Investors Service*) as at 31 December 2015:

	Available-for-sale	Held to maturity	Total net
A1 - A3			
Baa1 - Baa3	88,002	439	88,441
Below Baa3	-	1,027	1,027
Unrated	-	75	75
Total	**88,002**	**1,541**	**89,543**

All securities are quoted. The average yield on debt securities was 3.59% as at 31 December 2016 (2015: 4%).

NOTES TO FINANCIAL STATEMENTS

15 INVESTMENT PROPERTY

	31/12/2016	31/12/2015
Carrying amount at the beginning of period	12,247	11,704
Acquired during the period*	3,704	991
Disposals during the financial period	(89)	-
Net gain from fair value adjustment	1,225	(448)
Carrying amount at the end of period	17,087	12,247

* The Land Fund was established on July 1, 2015. According to the Cabinet of Ministers decree dated March 11, 2015 the Group is the manager of the Land Fund.

The Law "On Land Privatisation in Rural Areas" stipulated establishment of the Land Fund. The Land Fund of Latvia is one of the tools used to ensure that agricultural land is preserved and used for agricultural purposes.

In year 2016 there were 74 (2015:39) properties purchased with a total area of 1,560 ha (2015: 560 ha) and total amount of the purchases amounted to EUR 3,704 thsd (2015: EUR 991 thsd).

One real estate object of the Land Fund was sold in the reporting period.

The Group provides complete information on the operational results and financial standing of the Land Fund.

The accounting policy for Investment properties is described in Note 2 (13).

16 DUE FROM OTHER CREDIT INSTITUTIONS AND TREASURY

	31/12/2016	31/12/2015
Due from credit institutions registered	2	8
in OECD countries	89,551	46,874
in Latvia and Treasury	89,553	46,882

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:

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

NOTES TO FINANCIAL STATEMENTS

16 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 31 December 2015:

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	-	-	8	-	-	-	-	-	**8**
Due from credit institutions registered in Latvia and Treasury	-	8,241	34,516	-	-	4,117	-	-	**46,874**
Total	**-**	**8,241**	**34,524**	**-**	**-**	**4,117**	**-**	**-**	**46,882**

As at 31 December 2016 the Group had accounts with 6 banks and Treasury of the Republic of Latvia.

The average interest rate on balances due from credit institutions was 0.07% as at 31 December 2016 (2015:0.029%).

For amount of cash and cash equivalents, please refer to Note 34.

17 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:

	31/12/2016			**31/12/2015**		
	Notional contract value	**Fair value**		**Notional contract value**	**Fair value**	
		Assets	**Liabilities**		**Assets**	**Liabilities**
Currency swaps	12,330	-	854	12,153	-	345
Total		**-**	**854**		**-**	**345**

The contract is inforce up to 6 March of 2017. In order to minimize the impact of the currency risk, a new currency forward contract has been concluded after 6 March of 2017.

18 INVESTMENTS IN VENTURE CAPITAL FUNDS

	31/12/2016	**31/12/2015 Restated**
Carrying amount at the beginning of period*	**39,929**	**24,639**
Invested	21,054	18,603
Refunded	(684)	(1,115)
Share of (loss) of investment in joint venture and associate *	(1,758)	(2,198)
Carrying amount at the end of period*	**58,541**	**39,929**
Impairment*	(245)	-
Net value at the end of period *	**58,296**	**39,929**

*Item *Investments in venture capital funds* was restated for the previous period (see Note 2 (26)).

NOTES TO FINANCIAL STATEMENTS

18 INVESTMENTS IN VENTURE CAPITAL FUNDS (continued)

The table below provides analytical information on the Group's investments into venture capital funds as at 31 December 2016:

	Opening balance, EUR, thsd	Investments/ refunds, EUR, thsd	Revaluation result, EUR, thsd	Closing balance, EUR, thsd
KS ZGI Fonds	38	-	(35)	3
KS Otrais Eko Fonds	1,057	(14)	(247)	796
KS Invento	-	-	-	-
KS Baltcap Latvia Venture Capital Fund	10,391	501	(1,331)	9,561
KS Imprimatur Capital Seed Fund	5,129	938	(507)	5,560
KS Imprimatur Capital Technology Venture Fund	2,861	200	(312)	2,749
KS Expansion Capital Fund	7,987	5,289	(54)	13,222
KS ZGI-3	4,025	4,436	337	8,798
KS Flycap Investment Fund	6,004	5,761	483	12,248
Baltic Innovation Fund	2,437	3,259	(92)	5,604
Total	**39,929**	**20,370**	**(1,758)**	**58,541**

The table below provides information on the value impairment of the venture capital funds in the reporting period:

	Closing gross value, EUR, thsd	Provisions for reporting period, EUR, thsd	Provisions for previous reporting period, EUR, thsd	Net value, EUR, thsd
KS ZGI Fonds	3	-	-	3
KS Otrais Eko Fonds	796	-	-	796
KS Invento	-	-	-	-
KS Baltcap Latvia Venture Capital Fund	9,561	-	-	9,561
KS Imprimatur Capital Seed Fund	5,560	-	-	5,560
KS Imprimatur Capital Technology Venture Fund	2,749	-	-	2,749
KS Expansion Capital Fund	13,222	(245)	-	12,977
KS ZGI-3	8,798	-	-	8,798
KS Flycap Investment Fund	12,248	-	-	12,248
Baltic Innovation Fund	5,604	-	-	5,604
Total	**58,541**	**(245)**	**-**	**58,296**

NOTES TO FINANCIAL STATEMENTS

18 INVESTMENTS IN VENTURE CAPITAL FUNDS (continued)

The table below provides restated analytical information on the Group's investments into venture capital funds as at 31 December 2015:

	Opening balance, EUR, thsd	Investments/ refunds, EUR, thsd	Revaluation result, EUR, thsd	Closing balance, EUR, thsd
KS ZGI Fonds	741	-	(703)	38
KS Otrais Eko Fonds	1,057	-	-	1,057
KS Invento	-	-	-	-
KS Baltcap Latvia Venture Capital Fund	9,180	2,680	(1,469)	10,391
KS Imprimatur Capital Seed Fund	4,744	844	(459)	5,129
KS Imprimatur Capital Technology Venture Fund	2,636	94	131	2,861
KS Expansion Capital Fund	2,777	5,014	196	7,987
KS ZGI-3	905	3,104	16	4,025
KS Flycap Investment Fund	1,659	4,201	144	6,004
Baltic Innovation Fund	940	1,551	(54)	2,437
			-	
Total	**24,639**	**17,488**	**(2,198)**	**39,929**

The table below provides restated information on the value impairment of the venture capital funds in the reporting period:

	Closing gross value, EUR, thsd	Provisions for reporting period, EUR, thsd	Provisions for previous reporting period, EUR, thsd	Net value, EUR, thsd
KS ZGI Fonds	38	-	-	38
KS Otrais Eko Fonds	1,057	-	-	1,057
KS Invento	-	-	-	-
KS Baltcap Latvia Venture Capital Fund	10,391	-	-	10,391
KS Imprimatur Capital Seed Fund	5,129	-	-	5,129
KS Imprimatur Capital Technology Venture Fund	2,861	-	-	2,861
KS Expansion Capital Fund	7,987	-	-	7,987
KS ZGI-3	4,025	-	-	4,025
KS Flycap Investment Fund	6,004	-	-	6,004
Baltic Innovation Fund	2,437	-	-	2,437
Total	**39,929**	**-**	**-**	**39,929**

Venture capital funds are classified as associates in these financial statements and their accounting policy is described in Note 2 (5). For judgments made in relation to classification of the investments as associates please see Note 2 (23).

The information about commitments to venture capital funds is presented in Note 33.

All venture capital funds, except Baltic Innovation Fund, are registered in Latvia. Baltic Innovation Fund is registered in Luxembourg.

NOTES TO FINANCIAL STATEMENTS

19 LOANS

The loan portfolio of the Group can be attributed to the following state aid activities:

- *State aid programmes' loans* - Group provides support by means of financial instruments, primarily – loans. Beneficiaries of the promotional programmes are entrepreneurs, primarily – SMEs and business start-ups. The main state aid programmes are:
  - *Start-up programme,*
  - *Microlending programme,*
  - *Microlending programme of small and medium enterprises (SME),*
  - *SME growth loans,*
  - *Programme for improvement of the competitiveness of businesses,*
  - *Working capital loans to farmers.*

  This loan portfolio's gross volume is EUR 156,843 thsd as at 31 December 2016 (2015: EUR 171,766 thsd.)

  On June 8, 2016 the Group signed a covenant with the Central Finance and Contracting Agency on implementation of the Fund of funds. The Group is an implementing body of the Fund of funds. Within the framework of the Fund of funds, on June 15, 2016, the following programmes were launched: Start-up Programme, Micro-lending Programme and Credit Guarantee Programme for Businesses. As at December 31, 2016 the gross loan portfolio of the programmes of the Fund of funds totalled 1,227 thsd euros.

  On September 28, 2016 the Group started to accepting the grant, loan and guarantee applications for the Energy Efficiency Programme of Multi-apartment Buildings. As at December 31, 2016 no loans were issued under the programme.
- *Loans for Acquisition of Land* – Under this activity, Group grants loans to rural entrepreneurs for acquisition of agricultural land. Funds for implementation of the programme according to the loan agreement concluded on 25 June 2012, the Group borrows from the State Treasury and further grants loans to aid beneficiaries. The gross value of the Land Acquisition loan portfolio is EUR 44,195 thsd as at 31 December 2016 (2015: EUR 32,649 thsd).
- *Loan Fund loans* - By 2013, the Loan Fund granted loans to rural entrepreneurs for agricultural, rural and fish-farming development investment projects via credit institutions. At present, no new loans are granted under the Loan Fund. The gross volume of the Loan Fund is EUR 2,950 thsd as at 31 December 2016 (2015: EUR 3,406 thsd).
- *Mezzanine loans* – Under the Mezzanine loan programme, Group grants loans subordinated to loans granted by commercial banks, to small and medium enterprises of Latvia. The gross volume of mezzanine loans is EUR 11,355 thsd as at 31 December 2016 (2015: EUR 9,213 thsd).
- *Loans to credit institutions for further lending to SMEs* – The Group's loan portfolio includes loans of EUR 727 thsd (2015: EUR 1,246 thsd), which are part of the Holding fund that the Group (before – LGA) took over from the European Investment Fund on 2 January 2012. Under this activity, Group granted loans to credit institutions and to non-bank lending companies for further commercial lending to small and medium enterprises by these credit institutions. Two credit institutions are involved in this programme – SEB and Swedbank, as well as two non-bank lending companies – JS Crand Gredit and JS Capitalia. No new loans are issued under this programme.
- *Other loans that didn't meet accepted programme criteria* – The Group took over the loan portfolio that had't been approved by Economic Ministry, this portfolio's gross volume is EUR 132 thsd as at 31 December 2016 (2015: EUR 282 thsd).

NOTES TO FINANCIAL STATEMENTS

19 LOANS (continued)

Loans by type of borrower:

	31/12/2016	31/12/2015
Private companies	188,245	187,902
Individuals	24,490	24,895
Financial institutions	3,655	4,572
Local governments	344	397
Public and religious institutions	172	218
Accrued interest	523	578
Total gross loans	**217,429**	**218,562**
Allowance for impairment loss	(16,179)	(17,044)
Total net loans	**201,250**	**201,518**

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

Granted loans by branches of economy:

	31/12/2016	31/12/2015
Agriculture and forestry	83,048	74,938
Manufacturing	47,104	47,956
Private individuals	24,490	24,895
Retail and wholesale	16,901	19,385
Other industries	14,871	14,508
Hotels and restaurants	7,653	9,044
Electricity, gas and water utilities	6,734	7,773
Transport, warehousing and communications	4,620	5,294
Real estate	4,310	6,532
Construction	3,818	3,285
Financial intermediation	2,443	3,363
Fishing	570	614
Municipal authorities	344	397
Accrued interest on loans	523	578
Total gross loans	**217,429**	**218,562**

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

	31/12/2016	31/12/2015
Number of customers	26	29
Total credit exposure of customers	43,740	52,338
Percentage of total gross portfolio of loans	20.0%	23.8%

NOTES TO FINANCIAL STATEMENTS

19 LOANS (continued)

Loans issued by the Group by type of impairment valuation:

	31/12/2016			31/12/2015		
	Individuals	**Companies**	**Total loans**	**Individuals**	**Companies**	**Total loans**
Individually assessed loans	6,728	145,964	152,692	6,841	148,631	155,472
Collectively assessed loans	17,821	46,916	64,737	18,137	44,953	63,090
Total gross loans	**24,549**	**192,880**	**217,429**	**24,978**	**193,584**	**218,562**
Allowance for impairment loss - individually assessed	(1,105)	(14,902)	(16,007)	(1,151)	(15,769)	(16,920)
Allowance for impairment loss - collectively assessed	(57)	(115)	(172)	(63)	(61)	(124)
Total net loans	**23,387**	**177,863**	**201,250**	**23,764**	**177,754**	**201,518**

Loans granted by the Group by their quality assessment:

	31/12/2016			31/12/2015		
	Individuals	**Companies**	**Total loans**	**Individuals**	**Companies**	**Total loans**
Neither past due nor impaired	19,839	137,487	157,326	19,534	135,688	155,222
Past due but not impaired	2,376	18,217	20,593	2,676	19,324	22,000
Impaired	2,334	37,176	39,510	2,768	38,572	41,340
Total loans	**24,549**	**192,880**	**217,429**	**24,978**	**193,584**	**218,562**
Allowance for impairment loss	(1,161)	(15,018)	(16,179)	(1,214)	(15,830)	(17,044)
Total net loans	**23,388**	**177,862**	**201,250**	**23,764**	**177,754**	**201,518**

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

	31/12/2016			31/12/2015		
	Individuals	**Companies**	**Total loans**	**Individuals**	**Companies**	**Total loans**
Past due up to 30 days	1,228	10,935	12,163	1,524	13,668	15,192
Past due 30 – 60 days	337	607	944	260	1,039	1,299
Past due 60 – 90 days	121	100	221	69	243	312
Past due over 90 days	690	6,575	7,265	823	4,374	5,197
Total gross loans	**2,376**	**18,217**	**20,593**	**2,676**	**19,324**	**22,000**

Movement in the Group's impairment allowance for loans:

	31/12/2016	**31/12/2015**
Provisions at the beginning of period	**17,044**	**23,695**
Impairment allowance increase	6,474	8,219
Impairment allowance decrease	(2,674)	(3,314)
Accrued interest (Note 4)	(1,005)	(1,076)
Write-off of loans	(3,660)	(10,480)
Provisions at the end of period	**16,179**	**17,044**

The calculation of loss on asset impairment that has occurred due to default on loan principal or interest payments or other events resulting in losses relies on collateral, including real estates and commercial pledges assessed at market value. The assessment is based on valuations performed by accredited independent valuer.

NOTES TO FINANCIAL STATEMENTS

19 LOANS (continued)

Information about value of collateral (based on fair value as at December 31, 2016) and position against net loan portfolio as at December 31, 2016 is provided below:

	31/12/2016	**31/12/2015**
Real estate	157,796	164,639
Movable property	25,702	22,507
Guarantees	450	216
Risk coverage of loan funds	3,105	1,276
Total collateral	**187,053**	**188,638**
Loan portfolio, gross	217,429	218,562
Provisions	(16,179)	(17,044)
Loan portfolio, net	201,250	201,518
Exposed	**7.05%**	**6.39%**

According to the Group's estimates as at December 31, 2016 the loan loss provisions should amount to 19,076 thsd euros (2015: 18,085 thsd euros), apart from the risk coverage amount which equals to 3,105 thsd euros (2015: 1,276 thsd. euros).

There is not net credit risk exposure of a single transaction and cannot be negative since when calculating the fair value of the collateral never exceeds the value of the risk transaction.

The average annual interest rate for the loan portfolio of the Group was 4.15% as at 31 December 2016 (2015: 4.22%).

20 RESERVE CAPITAL

On 11 September 2014, the equity shares of Latvian Guarantee Agency Ltd (LGA) and shares of JSC Rural Development Fund (RDF) and state-owned JSC Latvian Development Finance Institution ALTUM (ALTUM) were invested in the equity capital of the Group as investment in kind. The goal of the investment was merging RDF, LGA and ALTUM into a single aid providing institution. The value of the investment in kind was established based on valuation of subsidiaries as at 30 June 2014, carried out by independent certified valuators. For more information see Note 1 (1).

The movement of the Group's reserve after merging of LGA, RDF and ALTUM into the Group:

	Investment value	Difference, carried to Group's reserve **before adjustment**	Available for sale revaluation reserve (ASRR)	Difference, carried to Group's reserve **without ASRR before adjustment**	Difference, carried to Group's reserve **after restatement 31/12/2014 restated****
	1.	2.	3.	4.=2.-3.	5.
Latvian Guarantee Agency Ltd	111,417	7,093	9,378	(2,285)*	(17,260)*
JSC Rural Development Fund	12,850	916	-	916	916
JSC Latvian Development Finance Institution ALTUM	80,026	(57)	1,235	(1,292)	(1,292)
Total	**204,293**	**7,952**	**10,613**	**(2,661)**	**(17,636)**

The table below explains and justifies the changes made:

NOTES TO FINANCIAL STATEMENTS

20 RESERVE CAPITAL (continued)

The changes refer only to LGA reorganization reserve that was re-calculated due to change of the accounting methods for venture capital funds and guarantee fees.

*** Summary of changes:**

LGA difference recognized in the Group's reserve without ASRR	**(2,285)**
Impact from the previous accounting method for guarantee fees withdrawn	(4,007)
Restatements due to change of accounting method for venture capital funds**	(2,915)
Impact from the new guarantee fees' method	(7,747)
Impact from impairment of venture capital funds (Note 18)**	-
Other adjustments	(306)
LGA restated difference recognized in the Group's reserve without ASRR	**(17,260)**

** Items *Adjustments due to change of accounting method for venture capital funds* and *Impact from impairment of venture capital funds* were restated for the previous period (see Note 2 (26)).

See information about the Group's reserves movements below:

	Difference recognised in Group's reorganisation reserve, thsd EUR	Reserve capital for Housing Guarantee Programme*, thsd EUR	Reserve capital, thsd EUR	Reserve of available for sale investments, thsd EUR	Reserves, total thsr EUR
Reserves as at 01/01/2015	(17,636)*	-	-	10,613	**(7,023)**
Changes of reserve capital	(81)				**(81)**
Increase of reserve capital	-	1,635	-	-	**1,635**
Decrease of available for sale reserve (Note 35)	-	-	-	(1,988)	**(1,988)**
Reserves as at 31/12/2015	**(17,717)**	**1,635**	**-**	**8,625**	**(7,457)**
Changes of reserve capital	458	-	-	-	**458**
Distribution of 2015 year profit	-	-	1,829	-	**1,829**
Increase of reserve capital	-	5,560	-	-	**5,560**
Increase of available for sale reserve (Note 35)	-	-	-	467	**467**
Reserves as at 31/12/2016	**(17,259)**	**7,195**	**1,829**	**9,092**	**857**

*See more information in Note 2 (23).

NOTES TO FINANCIAL STATEMENTS

21 INTANGIBLE ASSETS

The following is included in the net book value of intangible assets:

	31/12/2016	31/12/2015
Computer software	168	123
Total intangible assets	**168**	**123**

The following table presents movements in the Group's net book value of intangible assets:

	31/12/2016	31/12/2015
Historical cost		
At the beginning of period	**5,766**	**5,703**
Additions	113	69
Disposals	(88)	(15)
As at 31 December	**5,791**	**5,757**
Accumulated amortisation		
At the beginning of period	**5,603**	**5,398**
Taken over as part of establishment of Group	-	-
Amortisation charge for the period	108	208
Disposals	(88)	(12)
As at 31 December	**5,623**	**5,594**
Impairment provision*		
At the beginning of period	**(40)**	**(152)**
Taken over as part of establishment of Group	-	-
Changes in provisions	40	112
As at 31 December	**-**	**(40)**
Net book value at the beginning of period	**123**	**153**
Net book value as at 31 December	**168**	**123**

* Impairment provision policy is described in Note 2 (12).

Fully depreciated assets

A number of assets that have been fully depreciated are still in active use by the Group. The total original cost value of these assets as at the end of the year was 5,525 thsd euros (2015: 4,368 thsd euros).

NOTES TO FINANCIAL STATEMENTS

22 PROPERTY, PLANT AND EQUIPMENT

The table below reflects changes in property, plant and equipment of the Group in the reporting period:

	Land and buildings	Vehicles	Office equipment*	Leasehold improvements	Total
Historical cost					
At the beginning of period	**5,520**	**994**	**7,826**	**380**	**14,720**
Additions	482	2	180	-	**664**
Disposals	-	(222)	(852)	-	**(1,074)**
Reclassified**	(1,872)	-	-	-	**(1,872)**
as at 31 December 2016	**4,130**	**774**	**7,154**	**380**	**12,438**
Accumulated depreciation					
At the beginning of period	**1,493**	**976**	**7,232**	**296**	**9,997**
Depreciation charge for the period	119	11	275	16	**421**
Disposals	(505)	(222)	(815)	-	**(1,542)**
as at 31 December 2016	**1,107**	**765**	**6,692**	**312**	**8,876**
Impairment provision					
At the beginning of period	**-**	**-**	**(34)**	**(61)**	**(95)**
Changes in provisions	-	-	30	10	**40**
as at 31 December 2016	**-**	**-**	(4)	(51)	**(55)**
Net book value at the beginning of period	**4,027**	**18**	**560**	**23**	**4,628**
Net book value as at 31 December 2016	**3,023**	**9**	**458**	**17**	**3,507**

*Office equipment includes such fixed assets categories as *Furniture and fittings* and *Computers and equipment*, Note 2 (11).

**The office building worth 1,367 thsd euros, situated at Elizabetes iela 41/43 in Rīga, has been excluded from the item *Land and Buildings* due to the change of the holding purpose of the building. On 1 November 2016 the building was reclassified as an asset held for sale. See Notes 2 (24) and 25.

NOTES TO FINANCIAL STATEMENTS

23 OTHER ASSETS

	31/12/16	31/12/15
Financial assets	11,271	24,730
Other assets (inventory)	3,113	6,896
Total other assets (gross)	**14,384**	**31,626**
Impairment provision for financial assets	(10,370)	(21,662)
Total other assets (net)	**4,014**	**9,964**

Item *Financial assets* includes the following assets generated by:

- disbursed guaranteed compensations amounting to EUR 2,713 thsd (2015: EUR 14,851 thsd) for which provisions of EUR 2,686 thsd (2015: EUR 13,983 thsd) were accumulated. In year 2016 the disbursed guarantees worth 9.3 mln euros that were disbursed for the closed period ended 2015.12.31. were written off as lost (as at 2015.12.31. the provisions for these guarantees amounted to 9.3 mln euros) resulting in a significant decrease of provisions;
- term deposits of EUR 7,648 thsd of JSC Latvijas Krājbanka (Savings Bank of Latvia) being in liquidation that were 100% provisioned for;
- financial assets of EUR 191 thsd (2015: EUR 46 thsd.) provisioned for EUR 26 thsd (2015: EUR 31 thsd). The financial assets include the payments made on behalf of clients, as stipulated by loan agreements.
- other financial assets of EUR 719 thsd (2015: EUR 2,185 thsd) provisioned for EUR 10 thsd (2015: EUR 0).

Other assets - assets, that have been taken over in the debt collection process for the purpose to hold them and sale in an ordinary course of business. Method of assets accountings described in Note 2 (14).

24 DEFERRED EXPENSE AND ACCRUED INCOME

	31/12/2016	31/12/2015
Deferred expense	413	572
Accrued income	1,646	989
Total	**2,059**	**1,561**

The largest amounts under the item *Deferred expenses* account management fees of 168 thousand euros paid in advance for the following venture capital funds: limited partnerships FlyCap Investment Fund, BaltCap Latvia Venture Capital Fund and ZGI 3 Fund.

Accrued income primarily consists of income from compensation for management expenses of state aid programs in amount of EUR 1,634 thsd.

25 ASSETS HELD FOR SALE

	31/12/16	31/12/15
Land and building	1,367	-
Total	**1,367**	**-**

In November 2016 the Group decided to reclassify the real estate situated at Elizabetes iela 41/43 in Rīga, from the item *Property, Plant and Equipment* to the item *Assets Held for Sale*. The reclassification was due to the change of the holding purpose of the asset, i.e. the sale process of the asset was started and expected to be completed within one year. For the purpose of transferring the asset to the item *Assets Held for Sale* the Group relied on the asset's book value effective on 1 November 2016.
The accounting method used for recording of the asset is outlined in Note 2 (24).

NOTES TO FINANCIAL STATEMENTS

26 DUE TO CREDIT INSTITUTIONS

	31/12/2016	31/12/2015
Due to credit institutions registered in OECD countries	56,195	67,166
Total	**56,195**	**67,166**

Credit institutions registered in OECD area include loans received by Group from the European Investment Bank (EIB) of EUR 56,195 thsd, where EUR 93 thsd are accrued interest expenses. As security for the loan the guarantee has been issued from the Ministry of Finance in amount of EUR 56,111 thsd (Note 37). This is parent guarantee issued on behalf of Group.

The average interest rate for Due to credit institutions as at 31 December 2016 was 0.33% (2015: 0.33%).

27 DUE TO GENERAL GOVERNMENTS

	31/12/2016	31/12/2015
Due to government entities	1,723	3,769
Loans received from Rural Support Service	12,990	12,979
Loans received from the Treasury	32,201	22,813
Total due to general governments	**46,914**	**39,561**

Item *Due to government entities* includes liabilities worth EUR 3,769 thsd that originated from reduction of capital of ERDFII and ESFII loan funds effected in year 2013 by ALTUM, whereby a share of public financing of ERDFII and ESFII was not repaid to the investors (state companies), although an agreement was reached with the investors about recording the amount outside the Financial Position Statement of *Liabilities due to government entities* obligations worth EUR 1,723 thsd (2015: EUR 3,769 thsd.), which originate from reduction of capital of ERDFII and ESFII loan funds effected in year 2013 by ALTUM, whereby a share of public financing of ERDFII and ESFII was not repaid to the investors (state companies), although, an agreement was reached with the investors about accounting that amount outside the Statement of financial position of ERDFII and ESFII loan funds, i.e. on the liabilities side of the ALTUM Statement of financial position.

Item *Loans from RSS* – in accordance with the Cabinet Regulation No 664 dated 20 July 2010 *Procedure for Administering and Supervising the State and European Union Aid for Agriculture, Rural and Fisheries Development through Establishment of the Loan Fund* and Financing Agreement dated 7 September 2010 concluded among the Ministry of Agriculture, Rural Support Service and ALTUM stipulating the provisions for establishment, operation and supervision of the Loan Fund, absorption of the funds and performance of the Business Plan and its purpose, ALTUM was granted 44, 711 thsd euros (7,114 thsd euros from the European Fisheries Fund (EFF); 37,596 thsd euros – European Agricultural Fund for Rural Development (EAFRD)) to transfer these resources of the Loan Fund to the eligible beneficiaries via financial intermediaries.
As at 31 December 2016, based on the requests for funds received from the Ministry of Agriculture, Group has repaid to the Rural Support Service 31,798 thsd euros, of which 11,855 thsd euros (EFF – 2,503 thsd euros; EAFRD – 9,352 thsd euros) are undisbursed funds and 19,943 thsd euros (EFF – 2,415 thsd euros; EAFRD – 17,528 thsd euros) are the principle amounts repaid by financial intermediaries.

The interest calculated on the granted loans since the start of the Loan Fund amounted to 283 thsd euros of which 206 thsd euros were paid to the Rural Support Service in 2013.

As at the end of year 2016 Group liabilities towards RSS consist of the principal amount of 12,913 thsd euros and accrued interest – 77 thsd euros.

The granted financing is to be repaid by 31 December 2030.

Loans received from the Treasury of Latvia includes the loan of 32,201 thsd euros received by the LAF for implementation of land acquisition programmes. In compliance with Articles 9 and 13 of the Cabinet regulation No 381 "Procedure of granting state aid for procurement of agricultural land for producing agricultural produce" of 29 May 2012, the Republic of Latvia and LAF concluded loan agreement *No A1/1/F12/296* and the State Treasury on 25 June 2012.
The Group has granted 1,018 loans (2015: 725 loans) of 44,195 thsd euros as at 31 December 2016 (2015: 32,649 thsd euros). These assets are pledged. The claim amount is 32,201 thsd euros. More information see Note 37.

NOTES TO FINANCIAL STATEMENTS

28 SUPPORT PROGRAMME FUNDING AND STATE AID

	31/12/2016	31/12/2015 Restated
Support programme funding	**96,822**	**56,288**
State aid	**6,849**	**16,166**

Support programme funding is considered a liability of the Group while state aid is a grant. The major state aid programmes benefiting from the received financing are:

- Fund of funds – 29,638 thsd euros;
- Energy Efficiency Programme of Multi-apartment Buildings (EEPMB) – 5,563 thsd euros;
- ERDFII – 25,746 thsd euros;
- ESFII – 9,466 thsd euros;
- Holding Fund – 11,479 thsd euros;
- Other support programmes finance – 14,931 thsd euros.

The terms for use of the public funding of each state aid programme, including covering of the management expenses and credit risk losses, are stipulated by agreement between the implementing body and line ministry and/or state-owned Central Finance and Contracting Agency. See Note 2 (22).

The support programme funding is provided with zero interest rate.

The repayment terms for the co-financing received by ALTUM and LGA for implementation of largest state aid programs are presented below:

- Fund of funds – till the end of 2029
- Programme for improving energy efficiency in multi-apartment residential buildings – till the end of 2034;
- ERAFII – till the end of 2020;
- ESFII – till the end of 2020;
- Investment fund – till the end of 2026.

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 FINANCIAL STATEMENTS

28 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 31 December 2015:

Programme	Programme funding, thsd EUR	Programme's loan portfolio thsd EUR	Credit riks cover %	Credit risk cover on 31/12/2015, thsd EUR
ERDFII	40,233	17,569	66%	11,596
ESF II	6,564	7,787	80%	6,229
Microcredits of Swiss programme	7,495	3,154	80%	2,523
ERAF I	1,604	2,392	50%	1,196
ESF I	941	412	90%	371
Microcredits	624	23	80%	18
ERAF II (second round)	5,151	6,576	68%	4,472
Incubators (from ESF II)	1,962	204	100%	1,962
ERAF II 2 Public fund	28,124	2,195	100%	2,195
Investment Fund Activity	10,521	-	96%	10,100
Risk Coverage Reserve	**103,219**			**40,662**

Based on the concluded programme implementation contracts, the received funding could be reduced for the principal amount of the outstanding obligations of the loans classified as lost and / or disbursements of guarantee compensations. The Group does not have to repay the reductions of funding to the provider of funding. See more information in Note 2 (23).

Item *Support programme funding* was restated for the previous reporting period (see Note 2 (26)).

29 PROVISIONS

	31/12/2016	31/12/2015
Provisions for:		
Loan guarantees to rural entrepreneurs for agricultural	827	1,057
Guarantees *under the Mezzanine loan programme*	402	750
Guarantee activity	2,553	2,645
Housing Guarantee Programme	41	323
Other guarantee programmes	4,022	3,742
Provision (onerous contracts)	9,019	8,810
	16,864	**17,327**

Provision (onerous contracts) includes the loss from the concession which is the discounted difference between total of actual receivable commissions and total of commissions under market rate. Onerous contracts relate to issued guarantees which are measured at fair value based on equivalent market rates at initial recognition. The difference between market rate and spot rate of guarantee commissions under onerous contracts amounts of EUR 6,194 for the current period included in Provision (onerous contracts) above. For accounting treatment see Note 2 (21).

Guarantee gross and net amounts

	31/12/2016	31/12/2015
Maximum exposure to credit for off balance sheet amount (Note 33)	147,175	131,120
Provisions for guarantees	(7,845)	(8,517)
Off-balance sheet amount of guarantee	**139,330**	**122,603**

NOTES TO FINANCIAL STATEMENTS

29 PROVISIONS (continued)

Movement in Company's provisions for guarantees:

	31/12/16	31/12/15
Provisions at the beginning of period	**8,517**	**-**
Acquired through company's reorganisation	-	**7 152**
Impairment allowance increase	5,310	5 804
Impairment allowance decrease	(5,987)	(4,438)
Currency change	5	(1)
Provisions at the end of period*	**7,845**	**8,517**

*According to the Company's estimates as at December 31, 2016 the guarantee provisions should amount to 10,557 thsd euros, apart from the risk coverage amount which equals to 1,218 thsd euros (2015: 0 euros).

The guarantee provisions are measured at the highest of the unamortised amount and impairment amount which amounts to 7,845 thsd euros as at 31 Dec 2016.

Movement in Company's provisions (*onerous contracts*) for guarantees:

	31/12/16	31/12/15
Provisions at the beginning of period	**8,810**	**-**
Acquired through company's reorganisation	-	**8,546**
Impairment allowance increase	7,178	2,553
Impairment allowance decrease	(6,969)	(2,289)
Provisions at the end of period	**9,019**	**8,810**

Guarantee gross and net amounts

	31/12/16	31/12/15
Maximum exposure to credit for off balance sheet amount (Note 33)	147,175	131,120
Provisions for guarantees	(7,845)	(8,517)
Off-balance sheet amount of guarantee	**139,330**	**122,603**

For information on amounts and categories of guarantees see Note 33. For information on the method for guarantee accounting see Note 2 (21).

30 OTHER LIABILITIES

	31/12/2016	31/12/2015
Due to customers of the Group	2,945	3,233
Other liabilities	3,614	5,558
	6,559	**8,791**

Item *Due to customers of the Group* includes current liabilities connected with privatization processes and other liabilities.

Item *Other liabilities* includes funds received from clients to be used for repayment of the loans at a later stage.

NOTES TO FINANCIAL STATEMENTS

31 DEFERRED INCOME AND ACCRUED EXPENSE

	31/12/2016	31/12/2015
Deferred income	777	604
Accrued expense	1,198	1,060
Total	**1,975**	**1,664**

The item *Accrued expenses* includes the accrued expenses for the bonuses of the Group's employees and Board amounting to 444 thsd euros (including the social tax), expenses for audit services amounting to 11 thsd euros and other expenditure related to the economic activities of the Group.

32 SHARE CAPITAL

The share capital of the Group:

	31/12/2016		31/12/2015	
	Quantity	EUR	Quantity	EUR
Fully paid share capital				
Ordinary shares	204,862,332	204,862,332	204,862,332	204,862,332
Total fully paid share capital	**204,862,332**	**204,862,332**	**204,862,332**	**204,862,332**

The Group (the parent company of the Group) was established based on the decision of the Cabinet dated 17 December 2013. The Group was registered with the Commercial Register on 27 December 2013 with the share capital amounting to LVL 400,130 thsd which corresponded to EUR 569,334 thsd.

A capital increase was made on 11 September 2014 by investing the equity shares of Latvian Guarantee Agency Ltd, SJSC Latvian Development Finance Institution ALTUM and SJSC Rural Development Fund. The amount of share capital after its increase was EUR 204,862,333. The face value of each share is EUR 1.

All the shares of JSC Development Finance Institution Altum are owned by the Government of Latvia. The Ministry of Finance was the appointed shareholder until 28 February 2015. According to the Development Finance Institution Law effective as of 1 March 2015, the Ministry of Finance holds 40% of the financial institution's shares, the Ministry of Economics - 30% and Ministry of Agriculture - 30%.

33 OFF BALANCE SHEET ITEMS AND CONTINGENT LIABILITIES

The guarantees issued by Group account for the largest sum in the Group's off-balance sheet items.
The guarantees, just as another financial instrument – loans, have been granted to the Group's clients within the framework of the state aid programmes:.

- *Loan guarantees to rural entrepreneurs for agricultural* are issued for loans granted by credit institutions to rural entrepreneurs having insufficient loan collateral. 179 loan guarantees (2015: 244 loan guarantees) of EUR 10,838 thsd worth were outstanding as at 31 December 2016 (2015: EUR 14,222 thsd).
- Group issues *guarantees under the Mezzanine loan programme* - loan guarantees to loans and export loan guarantees to foreign partner defaults on payment. As at 31 December 2016 this programme's guarantees portfolio volume was EUR 37,764 thsd (2015: EUR 32,239 thsd).
- *Guarantees programme* includes loan guarantees to loans and export loan guarantees. The volume of guarantees portfolio is EUR 25,863 thsd (2015:EUR 37,226 thsd) as at 31 December 2016. No new guarantees are issued under this programme.
- Item *Housing Guarantee Programme* within the framework of which state guarantees are extended to the housing loans taken out by families with children. As at December 31, 2016 there were 4,096 guarantees extended (2015: 1,176 guarantees). The value of the guarantee portfolio of the programme is EUR 26,519 thsd (2015: EUR 7,225 thsd).
- Group issues *loan guarantees under the Fund of funds programme*. As at 31 December 2016 this programme's guarantees portfolio volume was EUR 12,803 thsd (2015: 0).
- Item *Other guarantee programmes* includes guarantees of the old, closed guarantee programmes as well as guarantees unrelated to the state aid programmes. As at December 31, 2016 the value of this guarantee portfolio EUR 33,388 thsd (2015: EUR 40,209 thsd).

NOTES TO FINANCIAL STATEMENTS

33 OFF BALANCE SHEET ITEMS AND CONTINGENT LIABILITIES (continued)

	31/12/2016	31/12/2015
Contingent liabilities		
outstanding guarantees*	147,175	131,120
Financial commitments		
unutilised loan facilities	6,324	5,899
commitments to venture capital funds**	28,940	34,320
other liabilities	142	137
Total	**182,581**	**171,476**

* Portfolio of *Outstanding guarantees* in amount of EUR 147,175 thsd is oversecured by the state funding in amount of EUR 200,000 thsd according to Law on State Budget 2017 (2016: EUR 100,247 thsd).

** *Commitments to venture capital funds* are contingent liabilities, which are based on contractual agreements between the Group and a venture capital fund that obligates the Group to contribute money to the fund.

The table below presents the information about commitments to venture capital funds:

	Contract period	Commitment, thsd EUR	Sum of commitment, which is not contributed to the fund 31.12.2016., thsd EUR	Sum of commitment, which is not contributed to the fund 31.12.2015., thsd EUR
BaltCap LatviaVentureCapital Fund,KS	22.01.2020.	20,000	4,401	5,154
AIF Impr.Cap.Technol.Vent.Fund,KS	11.06.2020.	4,966	836	1,117
AIF Imprimatur Capital Seed Fund,KS	11.06.2020.	10,000	41	1,330
ZGI-3,KS	31.12.2020.	11,800	1,648	4,885
FlyCap Investment Fund I AIF,KS	31.12.2020.	15,000	2,135	3,422
Expansion Capital Fund AIF,KS	31.12.2020.	15,000	412	1,465
Baltic Innovation Fund	01.01.2029.	26,000	19,467	16,947
	Total	**102,766**	**28,940**	**34,320**

For information on the provisions built for the issued guarantees see Note 29.

34 CASH AND CASH EQUIVALENTS

	31/12/2016	31/12/2015
Demand deposits with other credit institutions	79,553	37,426
Deposits with credit institutions with original maturity of less than 3 months	5,000	6,290
	84,553	**43,716**

NOTES TO FINANCIAL STATEMENTS

35 MOVEMENT IN REVALUTION RESERVE OF INVESTMENT SECURITIES AVAILABLE FOR SALE

	31/12/2016	31/12/2015
As at 1 January	8,625	10,613
Taken over as part of establishment of Group*	-	-
(Profit) from sales (Note 8)	-	(1,120)
Gain from changes in fair value	467	(868)
Other comprehensive income	**467**	**(1,988)**
As at 31 December	**9,092**	**8,625**

* As a result of reorganisation, the revaluation reserve of ALTUM and LGA financial instruments classified as available for sale was taken over. ALTUM share in the reorganisation reserve amounted to EUR 1,706 thsd and LGA – EUR 9,212 thsd.

For information on reorganisation reserve see Note 2 (5).

36 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 EUR 282 thsd (2014: EUR 163 thsd).

The Group has entered into a number of transactions with other government entities. The most significant being obtaining financing from the Investment and Development Agency of Latvia, Ministry of Finance, Rural Support Service and Central Finance and Contracting Agency, which is used to co-finance the development programmes of the Group.
The following table provides the total amount of transactions that have been entered into with related parties for the relevant financial year.

		Received state aid financing, thsd EUR	Granted state aid financing or repayment of the financing, thsd EUR	Received reserve capital, thsd EUR
Transactions with shareholders:				
Ministry of Finance	2016	-	-	5,559
	2015	366	(9,085)	1,635
Ministry of Economics	2016	29,610	-	-
	2015	-	-	-
Entity with significant influence: Investment funds	2016	-	-	-
	2015	-	-	-
Associates:				
Venture capital funds	2016	-	(22,932)	-
	2015	793	(16,557)	-
Other companies owned by Group shareholders				
Rural Support Service	2016	(9,387)	-	-
	2015	-	(1,035)	-
Central Finance and Contracting Agency	2016	5,563	-	-
	2015	-	-	-

NOTES TO FINANCIAL STATEMENTS

36 RELATED PARTY TRANSACTIONS (continued)

The following table provides the total amount of transactions that have been entered into with related parties for the relevant financial year.

		Interest received, thsd EUR	Interest paid, thsd EUR	Other expenses, thsd. EUR
Associates:				
Venture capital funds	2016	365	-	-
	2015	307	-	-
Transactions with shareholders:				
Ministry of Finance	2016	-	(167)	-
	2015	-	(98)	-
Other companies owned by Group shareholders				
Central Finance and Contracting Agency	2016	-	-	(216)
	2015	-	-	-

The table below provides information about Group:

Name	**Legal address**	**Investment % in capital**
Investments in associates		
KS Otrais Eko Fonds	Dārza 2, Riga, LV-1007	33%
KS ZGI Fonds	Ausekļa street 1, Riga, Latvia, LV-1010	65%
KS Baltcap Latvia Venture Capital Fund	Jaunmoku street 34, Riga, Latvia, LV-1046	67%
KS Imprimatur Capital Technology Venture Fund	Elizabetes street 85a-18, Riga, Latvia, LV-1050	67%
KS Imprimatur Capital Seed Fund	Elizabetes street 85a-18, Riga, Latvia, LV-1050	100%
KS ZGI-3	Republikas laukums 2A, Riga, Latvia, LV-1010	95%
KS FlyCap investment Fund	Matrožu iela 15A, Riga, Latvia, LV-1048	95%
KS Expansion Capital fund	Krišjāņa Barona street 32-7, Riga, Latvia, LV-1011	95%
KS Invento	In liquidation process	45%
Baltic Innovation Fund	European Investment Fund 37B, avenue J.F. Kennedy L-2968 Luxembourg	20%
Open-ended investment funds over which Company has control		
Hipo Latvia Real Estate Fund I	Elizabetes street 41/43, Riga, Latvia, LV-1010	100%
Hipo Latvia Real Estate Fund II	Elizabetes street 41/43, Riga, Latvia, LV-1010	100%

NOTES TO FINANCIAL STATEMENTS

37 MAXIMUM EXPOSURE TO CREDIT RISK

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

	31/12/16	31/12/15 Restated
Statement of financial position assets exposed to credit risk		
Investment securities – held to maturity	1,531	1,541
Investment securities - available for sale	64,294	88,002
Due from other credit institutions and Treasury	89,553	46,882
Loans & recei	201,250	201,518
Investments in venture capital funds*	58,296	39,929
Other assets	901	3,068
Total	**415,825**	**380,940**
Off-balance sheet items exposed to credit risk		
Contingent liabilities	147,175	131,120
Financial commitments	35,406	40,356
Total	**182,581**	**171,476**

* Item *Investments in venture capital funds* was restated for the previous period (see Note 2 (26)).

As at December 31, 2016 a part of the Group's assets were pledged. On June 16, 2015 the commercial pledge stemming from the loan agreement No A/1/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 EUR 32,201 thsd (Note 27).

Based on the loan agreement No A1/1/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. At the end of year 2016 the Group had not started to use the Treasury's loan as yet. During 2017 year the Group is planning to grant loans in a amount of 4,700 thsd euros, while the period after 2017 till 2021 year the Group is planning to grant loans in a 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. At the end of year 2016 the Group had not started to use the Treasury's loan as yet. During 2017 year the Group is planning to grant loans in amount of 15,000 thsd euros, while the period after 2017 till 2021 year the Group is planning to grant loans in amount of 18,000 thsd euros.

Transactions with derivatives, in effect at 31 December 2016, had been concluded seeking to cushion the effect of exchange rate fluctuations on the value of balance-sheet assets (see Note 17).

NOTES TO FINANCIAL STATEMENTS

37 MAXIMUM EXPOSURE TO CREDIT RISK (continued)

None of 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 19.

The total amount of Group's entitlements considered as an aggregate property in favour of the Ministry of Finance was EUR 56,111 thsd as at 31 December 2016 (2015:EUR 67,013 thsd) (Note 26).

The Treasury counter-guarantees 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 10 mln euros is earmarked for the guarantees for state aid combination 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 – 3 mln euros of the national public funding channelled through the development finance institution are available.
- Loan guarantees of 4,3 mln euros are available to the farmers;
- By 31 May guarantees were granted under sub-activity 2.2.1.4.2. *Mezzanine Loans and Guarantees for Improvement of Competitiveness of Economic Operators* where the total funding available for the guarantees, including export credit guarantees and mezzanine loans, was 27,026 thsd euros (agreement concluded with the Ministry of Economics on 21/11/2011)
- 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.

38 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:

	31/12/2016		31/12/2015	
	Carrying amount	Fair value	Carrying amount Restated	Fair value Restated
Assets				
Due from other credit institutions and Treasury	89,553	89,537	46,882	46,882
Debt securities	64,294	64,294	88,002	88,002
Investment securities - available for sale	**64,294**	**64,294**	**88,002**	**88,002**
Individuals	22,722	22,684	23,764	23,811
Companies	178,528	177,644	177,754	177,333
Loans and receivables	**201,250**	**200,328**	**201,518**	**201,144**
Debt securities	1,531	3,315	1,541	1,890
Investment securities – held to maturity	**1,531**	**3,315**	**1,541**	**1,890**
Investments in venture capital funds*	58,296	58,296	39,929	39,929
Investment property	17,087	17,087	12,247	12,247
Liabilities				
Due to credit institutions	56,195	56,195	67,166	67,166
Derivatives	854	854	345	345
Due to general governments	46,914	46,914	39,561	39,561
Support program funding*	96,822	96,822	56,288	56,288

* Items *Investments in venture capital funds* and *Support program funding* were restated for the previous period (see Note 2 (26)).

NOTES TO FINANCIAL STATEMENTS

38 FAIR VALUES OF ASSETS AND LIABILITIES (continued)

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 have 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) have been estimated to be approximately equal to its carrying amount.

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
Assets measured at fair value:				
Investment property (Note 15)	-	-	17,087	**17,087**
Debt securities - available for sale (Note 14)	39,026	25,268	-	**64,294**
Assets for which fair values are disclosed:				
Loans and receivables (Note 19)	-	-	200,328	**200,328**
Due from other credit institutions and Treasury (Notes 16, 34)	79,437	-	10,100	**89,537**
Total	**118,463**	**25,268**	**227,515**	**371,246**
Liabilities measured at fair value:				
Derivatives (Note 17)	-	854	-	**854**
Liabilities for which fair values are disclosed:				
Due to credit institutions (Note 26)	-	-	56,195	**56,195**
Due to general governments (Note 27)	-	-	46,914	**46,914**
Support program funding (Note 28)	-	-	96,822	**96,822**
Total	**-**	**854**	**199,931**	**200,785**

The following table shows the hierarchy of the Group's financial assets and liabilities assessed and recognised at fair value as at 31 December 2015:

	Level 1	Level 2	Level 3	Total
Assets measured at fair value:				
Investment property (Note 15)	-	-	12,247	**12,247**
Debt securities - available for sale (Note 14)	63,213	24,789	-	**88,002**
Assets for which fair values are disclosed:				
Loans and receivables (Note 19)	-	-	201,144	**201,144**
Due from other credit institutions and Treasury (Notes 16, 34)	46,882	-	-	**46,882**
Total	**110,095**	**24,789**	**213,391**	**348,275**
Liabilities measured at fair value:				
Derivatives (Note 17)	-	345	-	**345**
Liabilities for which fair values are disclosed:				
Due to credit institutions (Note 26)	-	-	67,166	**67,166**
Due to general governments (Note 27)	-	-	39,561	**39,561**
Support program funding (Note 28)*	-	-	56,288	**56,288**
Total	**-**	**345**	**163,015**	**163,360**

* Item *Support program funding* were restated for the previous period (see Note 2 (26)).

NOTES TO FINANCIAL STATEMENTS

38 FAIR VALUES OF ASSETS AND LIABILITIES (continued)

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 State 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.

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.

Investments in venture capital funds

Measuring of investments in venture capital funds is explained in Note 2 (5) (iv).

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.

NOTES TO FINANCIAL STATEMENTS

39 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, which are included balances of due from other credit institutions and the State Treasury and investment securities as at 31 December 2016. The presentation is based on the expected future cash flows based on payment schedules and includes interest while the maturity analysis presented in Note 40 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 from other credit institutions	9,483	35,368	12,293	57,144
Due from general governments	163	653	50,017	50,833
Support programme funding	-	-	96,823	96,823
Other liabilities	-	-	6,559	6,559
Total financial liabilities	**9,646**	**36,021**	**165,692**	**211,359**
Off-balance items and contingent liabilities	63,019	56,967	75,782	195,768
Total financial liabilities, off-balance items and contingent liabilities	**72,665**	**92,988**	**241,474**	**407,127**
Due from other credit institutions and the State 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**

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 2015:

	Up to 1 year	1 to 5 years	Over 5 years and w/o date	**Total**
Due from other credit institutions	11,521	36,262	21,170	68,953
Due from general governments	126	504	42,080	42,710
Support programme funding*			56,288	56,288
Other liabilities	-	-	8,791	8,791
Total financial liabilities	**11,647**	**36,766**	**128,329**	**176,742**
Off-balance items and contingent liabilities	66,196	66,701	38,579	171,476
Total financial liabilities, off-balance items and contingent liabilities	**77,843**	**103,467**	**166,908**	**348,218**
Due from other credit institutions and the State Treasury	46,882	-	-	46,882
Investment securities	25,352	10,202	53,990	89544
Liquid assets	**72,234**	**10,202**	**53,990**	**136,426**

* Item *Support programme funding* was restated for the previous period (see Note 2 (26)).

NOTES TO FINANCIAL STATEMENTS

40 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analysed according to when they are settled according to 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 EIR. Issued debt reflect the contractual coupon amortisations.
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 the State 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**
Corporate income tax overpaid	-	-	-	-	-	-	**-**
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 and state aid	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**

NOTES TO FINANCIAL STATEMENTS

40 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

The table below allocates the Company's assets and liabilities to maturity groupings as at 31 December 2015 based on the time remaining from the balance sheet date to the contractual maturity dates.

	Up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 – 5 years	more than 5 years and undated	**Total**
ASSETS							
Due from other credit institutions and the State Treasury	39,300	5,150	430	2,002	-	-	**46,882**
Investment securities	-	-	-	25,352	10,202	53,989	**89,543**
Loans and receivables	11,688	10,463	10,293	20,373	95,372	53,329	**201,518**
Investments in venture capital funds	-	-	-	-	39,929	-	**39,929**
Deferred expense and accrued income	417	1	-	1,127	6	10	**1,561**
Investment property	-	-	-	-	11,022	1,225	**12,247**
Property, plant and equipment	-	-	-	-	-	4,628	**4,628**
Intangible assets	-	-	-	-	-	123	**123**
Corporate income tax overpaid	-	-	-	-	-	523	**523**
Other assets	1,444	-	295	77	7,299	849	**9,964**
Total assets	**52,849**	**15,614**	**11,018**	**48,931**	**163,830**	**114,676**	**406,918**
LIABILITIES							
Due to credit institutions	-	6,747	-	4,494	35,092	20,833	**67,166**
Derivatives	-	345	-	-	-	-	**345**
Due to general governments	3,769	-	-	-	-	35,792	**39,561**
Deferred income and accrued expense	638	22	32	972	-	-	**1,664**
Support programme funding and state aid	2,353	-	-	2,547	47,942	19,612	**72,454**
Provisions for off-balance sheet commitments	217	1,494	1,195	14,421	-	-	**17,327**
Other liabilities	7,708	372	10	-	648	53	**8,791**
Total liabilities	**14,685**	**89,80**	**1,237**	**22,434**	**83,682**	**76,290**	**207,308**
Net liquidity	**38,164**	**6,634**	**9,781**	**26,497**	**80,148**	**38,386**	**199,610**

NOTES TO FINANCIAL STATEMENTS

41 ASSETS AND LIABILITIES BY CURRENCY PROFILE

The table below provides data of the Group's assets, liabilities, shareholders' equity and reserves as well as off-balance sheet items outstanding as at 31 December 2016 by currency profile:

	EUR	USD	Other	**Total**
ASSETS				
Due from other credit institutions and Treasury	89,259	294	-	**89,553**
Investment securities	52,876	12,949	-	**65,825**
Loans and receivables	200,775	475	-	**201,250**
Investments in venture capital funds	58,296	-	-	**58,296**
Deferred expense and accrued income	2,059	-	-	**2,059**
Investment property	17,087	-	-	**17,087**
Property, plant and equipment	3,507	-	-	**3,507**
Intangible assets	168	-	-	**168**
Corporate income tax overpaid	-	-	-	**-**
Other assets	4,014	-	-	**4,014**
Asset held for sale	1,367	-	-	**1,367**
Total assets	**429,408**	**13,718**		**443,126**
LIABILITIES AND SHAREHOLDERS' EQUITY				
Due to credit institutions	56,195	-	-	**56,195**
Derivatives	854	-	-	**854**
Due to general governments	46,914	-	-	**46,914**
Deferred income and accrued expense	1,973	2	-	**1,975**
Support programme funding	96,822	-	-	**96,822**
State aid	6,849	-	-	**6,849**
Provisions for off-balance sheet commitments	16,784	80	-	**16,864**
Other liabilities	6,558	1	-	**6,559**
Capital and reserves	208,797	1,297	-	**210,094**
Total liabilities and shareholders' equity	**441,746**	**1,380**	**-**	**443,126**
Forward foreign exchange (payables)	(846)	(8)	-	(854)
Currency position	**(13,184)**	**12,330**	**-**	**(854)**

NOTES TO FINANCIAL STATEMENTS

41 ASSETS AND LIABILITIES BY CURRENCY PROFILE (continued)

The table below provides data of the Group's assets, liabilities, shareholders' equity and reserves as well as off-balance sheet items outstanding as at 31 December 2015 by currency profile:

	EUR	USD	Other	Total
ASSETS				
Due from other credit institutions and Treasury	46,882	-	-	**46,882**
Investment securities	76,766	12,777	-	**89,543**
Loans and receivables	200,935	583	-	**201,518**
Investments in venture capital funds*	39,929	-	-	**39,929**
Deferred expense and accrued income	1,560	1	-	**1,561**
Investment property	12,247	-	-	**12,247**
Property, plant and equipment	4,628	-	-	**4,628**
Intangible assets	123	-	-	**123**
Corporate income tax overpaid	523	-	-	**523**
Other assets	9,964	-	-	**9,964**
Total assets	**393,557**	**13,361**		**406,918**
LIABILITIES AND SHAREHOLDERS' EQUITY				
Due to credit institutions	67,166	-	-	**67,166**
Derivatives	345	-	-	**345**
Due to general governments	39,561	-	-	**39,561**
Deferred income and accrued expense	1,662	2	-	**1,664**
Support programme funding*	56,288	-	-	**56,288**
State aid	16,166			**16,166**
Provisions for off-balance sheet commitments	17,241	86	-	**17,327**
Other liabilities	8,791	-	-	**8,791**
Capital and reserves	198,088	1,522	-	**199,610**
Total liabilities and shareholders' equity	**405,308**	**1,610**		**406,918**
Forward foreign exchange receivables / (payables)	(2,905)	2,560	-	(345)
Currency position	**(14,656)**	**14,311**	**-**	**(345)**

* Items *Investments in venture capital funds* and *Support programme funding* were restated for the previous period (see Note 2 (26)).

NOTES TO FINANCIAL STATEMENTS

42 MINIMUM FUTURE LEASE PAYMENTS

The table below discloses minimum future lease payments for premises (there are other lease payments as well, but those are relatively minor):

	Group
Year 2017	59
Year 2018	51
Year 2019	49
Year 2020	45
Year 2021	31
Total for 5 years	**235**
Year 2022 and later	**95**

43 FINANCIAL ASSETS AND LIABILITIES BY CLASSIFICATION PRINCIPLES

The assets and liabilities of the Group as at 31 December 2016 by classification principles are as follows:

	Financial assets un liabilities held for trading	Financial assets available for sale	Amortised cost	Total book value
ASSETS				
Investment securities	-	64,294	1,541	65,835
Due from other credit institutions and Treasury	-	-	89,553	89,553
Loans and receivables	-	-	201,250	201,250
Investments in venture capital funds	-	-	58,296	58,296
Other financial assets	-	-	24,517	24,517
Total financial assets	**-**	**64,294**	**375,157**	**439,451**
Non-financial assets	-	-	3,675	3,675
Total assets	**-**	**64,294**	**378,832**	**443,126**
LIABILITIES				
Due to credit institutions	-	-	56,195	56,195
Due to general governments	-	-	46,914	46,914
Support programme funding	-	-	96,822	96,822
State aid			6,849	6,849
Derivatives	854	-	-	854
Other financial liabilities	-	-	25,398	25,398
Total financial liabilities	**854**	**-**	**232,178**	**233,032**
Non-financial liabilities	-	-	210,094	210,094
Total liabilities	**854**	**-**	**442,272**	**443,126**

NOTES TO FINANCIAL STATEMENTS

43 FINANCIAL ASSETS AND LIABILITIES BY CLASSIFICATION PRINCIPLES (continued)

The assets and liabilities of the Group as at 31 December 2015 by classification principles are as follows:

	Financial assets un liabilities held for trading	Financial assets available for sale	Amortised cost	Total book value
ASSETS				
Investment securities	-	88,002	1,541	89,543
Due from other credit institutions and Treasury	-	-	46,882	46,882
Loans and receivables	-	-	201,518	201,518
Investments in venture capital funds*	-	-	39,929	39,929
Other financial assets	-	-	3,068	3,068
Total financial assets	**-**	**88,002**	**292,938**	**380,940**
Non-financial assets	-	-	25,978	25,978
Total assets	**-**	**88,002**	**318,916**	**406,918**
LIABILITIES				
Due to credit institutions	-	-	67,166	67,166
Due to general governments	-	-	39,561	39,561
Support programme funding*	-	-	56,288	56,288
State aid			16,166	16,166
Derivatives	345	-	-	345
Other financial liabilities	-	-	8,791	8,791
Total financial liabilities	**345**	**-**	**187,972**	**188,317**
Non-financial liabilities	-	-	218,601	218,601
Total liabilities	**345**	**-**	**406,573**	**406,918**

* Items *Venture capital funds* and *Support programme funding* were restated for the previous period (see Note 2 (26)).

44 SUBSEQUENT EVENTS

On 27 February 2017 Group received a decision passed by the Ministry of Economics (MoE) requiring repayment of non-eligible public funding expenditure of 217 thsd euros under activity *2.2.1.1. Holding Fund for Investments in Guarantees, High-risk Loans, Venture Capital Funds and other Financial Instruments* of the programme *Entrepreneurship and Innovations.*

MoE, being the institution responsible for the activity, performed a comprehensive audit on JSC *Capitalia* that had concluded a co-operation agreement dated 7 July 2014 with Latvian Guarantee Agency (LGA) on granting of micro loans under the activity. The audit established that out of 83 micro loans totalling 832 thsd euros (incl. 416 thsd euros of public funding) that JSC *Capitalia* had granted to the entrepreneurs, 41 loan recipients (totalling 403 thsd euros, incl. 202 thsd euros of the Holding Fund's financing) owed to the State Revenue Service taxes or levies as at the moment the loans were disbursed. As a result, non-compliance with sub-paragraph 7.1 of the Cabinet of Ministers Regulation No 327 was identified implying non-eligibility for funding of the EU Structural Funds.

Also MoE treated the management fees of JSC Capitalia and LGA (now – Group) - for 13 thsd euros and 2 thsd euros respectively - as non-eligible expenditure.

In view of the identified non-compliances, MoE ordered the Group to review immediately its internal control procedures and their implementation quality as well as repay within 10 working days the non-eligible expenditure of 217 thsd euros.

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

Building a better working world

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of JSC Development Finance Institution ALTUM

Opinion

We have audited the accompanying consolidated financial statements of JSC Development Finance Institution ALTUM and its subsidiaries (the Group), set out on pages 7 to 73 of the accompanying annual report, which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying consolidated financial statements of JSC Development Finance Institution ALTUM and its subsidiaries give a true and fair view of financial position of the Group as at December 31, 2016, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing adopted in the Republic of Latvia (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the independence requirements included in the Law on Audit Services of Republic of Latvia that are relevant to our audit of the financial statements in the Republic of Latvia. We have fulfilled our other ethical responsibilities in accordance with the Law on Audit Services of Republic of Latvia and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Reporting on other information

The other information comprises the Management Report and Statement of Responsibility of the Management Board as set out on pages 2 to 4 of the accompanying annual report, but does not include the consolidated financial statements and our auditors report thereon. Management is responsible for the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, except as described in the *Other reporting responsibilities in accordance with the legislation of the Republic of Latvia* section of our report.

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

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

Other reporting responsibilities in accordance with local legislation

We have other reporting responsibilities in accordance with the Law on Audit Services of the Republic of Latvia with respect to the Management Report. These additional reporting responsibilities are beyond those required under the ISAs.

Our responsibility is to consider whether the Management Report is prepared in accordance with the requirements of the Law on the Annual Reports and Consolidated Annual Reports of the Republic of Latvia.

Based on the work undertaken in the course of our audit, in our opinion:

- the information given in the Management Report for the financial year for which the consolidated financial statements are prepared is consistent with the consolidated financial statements; and
- the Management Report has been prepared in accordance with the requirements of the Law on the Annual Reports and Consolidated Annual Reports of the Republic of Latvia.

Building a better working world

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with the International Financial Reporting Standards as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

SIA Ernst & Young Baltic
Licence No. 17

Diāna Krišjāne
Chairperson of the Board
Latvian Certified Auditor
Certificate No. 124

Riga, 24 April 2017

JSC DEVELOPMENT FINANCE INSTITUTION ALTUM

Consolidated and Separate Annual Report
for the year ended 31 December 2017

(the 4th reporting period)

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Altum group

MISSION	We help Latvia grow!
VISION	Cooperation partner and expert in finance promoting the growth of national economy
VALUES	Excellence / Team / Responsibility

JSC Development Finance Institution Altum as Altum Group parent company is a Latvia state-owned company ensuring access of enterprises and households to the financing resources by means of support financial instruments - loans, guarantees, investments in venture capital funds - in areas defined as important and to be supported by the state, thus developing national economy and by such way enhancing mobilization of private capital and financial resources.

Long-term financial objectives until 2018

The Management Board and Supervisory Council of JSC Development Finance Institution Altum have approved the Company's strategic development directions and long-term financial objectives for the period 2016 – 2018, which are:

Effective management of State funds, preserving the capital and achieving positive return on equity in the long-term

Implement new state aid programmes, including, multi-apartment buildings energy efficiency programmes, several new guarantee and agricultural land sales and leaseback products

Considerably increase the scope of activities

- Steep growth of guarantee portfolio
- Moderate growth of loan and investments in venture capital funds portfolios

Increase operational efficiency

Report of the board of directors

Activity during reporting period

During 12 months of year 2017 the joint-stock company Development Finance Institution Altum group (Group) made a profit of EUR 6.945 mln. The Group parent company the joint-stock company Development Finance Institution Altum (Company) made a profit of EUR 5.884 mln.

Key financial and performance indicators of the Group

	2017	2016
Key financial data		
Net income from interest, fees and commission (tEUR)	11,374	11,024
Profit for the period (tEUR)	6,945	2,170
Cost to income ratio (CIR)	54.7%	88.4%
Employees	230	242
Total assets (tEUR)	451,686	443,126
Tangible common equity (TCE)/total tangible managed assets (TMA)	35.6%	35.2%
Equity and reserves (tEUR)	222,486	210,094
Total risk coverage: (tEUR)	65,002	67,705
Risk coverage reserve	60,060	64,833
Risk coverage reserve used for provisions	-4,753	-4,323
Portfolio loss reserve (specific reserve capital)	9,695	7,195
Liquidity ratio for 180 days	507%	449%
Financial instruments (gross value)		
Outstanding (tEUR) (by financial instrument)		
Loans	207,585	217,429
Guarantees	182,376	147,175
Venture capital funds	51,310	58,541
Total	441,271	423,145
Number of contracts	14,402	11,449
Volumes granted (tEUR) (by financial instrument)		
Loans	51,869	59,465
Guarantees	68,615	56,109
Venture capital funds	2,638	21,356
Total	123,122	136,929
Number of contracts	4,697	4,461
Leverage for raised private funding	185%	162%

The data are explained in Other notes to the annual report on Group's Key Financial Data and Operational Volumes for Years 2015-2017.

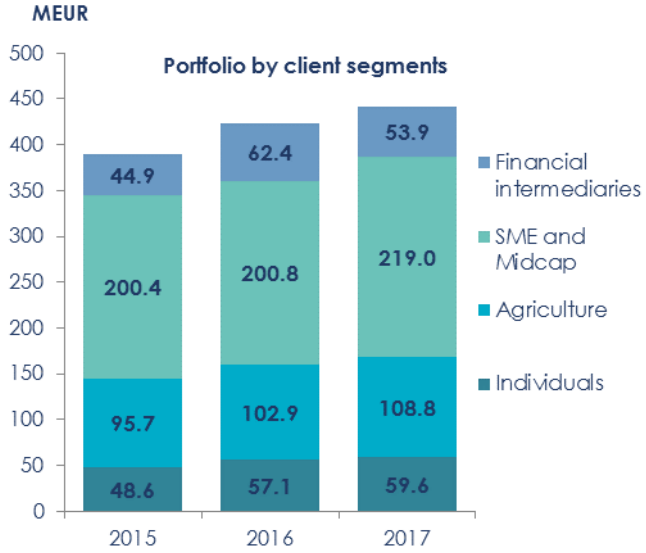
Financial Instruments Portfolio

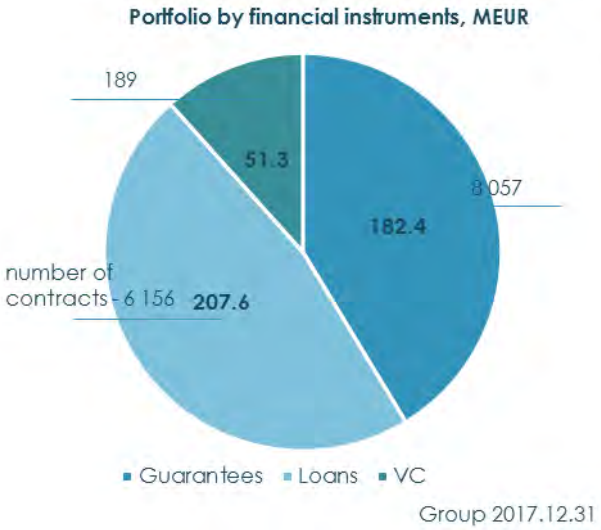
As at 31 December 2017 the Group's (gross) books and records held a portfolio of the financial instruments granted within the state aid programmes for the total value of 441.3 mln euro made up of 14,402 projects, the Company's (gross) books and records held a portfolio 453,5 mln euro, 14,402 projects.

In year 2017 the portfolio of the Group's financial instruments increased by 4.3% (EUR 18.1 mln) in terms of volume and by 25.8% in terms of the number of projects (by 2,953 projects). Among the financial instruments the guarantee portfolio had the most rapid growth by 23.9% in terms of volume (EUR 35.2 mln) and by 63% in terms of the number of transactions. The rapid increase of the guarantee financial instruments in the Group's portfolio of transactions complies with the development strategy of the Group for years 2016-2018.

Report of the board of directors (continued)

In terms of segments the projects of the Small and Medium Enterprises (SME) and Midcap's have the largest volume demonstrating also the largest portfolio increase of +9% in year 2017. Also the portfolios of the Agriculture and Individuals segments increased in the reporting period.



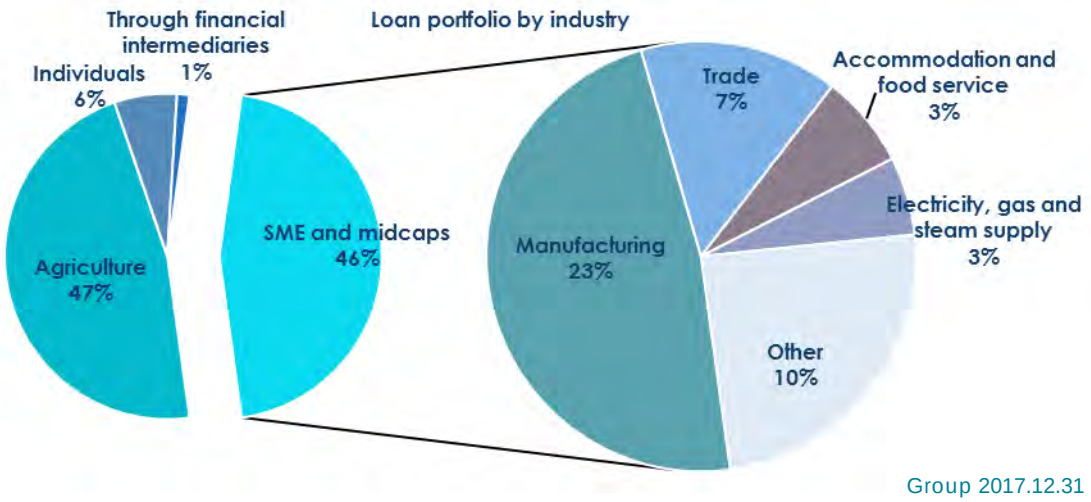


In terms of the number of transactions the largest increase was observed in the segment of individuals. Implementation of the Housing Guarantee Programme has contributed significantly to the rise of the number of transactions.

The portfolio structures of the loan and guarantee financial instruments echo the state aid implementation priorities of the Latvian government.

The state aid programmes implemented by the Group embrace a vast variety of the industries of the national economy and client segments resulting in broadly diversified financial instruments' portfolios of the Group. It has evolved over the course of time that the Group implements a range of lending programmes for farmers that is reflected in the structure of the loan portfolio where the Agriculture segment accounts for 47%. Considerable investments were made also in manufacturing 23% and trading companies 7% and companies of other industries.

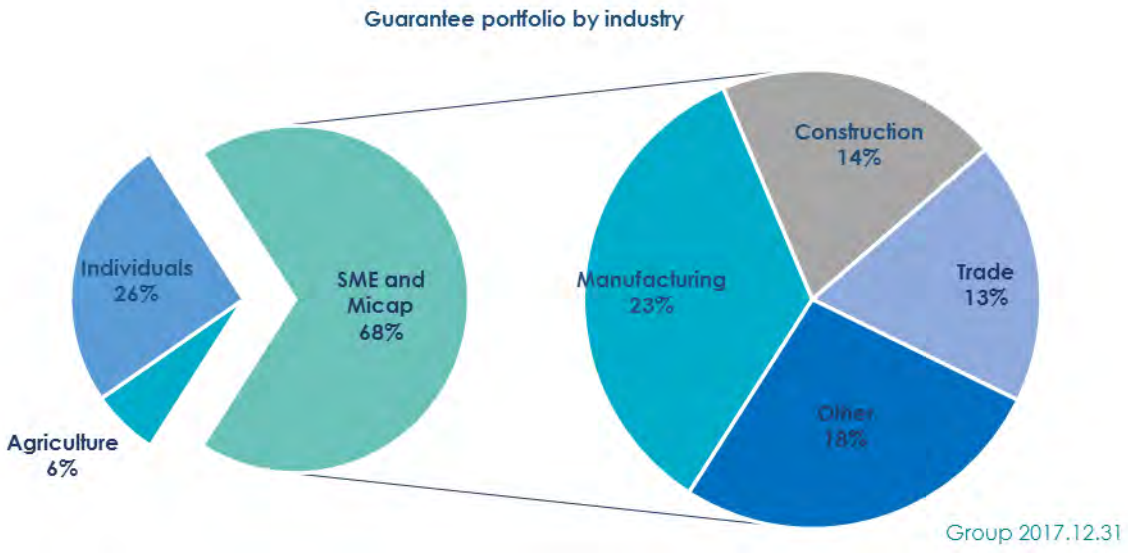
Promotion of entrepreneurship is a significant business segment of the Group. As at 31 December 2017 the business commencement projects were issued EUR 42.1 mln within the framework of "The loan to start a business" programme that funded 2,305 projects.



With the approved state aid programmes closing the market gaps, the Small and Medium Enterprises and Midcap's account for most of the Group's guarantees - 68%, while individuals account for 26% of the guarantees comprised of the housing acquisition guarantees issued to the families with children.

In terms of industries, the manufacturing guarantees account for 23% of the portfolio with considerable guarantee amounts of 14% and 13% respectively being issued also in the construction and trade segments.

Report of the board of directors (continued)



By 31 December 2017, as part of the housing acquisition state aid for the families with children, the Housing Guarantee Programme had granted 7,227 guarantees worth EUR 49.5 mln. The families throughout Latvia use the programme's guarantees that help to save for the first instalment required to obtain a mortgage loan: of the total number of the issued guarantees 67% were granted in Rīga and adjacent territories, 14% - in Vidzeme, 9% - in Kurzeme, 7% - in Zemgale and 3% - in Latgale. The average amount of one guarantee is EUR 6,9 thsd .

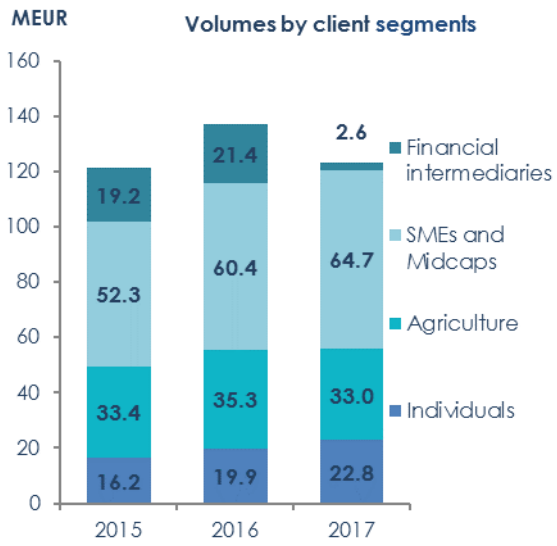
As at 31 December 2017, the balance sheet of the Land Fund administered by the Group enlisted 245 investment properties with the total land area of 4,055 ha worth EUR 10.5 mln.

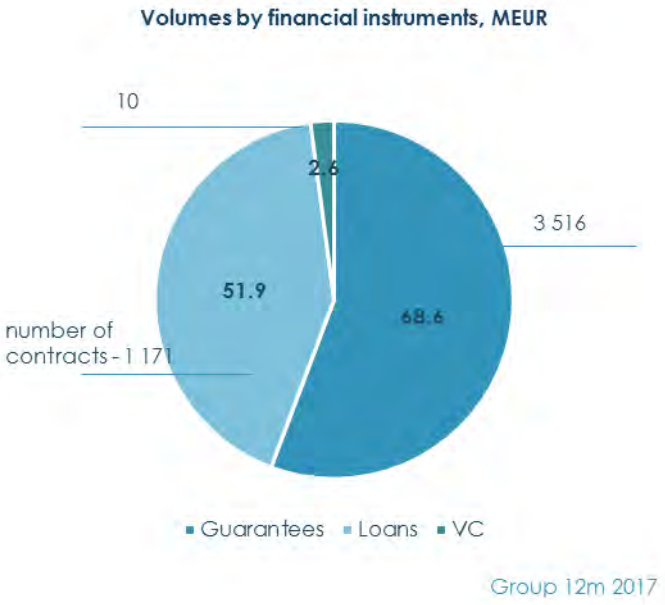
Volumes granted

The funding granted implementing the state aid programmes amounted to EUR 123,122 mln (56% - guarantees, 42% - loans and 2% - investments of venture capital funds) in the reporting period. In total, 4,697 projects were supported.

Although in 12 months of year 2017, compared to an identical period a year earlier, the state aid programmes had 10% less new transactions (EUR 13,8 mln), there were by 5% more supported projects (by 236 projects).

In year 2017, compared to year 2016, the volume of the granted guarantees increased considerably – by 22%. Guarantees for promotion of entrepreneurship were enhanced specifically – in 12 months there were new guarantees worth EUR 43,8 mln issued to the entrepreneurship projects.





Report of the board of directors (continued)

The new transactions in the SME and Midcap segment and Individuals segment proceeded with their yearly increase with the volumes going up both for the issued loans and guarantees. In year 2017, compared to year 2016, the volume of new transactions for the Farmers' segment decreased slightly due to a drop in demand for working capital loans. Over the years the volume of these loans has fluctuated considerably due to various factors (including weather and sales prices).

In the reporting year the volumes of new transactions in the Financial intermediaries segment, dominated by venture capital investments, have decreased. The reduction was due to the fact that the investment period of the venture capital programmes (the 2nd and 3rd stage funds) of the previous programming period of the structural funds was closed, but the new venture capital funds (the 4th stage) were expected to commence their operations in year 2018.

New Products and Increasing Operational efficiency

In order to foster development of the national economy through an influx of additional funds, the Group, following its Strategy for Years 2016–2018, expanded its business of loan guarantees for promotion of entrepreneurship by offering both – new guarantee products, such as delegated guarantees and export guarantees to EU member states, and enhancing of the existing products by increasing of the guarantee limits and speeding up of reviewing of the guarantee applications.

In year 2017, in order to promote availability of funding for prospective projects, the maximum single guarantee amount was increased from the previous EUR 1.5 mln to EUR 3 mln.

In the reporting period a new solution for granting of guarantees was introduced – delegated guarantees. It is a way to 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 Banka and Swedbank. It is planned to initiate similar co-operation also with other banks. The service enables the banks to speed up considerably reviewing of the loan applications of the small and medium-sized enterprises. According to the standard procedure, reviewing of the guarantee application would take from 3-7 days, but with the delegated guarantee it would be only 1-2 days.

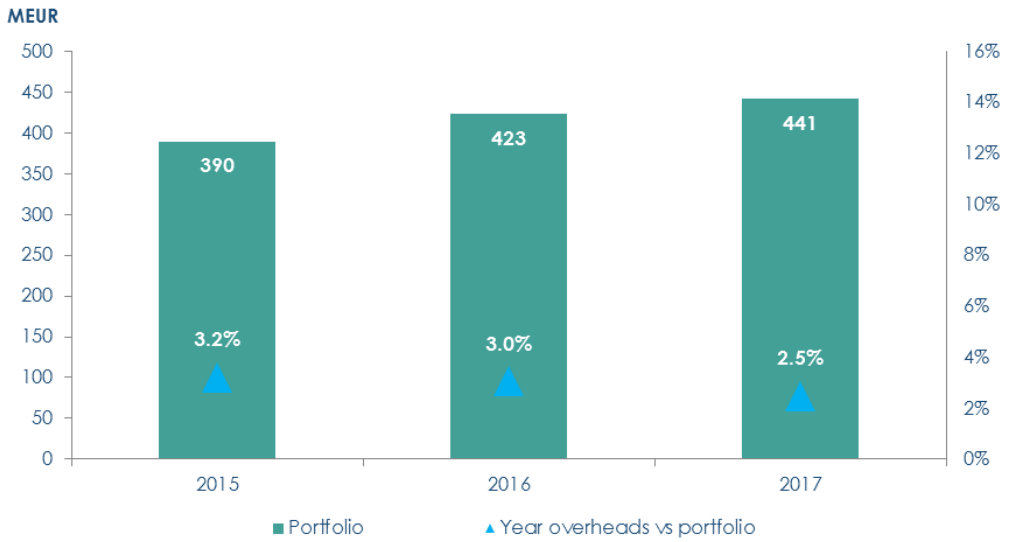
In April 2017 Company started to offer the export credit guarantees for small-scale exporters (with an export turnover below EUR 2 mln) effecting transactions with EU and some OECD member states or for larger export turnovers provided the maturity of the deferred payment was above 180 days. This enables our exporters to obtain a risk coverage for markets very important to Latvia, such as Scandinavia, Finland, Germany, a.o. Already 33 exporting companies have made use of this opportunity. Also, in year 2017 the origin criterion of the local goods has been inactivated which allows other exporters performing re-exporting to qualify for the guarantee coverage.

In year 2017, in order to amplify support to the business ideas of the SMEs, there was an agreement concluded with the European Investment Fund (EIF) on the counter-guarantees of InnovFIN Facility for the guarantee portfolio worth EUR 30 mln. The risk coverage provided by counter-guarantees allows Group to issue guarantees to innovative projects at lower rates, thus reducing the clients' costs for attracting funding for these projects. As at 31 December, 2017, there were 7 guarantees for EUR 1.2 mln issued under InnovFIN Facility.

The Land Fund has implemented with success a new type of service – reverse rent (sales and leaseback) whereby a farmer can sell its property to the Land Fund and continue using it for production purposes by subsequently renting the property from the fund with buy-back rights. It allows the farms to attract additional funds of sizeable amount without increasing the burden of collateral.

In the reporting period there were 260 project applications received within the Energy Efficiency Programme of Multi-apartment Buildings. As at year-end 200 applications were approved.

Increasing Operational Efficiency



Report of the board of directors (continued)

In the reporting period the Group's financial instruments portfolio has been augmented without increasing the management costs. In year 2017 optimisation of the management costs was conducted in the Group resulting in increasing of the financial portfolios by 4.3 %, reduction of the management costs from 3.0% at the end of year 2016 to 2.5% at the end of year 2017.

Long-term Funding

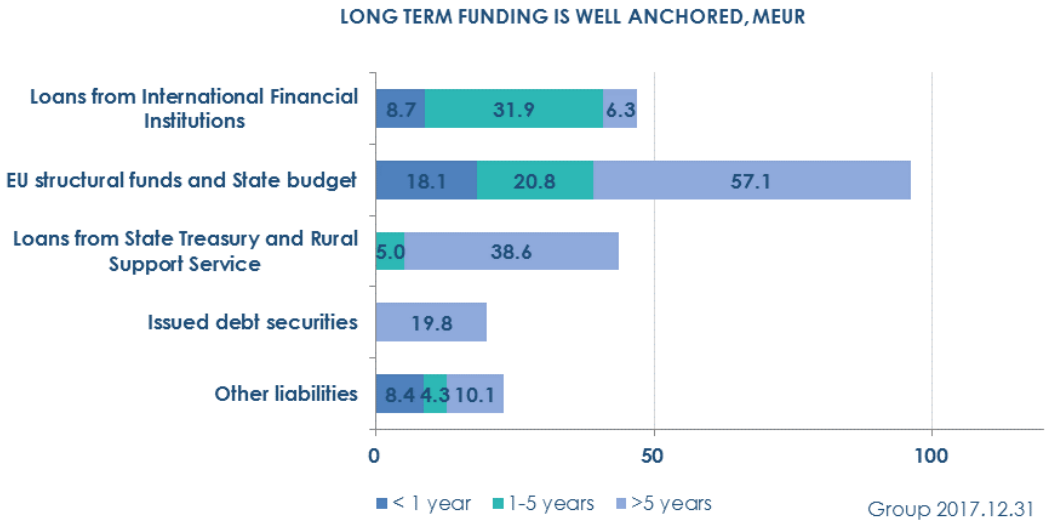
In October 2017 the Company issued transferable debt securities as series of notes, registered them with the Latvian Central Depository and quoted on Nasdaq Riga for the total face value of EUR 20 mln becoming the first national development institution of the Central and Eastern European countries that has issued the green bonds. The investors of Latvia, Lithuania and Estonia have shown a substantial interest and the subscribed volume exceeded the issued volume 6.5 times. 24 investors purchased the bonds: asset management funds, insurance companies and banks in Latvia (43.5%), Lithuania (31%), Estonia (19%), Sweden and Germany (6.5%). Having issued these notes the Group entered the capital markets with a long-term perspective in mind aiming to proceed with diversification of the structure of the attracted funding.

The Centre for International Climate and Environmental Research (CICERO) that is an independent Norwegian institute for interdisciplinary climate research situated in Oslo has prepared an impartial opinion about the Green Bond Framework of the Company. CICERO recognised that the system of financial management and reporting of the funds acquired as a result of the issue of the notes complied with high standards.

The funding attracted from the issue of the Green Bonds will be used to fund sustainable business projects in the fields of energy efficiency, energy generation from renewable energy resources, 'green' buildings and transport, including energy service companies (ESCO) that provide services to the companies in these fields.

Structure of Attracted Funding

The financial instruments portfolios established by Group are secured by funding of appropriate maturity structure. Since the long and medium-term investment projects are the major components of the Group's portfolios, resources of adequate maturities have been attracted to the funding of the programmes: the resources maturing after 5 years account for 58% of the total liabilities, the resources maturing between 1 and 5 years - 27%, but liabilities maturing earlier than 1 year – only 15%. Moreover, once the respective programmes have come to a close, a part of the current liabilities towards the EU structural funds and national budget will be transferred to Group for implementation of new state aid programmes.



Risk Management

In order to have an adequate risk management, the 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, the Group remains capable of implementing the established operational targets and assignments in the long run. In its risk management the 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 the Group's operations.

In view of the Group's activities in the increased risk areas when implementing the state aid programmes, the Group has amassed the risk coverage of EUR 62.1 mln (as at 31.12.2017) that is available for coverage of expected credit loss of the state aid programmes. The expected loss is assessed before implementation of the respective aid programme and a portion of the public funding received within respective state aid programme for coverage of the expected credit loss is transferred to the Risk Coverage. The Risk Coverage consists of the sum total of the Risk Coverage Reserve and Portfolio Loss Reserve (special reserve capital) less the Risk Coverage Reserve used for provisions.

Report of the board of directors (continued)

Rating

On 15 June 2017 international credit rating agency Moody's Investors Service assigned to Altum (the 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 a Latvian capital company. The assigned rating makes it possible for the Group to implement the Group's long-term strategy for raising funding through becoming a member of the capital market and issuing the notes with more success.

Future Outlook

In year 2018 the rapid growth of the guarantee portfolio will continue. It is expected that at the end of year 2018 the volume of the guarantee portfolio will exceed the loan portfolio, thus meeting the target identified by the development strategy of the Group for years 2016-2018, i.e., augment the operational volumes considerably by laying emphasis on the indirect financial instruments (guarantees).

The agreement concluded in year 2017 with the European Investment Fund on guarantees of the COSME programme will allow the Group to issue loans to the companies eligible to the said guarantees' requirements with less collateral from the clients' side.

In year 2018 the venture capital acceleration investments for very early stage companies will be available in Latvia which is a novelty in the start-ups environment of Latvia. Since the selection process of the managers of the accelerator funds announced on the scale of the Baltic countries was finished in year 2017, 3 accelerator funds will start working. It is expected that around 120 perspective ideas will receive accelerator investments with the total public funding for the Group's investments in these funds amounting to EUR 15 mln.

In year 2017 the selection of the managers of two seed and start-up venture capital funds and one growth venture capital fund was finalised. Both seed and start-up venture capital funds will commence activities in Q2 of year 2018. The total public funding for the Group's investments in these seed and start-up venture capital funds is expected to reach EUR 30 mln. Meanwhile, the growth venture capital fund will commence activities as from 3Q of year 2018 with the total public funding for the Group's investments in this fund amounting to EUR 15 mln. It is planned to select a manager of one more growth venture capital fund in 2018.

On 1 January 2018 the Law on Assistance in Solving Apartment Matters came into effect making also the persons having acquired secondary vocational or higher education and being below 35 years of age (young professionals) eligible for assistance of the state in purchase or construction of residential space. Making the young professionals eligible for the support of the Housing Guarantee Programme will improve the business environment of Latvia. In year 2018 it is planned to grant housing guarantees to 1,000 young professionals for the amount of EUR 6.7 mln. Assistance to the young professionals available as of 1 March 2018.

Continuing to work on optimisation of the management costs the Group transitions to a new information system for transactions accounting in year 2018 that would ensure gradual reduction of the management costs over the coming years.

Reinis Bērziņš
Chairman of the Board

29 March 2018

Supervisory Council and Board of Directors

The Supervisory Council

Name, surname	Position	Date appointed
Līga Kļaviņa	Chairperson of the Council	29/12/2016 – present
Jānis Šnore	Council Member	29/12/2016 - present
Kristaps Soms	Council Member	29/12/2016 - present

There have been no changes in the Supervisory Council of the Company during the reporting period.

The Board of directors

Name, surname	Position	Date appointed – removed
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
Aleksandrs Bimbirulis	Board Member	07/07/2017 – present
Rolands Paņko	Board Member	12/10/2015 – 14/04/2017

Statement of the management's responsibility

Riga 29 March 2018

The supervisory council and the board of directors (hereinafter – Management) of joint stock company Development Finance Institution Altum (hereinafter - Company) are responsible for preparation of the financial statements of the Company as well as for preparation of the consolidated financial statements of the Company and its subsidiaries (hereinafter – Group) and information disclosed in the Other notes to Annual Report.

The financial statements and notes thereto set out on pages 11 to 99 are prepared in accordance with the source documents and present truly and fairly the financial position of the Company and the Group as at 31 December 2017 and 2016, and the results of their operations, changes in the shareholders' equity and cash flows for the years then ended.

The aforementioned financial statements are prepared on a going concern basis in conformity with International Financial Reporting Standards as adopted by the European Union. Prudent and reasonable judgements and estimates have been made by the Management in the preparation of the financial statements.

The Management are responsible for the maintenance of proper accounting records, the safeguarding of the Group's assets, and the prevention and detection of fraud and other irregularities in the Group. The Management are also responsible for operating the Group and the Company in compliance with the Law of the Republic of Latvia on Development Finance Institution and other laws of the Republic of Latvia as well as European Union Regulations applicable to Company.

Reinis Bērziņš
Chairman of the Board

Statement of comprehensive income

all amounts in thousands of euro

	Notes	Group 01/01/2017-31/12/2017	Group 01/01/2016-31/12/2016	Company 01/01/2017-31/12/2017	Company 01/01/2016-31/12/2016
Interest income	4	12,194	12,584	11,950	12,584
Interest expense	5	(820)	(1,707)	(819)	(1,604)
Net interest income		11,374	10,877	11,131	10,980
Fee and commission income	6	484	446	484	446
Fee and commission expense	7	(256)	(299)	(256)	(299)
Net income from fees and commissions		228	147	228	147
Net trading income	8	(191)	(203)	(191)	(203)
Share of profit / (loss) of investment in joint venture and associate	18	818	(1,758)	-	-
Other income	9	7,791	5,528	7,791	5,528
Operating income before operating expenses		20,020	14,591	18,959	16,452
Staff costs	10	(6,522)	(6,782)	(6,522)	(6,782)
Administrative expense	11	(4,010)	(5,581)	(4,010)	(5,580)
Amortisation of intangible assets and depreciation of property, plant and equipment	21, 22	(417)	(529)	(417)	(529)
Net impairment provisions	12	(2,001)	471	(2,001)	464
Profit / (loss) before corporate income tax		7,070	2,170	6,009	4,025
Corporate income tax	13	(125)	-	(125)	-
Profit for the period		6,945	2,170	5,884	4,025
Other comprehensive income to be reclassified to profit or loss in subsequent periods: Net profit / (loss) on available for sale investments	35	(1,161)	467	(1,161)	425
Total comprehensive income for the period		5,784	2,637	4,723	4,450

The Notes on pages 16 to 99 are an integral part of these financial statements.

Reinis Bērziņš
Chairman of the Board

Marina Baranovska
Chief accountant

29 March 2018

Statement of financial position

all amounts in thousands of euro

	Notes	Group 31/12/2017	Group Restated 31/12/2016	Company 31/12/2017	Company Restated 31/12/2016
Assets					
Due from other credit institutions and Treasury	16	109,594	89,553	109,594	89,408
Derivatives	17	142	-	142	-
Investment securities - available for sale	14	61,760	64,294	61,760	64,294
Investment securities – held to maturity	14	443	1,531	443	1,531
Loans and receivables	19	192,147	201,250	192,147	201,250
Deferred expense	24	176	413	176	413
Accrued income	25	2,080	1,646	2,080	1,647
Assets held for sale	26	12,935	1,367	10,565	1,367
Investments in venture capital funds – associates	18	51,170	58,296	49,108	56,722
Investments in subsidiaries	20	-	-	-	10,376
Investment property	15	10,808	17,087	10,808	4,869
Property, plant and equipment	22	3,828	3,507	3,828	3,507
Intangible assets	21	771	168	771	168
Other assets	23	5,832	4,014	5,832	3,875
Total assets		451,686	443,126	447,254	439,427
Liabilities					
Due to credit institutions	27	46,933	56,195	46,933	56,195
Derivatives	17	-	854	-	855
Due to general governments	28	43,609	46,914	43,609	46,914
Issued debt securities	33	19,852	-	19,852	-
Deferred income		1,395	777	1,395	777
Accrued expense	32	982	1,198	982	1,198
Provisions	30	14,531	16,864	14,531	16,864
Support programme funding	29	92,041	98,096	94,080	95,699
State aid	29	3,968	5,575	3,968	5,575
Other liabilities	31	3,764	6,559	3,488	4,282
Corporate Income tax liabilities	13	125	-	125	-
Liabilities directly associated with assets held for sale	26	2,000	-	-	-
Total liabilities		229,200	233,032	228,963	228,359
Capital and reserves					
Share capital	34	204,862	204,862	204,862	204,862
Reserves	35	2,398	(8,235)	(386)	(6,911)
Reserve of disposal group classified as held for sale	26, 38	1,839	-	1,839	-
Available for sale reserve	38	6,092	9,092	6,092	9,092
Retained earnings		7,295	4,375	5,884	4,025
Total capital and reserves		222,486	210,094	218,291	211,068
Total liabilities, capital and reserves		451,686	443,126	447,254	439,427

The Notes on pages 16 to 99 are an integral part of these financial statements.

Reinis Bērziņš
Chairman of the Board

Marina Baranovska
Chief accountant

29 March 2018

Consolidated statement of changes in equity

all amounts in thousands of euro

	Share capital	Reserves	Available for sale reserve	Reserve of disposal group classified as held for sale	Retained earnings	Total capital
As at 31 December 2015	204,862	(16,082)	8,625	-	2,205	199,610
Profit for the period	-	-	-	-	2,170	2,170
Other comprehensive income	-	-	467	-	-	467
Total comprehensive income	-	-	467	-	2,170	2,637
Changes of reserves (see Note 35)	-	458	-	-	-	458
Increase of reserve capital (see Note 35)	-	5,560	-	-	-	5,560
Distribution of 2015 year profit of Company (Note 35)	-	1,829	-	-	-	1,829
As at 31 December 2016	204,862	(8,235)	9,092	-	4,375	210,094
Profit for the period	-	-	-	-	6,945	6,945
Other comprehensive loss	-	-	(1,161)	-	-	(1,161)
Other comprehensive income associated with assets held for sale			(1,839)	1,839		-
Total comprehensive income	-	-	(3,000)	1,839	6,945	5,784
Changes of reserves (see Note 35)	-	4,108	-	-	-	4,108
Increase of reserve capital (see Note 35)	-	2,500	-	-	-	2,500
Distribution of 2016 year profit of Company (Note 35)	-	4,025	-	-	(4,025)	-
As at 31 December 2017	204,862	2,398	6,092	1,839	7,295	222,486

The Notes on pages 16 to 99 are an integral part of these financial statements.

Statement of changes in equity for the company

all amounts in thousands of euro

	Share capital	Reserves	Available for sale reserve	Retained earnings	Total capital
as at 31 December 2015	204,862	(14,300)	8,667	1,829	201,058
Profit for the year	-	-	-	4,025	4,025
Other comprehensive income	-	-	425	-	425
Total comprehensive income	-	-	425	4,025	4,450
Increase of reserve capital (see Note 35)	-	5,560	-	-	5,560
Distribution of 2015 year profit (Note 35)	-	1,829	-	(1,829)	-
as at 31 December 2016	204,862	(6,911)	9,092	4,025	211,068
Profit for the year	-	-	-	5,884	5,884
Other comprehensive income	-	-	(1,161)	-	(1,161)
Total comprehensive income	-	-	(1,161)	5,884	4,723
Increase of reserve capital	-	2,500	-	-	2,500
Distribution of 2016 year profit (Note 35)	-	4,025	-	(4,025)	-
as at 31 December 2017	204,862	(386)	7,931	5,884	218,291

The notes on pages 16 to 99 are an integral part of these financial statements.

Cash flow statement

all amounts in thousands of euro

	Notes	Group 01/01/2017-31/12/2017	Group 01/01/2016-31/12/2016	Company 01/01/2017-31/12/2017	Company 01/01/2016-31/12/2016
Profit before taxes		6,945	2,170	5,884	4,025
Amortisation of intangible assets and depreciation of property, plant and equipment	22 ,21	417	529	417	529
Interest income	4	(12,192)	(12,584)	(11,948)	(12,584)
Interest received		10,444	10,713	10,200	10,713
Interest expenses	5	807	1,707	807	1,607
Interests paid		(191)	(720)	(191)	(620)
(Decrease) / increase in provisions for impairment	12	2,001	(471)	2,001	(717)
Increase in provisions for impairment of investments in venture capital funds		-	-	-	253
(Decrease) / increase in share of profit / (loss) in joint venture and associate capital funds		(818)	1,758	-	-
Increase in deferred income and accrued expense		401	311	402	312
(Decrease) in deferred expense and accrued income		(196)	(497)	(196)	(499)
Increase of cash and cash equivalents used before changes in assets and liabilities		7,618	2,916	7,376	3,019
Decrease / (increase) of other assets		(8,727)	7,736	(8,149)	9,579
Increase / (decrease) in other liabilities		(7,167)	20,386	(6,281)	20,648
Due from credit institutions (increase)		(3,998)	(1,832)	(3,998)	(2,568)
(Increase) / decrease of loans		7,148	(2,042)	7,148	(2,042)
Due to credit institutions increase / (decrease)		(3,306)	7,354	(4,663)	7,355
Corporate income tax		-	-	-	-
Net cash flow from operating activities		(8,432)	34,518	(8,567)	35,991
Cash flows from investment activities					
Sale of investment securities, net		5,066	25,521	4,876	24,420
Sale of assets held for sale		5,239	-	5,239	-
Acquisition of property, plant and equipment and intangible assets		(1,342)	(777)	(1,342)	(777)
Purchase of investment properties	15	(5,818)	(3,615)	(5,818)	(3,615)
Investments in venture capital funds, net	18	(968)	(20,370)	(498)	(20,887)
Net cash flow of investment activities		2,177	759	2,457	(859)
Cash flows from financing activities					
Issued debt securities		19,799	-	19,799	-
Increase in share capital	35	2,500	5,560	2,500	5,560
Net cash flow from financing activities		22,299	5,560	22,299	5,560
Increase in cash and cash equivalents		16,044	40, 837	16,189	40,692
Cash and cash equivalents at the beginning of period		84,553	43,716	84,408	43,716
Cash and cash equivalents at the end of period	37	100,597	84,553	100,597	84,408

The Notes on pages 16 to 99 are an integral part of these financial statements

Approval of consolidated financial statements

The management of the Group/Company has approved these financial statements on 29 March 2018. The Commercial Law of the Republic of Latvia as well as Development Finance Institution Law stipulates that the shareholders' meeting is entitled to pass a decision on approval of the financial statements.

1 General information

(1) Background information

These financial statements contain the financial information about joint-stock company Development Finance Institution Altum (Company) and its subsidiaries (hereinafter — the Group). The separate financial statements of the Company are included alongside these consolidated financial statements to comply with legal requirements. The Company is the parent entity of the Group (Note 39).

The Group ensures access of enterprises and households to the financing resources by means of support financial instruments – loans, guarantees, investments in venture capital funds – in areas defined as important and to be supported by the state, thus developing national economy and by such way enhancing mobilisation of private capital and financial resources.

Company is a Latvia state owned company, established on 27 December 2013 based on the decision of the Cabinet of Ministers.

The mission of the Company 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. 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.

2 Accounting policies

(1) Basis of preparation

These Group's and the Company's financial statements are financial statements prepared in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union, on a going concern basis. In preparation of these financial statements on a going concern basis the management considered the Group's/Company's financial position, access to financial resources and analysed the impact of the external factors on future operations of the Group/Company.

The Group's and the Company's financial statements are prepared under the historical cost convention as modified by the fair valuation of financial assets held as available-for-sale, derivative financial instruments and investment properties and non-current assets held for sale measured at fair value les costs to sell.

The preparation of financial statements in accordance with International Financial Reporting Standards as adopted by European Union requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on the Management's best knowledge of current events and actions, actual results ultimately may differ from those estimates (Note 2 (24)).

In the financial statements the amounts are given in thousands of euros, unless specified otherwise. The functional currency of the Company and its subsidiaries as well presentation currency of the Group/Company has been the euro.

(2) Consolidation and investments in subsidiaries

Consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2017.

The subsidiaries where the Group has direct or indirect control over the financial and operational policies have been consolidated in these statements by merging the respective assets, liabilities, income and expense items.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Subsidiaries are consolidated from the date on which control is transferred to the parent and are no longer consolidated from the date that control ceases. The entities of the Group are listed in Note 39.

Investments in associates

Associates are all entities over which the Group has significant influence but no control. The investments in associates are accounted for using the equity method in Group financial statements (Note 2(6)). In Company's financial statements these investments are accounted at cost minus impairment.

(3) Foreign currency translation

During the reporting period the transactions in foreign currencies were converted into euro based on the foreign exchange rate of the European Central Bank effective on the day of the transaction. The monetary assets and liabilities as well as off-balance sheet claims and foreign currency liabilities were converted in euro based on the foreign exchange rate of the European Central Bank effective at the end of the reporting period. Income or loss on foreign exchange rate fluctuations was included in the statement of comprehensive income of the reporting period.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

The applicable rates for the principal currencies at the end of the reporting period were the following:

as on 31 December 2017	as on 31 December 2016
1 USD = EUR 1.19930	1 USD = EUR 1.05410
1 GBP = EUR 0.88723	1 GBP = EUR 0.85618
1 CHF = EUR 1.17020	1 CHF = EUR 1.07390
1 NOK = E UR 9.84030	1 NOK = E UR 9.08630

2 Accounting policies (continued)

(4) Income and expense recognition

Income and expense accounting of the Group/Company is based on accrual basis, i.e.:

- income and expense, pertaining to the reporting period, are included in the statement of comprehensive income regardless of the day of their receipt or origination;
- income is included in the statement of comprehensive income, when obtained, or there is no doubt about receiving it on the expected time, and expense is accounted as soon as there is evidence clearly indicating the occurrence of expense.

Foreign income and expense are calculated and presented in euro based on the foreign exchange rate of the European Central Bank on the respective day.

Foreign exchange income and expense are recognised in the profit or loss of the reporting period.

Interest income and expense are recognised in profit or loss for all interest bearing instruments on an accrual basis using the effective interest rate method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group/Company estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options), but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Interest accrued on loans is included in profit or loss based on the following complementary principles:

- interest accrual calculation uses various day accounting methods, specified in agreements with customers (30/360 or actual days / 360).

The following principles are applied with respect to contractual penalties (late payment charge):

- contractual penalties are calculated for each day;
- included in the profit or loss only when being paid by the customer;
- subject to grace days – i.e., if customer pays the entire amount in full within 3 days after the scheduled payment date, contractual penalties are not calculated.

Commissions from advancing loans and their management are included in profit or loss based on the following principles:

- loan processing and disbursement commissions (including loan application fee) together with related direct costs – using effective interest rate method;
- other commissions (loan account management, amendment of terms, reservation fee, a.o.) – are recognised on an accrual basis.

Commissions from granting and maintenance of financial guarantees are included in the profit or loss following the principles below:

- commissions from granted financial guarantees – according to principles described in Note 2 (22);
- other commissions – are recognised on an accrual basis.

Interest accrued on loans and commissions from financial guarantees exclude pricing for credit risk if such is covered by allocated support programme funding. See Note 29.

Other commission income and expense, which are not related to financial guarantees, are recognized as they occur.

Income and expense in foreign currencies are calculated and presented in euro by the official exchange rate as set by the European Central Bank on the respective day.

The income and expense resulting from changes in exchange rates are included in the profit or loss for the period.

(5) Financial instruments - initial recognition and subsequent measurement

(i) Date of recognition

Purchase and sale of trading securities and investment securities that require delivery within the time frame established by regulation or market convention ("regular way" purchase and sale), are recognised on the settlement date, which is the date, when the asset is delivered or given to the Group/Company. Any change in the fair value of the asset during the period between the purchase date and settlement date is recognised in the profit or loss in the statement of other comprehensive income, as appropriate.

2 Accounting policies (continued)

(5) Financial instruments - initial recognition and subsequent measurement (continued)

(ii) Initial measurement of financial instruments

Trading securities, derivatives and other financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions for the same instrument.

(iii) Trading and investment securities

Trading and investment securities are comprised of the following categories:

- Trading securities comprise fixed income securities held by the Group/Company for trading purposes. They are accounted for at fair value and all gains and losses arising from changes in the fair value are included in the profit or loss as part of net trading income. As at 31 December 2017 there are no any fixed income securities, which are classified as Trading securities.
- Investment securities available-for-sale comprise treasury bills, investments in equity shares and other fixed income securities held by the Group/Company for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. They are stated at fair value with all gains and losses from revaluation recognised in the other comprehensive income, which is reclassified to profit/loss in subsequent periods, except for impairment losses, which are recognized in the profit or loss until derecognition. The cumulative change recognised as other comprehensive income is presented as Available for sale reserve under equity. The Group/Company reviews its debt securities classified as available-for-sale investments at each statement of financial position date to assess whether they are impaired. This requires estimates similar to those applied to the individual assessment of loans and advances. The Group/Company also records impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Group/Company evaluates, among other factors, historical share price fluctuations and duration and extent to which the fair value of an investment is less than its cost.
- Investment securities held-to-maturity comprise debt securities with fixed or determinable payments and fixed maturities that the Group's/Company's management has a positive intention and ability to hold to maturity. They are carried at amortised cost, that is calculated based on the purchase price of the securities adjusted by discount or premium amortised over the term of the securities, using the effective interest rate method. If the Group/Company was to sell or reclassify more than an insignificant amount of held-to-maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the Group/Company would be prohibited from classifying any financial asset as held to maturity during the following two years.

(iv) Loans and receivables

For purposes of this section, loans are:

- direct lending products, i.e., the Group/Company grants a loan to a borrower, who is the end beneficiary of funds. Direct lending products include Reverse rent transaction. Reverse rent – agricultural land purchase transaction with rent and repurchase rights for the seller of the property established by agreement;
- indirect lending products without assuming risk, i.e., the Group/Company grants a loan to a borrower, who is an intermediary. The intermediary then grants the received loan further to borrowers, who are the end beneficiaries of funds. The Group / Company recognizes loan impairment loss only when resulting from solvency problems of the borrower;
- indirect lending products with risk assumption, i.e., the Group/Company grants a loan to a borrower, who is an intermediary. The intermediary then grants the received loan further to borrowers, who are the end beneficiaries of funds. The Group / Company recognizes loan impairment loss both when resulting from solvency problems of the intermediary, as well as when resulting from solvency problems of the end beneficiary, proportionate to the share of risk.

The loans granted to customers are accounted for as loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables initially are recognised at fair value and subsequently at amortised cost.

The loans and receivables are recognised in the financial statements of the Group / Company when cash is advanced to borrowers. Granted, but not yet disbursed loans are recognised as off-balance sheet liabilities.

Management considers risks for all loans to determine the provision for loan impairment. Provisions for individual loan impairment are established if there is objective evidence that it will not be possible to collect all amounts due according to the original contractual terms of loans. The amount of the provision is the difference between the carrying amount and the recoverable amount, being determined as the present value of expected cash flows, including amounts recoverable from guarantees and collateral. Impairment losses are recognised through an allowance account.

In addition to provisions for individual loans, provisions for homogeneous groups of loans based on similarities of credit risk involved, loan size, quality and loan terms are also established. The provisions for loan impairment losses for the loans included in homogeneous groups have been estimated based upon historical patterns of losses in each group, the historic pattern of timeliness of payments and current economic climate in which the borrowers operate.

2 Accounting policies (continued)

(5) Financial instruments - initial recognition and subsequent measurement (continued)

(iv) Loans and receivables (continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss and disclosed as part of provision for impairment loss.

The methodology and assumptions used are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

When a loan or receivable is not recoverable, it is written off against the pre-arranged provisions for loan or receivable impairment, further recovery of this loan or receivable is stated as earnings in the profit or loss.

Reverse rent

Reverse rent – agricultural land purchase transaction with rent and repurchase rights for the seller of the property established by agreement.

It was concluded that the reverse rent transactions embraced the repurchase option for the lessee that could be exercised nearly always. From IFRS viewpoint it means that such a rent falls outside the definition of rent as, in essence, the use rights of the asset are not transferred and remain with the lessee.

The nature of reverse rent transaction corresponds to the definition of financial asset where the purchase price is a long-term loan issued to the lessee (right to get the money in near future), whereas land functions as a collateral.

Following the same practice applied to the other loans the management assesses value impairment and provisioning for value impairment at each reporting date. A part of the value impairment assessment and calculation is linked to evaluation of the collateral.

(v) Due from other credit institutions and Treasury

Amounts due from other credit institutions and Treasury are recorded when the Group/Company advances money to a credit institution with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from credit instructions are carried at amortised cost.

(vi) Derivative financial instruments

Derivative financial instruments including foreign currency swaps are initially recognised at fair value and subsequently measured at their fair value. Fair values are obtained from quoted market prices and discounted cash flow models as appropriate. All derivatives are carried as assets when fair value is positive and liabilities when the fair value is negative. Changes in the fair value of derivatives are reported in the profit or loss. The Group/Company does not use hedge accounting.

(vii) Financial liabilities carried at amortised cost

Financial liabilities carried at amortised cost are mainly amounts due to the Treasury and credit institutions. These are initially recognised at cost, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Financial liabilities are subsequently measured at amortised cost and any difference between net proceeds and the redemption value is recognised in the profit or loss over the period of the borrowings using the effective interest method, less any impairment. In cases of early repayment, any difference between the refunded and carried amounts is immediately included in the profit or loss.

(viii) Issued debt securities

The Group and the Company recognise issued debt securities at the date when the respective funds are received. After initial recognition when these financial liabilities are initially recognised at fair value including direct transaction costs, those are subsequently carried at amortised cost using the effective interest method.

When issued debt securities are sold at a discount, the difference is amortised applying the effective interest method until the debt matures and charged to the statement of comprehensive income as interest expense.

(6) Investment in venture capital funds

The Group/Company has a number of investments in the capital of venture capital funds.

The Group's and the Company's investments in venture capital funds are treated as *Associates*. An *Associate* is a company in which the Group or the Company has significant influence, but not control. Significant influence is defined as the power to affect the financial and operating policy decisions of the investee. Significance of influence is classified based on the same parameters that are applied to the branches.

For the purpose of evaluating investments in venture capital funds, the equity method is used at the level of the Group, but at the level of the Company these investments are recognized at cost less any impairment in value.

2 Accounting policies (continued)

(6) Investment in venture capital funds (continued)

Evaluation method for venture capital funds used by the Group

The Group's investments in an associate are initially recognised at acquisition cost. The carrying value of the investment is adjusted to recognise changes in the Group's net assets in the associate since acquisition date. Goodwill relating to the associate is subsequently is included in the carrying value of investment and is not tested for impairment separately. The profit or loss shows the Group's share in the operational results of the associate.

Moreover, if changes have been recognised directly in the equity of the associate, the Group, if required, recognises its share of changes in the statement of changes in equity. The unrealised gains and losses on transactions between the Group and associate are eliminated in proportion to the ownership interest in the associate. The financial statements of the associate and Group cover the same reporting period. Adjustments are made to align the accounting policies of the associate with accounting policies of the Group.

*Impair**ment in venture capital funds' valu**e*

Once one of the methods has been applied, the Group/Company decides on recognition of impairment of the investments in the associate. On the reporting dates the Group/Company establishes whether there is an impartial evidence of impairment of the investments in the associate (Note 2 (24)).

Other accounting issues

The management fees of the venture capital funds referable to the reporting period (previous periods) are treated as fees for services received and are included in profit or loss.

As foreseen by the new wording of the agreement No 2015/15 On Implementation of the Holding Fund dated 23 December 2015 concluded between the Company and Ministry of Economics, the Group/Company is reimbursed from the funding of the Ministry of Economics for the following:

- management fees of the financial intermediaries for implementation of the financial engineering instruments;
- value impairment of the investments of the financial engineering instruments due to valuation or revaluation.

The above risk cover mechanism is valid for the second and third generation venture capital funds, such as BaltCap LatviaVenture Capital Fund, Imprimatur Capital Technology Venture Fund, Imprimatur Capital Seed Fund, ZGI-3 fund, FlyCap Investment Fund I and Expansion Capital Fund (Note 18) as well as for Baltic Innovation fund from the December 2017.

(7) Derecognition of financial assets

The Group/Company derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Group/Company has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

(8) Fair values of assets and liabilities

Fair value is the price that would be received when selling an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. Fair values of financial assets and liabilities, including derivative financial instruments, are based on market prices quoted in active markets.

If the market for a financial asset or liability (and for unlisted securities) is not active, the Group/Company establishes fair value by using valuation techniques. These include the use of discounted cash flow analysis, option pricing models and recent comparative transactions as appropriate. Where, in the opinion of the Management of the Group/ Company, the fair values of financial assets and liabilities differ materially from their book values, such fair values are separately disclosed in the notes to the accounts.

The Group/Company measures financial instruments, such as AFS securities, derivatives, non-financial assets, such as investment properties and assets held for sale, such as investments in alternative investment funds, at fair value at each balance sheet date. The information about financial and non-financial assets, which are measured at fair value or which values are disclosed, are summarised in the following notes:

▪ Disclosures for valuation methods, significant estimates and assumptions	Note 2 (5), 2 (6),2 (13), 2 (19), 2 (23), 2 (24), 2 (25)
▪ Quantitative disclosures of fair value measurement hierarchy	Note 42
▪ Investment property	Note 2 (14)
▪ Financial instruments (including those carried at amortised cost)	Note 2 (5), 2 (11), 2 (22)

2 Accounting policies (continued)

(9) Off-setting financial instruments

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

(10) Impairment of financial assets

The Group/Company first assesses whether objective evidence of impairment exists individually for financial assets at amortised cost (such as due from banks, loans and held-to-maturity investments) and assesses whether each individual financial asset should be considered significant. Financial assets are considered impaired, supported by objective evidence, when loss events have occurred and they are highly likely not fully recoverable. Such include overdue financial assets, i.e., that have their regular principal and interest payments past due, as well as financial assets with other defaulted significant agreement terms. Financial assets are not considered impaired when having sufficient collateral, the disposal of which would result in full recovery of the financial asset.

Impaired financial assets that each are considered significant, are assessed individually and are not included in homogenous groups of financial assets for collective assessment of their impairment. If the Group/Company determines that no objective evidence of impairment exists for an individually assessed financial asset, it is included in a group of loans with similar credit risk characteristics and collectively assessed for impairment. For the purposes of a collective evaluation of impairment the loans are grouped on a basis of similar credit risk characteristics.

The cumulative impairment loss - measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred) discounted at the financial asset's original effective interest rate - is reduced through use of an allowance account and the amount of the loss is recognised in the profit and loss. Interest income continues to be accrued on the reduced carrying amount at the interest rate used to discount the future cash flows for the purpose of measuring impairment loss, and is recognised as 'Interest income'. When a loan is uncollectible, it is written off against the related allowances for credit losses; subsequent recoveries, if any, are credited to the profit or loss.

The Group/Company reviews impairment of its financial assets at least once a quarter. In determining whether an impairment loss should be recorded in the profit or loss, the Group/Company makes judgments as to whether there is any objective indication that there is a measurable decrease in the estimated future cash flows before the decrease can be identified with an individual financial asset. The Management uses estimates based on historical loss experience for assets with similar credit risk characteristics and current economic climate in which the borrowers operate. The methodology and assumptions used are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Nevertheless, it is reasonably possible, based on the current experience and existing knowledge that outcomes within the next financial year will differ from the current assumptions, whereby the carrying amount of the asset or liability affected might require a material adjustment.

(i) Restructured loans

Where possible, the Group/Company seeks to restructure loans rather than take possession of collateral. This mostly involves adjusting payment made by a borrower in a manner matching such a borrower's financial capacity (temporarily reducing principal repayments, extending payment terms) and agreement of new loan conditions. Once the terms have been renegotiated and executed a loan is no longer considered non-performing as long as a borrower complies with the renegotiated terms and conditions. Such loans are continuously reviewed to ensure that all criteria are met and that future payments are likely to occur and interest and fee income is accrued and recognised as for other performing loans. If the terms of the financial assets have been renegotiated, each restructured loan is assessed quarterly to identify possible impairment that otherwise would be treated as overdue or impaired. When a loan is restructured, it is also assessed for derecognition (See Note 2 (7) on derecognition policy of assets).

(ii) Available for sale financial instruments

At each balance sheet date the Group/Company assesses whether there is objective evidence that available-for-sale securities are impaired. If any such evidence exists, for available for sale investments the cumulative impairment loss - measured as the difference between the amortised cost of the asset and the current fair value, less any impairment loss previously recognised - is removed from other comprehensive income and recognised in the profit or loss.

Impairment losses recognised in the profit or loss are subsequently reversed if a fair value increase is observed that can be objectively related to an event occurring after the impairment loss was recognised. The assessment of the evidence for impairment and determination of the amount of impairment or its reversal require application of management's judgement and estimates.

The Group/Company reviews its debt securities classified as available-for-sale investments at each statement of financial position date to assess whether they are impaired. This requires similar judgment as applied to the individual assessment of loans and advances. The Group/Company also records impairment charges on available-for- sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Group/Company evaluates, among other factors, historical share price fluctuations and duration and extent to which the fair value of an investment is less than its cost. No reversal of impairment through statement of comprehensive income is made for equity investments.

2 Accounting policies (continued)

(11) Intangible assets

Acquired computer software and licences are recognised as intangible assets on the basis of the costs incurred to acquire and bring to use the software. Intangible assets are amortised on the basis of their expected useful lives (5 years) and less impairment, if there is an indication that intangible asset may be impaired. The costs associated with developing or maintaining computer software programs are recognised as an expense when incurred.

(12) Property, plant and equipment and depreciation

All property, plant and equipment are stated at historical cost less accumulated depreciation and impairment, if any. Depreciation is provided using the straight-line method to write off the cost of each asset to its residual value over the estimated useful life of the asset. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

The annual depreciation rates are as follows:

Category	Depreciation rate
Land and buildings	2% p.a.
Furniture and fittings	10 - 20% p.a.
Computers and equipment	33% p.a.
Vehicles	17% p.a.
Leasehold improvements	over the term of the lease agreements

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains and losses on disposals of property and equipment are recognised in the profit or loss in the period of disposal. Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group/Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred. Property, plant and equipment are periodically reviewed for impairment.

(13) Impairment of non-financial assets

The Group/Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group/Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group/Company estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the profit or loss. Goodwill impairment losses cannot be reversed over the next reporting periods.

(14) Investment property

Investment property comprises land or buildings, which are held in order to earn rentals or for capital appreciation or both, and which are not occupied by the Group/Company or otherwise held for sale. Property rented out under operating lease is classified as investment property if, and only if, it meets the definition of an investment property.

Investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, to any difference in the nature, location or condition of the asset. The fair value of investment property is based on a valuation by an independent valuator who holds a recognised and relevant professional qualification and who has recent experience in the location and category of the investment property being valued. If this information is not available, the Group/Company uses alternative valuation methods such as discounted cash flow projections. Changes in the fair value of investment property are recorded in the profit or loss as part of operating income.

Gains and losses on sale of investment properties is recognised at sale as the difference between the proceeds from the sale and the carrying amount (fair value) of investment properties.

2 Accounting policies (continued)

(15) Inventory (included in *Other assets*)

Inventory includes movable assets, lands and buildings that have been acquired in the debt collecting process, for the purpose to hold them and sell in an ordinary course of business. Inventory is reported at the lower of cost or net realizable value. Net realizable value is a selling price during an ordinary course of business of the Group/Company less selling expenses. Depreciation of Inventory is not calculated. Changes in value of Inventory are recognised in of profit or loss. The value of Inventory is reassessed at each reporting date to ensure it is stated at the lower of cost and net realisable value. The inventory consists of properties taken over with an aim to sell them in the near future.

Realised gains and losses on sale of the properties taken over are recognised at sale as the difference between sale price of inventory and carrying amount as at the moment of sale.

(16) Leases - when the Group/Company is a lessor

The income from operating lease is included in the profit or loss for the duration of the lease contract using the straight-line method and is recognised under item Operating income.

(17) Corporate income tax

Corporate income tax for the reporting period is included in the financial statements based on the management's calculations prepared in accordance with tax legislation of the Republic of Latvia. The tax rate of corporate income tax in the end of reporting period is 15%.

Legal entities will not be required to pay income tax on earned profits starting from 1 January 2018 in accordance with amendments made to the Corporate Income Tax Law of the Republic of Latvia. Corporate income tax will be paid on distributed profits and deemed profit distributions. Consequently, in Latvia there will be no difference between the value of assets for taxation and accounting purposes, which would give rise to deferred income tax assets or liabilities. Starting from 1 January 2018, both distributed profits and deemed profit distributions will be subject to the tax rate of 20% of their gross amount, or 20/80 of net expense. Corporate income tax on dividends is recognized in the statement of profit or loss as expense in the reporting period when respective dividends are declared, while, as regards other deemed profit items, at the time when expense is incurred in the reporting year.

Deferred tax assets and liabilities were derecognised as of 31.12.2017 in accordance with amendments to the legislation of the Republic of Latvia, which enacted on 28 July 2017 and entered into force on 1 January 2018. The existing temporary differences are eliminated, and there will be no new temporary differences recognized in the future. Accordingly, deferred tax liabilities or assets which have been calculated and recognized in previous reporting periods are taken to the current statement of profit or loss in the financial statements for the year ended 31 December 2017, as it is laid down in the International Accounting Standard, changes in the tax legislation must be presented in financial statements in the period when they are adopted.

(18) Due from other credit institutions and the State Treasury

Item *Due from other credit institutions and the State Treasury* comprises cash and demand deposits with credit institutions with original maturity of 3 months or less (See Note 37) and demand deposits with the State Treasury and other credit institutions with original maturity of more than 3 months.

(19) Provisions

The Group/Company utilises off-balance sheet financial instruments that include commitments to issue loans and commercial letters of credit. Such financial transactions are recognized in the financial statements as of the respective agreement dates.

Provisions are recognised when the Group/Company has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the income statement net of any reimbursement.

(20) Vacation reserve

Provisions for employee leaves are recognised on an accrual basis.

The volume of provisions for leaves is calculated, based on the number of leave days earned but unused by the staff members of the Group/Company, and following the principles listed below:

- provisions are built for payment for all unused leave days of staff members;
- the value of one unused leave day is defined as the staff members' average salary per day at the end of the reporting year, plus the appropriate compulsory social insurance contributions;
- movements in provisions are recognised in the profit or loss.

2 Accounting policies (continued)

(21) Employee benefits

The Group/Company pays social security contributions for state pension insurance and to the state funded pension scheme in accordance with Latvian legislation. State funded pension scheme is a defined contribution plan under which the Group/Company pays fixed contributions determined by the law and has no legal or constructive obligations to pay further contributions if the state pension insurance system or state funded pension scheme are not able to settle their liabilities to employees. The social security contributions are recognised as an expense on an accrual basis and are included within staff costs.

(22) Financial guarantees

Financial guarantee contracts issued by the Group/Company are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument.

The Group/Company accounts for the guarantee commissions received in deferred income, to the extent they relate to prepayment for upcoming 12-18 months, and linearly recognizes the income in profit or loss (estimated to reflect the Effective Interest rate (EIR) amortisation). The difference between the present value of total commissions receivable for the guarantee and market price of those commissions, is recognised as a loss in profit or loss on the day of guarantee issuance, and as provisions for onerous contracts in the statement of financial position. Subsequently, the financial guarantees are measured at the higher of the amount determined in accordance with IAS 37 and the amount initially recognised less cumulative amortisation, on a straight line basis over the life of the guarantee.

Under IAS 37, the best estimate of expenditure required to settle the commitment at a balance sheet date is stated as provisions for financial guarantees and is determined in full, when reliable information is obtained about a necessity to settle particular assumed liabilities (for instance, a request to cover an issued guarantee is received).

(23) State aid

The Group and the Company implement the state aid programmes by pursuing the government's policy in the national economy and supporting specific branches of the national economy where the market instruments fail to provide the required accessibility of funds or where aims crucial for development of the economy are not attained.

The funding of the state aid programmes may be comprised of (i) the following public funding sources –European Union funds, other foreign financial aid, funding from the state budget as well as (ii) own funds of the very implementing body. The conditions for use of the public funding of each state aid programme, including covering of the management expenses and credit risk losses, are stipulated by agreement between the implementing body and line ministry and/or state-owned Central Finance and Contracting Agency. According to IAS 20 this type of state aid granted to the Group/Company, which is implementing body of the state aid programme, is treated as a government grant. When the public funding for implementation of the state aid programmes is given with an interest rate below the effective market rate, the effect of such favourable interest rate is treated by IAS 20 as additional government assistance.

The financing received in order to implement the programs is interest free. In accordance with IFRS, when a financial liability is recognised initially, it shall be measured at fair value plus, in the case of a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the issue of the financial liability. Therefore, financing received from the government is discounted using a prevailing market interest rate. The difference between the fair value of the liability and the proceeds received is considered to be a government grant according to IAS 20.

The Group and the Company recognises the state aid when there is reasonable assurance of receipt of the government grant and compliance with all the related conditions. According to IAS 20.12 the government grants are recognised on a systematic basis as income over the period necessary to match them with the related costs, for which they are intended to compensate. The Group and the Company receives government grants provided it complies with all the grant related conditions and obligations. For this reason the grants are recognised in income and matched with the related expenses for which they are intended to compensate. Thus the Group and the Company applies the *income method* to the recognition of the government grants. The government grants related to assets are carried as deferred income and recognised in income in equal amounts over the useful life of the asset. The additional government assistance of the favourable interest rate is recognised as income during implementation of the state aid programmes.

2 Accounting policies (continued)

(24) Critical accounting estimates and judgements

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group and the Company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group/Company. Such changes are reflected in the assumptions when they occur.

The estimates and assumptions are evaluated regularly and are based on the historic experience and other factors, including expectations of future events that are believed to be reasonable under the current circumstances. Such estimates are disclosed below:

- *Impairment losses of loans and advances*. In order to assess impairment allowance, the management needs to make assumptions regarding the estimated cash flows and their timing related to loans. Significant estimates need to be made in relation to value of the collateral of the loans and advances. The assessment of the collateral includes the amounts of such impairment losses covered by support programme funding provided by state, see Note 29. The management has not significantly changed the estimates made during the prior period. Further details disclosed in Note 19;
- *Impairment losses of investments in venture capital funds.* The Group's/Company's management checks regularly that the value of the underlying investments of the venture capital funds is properly reflected. If the information about investments' evaluation is not sufficient or does not confirm the value, the management needs to make assumptions about the recoverable amount of venture capital funds. The management has not significantly changed the estimates made during the prior period. Further details disclosed in Note 18.
- *Impairment of non-financial assets.* The Group/Company has evaluated its non-financial assets, such as property, plant and equipment and other assets (hereinafter referred to as the Group of assets), for impairment. The management has assessed the need for impairment by comparing the fair value less cost to sell to the carrying value of the group of assets, except for certain Property, plant and equipment which will not be used in the Group's/Company's operations and have been fully impaired as disclosed in Notes 2 (13), (22), (23). More information on the value of property, plant and equipment and intangible assets is disclosed in Note 21 and 22.
- *Impairment allowance for securities held to maturity and available for sale*. The Group/Company performs credit risk evaluation of the issuer of securities on a regular basis for a timely identification of eventual loss events, which might occur due to issuer's default. The Group/Company uses the following criteria for evaluation of quality of securities and building of provisions:
- changes in credit risk of the issuer of securities since the moment of financial asset procurement, upon evaluation of changes in internal or external international credit ratings;
- changes in the fair value of the respective security and potential losses, if the respective security would be sold at a market price on a regulated market;
- changes in estimated future cash flow and date of maturity due to late payments (except for cases when delays were caused by payment system errors) or due to negative changes in creditworthiness of the issuer, bankruptcy, liquidation or reorganization of the issuer.
- *Revaluation of investment properties.* The Group/Company carries its investment properties at fair value, with changes in fair value being recognised in the statement of profit or loss. The Group/Company engaged an independent valuation specialist to assess fair value as at 31 December 2017 for investment properties. For investment properties, a valuation methodology based on a discounted cash flow (DCF) model was used, as there is a lack of comparable market data because of the nature of the properties. In addition, it measures the office property at revalued amounts, with changes in fair value being recognised in the statement of profit or loss. The office property was valued by reference to transactions involving properties of a similar nature, location and condition. More information is provided in Notes 2 (14) and 15.

Such judgments are outlined below:

- *Classification of venture capital funds*. The Group/Company considers that it does not control the venture capital funds even though it owns more than 50% in majority of the funds. Instead, it has been concluded that the Group/Company has significant influence over venture capital funds and therefore investments in venture capital funds are classified as *Associates* and are measured at cost, less impairment, in the separate financial statements of the Company and using the equity method in the consolidated financial statements of the Group.

  The Group/Company has invested in several venture capital funds having ownerships of 20% and 33% in two of the funds and 64%- 100% in rest of them (for more details, please see Note18). The main reason for the Group/Company to invest in these funds is to implement a public funding function imposed by the government. Despite the high direct investments and ownership above 50% in most of the funds, Group's/Company's ability to exercise its power over the venture capital funds is limited by the terms of the agreements signed between Group/Company and the fund managers. The Group/Company has assessed that it doesn't control the funds, but can exercise significant influence over them. The Group/Company is forbidden to take part in the management of the Funds' businesses. However, Group's/Company's representatives are present in different bodies of the funds (e.g. Advisory Board, Investment Committee, etc.) granting it a right to approve or reject certain limited transactions and advising the fund manager. The Group/Company is obliged to implement the Investment Fund in line with the business plan and agreement signed with the State.

2 Accounting policies (continued)

(24) Critical accounting estimates and judgements (continued)

The Group/Company has to monitor the implementation of financing instruments, select financial intermediaries according to legal acts and aim to increase the amount of Investment Fund. The Group/Company could stop the cooperation with the fund managers only in cases when the fund managers cease their operations or illegal actions would be discovered. Under these circumstances, the funds in question would either be closed - the liquidation process would be initiated, no new investments would be made or a search for a new fund manager would be initiated through public tender. The selection of a fund manager for implementation of the state aid programmes requires following the legislation on public tenders, as would the change of fund managers. According to the law, the replacement of the fund manager can occur only as a result of reorganization and selection procedure is costly and time-consuming. The disruption of the cooperation with the fund manager would put under threat the implementation of State and EU support programs which is the main goal of the Group/Company given it is a finance development institution. The Group's/Company's management considers that the monetary amounts required to change the fund manager are material and substantial (the estimated expenses and penalties for fund manager removal would range from 2.6% to 5.9% of the net investment in the fund) and along with the abovementioned circumstances constitute an obstacle to exercising its power over the venture capital funds.

Monitoring of investment in Venture Capital Funds value and its impairment. In accordance with the Limited Partnership Agreement the General Partner, professionals of the venture capital industry, is fully responsible for all aspects of investment fund`s operation, including investment assessment, revaluation and determination of impairment if carrying value of investment exceeds recoverable amount. Carrying value and impairment is recorded and reported on the fund`s financial statement (audited on an annual basis).

Carrying value of investments made by venture capital funds on the funds` financial statement are recorded at a value of cost less impairment complying with the Group`s accounting policy. However, other aspect is determination of fair value used by funds management for making different management decisions, including decisions regarding exit strategy, timing etc. Fair value is reported on Funds` Quarterly Investment Reports. The value of the investment is established based on the most appropriate technique from the International Private Equity and Venture Capital Valuation Guidelines. The employed methods include Third party assessments, Industry Valuation Benchmarks, Discounted cash-flow method and other.

In accordance with the Group`s/Company's principles, the Group/Company considers valuations presented by the fund management as a reliable source as only professionals with respective experience and proven track record are selected as fund managers. However, in order to ensure a sound and transparent finance management, the Group/Company conducts a regular monitoring procedure (typically on a quarterly basis) for evolution of portfolio value of the investments funds. The assessment is carried out based on the information presented by funds management. The process is divided into several stages:

- Financial Intermediary unit, business owner of venture capital segment, is responsible for initial analysis of Fund`s recorded and recognised investment value based on supporting information prepared and sent by fund management. The following information is presented by the investment funds for every investment exposure: the current development and dynamic of investment, the current financial performance and financial forecasts. It should be noted that the funds specialised in early-stage investments (mostly, pre-revenue projects) are not able to provide information about financial performance of projects. In this case investment scoring approach is used as a base;
- Financial Intermediary unit conducts Q&A sessions with venture capital fund management during which the fund management reports about every investment of the portfolio. If supporting information indicates about insufficiency in impairment amount, adjustment in impairment is made.
- adjusted (if any) information is provided to the Risk Management Department for revision of carrying value and impairment, then presented on Risk Management Committee for final approving before recognized in the Group`s/Company's accounting system.

If there is evidence of value impairment, the Group/Company calculates impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the loss in the profit or loss calculation.

The Group/ Company applies Risk coverage reserve for venture capital funds' impairment compensation. The risk cover mechanism is valid for the second and third generation venture capital funds, such as BaltCap LatviaVenture Capital Fund, Imprimatur Capital Technology Venture Fund, Imprimatur Capital Seed Fund, ZGI-3 fund, FlyCap Investment Fund I and Expansion Capital Fund (Note 18) as well as for Baltic Innovation fund from the December 2017. The Risk Coverage reserve is used as a compensation of the share of loss (including impairment) attributed to the Group/Company and hence reduces the amount of share of loss recognised in Statement of Comprehensive income in the consolidated financial statements and the amount of impairment recognised in Statement of Comprehensive income in the separate financial statements.

In 2017, the Company has assessed additional provision for impairment of investments in associates in amount of 8,112 thsd euros, which is compensated to the Company in full amount of 8,112 thsd euros (Note 12).

In 2017, the amount of venture capital funds' value impairment, which compensated to the Group, amounts to 9,016 thsd euros (Note 12).

- *Reverse rent.* Exploring the options for recording of reverse rent transactions and IFRS compliance, the management based its opinion on the subject matter of the transaction and its economic justification rather than the legal form. As part of assessment of these transactions, the management paid much attention to exercising of the reverse repurchase right of the lessee.

2 Accounting policies (continued)

(24) Critical accounting estimates and judgements (continued)

- *Agent vs Principal.* For majority of state aid programs, the Group/Company considers that it acts as a *Principal*. The management of the Group/Company believes that the Group/Company is a *Principal* since the loan agreements concluded with the clients entail contractual rights to loan repayments from the borrowers or other beneficiaries of the investments. Moreover, the loan agreements are concluded for full amount of the loan and granted loans are carried as assets in the Group's/Company's statement of financial position. The investments made comply with the definition of an asset. The Group/Company is responsible for providing of the service and can affect the interest rate. However, some programmes have been imposed with a limit on the interest rates that cannot be exceeded.

  The Group/Company believes that the Group/Company is a *Principal* also for state aid programs, which are based on guarantee products, since the Group/Company is exposed to the risk of such guarantee agreements concluded with the clients.

  The Group/Company recognises its expenses due to impairment of the loans, guarantees or venture capital funds in profit or loss for the portion of impairment that refers to the Group/Company (ranging from 20% to 100%). The portion of losses that the government reimburses by decreasing the amount of the loan repayable to the government, does not affect the Group's/Company's profit or loss as the loan received from the government is debited.

  In Loan Fund Programme, as well as in some Fund of funds' and Energy Efficiency Programme's of Multi-apartment Buildings activities, the Group/Company acts as an *Agent*. In this case the Group/Company is an intermediator and no material risk is borne.

  The interest income received on the loans issued from *above mentioned activities and programs* includes the amounts collected on behalf of and for the benefit of other entities that do not increase the equity capital of the Group/Company and therefore cannot be considered as the Group's/Company's income. For this reason, the Group/Company carries as income only that part of the financial resources of the Loan Fund that is used to cover the management costs of the Loan Fund and this amount is included in the profit or loss calculation.

- *Below market rate loans.* The Group/Company implements the state aid programs by pursuing the government's policy in the national economy and supporting small and medium sized entities (SMEs). The funding of the state aid programs may be comprised of the following public funding sources – (i) European Union funds, other foreign financial aid, funding from the state budget as well as (ii) own funds of the very implementing body. The financing received for implementation of the programs, i.e. for issuing loans to SMEs, is interest free. When the public funding for implementation of the state aid programmes is given with an interest rate below the effective market rate, the effect of such favourable interest rate, i.e. the difference between the fair value of the liability and proceeds received is treated as income-generating government grant.

  Although a fraction of the public funding of some of the state aid programmes implemented by Group/Company may include the state budget funds and funds from Group's/Company's shareholders, this type of the government grant is not treated as a shareholder's equity contribution since the amount of the public funding earmarked for implementation of the specific state aid programme is received in the capacity of the implementing body of the specific state aid programme chosen as a result of public selection and not *in the capacity of entity implementing the assignment or instructions of its shareholder.*

  For more details on the accounting policy applied, see Note 2 (22). Further details on guarantees are disclosed in Notes 12, 36.

  The funding received from the state can be classified into three categories – equity financing (guarantees, see Notes 2 (23), 12, 36, loans (Notes 28, 29) and grants (state aid, Note 29).

- *Below market rate guarantees*. Up to mid-2016 the state aid programmes issuing guarantees to the economic operators of Latvia were implemented with the state aid funding invested in equity capital of Group/Company. The guarantee programmes issue guarantees to Group/Company clients at the rate that is below the currently effective market rate. The difference between the market rate and rate used in the guarantee agreements was covered by provisioning for onerous contracts, as required by IAS 37.

- In year 2016 two guarantee programmes whose funding was attracted through non-current liabilities were included in Group's/Company's portfolio of state aid programmes. As at 31 December 2017 such programmes were: the Guarantee Programme of the *Fund of funds* and sub-activity 2.2.1.4.2. *Mezzanine Loans and Guarantees for Improvement of Competitiveness of Economic Operators.*

- As of 8 June 2016 no provisions for onerous contracts are built for the *Guarantee Programme of the Fund of funds* as the principle of *Agent* is applied to the programme. With regard to this programme the Group/Company functions as an intermediary and therefore assumes no risk.

  As of 31 October 2016, with regard to the sub-activity 2.2.1.4.2. Mezzanine Loans and Guarantees for Improvement of Competitiveness of Economic Operators, Group/Company is entitled to use the funding attracted to implementation of the programme to cover the implementation-related losses once the funding has been absorbed. The funding may be used both for the losses having originated from the issued guarantees and expected losses on the new guarantees (IAS 37). As at 31 December 2017 the available funding amounted to 5,3 mln euros. Since the contract stipulates that the funding earmarked for covering of the losses can be used also for the credit risk, Group/Company holds a view that the co-financing offsets the credit risk component in the calculation of the market rate by reducing it and that the funding may be used to build the required provisions for onerous contracts. The amount of the available funding is reduced at the moment when the credit risk manifests itself i.e. when the guarantee is written off as lost or disbursed.

2 Accounting policies (continued)

(24) Critical accounting estimates and judgements (continued)

- State aid. The implementing body of each state aid programme is identified as a result of selection of applicants. The management of each applicant, including also the management of the Group and the Company, decides to participate in the selection by signing and submitting on behalf of the respective company the project application and business plan for the selection of the implementing body of the specific state aid programme.

  Although a fraction of the public funding of some of the state aid programmes implemented by The Group and the Company may include the state budget funds and funds from Group's /Company's shareholders, could be any of the ministries through which the public funding of the specific state aid programme is channelled, this type of the government grant has never been/currently cannot be treated as a shareholder's equity contribution since the amount of the public funding earmarked for implementation of the specific state aid programme is received in the capacity of the implementing body of the specific state aid programme chosen as a result of public selection and not in the capacity of entity implementing the assignment or instructions of its shareholder.

- Expected losses on credit risk. State support programmes implemented by Group/Company are designed according to the market gap to ensure access of enterprises and residentials to finance resources in areas that the government has defined as important and to be supported, fielding national policy in to the national economy or that access is not sufficient with available financial instruments in the market. Expected loss along with programme's impact, risk assessment, financial feasibility and implementation expenses are estimated prior to approval of respective programme at the Cabinet of Ministers.

  In assessment of expected loss for the programme the Group/Company evaluates incorporated credit risk, operational risk and other risks like market risks. For coverage of the programme's expected loss on credit risk respective portion of public funding available for that programme is allocated at full or partial extent of total expected credit loss depending on the agreed programme's structure. That public funding part allocated for the coverage of programme's expected loss on credit risk is transferred to particular support programme reserve capital within the Group's/Company's Reserve capital, for example Reserve capital for Housing Guarantee Programme (see Note 35), or accounted separately as provisions for risk coverage (Risk coverage reserve) classified within the liabilities (see Note 29).

  If public funding classified within Risk coverage reserve for coverage of particular programme's expected loss on credit risk exceeds actual credit loss incurred during the implementation of the programme, then respective excess portion of that public funding is repayable according to the terms of programme funding agreement.

(25) Assets held for sale

Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

For details of financial information of these investments see Note 26.

2 Accounting policies (continued)

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

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Group as of 1 January 2017:

- IAS 12: Recognition of Deferred Tax Assets for Unrealized Losses (Amendments)
  The objective of the Amendments is to clarify the requirements of deferred tax assets for unrealized losses in order to address diversity in practice in the application of IAS 12 Income Taxes. The specific issues where diversity in practice existed relate to the existence of a deductible temporary difference upon a decrease in fair value, to recovering an asset for more than its carrying amount, to probable future taxable profit and to combined versus separate assessment. The Amendments were not applicable for the Group/Company.

- IAS 7: Disclosure Initiative (Amendments)
  The objective of the Amendments is to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The Amendments specify that one way to fulfil the disclosure requirement is by providing a tabular reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities, including changes from financing cash flows, changes arising from obtaining or losing control of subsidiaries or other businesses, the effect of changes in foreign exchange rates, changes in fair values and other changes. The Amendments did not result in material effect in the financial statements for the Group/Company.

- The IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle, which is a collection of amendments to IFRSs. The following annual improvement has not yet been endorsed by the EU. This improvement did not have an effect on the Group's/Company's financial statements.

  - *IFRS 12 Disclosure of Interests in Other Entities:* The amendments clarify that the disclosure requirements in IFRS 12, other than those of summarized financial information for subsidiaries, joint ventures and associates, apply to an entity's interest in a subsidiary, a joint venture or an associate that is classified as held for sale, as held for distribution, or as discontinued operations in accordance with IFRS 5.

Standards issued but not yet effective and not early adopted

- IFRS 9 Financial Instruments: Classification and Measurement
  The standard is effective for annual periods beginning on or after 1 January 2018, with early application permitted. The final version of IFRS 9 Financial Instruments reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. Management has made an assessment of the effect of the standard and considers that is approximately in the range of 0.8 to 1.2 mil euro. See Note 2 (27).

- IFRS 15 Revenue from Contracts with Customers
  The standard is effective for annual periods beginning on or after 1 January 2018. IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles). Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. Management has assessed that the total estimated adjustment of the effect of the standard is not material. See Note 2 (28).

- IFRS 15: Revenue from Contracts with Customers (Clarifications)
  The Clarifications apply for annual periods beginning on or after 1 January 2018 with earlier application permitted. The objective of the Clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15 *Revenue from Contracts with Customers*, particularly the accounting of identifying performance obligations amending the wording of the "separately identifiable" principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The Clarifications also provide additional practical expedients for entities that either apply IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach. Management has assessed that the total estimated adjustment of the effect of the standard is not material.

2 Accounting policies (continued)

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

- IFRS 16: Leases
  The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. According to estimates made by management, the assets will increase in range from EUR 450 thsd to EUR 550 thsd euro, non-current liabilities in range from EUR 300 thsd to EUR 400 thsd euro and current liabilities in range from EUR 120 thsd to EUR 170 thsd. See Note 2 (28).

- Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
  The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. 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. The amendments have not yet been endorsed by the EU. The Group/Company has not yet evaluated the impact of the implementation of this standard.

- IFRS 2: Classification and Measurement of Share based Payment Transactions (Amendments)
  The Amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. These Amendments have not yet been endorsed by the EU. The Group/Company has not yet evaluated the impact of the implementation of this standard.

- IAS 40: Transfers to Investment Property (Amendments)
  The Amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The Amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. These Amendments have not yet been endorsed by the EU The Group/Company has not yet evaluated the impact of the implementation of this standard.

- IFRS 9: Prepayment features with negative compensation (Amendment)
  The Amendment is effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortized cost or at fair value through other comprehensive income. These Amendments have not yet been endorsed by the EU. The Group/Company has not yet evaluated the impact of the implementation of this standard.

- IAS 28: Long-term Interests in Associates and Joint Ventures (Amendments)
  The Amendments are effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendments relate to whether the measurement, in particular impairment requirements, of long term interests in associates and joint ventures that, in substance, form part of the 'net investment' in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. The Amendments clarify that an entity applies IFRS 9 Financial Instruments, before it applies IAS 28, to such long-term interests for which the equity method is not applied. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long- term interests that arise from applying IAS 28. These Amendments have not yet been endorsed by the EU. The Group/Company has not yet evaluated the impact of the implementation of this standard.

2 Accounting policies (continued)

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

- IFRIC INTERPETATION 22: Foreign Currency Transactions and Advance Consideration
  The Interpretation is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. This Interpretation has not yet been endorsed by the EU. The Group/Company has not yet evaluated the impact of the implementation of this standard.

- The IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2018 for IFRS 1 First-time Adoption of International Financial Reporting Standards and for IAS 28 Investments in Associates and Joint Ventures. Earlier application is permitted for IAS 28 Investments in Associates and Joint Ventures. These annual improvements have not yet been endorsed by the EU. The Group/Company has not yet evaluated the impact of the implementation of this standard.

  - *IFRS 1 First-time Adoption of International Financial Reporting Standards:* This improvement deletes the short-term exemptions regarding disclosures about financial instruments, employee benefits and investment entities, applicable for first time adopters.
  - *IAS 28 Investments in Associates and Joint Ventures:* The amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

- IFRIC INTERPETATION 23: Uncertainty over Income Tax Treatments
  The Interpretation is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. This Interpretation has not yet been endorsed by the EU. The Group/Company has not yet evaluated the impact of the implementation of this standard.

- The IASB has issued the Annual Improvements to IFRSs 2015 – 2017 Cycle, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. These annual improvements have not yet been endorsed by the EU. The Group/Company has not yet evaluated the impact of the implementation of this standard.

  - *IFRS 3 Business Combinations and IFRS 11 Joint Arrangements*: The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
  - *IAS 12 Income Taxes*: The amendments clarify that the income tax consequences of payments on financial instruments classified as equity should be recognized according to where the past transactions or events that generated distributable profits has been recognized.
  - *IAS 23 Borrowing Costs*: The amendments clarify paragraph 14 of the standard that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally.

2 Accounting policies (continued)

(27) Implementation of IFRS 9

In July 2014, the IASB 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. It replaces IAS 39 *Financial Instruments: Recognition and Measurement*.

The Group/Company will apply IFRS 9 as issued in July 2014 initially on 1 January 2018. Based on assessments undertaken to date, the total estimated adjustment of the adoption of IFRS 9 on the opening balance of the Group's/Company's equity at 1 January 2018 is approximately in the range of 0.8 to 1.2 mil euro , representing:

- a reduction of approximately in the range of 0.8 to 1.2 mil euro related to impairment requirements (see Note 2 (27) (ii));
- and no impact related to classification and measurement requirements, other than impairment (see Note 2 (27) (i) and (iii)).

The impact is subject to change due to final parameter calibrations.

The actual impact of adopting IFRS 9 on 1 January 2018 may change. IFRS 9 will require the Group/Company to revise its accounting processes and internal controls and these changes are not yet complete, the Group/Company is refining and finalising its models for Expected Credit Losses (hereafter – ECL) calculations, and the new assumptions, judgements and estimation techniques employed are subject to change until the Group/Company finalises its first financial statements.

(i) Classification - Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. IFRS 9 includes three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (hereafter- FVOCI) and fair value though profit or loss (hereafter – FVTPL). It eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model w hose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest (hereafter SPPI) on the principal amount outstanding.

A financial asset is measured at FVOCI only if it meets bot h of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. In addition, on initial recognition the Group/Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

A financial asset is classified into one of these categories on initial recognition. See Note 2 (27) (v) for the transition requirements relating to classification of financial assets.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of IFRS 9 are not separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

2 Accounting policies (continued)

(27) Implementation of IFRS 9 (continued)

a. Business model assessment

The Group/Company has made an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information that was considered included:

- the stated policies and objectives for the portfolio and the operation of those policies in practice, including whether management 'sstrategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of assets;
- how the performance of the portfolio is evaluated and reported to the Group's/Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's/Company's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading will be measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

b. Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group/Company will consider the contractual terms of the instrument. This will include assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group/Company will consider:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's/Company's claim to cash flows from specified assets - e.g. non-recourse asset arrangements; and
- features that modify consideration for the time value of money - e.g. periodic reset of interest rates.

Interest rates on certain loans made by the Group/Company are based on Standard Variable Rates (hereafter - SVRs) that are set at the discretion of the Group/Company. SVRs are generally based on a EURIBOR rate and also include a discretionary spread. In these cases, the Group/Company will assess whether the discretionary feature is consistent with the SPPI criterion by considering a number of factors, including whether:

- the borrowers are able to prepay the loans without significant penalties;
- the market competition ensures that interest rates are consistent between banks; and
- any regulatory or customer protection framework is in place that requires banks to treat customers fairly.

All of the Group's/ Company's retail loans and certain fixed-rate corporate loans contain prepayment features.

A prepayment feature is consistent with the SPPI criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable compensation for early termination of the contract.

2 Accounting policies (continued)

(27) Implementation of IFRS 9 (continued)

c. Impact assessment

The standard affects the classification and measurement of financial assets held as at 1 January 2018 as follows.

- Derivative assets held for risk management, which are classified as held-for-trading and measured at FVTPL under IAS 39, also are measured at FVTPL under IFRS 9.
- Due from credit institutions and Treasury, Loans and receivables that are classified as loans and receivables and measured at amortised cost under IAS 39 in general also are measured at amortised cost under IFRS 9.
- Certain convertible loans that are held within venture capital funds have features that do not meet the criteria for solely payment of principal and interest and measured at FVTPL under IFRS 9. The Group/Company is currently in process of evaluating the impact of fair value measurement of these exposures.
- Held-to-maturity investment securities measured at amortised cost under IAS 39 in general also are measured at amortised cost under IFRS 9.
- Debt investment securities that are classified as available-for-sale under IAS 39 in general under IFRS 9 are measured at FVOCI, depending on the particular circumstances.
- Grant assets that are currently classified as loans and receivables under other assets caption also are measured at amortised cost under IFRS 9.

The Group/Company has estimated that, on the adoption of IFRS 9 at 1 January 2018, the impact of these changes have no any effect on the Group's/Company's equity, except for the continued evaluation of fair value measurement of certain convertible loans, which is ongoing.

(ii) Impairment - Financial assets, loan commitments and financial guarantee contracts

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' model (hereafter – ECL). This will require considerable judgement over how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model applies to the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments (bank deposits, loans, debt securities and trade receivables); and;
- loan commitments and financial guarantee contracts issued (previously, impairment was measured under IAS 37 Provisions, Contingent Liabilities and Contingent Assets).

IFRS 9 requires a loss allowance to be recognised at an amount equal to either 12-month ECLs or lifetime ECLs. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date.

The Group/Company will recognise loss allowances at an amount equal to lifetime ECLs, except in the following cases, for which the amount recognised will be 12-month EC Ls:

- debt investment securities that are determined to have low credit risk at the reporting date. The Group/Company considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment-grade'; and
- other financial instruments for which credit risk has not increased significantly since initial recognition.

The impairment requirements of IFRS 9 are complex and require management judgements, estimates and assumptions, particularly in the following areas, which are discussed in detail below:

- assessing whether the credit risk of an instrument has increased significantly since initial recognition; and
- incorporating forward-looking information into the measurement of ECLs.

2 Accounting policies (continued)

(27) Implementation of IFRS 9 (continued)

a. Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses and will be measured as follows:

- financial assets that are not credit-impaired at the reporting date: the present value of all cash shortfalls - i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group/Company expects to receive;
- financial assets that are credit-impaired at the reporting date: the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: the present value of the difference between the contractual cash flows that are due to the Group/Company if the commitment is drawn down and the cash flows that the Group/Company expects to receive; and
- financial guarantee contracts: the present value of the expected payments to reimburse the holder less any amounts that the Group/Company expects to recover.

Financial assets that are credit-impaired are defined by IFRS 9 in a similar way to financial assets that are impaired under IAS 39 (see Note 12 , 19, 36 , 23).

b. Definition of default

Under IFRS 9, the Group/Company will consider a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group/Company in full, without recourse by the Group/Company to actions such as realising security (if any is held); or
- the borrower is more than 90 days past due on any material credit obligation to the Group/Company.

In assessing whether a borrower is in default, the Group/Company will consider indicators that are:

- modification of the previous terms and conditions of a contract linked to the financial difficulties of the borrower to allow for sufficient debt service ability;
- bankruptcy, insolvency proceedings or financial reorganisation of the borrower;
- qualitative: e.g. breaches of covenant (forbearance proceedings, decrease in operational cash flows, worsening of borrowers financial position, etc);
- quantitative: e.g. overdue status and non-payment of another obligation of the same issuer to the Group/Company.

For guarantee contracts default in addition to 90 days overdue status notification is to include also guarantees for which a request for compensation has been received and guarantees for which a loss event has been reported.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

c. Significant increase in credit risk

Under IFRS 9, when determining whether the credit risk (i. e. risk of default) on a financial instrument has increased significantly since initial recognition, the Group/Company will consider reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on the Group's/Company's historical experience, expert credit assessment and forward-looking information.

The criteria for determining whether credit risk has increased significantly will vary by portfolio and will include a backstop based on delinquency. The Group/Company will primarily identify whether a significant increase in credit risk has occurred for an exposure by reference to past due status and changes in qualitative credit risk indicators (e.g., financial performance of the borrower, breaches of covenants, industry specific information, etc), restructuring, and inclusion in internal watch list.

2 Accounting policies (continued)

(27) Implementation of IFRS 9 (continued)

The Group/Company will monitor the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit-impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month ECL and lifetime ECL measurements.

d. The measurement of ECLs and the main inputs

According to IFRS 9, exposures which are individually significant will be subject to individual assessment of impairment focused on discounted cash flows analysis. In case no impairment allowances are determined at individual level through the discounted cash flows analysis, then an assessment of whether there has been a significant increase in credit risk since initial recognition will be carried out to determine what stage the exposure falls under for the collective assessment will be used (i.e. probability of default (hereafter - PD and LGD of financial asset group with similar credit risk characteristics).

Non-significant exposers will be grouped in homogeneous risk groups, mainly based on loan/ guarantee programme, product and collateral type, and will be subject to collective assessment impairment model using the following variables:

- PD;
- loss given default (LGD); and
- exposure at default (EAD).

These parameters will be derived from internally developed statistical models and other historical data. They will be adjusted to reflect forward-looking information as described below.

PD estimates are estimates at a certain date, which will be calculated based on past due days and default events. The Group/Company will employ statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time. This analysis will include the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors on the risk of default. For most portfolios, key macro- economic indicators are likely to include GDP growth, average salary levels and unemployment.

LGD is the magnitude of the likely loss if there is a default. The Group/Company will estimate LGD parameters based on the history of recovery rates of claims against defaulted counterparties using estimated cash flows resulting from the workout and/or collections process, properly discounted and taking account current and expected economic conditions (such as real estate market prospects). The LGD models will consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset.

PD and LGD will be estimated on observed internal or external data reflective to appropriate group with shared risk characteristics. EAD represents the expected exposure in the event of a default. The Group/Company will derive the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract, including amortisation, and prepayments. The EAD of a financial asset will be the gross carrying amount at default. For lending commitments and financial guarantees, the EAD will consider the amount drawn, as well as potential future amounts that may be drawn or repaid under the contract.

2 Accounting policies (continued)

(27) Implementation of IFRS 9 (continued)

The Group/Company is planning to use an approximation to the effective interest rate for the purposes of discounting ECLs. Current impact assessments have been performed based on nominal interest rates and this remains to still be resolved.

For portfolios in respect of which the Group/Company has limited historical data, external benchmark information will be used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECLs are as follows.

		External benchmarks used	
	Exposure	PD	LGD
Portfolio of Due from credit institutions and Treasury	109,594	Moody's default study	Moody's default study
Portfolio of investment securities measured at amortised cost	443	Moody's default study	Moody's default study
Portfolio of Debt investment securities measured at FVOCI	61,760	Moody's default study	Moody's default study

e. Forward-looking information

Under IFRS 9, the Group/Company will incorporate forward-looking information into its measurement of ECLs. The Group/Company will formulate a 'base case' view of the future direction using external actual and forecast information. External information will include economic data and forecasts published by governmental bodies, and selected private sector forecasters.

The Group/Company has performed initial identification of key drivers of credit risk and credit losses for loan portfolios and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. These key drivers include average salary levels, unemployment rates and GDP forecasts.

f. Impact assessment

The most significant impact on the Group's/Company's financial statements from the implementation of IFRS 9 is expected to result from the new impairment requirements. Impairment losses will increase and become more volatile for financial instruments in the scope of the IFRS 9 impairment model.

The Group/Company has estimated that, on the adoption of IFRS 9 at 1 January 2018, the impact of the increase in loss allowances will be preliminary in the range of 0.8 to 1.2 mil euro . This impact is after the effect of credit risk cover by public funding. The pre-credit risk cover by public funding effect is the increase in loss allowances by 6 million euro. The estimated increase in impairment allowances is driven by increases loss allowance for loan portfolio whilst provisions guarantees might see a decline.

(iii) Classification - Financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities and the Group/Company does not expect any impact from IFRS 9 adoption in this area.

(iv) Derecognition and contract modification

IFRS 9 incorporates the requirements of IAS 39 for the derecognition of financial assets and financial liabilities without substantive amendments.

2 Accounting policies (continued)

(27) Implementation of IFRS 9 (continued)

However, it contains specific guidance for the accounting when the modification of a financial instrument not measured at FVTPL does not result in derecognition. Under IFRS 9, the Group/Company will recalculate the gross carrying amount of the financial asset (or the amortised cost of the financial liability) by discounting the modified contractual cash flows at the original effective interest rate and recognise any resulting adjustment as a modification gain or loss in profit or loss.

(v) Transition

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

- The Group/Company will 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 be recognised in retained earnings and reserves as at 1 January 2018.
- The following assessments have been 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.
- If a debt investment security has low credit risk at 1 January 2018, then the Group and the Company will assumes that the cred it risk on the asset has not increased significantly since initial recognition.

(28) Implementation of IFRS 15 and IFRS 16

IFRS 15 — Revenue from Contracts with Customers is effective for annual periods beginning on or after 1 January 2018. 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. The Group and the Company has completed assessments of the potential impact of the adoption of IFRS 15 on its consolidated and separate financial statements. This was focused on a review of fees and commission income.

Major types of the fee and commission income falling under the scope of IFRS 15:

- Guarantee commissions;
- Fee and commission income from lending activities and Other fee and commission income (for preparation of the account statement, other statements))
- Realised gains and losses on sale of the properties taken over;
- Other income from renting of premises.

The Group/Company has no bundled packages falling under the scope of IFRS 15.

Based on assessments undertaken to date, the total estimated adjustment of the adoption of IFRS 15 on the opening balance of the Group's/Company's equity at 1 January 2018 is not material.

Since the Group and Company have no bundled revenue that would require material adjustment of the accounting systems, the Group and Company have opted for retrospective application of IFRS 15, thus securing against the need for double entry of revenue according to both – the old and new standard in year 2018.

2 Accounting policies (continued)

(28) Implementation of IFRS 15 and IFRS 16 (continued)

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 valuating the Substance of Transactions Involving the Legal Form of a Lease.

The Group and Company have established that implementation of IFRS 16 will impact their financial statements.

Major lease types of the Group and Company falling under the scope of IFRS 16:

- Lease of vehicles to board members
- Rentals for premises of customer service centres throughout the territory of Latvia
- Lease of vehicles to Altum employees

IFRS 16 will expand the financial statements of the Group and Company by increasing the sum total of the on-balance sheet assets and liabilities and depreciation and interest expenses in the profit or loss. According to management's current estimates, the assets will increase in range from EUR 450 thsd to EUR 550 thsd, non-current liabilities in range from EUR 300 thsd to EUR 400 thsd and current liabilities in range from EUR 120 thsd to EUR 170 thsd. Moreover, IFRS 16 will see extensive disclosures with regard to the transactions where the Group and Company are lessees.

Due to the number of lease transactions of the Group and Company and their manual accounting, the Group and Company will apply modified retrospective approach on transition.

(29) Restatement for errors in comparative indicators

An error was identified in the recurrent analysis of the Fund of funds program financing, which, in accordance with IAS 20, the Group /Company divides into liabilities and state aid components.

Impact from incorrect calculation was corrected retrospectively resulting in changes to the figures of balances in the report of the previous reporting period. There is no impact on the equity of the Group / Company. There are no effects on periods before 2016 year, as Fund of funds program financing was received in December 2016.

Details about the adjustments made are available below:

	Notes	Balance 31/12/2016 before restatement (EUR, thsd)	Restatement (EUR, thsd)	Restated balance as at 31/12/2016 (EUR, thsd)
Items restated in Group's Financial Position Statement:				
Support programme funding	Note 29 – the scope of the Fund's Fund program, which requires calculations after IAS 20, was specified	96,821	1,275	98,096
State aid service	Note 29 – taking into account changes in the financing of the Fund of Funds program, which should be calculated in accordance with IAS 20, the amount of the state aid component has been adjusted	6,850	(1,275)	5,575

2 Accounting policies (continued)

(29) Restatement for errors in comparative indicators (continued)

	Notes	Balance 31/12/2016 before restatement (EUR, thsd)	Restatement (EUR, thsd)	Restated balance as at 31/12/2016 (EUR, thsd)
Items restated in **Company's** Financial Position Statement:				
Support programme funding	Note 29 – the scope of the Fund's Fund program, which requires calculations after IAS 20, was specified	96,821	1,275	98,096
State aid service	Note 29 – taking into account changes in the financing of the Fund of Funds program, which should be calculated in accordance with IAS 20, the amount of the state aid component has been adjusted	6,850	(1,275)	5,575

3 Risk management

For risk management, the Group/Company has developed a risk management system that takes into account its size, structure and operational characteristics as well as restricted options for management of certain risks. The Group/Company manages the risks affecting its operations in compliance with the risk management internal regulatory documents approved by the Group/Company that detail and establish the aggregate of measures used in management of the risks inherent to its operations.

The following major risk management principles are followed:

- risk management is a component of every-day functions;
- the Group/Company identifies and assesses the probable risks before launching of new products or services;
- while assuming the risks the companies forming the Group/Company are capable of long-term pursuit of the delegated aims and assignments;
- the Group/Company does not enter into transactions, operations, etc. entailing risks that endanger its operational stability or may result in substantial damage to its reputation.

In its risk management the Group/Company makes use of various risk analysis methods and instruments as well as establishes risk limits and restrictions.

The major risks that the Group/Company is exposed to are: credit, liquidity and operational risks.

Credit Risk

The credit risk is a risk that a customer or cooperation partner of the Group/Company is unable or unwilling to meet its liabilities towards the Group/Company in full and within the established term. Since the Group/Company is delegated implementation of the state aid programmes, it is mainly exposed to credit risk through its lending, guarantees to the third parties and other off-balance liabilities towards the third parties. The Group/Company is also subject to the credit risk due to its investment activities.

The key principle of credit risk management in the Group/Company is the ability of the customers or cooperation partners to meet their liabilities towards the Group/Company, which is achieved by assessment of the customer and co-operation partner prior to transaction, as well as further continuous monitoring and evaluation. The Group/Company reduces its exposure to credit risk by securing a pledge or other collateral adequate to the risk transaction and provisions of the target programme.

Within the framework of credit risk management, the Group/Company has set risk limits for transactions, which includes decision-making limits; in the event of significant risks being involved the decisions are made by credit committees or boards of directors of the companies.

The analysis of the assets and off-balance sheet liabilities subject to the credit risk is outlined in Note 41 to the financial statements.

Liquidity Risk

The liquidity risk entails the risk that the Group/Company might fail to meet legally valid claims of its customers and other creditors in due time and that, in case of necessity, the resources might not be available to it on the market, and/or it might be unable to dispose of positions (for example, sell the assets) without considerable losses and in a short period of time.

The goal of liquidity risk management is to provide adequate liquidity in normal operating environment as well as stress situations without material expenses or losses. The Group/Company maintains liquid assets sufficient for meeting its liabilities at all times.

The Group/Company performs the term structure assessment of its assets and liabilities to evaluate the liquidity risk, as well as cash flow analysis whereby the volume of minimum required liquid assets is established.

Note 44 to the financial statements provides data on the Group's/Company's assets and liabilities by maturity profile.

Operational Risk

The operational risk results from intentional or unintentional deviations from the standards adopted in daily operation of the Group/Company, for example human mistake or fraud, malfunction of information systems, insufficient control procedures or their ignorance altogether, etc.

The goal of the operational risk management is timely identification of the potential operational risks and implementation of countermeasures to minimize the effect of operational risk on the Group's/Company's financials as much as possible and maintain the Group's operational continuity. The Group/Company achieves the established goal via identification of operational risk causes and taking preventive and corrective measures to eliminate them.

3 Risk management (continued)

Interest Risk

The interest rate risk is related to unfavourable impact of the changes of the market interest rates on the Group's/Company's interest income and economic value.

The management of the interest rate risk aims to measure and manage the interest rate risk ensuring that its impact on the Group's/Company's income and economic value is curbed as much as possible.

In order to measure the interest rate risk, the Group/Company analyses regularly the interest rate risk-sensitive assets, liabilities and off-balance sheet items, their maturity structures and sensitivity to probable interest rate changes.

Interest rate sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on deposits, loans and investment securities. With all other variables held constant, the Group's / Company's profit before tax is affected through the impact on floating rate borrowings, as follows:

		Group		Company
	Increase/decrease in interest rate	Effect on profit before tax, thsd EUR	Increase/decrease in interest rate	Effect on profit before tax, thsd EUR
2017				
EURO	+1%	17	+1%	17
	-1%	(17)	-1%	(17)
2016				
EURO	+1%	19	+1%	19
	-1%	(19)	-1%	(19)

The assumed movement in basis points for the interest rate sensitivity analysis is based on the currently observable market environment.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The management believes that the Group's/Company's exposure to foreign currency risk is not significant as the major part of transactions are made in euro. The Group/Company manages its foreign currency risk by attracting financing and issuing financial instruments in euros.

In the event of exchange rates for the following currencies in which the Group and the Company has open positions adversely change as per scenario below, the potential total decrease in the Group's and Company's total equity (ignoring any tax effect) would amount approximately to the following:

	Group	Company
Scenario:	USD, thsd EUR	USD, thsd EUR
2017		
+5%	(576)	(576)
-5%	576	576
2016		
+5%	(686)	(686)
-5%	868	868

The carrying amount of assets and liabilities by currency profile is available in Note 45.

4 Interest income

	Group	Group	Company	Company
	01/01/2017-31/12/2017	01/01/2016-31/12/2016	01/01/2017-31/12/2017	01/01/2016-31/12/2016
Interest on balances due from credit institutions	19	47	19	47
Interest on loans and guarantees*	9,791	10,286	9,791	10,286
including on impaired loans (see Note 19)	793	*1,005*	793	*1,005*
Interest on investments of venture capital funds **	-	-	-	-
Interest on securities at amortised cost	46	78	46	78
Interest on securities at fair value *	2,094	2,173	2,094	2,173
Other interest income***	244	-	-	-
Total interest income	12,194	12,584	11,950	12,584

* Based on the Mezzanine and Guarantee Fund Activity Agreement concluded with the Ministry of Economics (agreement No 2011/16) in year 2016, the financing given by the Ministry of Economics must be increased by income of the Mezzanine and Guarantee Fund on placement of the free funds, interest income on the loans, premium income on the issued guarantees, commissions, contractual penalties, etc. As a result, the Group's/Company's sub-item Interest income on loans and guarantees is reduced by 645 thsd euros (2016: 646 thsd euros) and sub-item Interest income on securities at fair value is reduced by 0 thsd euros (2016: 531 thsd euros).

**Based on the Investment Fund Activity Agreement (agreement No Līg.2011/15) concluded with the Ministry of Economics, the financing given by the Ministry of Economics must be increased by net interest and other income as stipulated by contracts with financial intermediaries, including from the venture capital funds. As a result, the Company's sub-item Interest on investments of venture capital funds is reduced by 1,012 thsd euros. Hence the item Interest on investments of venture capital funds equals zero (Note 39).

*** Group Item *Other interest income* includes interest income from *Alternative investment Funds'* investments in amount of 244 thsd euros.

At the Group level, in line with application of equity accounting, all interest income received from venture capital funds reduces the value of investments made by venture capital funds. More information about applied equity methodology see 2 (6).

5 Interest expense

	Group	Group	Company	Company
	01/01/2017-31/12/2017	01/01/2016-31/12/2016	01/01/2017-31/12/2017	01/01/2016-31/12/2016
Interest on balances due to credit institutions	218	314	218	314
Other interest expense*	602	1,393	601	1,290
Total interest expense	820	1,707	819	1,604

* Item Other interest expense includes the state aid interest of 341 thsd euros (2016: 1,060 thsd euros).

6 Fee and commission income

	Group	Group	Company	Company
	01/01/2017-31/12/2017	01/01/2016-31/12/2016	01/01/2017-31/12/2017	01/01/2016-31/12/2016
From lending activities	472	433	472	433
Other fee and commission income	12	13	12	13
Total fee and commission income	484	446	484	446

7 Fee and commission expense

	Group	Group	Company	Company
	01/01/2017-31/12/2017	01/01/2016-31/12/2016	01/01/2017-31/12/2017	01/01/2016-31/12/2016
On venture capital fund management fee*	193	226	193	226
On securities portfolio maintenance	50	59	50	59
On asset management **	7	-	7	13
Other fee and commission expense**	6	14	6	1
Total fee and commission expense	256	299	256	299

*As regards the Holding Fund Programme the expenses of the Group/Company for the reporting period include management fees of the venture capital funds amounting to 1,715 thsd euros (2016: 2,066 thsd euros) of which 1,522 thsd euros (2016: 1,840 thsd euros) were reimbursed (Note 18). The reimbursement scheme is stipulated by the new wording of the agreement No 2011/15 On Implementation of the Holding Fund dated December 23, 2015.

The management fee of 193 thsd euros includes the management fees of the Baltic Innovation Fund.

** Item *Other fee and commission expense* includes asset management fee of the financial intermediaries JSC SEB and JSC Swedbank. As regards the Holding Fund Programme the expenses of the Group / Company for the reporting period include the management fees of 15 thsd euros (2016: 43 thsd euros) of the financial intermediaries JSC SEB and JSC Swedbank that, according to the agreement No 2011/15 On Implementation of the Holding Fund, were reimbursed for 8 thsd euros (2016: 30 thsd euros).

The management fee of the financial intermediaries amounting to 7 thsd euros is considered as non-eligible and non-reimbursable expense and recognised in the Group's/Company's profit or loss. See Note 2 (6).

8 Net trading income

	Group	Group	Company	Company
	01/01/2017-31/12/2017	01/01/2016-31/12/2016	01/01/2017-31/12/2017	01/01/2016-31/12/2016
Gain from trading securities	-	-	-	4
Loss on currency exchange and trade and revaluation of other financial instruments, net	(191)	(203)	(191)	(207)
Total net trading income	(191)	(203)	(191)	(203)

9 Other income

	Group	Group	Company	Company
	01/01/2017-31/12/2017	01/01/2016-31/12/2016	01/01/2017-31/12/2017	01/01/2016-31/12/2016
Other operating income *	4,542	2,559	4,542	2,559
Compensations**	2,992	2,324	2,992	2,324
Income from property privatisation services	-	254	-	254
Income from investment property revaluation	121	29	121	29
Income from lease payments for operational leases ***	136	195	136	195
Income from compensation for loan provisions	-	167	-	167
Total other income	7,791	5,528	7,791	5,528

* Item Other operating income includes income from the sale of the office building situated at Elizabetes street 41/43, Riga. As a result of the sale the Group/Company earned 3,872 thsd euros (Note 26).

** Compensations include the compensation for management expenses of state aid programs implemented by the Group/Company in amount of 2,992 thsd euros. The compensation for management expenses includes personnel expenses of 2,012 thsd euros (Note 10) and administrative and other operating expenses of 980 thsd euros (Note 11).

Expenses in amount of 2,748 thsd euros (on cash flow basis) are compensated to the Group/Company according to terms and budget of each particular programme.

*** In year 2017 the rental income of the Group/Company decreased considerably due to sale of the Group's/Company's real estate, situated at Elizabetes street 41/43, Riga (Note 26).

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 (in balance sheet recognised in item "Support programme funding") must be increased by net interest and other income, as stipulated by agreements with financial intermediaries, including also from venture capital funds. For 12 months of year 2017 the financial intermediaries contributed 236 thsd euros of income generated from investments that were 100% added to the funding provided by Ministry of Economics (Note 39) and as such is not recognised in Statement of comprehensive income.

10 Staff costs

	Group	Group	Company	Company
	01/01/2017-31/12/2017	01/01/2016-31/12/2016	01/01/2017-31/12/2017	01/01/2016-31/12/2016
Remuneration to the Council and the Board	376	268	376	268
To The Council	66	*23*	66	*23*
To The Board	310	*245*	310	*245*
Remuneration to staff	4,886	5,235	4,886	5,235
Social security contributions	1,260	1,279	1,260	1,279
Total staff costs	6,522	6,782	6,522	6,782

In year 2017, based on the implementation agreements of the state aid programmes concluded with the Responsible Institutions, the Group/Company compensates the personnel expenses of 2,012 thsd euros (2016: 1,733,thsd euros) (Note 9).

During the reporting period the Group/Company employed 234 employees on average (2016: 242).

11 Administrative and other operating expense

	Group	Group	Company	Company
	01/01/2017-31/12/2017	01/01/2016-31/12/2016	01/01/2017-31/12/2017	01/01/2016-31/12/2016
Information system and communication expense	945	1,086	945	1,085
Maintenance costs of assets that have been taken over in the debt collection process	360	991	360	991
Premises and equipment maintenance expense	843	857	843	857
Other expense	258	760	258	760
Revaluation of assets that have been taken over in the debt collection process*	297	612	297	612
Advertising and public relations	495	495	495	495
Professional services**	428	388	428	388
Training and other staff expense	247	243	247	243
Real estate tax	137	149	137	149
Total administrative costs	4,010	5,581	4,010	5,580

In year 2017, based on the implementation agreements of the state aid programmes concluded with the Responsible Institutions, the Group/Company compensates the administrative and other operating expenses of 980 thsd euros (2016: 591 thsd euros) (Note 9).

*The accounting policy of the assets that have been taken over in the debt collection process is described in Note 2 (15).

** Item *Professional services* includes tax and accounting consulting services in amount of 10 thsd euro, which were received during 2017 year from Group's / Company's sworn auditor Ernst & Young Baltic, JSC.

12 Impairment provisions, net

	Group	Group	Company	Company
	01/01/2017-31/12/2017	01/01/2016-31/12/2016	01/01/2017-31/12/2017	01/01/2016-31/12/2016
Provisions for impairment on:				
Loans	5,683	6,474	5,683	6,474
other assets	2,526	635	2,526	630
debt securities	-	24	-	24
Investments in subsidiaries	-	-	-	5
investments in venture capital funds	-	246	-	253
Guarantees	3,258	5,311	3,258	5,311
	11,467	12,690	11,467	12,697
Release of provisions for impairment on:				
Loans	(2,112)	(2,674)	(2,112)	(2,674)
other assets	(467)	(3,168)	(467)	(3,168)
debt securities	(130)	(481)	(130)	(481)
guarantees	(5,102)	(5,987)	(5,102)	(5,987)
	(7,811)	(12,310)	(7,811)	(12,310)
Income/(loss) from release of provisions for onerous contracts (guarantees)	(474)	116	(474)	116
Recovery of loans written off in previous periods	(1,181)	(967)	(1,181)	(967)
Total provisions for impairment, net	2,001	(471)	2,001	(464)

In Company's financial statements the value of impairment on 2nd and 3rd generation venture capital funds were increased up to 7,088 thsd euros which were 100% compensated from Risk coverage reserve in accordance with agreement No Līg.2011/15 On Implementation of the Holding Fund concluded with the Ministry of Economics.

On 29 December 2017 an agreement was signed with the Ministry of Economics about use of the public funding repaid within the framework of the activities co-financed by EU structural funds governing use, accounting and reporting of the reflow funding, which foresees Risk Coverage reserve for Baltic Innovation Fund in amount of 2 mln euros. Item Provisions for impairment on other assets includes also 1,024 thsd euros of value impairment on Baltic Innovation fund that were 100% compensated from Risk coverage reserve (Note 29). Hence the total value impairment of the venture capital funds amounting to EUR 8,112 thsd is not to be recorded under item Provisions for impairment.

In Group's financial statements the amount of venture capital funds' impairment, which was compensated to the Group, is amounted to 9,016 thsd euros, were 7,988 thsd euros attributed to the value impairment on 2nd and 3rd generation venture capital funds and 1,028 thsd euros to Baltic Innovation fund value impairment.

13 Corporate income tax

	Group	Group	Company	Company
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Corporate income tax	125	-	125	-
Deferred tax	-	-	-	-
Total corporate income tax (income)	125	-	125	-

Effective corporate income tax calculation:

	Group	Group	Company	Company
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Income before tax	6,945	2,170	5,884	4,025
Theoretically calculated tax at a tax rate of 15%	1,042	326	883	604
Net income / (expenses) non-deductible for tax purposes	(1,180)	1,443	(1,180)	1,165
Change in unrecognized deferred tax asset	263	(1,769)	422	(1,769)
Tax (income) / expense for the year ended 31 December	125	-	125	-

13 Corporate income tax (continued)

Change in provisions for deferred tax assets:

	Group	Group	Company	Company
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Deferred tax asset at the beginning of the reporting year	-	-	-	-
Change in deferred tax asset	-	-	-	-
Deferred tax asset at the end of the reporting year	-	-	-	-

Calculation of deferred tax:

	Group	Group	Company	Company
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Deferred tax liabilities:	(619)	(493)	(619)	(493)
Temporary difference of depreciation of property, plant and equipment	(619)	(493)	(619)	(493)
Other temporary differences		-	-	-
Deferred tax assets:	42,785	42,396	42,944	42,396
Provision for employee holiday pay	34	56	34	56
Other temporary differences	2,255	1,468	2,414	1,468
Tax loss carried forward	40,496	40,872	40,496	40,872
Net deferred tax asset	42,166	41,903	42,325	41,903
Provisions for unrecognized deferred tax asset	-	-	-	-
Recognized deferred tax asset	(42,166)	(41,903)	(42,325)	(41,903)

The Group/Company is not subject to special tax treatment.

On 28 July 2017, Latvian parliament passed amendments to the Latvian tax legislations which will become effective on 1 January 2018. The amendments concern corporate income tax regime and certain other taxes in Latvia. Up to now corporate income tax in Latvia was payable on taxable profits and the taxable profits could be partially offset by tax loss carry forward from previous tax periods. The new regime introduces a concept where corporate income tax is payable only on dividend pay-outs (irrespective of profits in the particular period) and certain expenses which for tax purposes are considered earnings distributions (e.g. non-business expenses and representative expenses that exceed specific threshold). In accordance with the amendments, for profits which are generated within Latvian jurisdiction and is not paid out in dividends, corporate income tax will not be payable.

Due to the amendments to the Latvian legislation, starting from 1 January 2018 the deferred tax will lose its relevance.

As at 31 December 2017 The Group/Company doesn't recognize any deferred tax asset or liability.

The new wording of the Law on Enterprise Income Tax stipulates that the tax losses can be used for decreasing of the corporate income tax only for the dividends calculated over 5 years. The Group's/Company's tax losses to be carried forward amount to 269,978 thsd euro. The Group/Company will not be able to use the tax losses carried forward to decrease the corporate income tax as the Group/Company, being governed by Section 15.2.(5) of Development Finance Institution Law, may not pay dividends.

14 Investment securities

	Group	Group	Company	Company
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Held to maturity				
Latvian Treasury bills and government bonds	404	459	404	459
Non-OECD government bonds	-	1,027	-	1,027
OECD corporate bonds	3,843	4,516	3,843	4,516
Total securities held to maturity	4,247	6,002	4,247	6,002
Impairment allowance	(3,804)	(4,471)	(3,804)	(4,471)
Net securities held to maturity	443	1,531	443	1,531
Available for sale				
Latvian Treasury bills and government bonds	61,760	64,294	61,760	64,294
Total securities available-for-sale	61,760	64,294	61,760	64,294
Total investment securities	62,203	65,825	62,203	65,825

When making investments in securities, the Group/Company analyses the external credit ratings assigned to these financial institutions and entities and their financial and operational standing. Once funds are placed, the Group/ Company monitors the monetary financial institutions and follows the compliance of the imposed limits to the credit risk rating.

The following table provides the Group's / Company's debt securities profile by the assigned long-term credit ratings (Moody`s Investors Service) as at 31 December 2017:

	Available-for-sale	Held to maturity	Total net
A1 - A3	61,760	405	62 165
Baa1 - Baa3	-	-	-
Below Baa3	-	-	-
Unrated	-	38	38
Total	61,760	443	62,203

The following table provides the Group's / Company's debt securities profile by the assigned long-term credit ratings (*Moody`s Investors Service*) as at 31 December 2016:

	Available-for-sale	Held to maturity	Total net
A1 - A3	-	-	-
Baa1 - Baa3	64,294	459	64,753
Below Baa3	-	1,027	1,027
Unrated	-	45	45
Total	64,294	1,531	65,825

All securities are quoted. The average yield on debt securities was 3.42% as at 31 December 2017 (2016: 3.59%).

15 Investment property

	Group	Group	Company	Company
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Carrying amount at the beginning of period	17,087	12,247	4,869	1,225
Reclassified to Assets held for sale (Note 26)	(12,218)	-	-	-
Acquired during the period*	5,839	3,704	5,839	3,704
Disposals during the financial period	(21)	(89)	(21)	(89)
Net gain from fair value adjustment	121	1,225	121	29
Carrying amount at the end of period	10,808	17,087	10,808	4,869

* All investment property during the reporting period was acquired by the Land Fund. The Land Fund was established on July 1, 2015. According to the Cabinet of Ministers decree dated March 11, 2015 the Group/Company is the manager of the Land Fund.

The Law "On Land Privatisation in Rural Areas" stipulated establishment of the Land Fund. The Land Fund of Latvia is one of the tools used to ensure that agricultural land is preserved and used for agricultural purposes.

At the end of year 2017 the Land Fund opened a new service – purchase of land with reverse repurchase rights or reverse rent aimed at the farmers being in need of stabilised cash flow and development of economic activity.
Since IFRS classify the reverse rent transactions as loans, such transactions are recorded in the loan portfolio of the Group / Company (Note 19). The accounting policies applied to the reverse rent transactions are described in Note 2 (5). In year 2017 there were 242 (2016: 74) properties purchased with a total area of 4,021 ha (2016: 1,560 ha) and total amount of the purchases amounted to 5,839 thsd euros (2016: 3,704 thsd euros).
One real estate object of the Land Fund was sold in the reporting period.

The Group/Company provides complete information on the operational results and financial standing of the Land Fund.

The accounting policy for Investment properties is described in Note 2 (14).

16 Due from other credit institutions and treasury

	Group	Group	Company	Company
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Due from credit institutions registered in OECD countries	-	2	-	2
Due from credit institutions registered in Latvia and Treasury	109,594	89,551	109,594	89,406
Total	109,594	89,553	109,594	89,408

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 / Company supervises the monetary financial institutions and follows that the assigned limits comply with credit risk assessment:

The distribution of Group's / Company's balances due from credit institutions and Treasury of the Republic of Latvia as at 31 December 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	-	21,094	85,297	-	3,203	-	-	-	109,594
Total	-	21,094	85,297	-	3,203	-	-	-	109,594

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

16 Due from other credit institutions and treasury (continued)

The distribution of Company'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	63,367	-	-	2,679	-	-	89,406
Total	-	23,362	63,367	-	-	2,679	-	-	89,408

As at 31 December 2017 the Group/Company had accounts with 5 banks and Treasury of the Republic of Latvia.

The average interest rate on balances due from credit institutions was -0.2% as at 31 December 2017 (2016:0.07%).

For amount of cash and cash equivalents, please refer to Note 37.

17 Derivative financial instruments

The Group/Company 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 Group's / Company's notional contract values and fair values of derivative instruments are provided in the table below:

	31/12/2017			31/12/2016		
	Notional contract value	Fair value		Notional contract value	Fair value	
		Assets	Liabilities		Assets	Liabilities
Currency swaps	11,435	142	-	12,330	-	854
Total		142	-		-	854

The contract is inforce up to 23 February of 2018. In order to minimize the impact of the currency risk, a new currency forward contract has been concluded after 23 February of 2018.

18 Investments in venture capital funds

The Group/Company has a number of investments in the capital of venture capital funds, which are listed below.

All venture capital funds, except *Baltic Innovation Fund,* are limited partnership that are registered in Latvia. *Baltic Innovation fund* is a Fund-of-Fund initiative launched by the European Investment Fund (EIF) in close co-operation with the Governments of Lithuania, Latvia and Estonia to boost equity investments made into Baltic Small and Medium sized enterprises with high growth potential. *Baltic Innovation Fund* is registered in Luxemburg. None of the fund is listed on any public exchange.

The Group's interest in venture capital funds is accounted for using the equity method as it is mentioned in Note 2 (6).

The Group's carrying value of investment in associates is analysed below:

		31.12.2017			31.12.2017	31.12.2016			31.12.2016
Company	Country of incorpo-ration	Equity per company	**Group's** correction*	**Group's** share of total share capital, %	Carrying amount under equity method	Equity per vompany	**Group's** correction*	**Group's** share of total share capital, %	Carrying amount under equity method
KS ZGI Fonds	LV	-	-	65.07	-	5	-	65.07	3
KS Otrais Eko Fonds	LV	2,387	-	33.33	796	2,387	-	33.33	796
KS Baltcap Latvia Venture Capital Fund	LV	10,272		66.67	6,848	14,341	-	66.67	9,561
KS Imprimatur Capital Seed Fund	LV	4,474	(24)	100	4,450	7,429	(1,869)	100	5,560
KS Imprimatur Capital Technology Venture Fund	LV	3,899	(18)	67	2,600	6,173	(2,070)	67	2,749
KS Expansion Capital Fund	LV	13,738	-	95.24	13,084	13,883	-	95.24	13,222
KS ZGI-3	LV	7,474	-	95.24	7,118	11,195	(1,957)	95.24	8,798
KS Flycap Investment Fund	LV	10.502	-	95.24	10,002	12,860	-	95.24	12,248
Baltic Innovation Fund	LU	32.058	-	20	6,412	29,176	(1,158)	20	5,604
Total investments in associates		84,804	(42)	x	51,310	97,449	(7,054)	x	58,541

* Adjustment to align with Group's accounting policies.

The movement of in the investments in associates in the Group's financial statements is presented below:

	Group	Group
	01/01/2017-31/12/2017	01/01/2016-31/12/2016
Carrying amount at the beginning of period	58,541	39,929
Invested	3,998	21,054
Refunded	(3,030)	(684)
Share of (loss) of investment in joint venture and associate *	(8,199)	(1,758)
Carrying amount at the end of period under equity method	51,310	58,541
Impairment	(140)	(245)
Net value at the end of period under equity method	51,170	58,296

* In 2017 year the Group has used from the Risk coverage reserve an amount of 9,016thsd euros to compensate part from its share of loss from the investments in venture capital funds in accordance with agreement No Līg.2011/15 on Implementation of the Holding Fund concluded with the Ministry of Economics. In 2017 there are aligned principles of use of Risk Coverage Reserve for venture capital funds between the Company and the Group financial statements. Thus leads to considerably higher portion of Risk Coverage Reserve used for compensating "Share of (loss) of investment in joint venture and associates" vs charge to be recognised in Comprehensive statement of income comparing to prior years in the consolidated financial statements. See also Note 29.

18 Investments in venture capital funds (continued)

The table below provides analytical information on the Group's movements of investments in associates as at 31 December 2017:

	Opening balance	Investments/Refunds	Changes in Net Asset Value (NAV) of associate	Closing balance
KS ZGI Fonds	3	-	-	-
KS Otrais Eko Fonds	796	-	-	796
KS Baltcap Latvia Venture Capital Fund	9,561	(329)	(2,384)	6,848
KS Imprimatur Capital Seed Fund	5,560	516	(1,626)	4,450
KS Imprimatur Capital Technology Venture Fund	2,749	114	(263)	2,600
KS Expansion Capital Fund	13,222	82	(220)	13,084
KS ZGI-3	8,798	(1,360)	(320)	7,118
KS Flycap Investment Fund	12,248	144	(2,390)	10,002
Baltic Innovation Fund	5,604	1804	(996)	6,412
Total	58,541	971	(8,199)*	51,310

* In 2017 year the Group has compensated venture capital funds' share of loss from Risk coverage reserve in amount of 9,016 thsd euros in accordance with agreement No Līg.2011/15 on Implementation of the Holding Fund concluded with the Ministry of Economics. See also Note 29.

The table below provides analytical information on the Group's movements of investments in associates as at 31 December 2016:

	Opening balance	Investments/Refunds	Changes in Net Asset Value (NAV) of associate	Closing balance
KS ZGI Fonds	38	-	(35)	3
KS Otrais Eko Fonds	1,057	(14)	(247)	796
KS Invento	-	-	-	-
KS Baltcap Latvia Venture Capital Fund	10,391	501	(1,331)	9,561
KS Imprimatur Capital Seed Fund	5,129	938	(507)	5,560
KS Imprimatur Capital Technology Venture Fund	2,861	200	(312)	2,749
KS Expansion Capital Fund	7,987	5,289	(54)	13,222
KS ZGI-3	4,025	4,436	337	8,798
KS Flycap Investment Fund	6,004	5,761	483	12,248
Baltic Innovation Fund	2,437	3,259	(92)	5,604
Total	39,929	20,370	(1,758)	58,541

The table below provides information on the value impairment of associates of the Group during 2017 year:

	Closing gross value	Provisions for previous reporting period	Decrease of provisions in reporting period	Net value
KS ZGI Fonds	-	-	-	
KS Otrais Eko Fonds	796	-	-	796
KS Baltcap Latvia Venture Capital Fund	6,848	-	-	6,848
KS Imprimatur Capital Seed Fund	4,450	-	-	4,450
KS Imprimatur Capital Technology Venture Fund	2,600	-	-	2,600
KS Expansion Capital Fund	13,084	(245)	105	12,944
KS ZGI-3	7,118	-	-	7,118
KS Flycap Investment Fund	10,002	-	-	10,002
Baltic Innovation Fund	6,412	-	-	6,412
Total	51,310	(245)	105	51,170

18 Investments in venture capital funds (continued)

The table below provides information on the value impairment of associates of the Group during 2016 year:

	Closing gross value	Provisions for previous reporting period	Increase of provisions in reporting period	Net value
KS ZGI Fonds	3	-	-	3
KS Otrais Eko Fonds	796	-	-	796
KS Invento	-	-	-	-
KS Baltcap Latvia Venture Capital Fund	9,561	-	-	9,561
KS Imprimatur Capital Seed Fund	5,560	-	-	5,560
KS Imprimatur Capital Technology Venture Fund	2,749	-	-	2,749
KS Expansion Capital Fund	13,222	-	(245)	12,977
KS ZGI-3	8,798	-	-	8,798
KS Flycap Investment Fund	12,248	-	-	12,248
Baltic Innovation Fund	5,604	-	-	5,604
Total	58,541	-	(245)	58,296

The following table illustrates the summarised financial information of the venture capital funds' assets, liabilities and equity as at 31 December 2017:

	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Equity
KS ZGI Fonds	-	-	-	-	-
KS Otrais Eko Fonds	N/A	N/A	N/A	N/A	N/A
KS Baltcap Latvia Venture Capital Fund	927	9,356	11	-	10,272
KS Imprimatur Capital Seed Fund	248	4,233	7	-	4,474
KS Imprimatur Capital Technology Venture Fund	109	3,794	4	-	3,899
KS Expansion Capital Fund	1,129	12,610	1	-	13,738
KS ZGI-3	227	7,247	-	-	7,474
KS FlyCap Investment Fund	162	10,345	5	-	10,502
Baltic Innovation Fund	1,224	30,834	-	-	32,058

The following table illustrates the summarised financial information of the venture capital funds' profit or loss of the 2017 year:

	Interest income	Fund administrative expenses	Realized value increase of the investment	Unrealized value decrease of the investment	Profit/ (loss) of the year
KS ZGI Fonds	-	-	-	-	-
KS Otrais Eko Fonds	N/A	N/A	N/A	N/A	N/A
KS Baltcap Latvia Venture Capital Fund	238	(419)	(1,367)	(2,057)	(3,605)
KS Imprimatur Capital Seed Fund	130	(224)	-	(1,522)	(1,616)
KS Imprimatur Capital Technology Venture Fund	17	(101)	-	(300)	(384)
KS Expansion Capital Fund	658	(412)	-	(532)	(286)
KS ZGI-3	671	(261)	59	(804)	(335)
KS Flycap Investment Fund	673	(370)	-	(2,750)	(2,447)
Baltic Innovation Fund	N/A	N/A	N/A	N/A	N/A

18 Investments in venture capital funds (continued)

The following table illustrates the summarised financial information of the venture capital funds' assets, liabilities and equity as at 31 December 2016:

	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Equity
KS ZGI Fonds	5	-	-	-	5
KS Otrais Eko Fonds	2,387	-	-	-	2,387
KS Baltcap Latvia Venture Capital Fund	671	13,686	(16)	-	14,341
KS Imprimatur Capital Seed Fund	425	7,011	(7)	-	7,429
KS Imprimatur Capital Technology Venture Fund	263	5,914	(4)	-	6,173
KS Expansion Capital Fund	234	13,883	(234)	-	13,883
KS ZGI-3	579	10,616	-	-	11,195
KS Flycap Investment Fund	253	12,610	(3)	-	12,860
Baltic Innovation Fund	6,199	22,977	-	-	29,176
Total	11,016	86,697	(264)	-	97,449

The following table illustrates the summarised financial information of the venture capital funds' profit or loss of the 2016 year:

	Interest income	Fund administrative expenses	Realized value increase of the investment	Unrealized value decrease of the investment	Profit/ (loss) of the year
KS ZGI Fonds	5	-	-	-	5
KS Otrais Eko Fonds	-	(186)	(40)	842	616
KS Baltcap Latvia Venture Capital Fund	169	-	(418)	(2,033)	(2,282)
KS Imprimatur Capital Seed Fund	112	35	(279)	(735)	(867)
KS Imprimatur Capital Technology Venture Fund	12	124	(123)	(600)	(587)
KS Expansion Capital Fund	515	34	(463)	(688)	(602)
KS ZGI-3	571	-	(315)	(312)	(56)
KS Flycap Investment Fund	416	-	(456)	-	(40)
Baltic Innovation Fund	100	-	(1,113)	(970)	(1,983)
Total	1,900	7	(3,207)	(4,496)	(5,796)

18 Investments in venture capital funds (continued)

The Company's investments in venture capital funds are recognized at cost less any impairment in value.

The following table illustrates the Company's movements in the investments in associates:

	Company	Company
	01/01/2017-31/12/2017	01/01/2016-31/12/2016
Carrying amount at the beginning of period	64,746	44,378
Invested	3,998	23,159
Management fee*	(1,715)	(2,066)
Refunded	(1,785)	(205)
Written-off	(1,740)	(520)
Carrying amount at the end of period under cost less impairment method	63,504	64,746
Impairment	(14,396)	(8,024)
Net value at the end of period under cost less impairment method	49,108	56,722

* As regards the Holding Fund Programme the expenses of the Company for the reporting period include management fees of the venture capital funds amounting to 1,715 thsd euros (2016: 2,066 thsd euros) of which 1,522 thsd euros (2016: 1,840 thsd euros) were reimbursed (Note 7).

The table below provides analytical information on the Company's movements of investments in associates as at 31 December 2017:

	Carrying amount (gross) at the beginning of period	Invested	Management fee	Refunded	Written off*	Carrying amount (gross) as at 31/12/2017	Allowance for impairment loss	Total
KS ZGI Fonds	1,740	-	-	-	(1,740)	-	-	-
KS Otrais Eko Fonds	1,508	-	-	-	-	1,508	(644)	864
KS Baltcap Latvia Venture Capital Fund	12,021	267	(257)	(566)	-	11,465	(4,983)	6,482
KS Imprimatur Capital Seed Fund	7,117	778	(228)	(133)	-	7,534	(3,262)	4,272
KS Imprimatur Capital Technology Venture Fund	3,068	197	(80)	-	-	3,185	(597)	2,588
KS Expansion Capital Fund	13,251	392	(392)	-	-	13,251	(951)	12,300
KS ZGI-3	8,653	234	(235)	(954)	-	7,698	(1,015)	6,683
KS FlyCap Investment Fund	11,625	328	(329)	(132)	-	11,492	(1,917)	9,575
Baltic Innovation Fund	5,763	1,802	(194)	-	-	7,371	(1,027)	6,344
Total investments in associates	64,746	3,998	(1,715)	(1,785)	(1,740)	63,504	(14,396)	49,108

* In 2017, during the liquidation process of the KS ZGI Fund, all remaining investments were realized. As a result, the Group / Company had to write-off of these investments.

The table below provides analytical information on the Company's movements of investments in associates and value impairment of associates as at 31 December 2016:

	Carrying amount (gross) at the beginning of period	Invested	Management fee	Refunded	Written off	Carrying amount (gross) as at 31/12/2016	Allowance for impairment loss	Total
KS ZGI Fonds	1,740	-	-	-	-	1,740	(1,740)	-
KS Otrais Eko Fonds	1,508	5	(5)	-	-	1,508	(644)	864
KS Invento	520	-	-	-	(520)	-	-	-
KS Baltcap Latvia Venture Capital Fund	11,520	780	(279)	-	-	12,021	(2,731)	9,290
KS Imprimatur Capital Seed Fund	6,105	1,289	(277)	-	-	7,117	(1,744)	5,373
KS Imprimatur Capital Technology Venture Fund	2,868	280	(80)	-	-	3,068	(396)	2,672
KS Expansion Capital Fund	7,813	6,045	(440)	(167)	-	13,251	(464)	12,787
KS ZGI-3	3,944	5,061	(314)	(38)	-	8,653	(302)	8,351
KS Flycap Investment Fund	5,856	6,219	(450)	-	-	11,625	-	11,625
Baltic Innovation Fund	2,504	3,480	(221)	-	-	5,763	(3)	5,760
Total investments in associates	44,378	23,159	(2,066)	(205)	(520)	64,746	(8,024)	56,722

18 Investments in venture capital funds (continued)

For judgments made in relation to classification of the investments as associates please see Note 2 (24). The information about commitments to venture capital funds is presented in Note 36.

19 Loans

The loan portfolio of the Company consists of the portfolios of the state aid programmes implemented (through loans) by Altum.

These programmes are divided into:

Active lending programmes – the programmes that are being absorbed and that issue new loans:
SME Growth Loans Programme – the gross value of the loan portfolio as at 31 December 2017 – EUR 47,480 thsd (in year 2016 – EUR 39,794 thsd);

- Programme of Working Capital Loans to Farmers – the gross value of the loan portfolio as at 31 December 2017 – EUR 6,179 thsd (in year 2016 – EUR 6,971 thsd);
- Lending Programme for Acquisition of Agricultural Land - the gross value of the loan portfolio as at 31 December 2017 – EUR 51,153 thsd (in year 2016 – EUR 44,168 thsd);
- Energy Efficiency Programme of Multi-apartment Buildings – the gross value of the loan portfolio as at 31 December 2017 – EUR 125 thsd (in year 2016 – EUR 0 thsd);
- Micro loans and start-up loans – the gross value of the loan portfolio as at 31 December 2017 – EUR 7,646 thsd (in year 2016 – EUR 3,963 thsd);
- Parallel loans – the gross value of the loan portfolio as at 31 December 2017 – EUR 1,544 thsd (in year 2016 – EUR 0 thsd)
- Reverse rent of the Land Fund – the gross value of the loan portfolio as at 31 December 2017 – EUR 517 thsd (in year 2016 – EUR 0 thsd);

Inactive lending programmes – the absorption cycle of these programmes has closed and the established portfolios are being serviced:

- Portfolio of direct lending loans – the gross value of the loan portfolio as at 31 December 2017 – EUR 89,979 thsd (in year 2016 – EUR 118,202 thsd);
- Portfolio of indirect lending (funding of the intermediaries) loans – the gross value of the loan portfolio as at 31 December 2017 – EUR 2,526 thsd (in year 2016 – EUR 3,808 thsd).

On 26 September, 2017 the Cabinet of Ministers Regulations No 1065 On Opening of the Lending Programme of Energy Efficiency Loans to Entrepreneurs were approved. On 17 October 2017, in order to fund the programme, the Company issued the Notes for EUR 20 mln under the Altum's Green Bond Framework maturing on 17 October 2024.

Loans by type of borrower:

	Group	Group	Company	Company
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Private companies	180,833	188,245	180,833	188,245
Individuals	23,324	24,490	23,324	24,490
Financial institutions	2,431	3,655	2,431	3,655
Local governments	292	344	292	344
Public and religious institutions	269	172	269	172
Accrued interest	436	523	436	523
Total gross loans	207,585	217,429	207,585	217,429
Allowance for impairment loss	(15,438)	(16,179)	(15,438)	(16,179)
Total net loans	192,147	201,250	192,147	201,250

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

19 Loans (continued)

Granted loans by branches of economy:

	Group	Group	Company	Company
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Agriculture and forestry	83,948	83,048	83,948	83,048
Manufacturing	44,855	47,104	44,855	47,104
Private individuals	23,324	24,490	23,324	24,490
Retail and wholesale	14,137	16,901	14,137	16,901
Other industries	14,568	14,871	14,568	14,871
Hotels and restaurants	6,564	7,653	6,564	7,653
Electricity, gas and water utilities	5,550	6,734	5,550	6,734
Transport, warehousing and communications	1,885	4,620	1,885	4,620
Real estate	4,332	4,310	4,332	4,310
Construction	3,132	3,818	3,132	3,818
Financial intermediation	1,218	2,443	1,218	2,443
Fishing	3,345	570	3,345	570
Municipal authorities	292	344	292	344
Accrued interest on loans	435	523	435	523
Total gross loans	207,585	217,429	207,585	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:

	Group	Group	Company	Company
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Number of customers	23	26	23	26
Total credit exposure of customers (thsd euros)	36,895	43,740	36,895	43,740
Percentage of total gross portfolio of loans	17,7%	20,0%	17,7%	20,0%

Loans issued by the Group and the Company by type of impairment valuation:

	31/12/2017			31/12/2016		
	Individuals	Companies	Total loans	Individuals	Companies	Total loans
Individually assessed loans	5,484	137,889	143,373	6,728	145,964	152,692
Collectively assessed loans	17,885	46,327	64,212	17,821	46,916	64,737
Total gross loans	23,369	184,216	207,585	24,549	192,880	217,429
Allowance for impairment loss - individually assessed	(1,017)	(14,307)	(15,324)	(1,105)	(14,902)	(16,007)
Allowance for impairment loss - collectively assessed	(46)	(68)	(114)	(57)	(115)	(172)
Total net loans	22,306	169,841	192,147	23,387	177,863	201,250

Loans granted by the Group and the Company by their quality assessment:

	31/12/2017			31/12/2016		
	Individuals	Companies	Total loans	Individuals	Companies	Total loans
Neither past due nor impaired	18,744	140,867	159,611	19,839	137,487	157,326
Past due but not impaired	2,417	13,688	16,105	2,376	18,217	20,593
Impaired	2,208	29,661	31,869	2,334	37,176	39,510
Total loans	23,369	184,216	207,585	24,549	192,880	217,429
Allowance for impairment loss	(1,062)	(14,376)	(15,438)	(1,161)	(15,018)	(16,179)
Total net loans	22,307	169,840	192,147	23,388	177,862	201,250

19 Loans (continued)

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

	31/12/2017			31/12/2016		
	Individuals	Companies	Total loans	Individuals	Companies	Total loans
Past due up to 30 days	1,676	8,843	10,519	1,228	10,935	12,163
Past due 30 – 60 days	200	569	769	337	607	944
Past due 60 – 90 days	34	216	250	121	100	221
Past due over 90 days	507	4,060	4,567	690	6,575	7,265
Total gross loans	2,417	13,688	16,105	2,376	18,217	20,593

Movement in impairment allowance for loans:

	Group	Group	Company	Company
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Provisions at the beginning of period	16,179	17,044	16,179	17,044
Impairment allowance increase	5,683	6,474	5,683	6,474
Impairment allowance decrease	(2,112)	(2,674)	(2,112)	(2,674)
Accrued interest (Note 4)	(793)	(1,005)	(793)	(1,005)
Write-off of loans	(3,519)	(3,660)	(3,519)	(3,660)
Provisions at the end of period	15,438	16,179	15,438	16,179

The calculation of loss on asset impairment that has occurred due to default on loan principal or interest payments or other events resulting in losses relies on collateral, including real estates and commercial pledges assessed at market value. The assessment is based on valuations performed by accredited independent valuator.

Information about value of collateral (based on fair value as at December 31, 2017) and position against net loan portfolio as at December 31, 2017 is provided below:

	Group	Group	Company	Company
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Real estate (loans)	151 321	157,796	151 321	157,796
Real estate (reverse rent)	520	-	520	-
Movable property	26,250	25,702	26,250	25,702
Guarantees	238	450	238	450
Risk coverage of loan funds	2,557	3,105	2,557	3,105
Total collateral	180,886	187,053	180,886	187,053
Loan portfolio, gross	207,585	217,429	207,585	217,429
Provisions	(15,438)	(16,179)	(15,438)	(16,179)
Loan portfolio, net	192,147	201,250	192,147	201,250
Exposed	5,86%	7,05%	5,86%	7,05%

According to the Group's/Company's estimates as at December 31, 2017 the loan loss provisions should amount to 17,836 thsd euros (2016: 19,076 thsd euros). The risk coverage amount available for such loan loss provisions equals to 2,557 thsd euros (2016: 3,105 thsd, euros). Risk coverage is not attributable to compensation of accrued interest income forf loans in amount of 159 thsd euro.

The average annual interest rate for the loan portfolio of the Group/Company is 4,15 % as at 31 December 2017 (2016: 4,15%).

20 Investment in subsidiaries

The Company's investments in subsidiaries can be summarized as follows:

	Company's shareholding (%)	Investments in subsidiaries 31/12/2017	Investments in subsidiaries 31/12/2016
Alternative investment fund Hipo Latvia Real Estate Fund I*	100	-	9,116
Alternative investment fund Hipo Latvia Real Estate Fund II*	100	-	1,260
Risk Investment Company Ltd	100	-	711
Risk Investment Company Ltd impairment provision		-	(69)
Written off		-	(642)
Total		-	10,376

*In December 2017 the Group/Company decided to reclassify the investments in *Alternative investment fund Hipo Latvia Real Estate Fund I* and *Alternative investment fund Hipo Latvia Real Estate Fund II* from the item *Investments in Subsidiaries* to the item *Assets Held for Sale*. The reclassification was due to the change of the holding purpose of the asset, i.e. the sale process of the asset is started and expected to be completed within one year.
For the purpose of transferring the asset to the item *Assets Held for Sale* the Group/Company relied on the asset's book value effective on 31 December 2017 (Note 26).

Accounting policies of alternative investment funds, which is applied after reclassification, are described in Note 2 (25).

21 Intangible assets

The following is included in the net book value of intangible assets:

	Group	Group	Company	Company
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Computer software	771	168	771	168
Total intangible assets	771	168	771	168

The following table presents movements in net book value of intangible assets:

	Group	Group	Company	Company
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Historical cost				
At the beginning of period	5,791	5,766	5,791	5,766
Additions*	679	113	679	113
Disposals	-	(88)	-	(88)
As at 31 December	6,470	5,791	6,470	5,791
Accumulated amortisation				
At the beginning of period	5,623	5,603	5,623	5,603
Amortisation charge for the period	76	108	76	108
Disposals	-	(88)	-	(88)
As at 31 December	5,699	5,623	5,699	5,623
Impairment provision**				
At the beginning of period	-	(40)	-	(40)
Changes in provisions	-	40	-	40
As at 31 December	-	-	-	-
Net book value at the beginning of period	168	123	168	123
Net book value as at 31 December	771	168	771	168

*Item *Additions* include 547 thsd euro relating to development of software for internal use.
** Impairment provision policy is described in Note 2 (13).

Fully depreciated assets
A number of assets that have been fully depreciated are still in active use by the Group/Company. The total original cost value of these assets as at the end of the year is 10,807 thsd euros (2016: 5,525 thsd euros).

22 Property, plant and equipment

The table below reflects changes in property, plant and equipment of the Group / Company in the reporting period:

	Land and buildings	Vehicles	Office equipment*	Leasehold improvements	Total
Historical cost					
At the beginning of period	4,130	774	7,154	380	12,438
Additions	238	-	425	-	663
Disposals	(10)	(324)	(1,272)	-	(1,606)
Reclassified	-	-	-	-	-
as at 31 December 2017	4,358	450	6,307	380	11,495
Accumulated depreciation					
At the beginning of period	1,107	765	6,692	312	8,876
Depreciation charge for the period	98	7	223	12	340
Disposals	-	(324)	(1,271)	-	(1,595)
as at 31 December 2017	1,205	448	5,644	324	7,621
Impairment provision					
At the beginning of period	-	-	(4)	(51)	(55)
Changes in provisions	-	-	4	5	9
as at 31 December 2017	-	-	-	(46)	(46)
Net book value at the beginning of period	3,023	9	458	17	3,507
Net book value as at 31 December 2017	3,153	2	663	10	3,828

The table below reflects changes in property, plant and equipment of the Group / Company in 2016 year:

	Land and buildings	Vehicles	Office equipment*	Leasehold improvements	Total
Historical cost					
At the beginning of period	5,520	994	7,826	380	14,720
Additions	482	2	180	-	664
Disposals	-	(222)	(852)	-	(1,074)
Reclassified**	(1,872)	-	-	-	(1,872)
as at 31 December 2016	4,130	774	7,154	380	12,438
Accumulated depreciation					
At the beginning of period	1,493	976	7,232	296	9,997
Depreciation charge for the period	119	11	275	16	421
Disposals	(505)	(222)	(815)	-	(1,542)
as at 31 December 2016	1,107	765	6,692	312	8,876
Impairment provision					
At the beginning of period	-	-	(34)	(61)	(95)
Changes in provisions	-	-	30	10	40
as at 31 December 2016	-	-	(4)	(51)	(55)
Net book value at the beginning of period	4,027	18	560	23	4,628
Net book value as at 31 December 2016	3,023	9	458	17	3,507

*Office equipment includes such fixed assets categories as *Furniture and fittings* and *Computers and equipment*, Note 2 (12).

**The office building worth 1,367 thsd euros, situated at Elizabetes street 41/43 in Riga, has been excluded from the item *Land and Buildings* due to the change of the holding purpose of the building, On 1 November 2016 the building was reclassified as an asset held for sale, See Notes 2 (25) and 26.

23 Other assets

	Group	Group	Company	Company
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Financial assets	16,735	11,271	16,735	11,132
Other assets (inventory)	1,946	3,113	1,946	3,113
Total other assets (gross)	18,681	14,384	18,681	14,245
Impairment provision for financial assets	(12,849)	(10,370)	(12,849)	(10,370)
Total other assets (net)	5,832	4,014	5,832	3,875

Group's item *Financial assets* includes the following assets generated by:

- disbursed guaranteed compensations amounting to 5,073 thsd euros (2016: 2,713 thsd euros) for which provisions of 5,073 thsd euros (2016: 2,686 thsd euros) were accumulated;
- term deposits of 7,648 thsd euros of JSC Latvijas Krājbanka (Savings Bank of Latvia) being in liquidation that were 100% provisioned for;
- issued grants under Energy Efficiency programme of Multi-apartment Buildings 2,772 thsd euros (2016: 0)
- financial assets of 197 thsd euros (2016: 191 thsd euros) provisioned for 122 thsd euros (2016: 26 thsd euros). The financial assets include the payments made on behalf of clients, as stipulated by loan agreements.
- other financial assets of 1,045 thsd euros (2016: 719 thsd euros) provisioned for 6 thsd euros (2016: 10 thsd euros).

Company's item *Financial assets* includes the following assets generated by:

- disbursed guaranteed compensations amounting to 5,073 thsd euros (2016: 2,713 thsd euros) for which provisions of 5,073 thsd euros (2016: 2,686 thsd euros) were accumulated.
- term deposits of 7,648 thsd eiros of JSC Latvijas Krājbanka (Savings Bank of Latvia) being in liquidation that were 100% provisioned for;
- issued grants under Energy Efficiency programme of Multi-apartment Buildings 2,772 thsd euros (2016: 0)
- financial assets of 197 thsd euros (2016: 191 thsd euros) provisioned for 122 thsd euros (2016: 26 thsd euros). The financial assets include the payments made on behalf of clients, as stipulated by loan agreements.
- other financial assets of 1,045 thsd euros (2016: 580 thsd euros) provisioned for 6 thsd euros (2016: 10 thsd euros).

Other assets - assets, that have been taken over in the debt collection process for the purpose to hold them and sale in an ordinary course of business. Method of assets accountings described in Note 2 (15).

The following table presents movements in book value of assets, that have been taken over in the debt collection process, thsd. euro:

	Group	Company
At the beginning of period	6,897	6,897
Additions	1,286	1,286
Disposals	(4,428)	(4,428)
Reclassified to Land Fund	(30)	(30)
Revaluation	(612)	(612)
as at 31 December 2016	3,113	3,113
Additions	271	271
Disposals	(1,141)	(1,141)
Reclassified	-	-
Revaluation	(297)	(297)
as at 31 December 2017	1,946	1,946

24 Deferred expense

	Group	Group	Company	Company
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Management fees paid in advance	65	168	65	168
Other deferred expense	111	245	111	245
Total deferred expense	176	413	176	413

25 Accrued income

	Group	Group	Company	Company
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Compensation for management expenses of state aid programs	2,066	1,634	2,066	1,634
Other accrued income	14	12	14	13
Total accrued income	2,080	1,646	2,080	1,647

26 Assets held for sale

As at the reporting date, the carrying amount equals the fair value of the instruments.

	Company	Company
	31/12/2017	31/12/2016
Hipo Latvia Real Estate Fund I	9,013	-
Hipo Latvia Real Estate Fund II	1,552	-
Land and building	-	1,367
Assets held for sale	10,565	1,367

On 28 December 2017, the Group's/Company's management made a decision to sell the shares of *Alternative investment fund Hipo Latvia Real Estate Fund I* and *Alternative investment fund Hipo Latvia Real Estate Fund II*. On 10 January 2018, the management of the Group/Company approved the sales plan of the shares. The sales plan of *Alternative investment funds* is expected to be completed by 31 December 2018.

At 31 December 2017, investments in *Alternative investment fund Hipo Latvia Real Estate Fund I* and *Alternative investment fund Hipo Latvia Real Estate Fund II* were classified as a disposal group held for sale in the financial statements of the Group. More information about accounting principles is presented in Note 2 (25).

The decision of *Alternative investment fund Hipo Latvia Real Estate Fund I* and *Alternative investment fund Hipo Latvia Real Estate Fund II* investments reclassification also affect the presentation of separate financial statement of the Company. These investments were reclassified from *Investments in subsidiaries* to *Assets held for sale*.

The major classes of assets and liabilities of *Alternative investment fund Hipo Latvia Real Estate Fund I* and *Alternative investment fund Hipo Latvia Real Estate Fund II* classified as held for sale as at 31 December are, as follows:

	Group	Group
	31/12/2017	31/12/2016
Assets		
Due from other credit institutions and Treasury	256	-
Investment property	12,540	-
Other assets	139	-
Assets held for sale	12,935	-
Liabilities		
Other liabilities	2,000	-
Liabilities directly associated with assets held for sale	2,000	-
Amounts included in Group's Capital and reserve		
Reserves	1,839	-
Reserve of disposal group classified as held for sale	1,839	-

There are no gains or losses recognised in profit or loss with respect to these assets in separate financial statements of the Company.

IFRS 5 states that disclosure requirements continue to apply for assets and liabilities that are not within the scope of the measurement requirements of IFRS 5, but within the disposal group. As a result, these assets can be measured using the original standard. This exception applies to Company's investments in Alternative investment fund Hipo Latvia Real Estate Fund I and Alternative investment fund Hipo Latvia Real Estate Fund II. As a result, the Company continues re-measurement of these investments at fair value and changes go to Other comprehensive income in its separate financial statements.
There are no gains or losses recognised in profit or loss with respect to these assets in separate financial statements of the Company.

For details on the recognition, and measurement valuation techniques for these assets, refer Note 2 (25) and Note 38.

26 Assets held for sale (continued)

Write-down Assets held for sale

In November 2016 the Group/Company reclassified the real estate situated at Elizabetes iela 41/43 in Riga, from the item *Property, Plant and Equipment* to the item *Assets Held for Sale*. The reclassification was due to the change of the holding purpose of the asset, i.e. the sale process of the asset was started and expected to be completed within one year. For the purpose of transferring the asset to the item *Assets Held for Sale* the Group/Company relied on the asset's book value effective on 1 November 2016.

In June 2017, the Group/Company successfully sold it with a profit of 3,872 thsd euros (Note 9).

The accounting method used for recording of the asset is outlined in Note 2 (25).

27 Due to credit institutions

	Group	Group	Company	Company
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Due to credit institutions registered in OECD countries	46,933	56,195	46,933	56,195
Total	46,933	56,195	46,933	56,195

Credit institutions registered in OECD area include loans received by Group/Company from the European Investment Bank (EIB) of 46,933 thsd euros, where 67 thsd euros are accrued interest expenses. In the reporting period the Group/Company repaid 9,471 thsd euros of which the accrued interest amounted to 235 thsd euros.
The Ministry of Finance of the Republic of Latvia has issued 46,933 thsd euros guarantee (Note 41 for the loan that is a parent guarantee on behalf of the Group/Company.

The average interest rate for *Due to credit institutions* as at 31 December 2017 was 0.41% (2016: 0.33%).

28 Due to general governments

	Group	Group	Company	Company
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Due to government entities	1,723	1,723	1,723	1,723
Loans received from Rural Support Service	9,685	12,990	9,685	12,990
Loans received from the Treasury	32,201	32,201	32,201	32,201
Total due to general governments	43,609	46,914	43,609	46,914

Liabilities due to government entities obligations worth 1,723 thsd euros (2016: 1,723 thsd euros), which originate from reduction of capital of ERDFII and ESFII loan funds effected in year 2013 by ALTUM, whereby a share of public financing of ERDFII and ESFII was not repaid to the investors (state companies), although, an agreement was reached with the investors about accounting that amount outside the Statement of financial position of ERDFII and ESFII loan funds, i.e. on the liabilities side of the ALTUM Statement of financial position.

Item *Loans from Rural Support Service* – in accordance with the Cabinet Regulation No 664 dated 20 July 2010 *Procedure for Administering and Supervising the State and European Union Aid for Agriculture, Rural and Fisheries Development through Establishment of the Loan Fund* and Financing Agreement dated 7 September 2010 concluded among the Ministry of Agriculture, Rural Support Service and ALTUM stipulating the provisions for establishment, operation and supervision of the Loan Fund, absorption of the funds and performance of the Business Plan and its purpose, ALTUM was granted 44, 711 thsd euros (7,114 thsd euros from the European Fisheries Fund (EFF); 37,596 thsd euros – European Agricultural Fund for Rural Development (EAFRD)) to transfer these resources of the Loan Fund to the eligible beneficiaries via financial intermediaries.

As at 31 December 2017, based on the requests for funds received from the Ministry of Agriculture, Group/Company has repaid to the Rural Support Service 35,308 thsd euros, of which 11,855 thsd euros (EFF – 2,503 thsd euros; EAFRD – 9,352 thsd euros) are undisbursed funds and 23,453 thsd euros (EFF – 2,449 thsd euros; EAFRD – 21,004 thsd euros) are the principle amounts repaid by financial intermediaries.

In the reporting period the Group /Company repaid 3,304 thsd euros to Rural Support Service.

As at the end of year 2017 Group/Company liabilities towards RSS consist of the principal amount of 9,404 thsd euros and accrued interest – 281 thsd euros.

The granted financing is to be repaid by 31 December 2030.

Loans received from the Treasury of Latvia includes the loan of 32,201 thsd euros received by the Group/Company for implementation of land acquisition programmes. In compliance with Articles 9 and 13 of the Cabinet regulation No 381 "Procedure of granting state aid for procurement of agricultural land for producing agricultural produce" of 29 May 2012, the Republic of Latvia and Group/Company concluded loan agreement *No A1/1/F12/296* and the State Treasury on 25 June 2012.

The Group/Company has issued 1,253 loans (2016: 1,018 loans) of 51,465 thsd euros as at 31 December 2017 (2016: 44,195 thsd euros). These assets are pledged. The claim amount is 32,201 thsd euros. More information see Note 41.

29 Support programme funding and state aid

	Group	Group Restated	Company	Company Restated
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Support programme funding*	92,041	98,096	94,080	95,699
State aid Service*	3,968	5,575	3,968	5,575

*Item *Support programme funding* and *State aid service* were restated for the previous period (see Note 2 (29)).

Support programme funding is considered a liability of the Group/Company while state aid is a grant. The major state aid programmes benefiting from the received financing are:

- Fund of funds – 28,696 thsd euros;
- Energy Efficiency Programme of Multi-apartment Buildings (EEPMB) – 10,362 thsd euros;
- ERDFII – 25,268 thsd euros;
- ESFII – 6,108 thsd euros;
- Other support programmes finance – 27,907 thsd euros.

The terms for use of the public funding of each state aid programme, including covering of the management expenses and credit risk losses, are stipulated by agreement between the implementing body and line ministry and/or state-owned Central Finance and Contracting Agency. See Note 2 (23).
The support programme funding is provided with zero interest rate.
The repayment terms for the co-financing received by the Group / Company for implementation of largest state aid programs are presented below:

- Fund of funds – till the end of 2029
- Programme for improving energy efficiency in multi-apartment residential buildings – till the end of 2034;
- ERAFII – till the end of 2020;
- ESFII – till the end of 2020.

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 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	25,269	9,775	66%	6,451
ESF II	6,392	3,045	80%	2,436
Microcredits of Swiss programme	5,643	2,071	80%	1,657
ERAF I	1,285	1,239	50%	620
ESF I	1,008	204	90%	184
Microcredits	605	4	80%	3
ERAF II (second round)	5,528	3,974	68%	2,703
Incubators (from ESF II)	546	33	100%	546
ERAF II 2 Public fund	2,485	960	100%	960
Fund of funds and venture capital funds	16,424	-	77%	12,699
Fund of funds programme - Start-up loans	1,316	4,066	82%	1,079
Fund of funds programme – Microcredits	257	867	55%	141
Fund of funds programme - Parallel loans	1,200	1,556	90%	1,080
Fund of funds programme - Guarantees	9,500	-	91%	8645
EEPMB* loan fond	2,512	-	18%	452
EEPMB guarantees	2,994	-	67%	2,006
EEPMB grants	4,856	4,856	0%	-
Housing Guarantee Programme	2,849	1,803	100%	2,849
Social Entrepreneurship Programme	-	-	-	-
Start-up State Aid Cumulation Lending Programme	2,000	2,000	100%	2,000
KBLG **	5,000	-	95%	4,750
Other loans to start-ups	2,239	1,744	0%	1,677
Mezzanine Loan Programme	4,462	-	85%	3,793
Investment Fund Activity***	1,074	-	96%	1,031
Garantees and interest grants programme	1,904	-	100%	1,904
Baltic Innovation Fund	394	-	100%	394
Total	107,742			60,060

29 Support programme funding and state aid (continued)

* EEPMB – Energy Efficiency Programme for Multi-apartment Buildings

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

*** For more information on use of Risk Coverage Reserve of particular programme see Note 18.

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 programme - Start-up loans	625	-	82%	513
Fund of funds programme – Microcredits	80	-	55%	44
Fund of funds programme - Parallel loans	1,200	-	90%	1,080
Fund of funds programme - 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
Total	111,556			64,833

29 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 Company's credit risk losses as at 31 December 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	25,269	9,775	66%	6,451
ESF II	6,392	3,045	80%	2,436
Microcredits of Swiss programme	5,643	2,071	80%	1,657
ERAF I	1,285	1,239	50%	620
ESF I	1,008	204	90%	184
Microcredits	605	4	80%	3
ERAF II (second round)	5,528	3,974	68%	2,703
Incubators (from ESF II)	546	33	100%	546
ERAF II 2 Public fund	2,485	960	100%	960
Fund of funds and venture capital funds	16,424	-	77%	12,699
Fund of funds programme - Start-up loans	1,316	4,066	82%	1,079
Fund of funds programme – Microcredits	257	867	55%	141
Fund of funds programme - Parallel loans	1,200	1,556	90%	1,080
Fund of funds programme - Guarantees	9,500	-	91%	8,645
EEPMB* loan fond	2,512	-	18%	452
EEPMB guarantees	2,994	-	67%	2,006
EEPMB grants	4,856	4,856	0%	-
Housing Guarantee Programme	2,849	1,803	100%	2,849
Social Entrepreneurship Programme	-	-	0%	-
Start-up State Aid Cumulation Lending Programme	2,000	2,000	100%	2,000
KBLG **	5,000	-	95%	4,750
Other loans to start-ups	2,239	1,744	0%	1,677
Mezzanine Loan Programme	4,462	-	85%	3,793
Investment Fund Activity	1,286	-	96%	1,235
Garantees and interest grants programme	1,904	-	100%	1,904
Baltic Innovation Fund	394	-	100%	394
Total	107,954			60,264

29 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 Company'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	9,083	-	96%	8,719
Risk Coverage Reserve	109,160			62,532

Based on the concluded programme implementation contracts, the received funding could be reduced for the principal amount of the outstanding obligations of the loans classified as lost and / or disbursements of guarantee compensations. The Group/Company does not have to repay the reductions of funding to the provider of funding. See more information in Note 2 (24).

30 Provisions

	Group	Group	Company	Company
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Provisions for:				
Provision (onerous contracts)	8,545	9,019	8,545	9,019
Other guarantee programmes	3,817	4,022	3,817	4,022
Guarantee activity	941	2,553	941	2,553
Loan guarantees to rural entrepreneurs for agricultural	824	827	824	827
Guarantees *under the Mezzanine loan programme*	391	402	391	402
Housing Guarantee Programme	13	41	13	41
Total provisions	14,531	16,864	14,531	16,864

Provision (onerous contracts) includes the loss from the concession which is the discounted difference between total of actual receivable commissions and total of commissions under market rate. Onerous contracts relate to issued guarantees which are measured at fair value based on equivalent market rates at initial recognition. The difference between market rate and spot rate of guarantee commissions under new onerous contracts amounts of 3,940 euros for the current period included in Provision (onerous contracts) above. For accounting treatment see Note 2 (22).

30 Provisions (continued)

Movement in provisions for guarantees:

	Group	Group	Company	Company
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Provisions at the beginning of period	7,845	8,517	7,845	8,517
Impairment allowance increase	3,258	5,310	3,258	5,310
Impairment allowance decrease	(5,101)	(5,987)	(5,101)	(5,987)
Currency change	(16)	5	(16)	5
Provisions at the end of period*	5,986	7,845	5,986	7,845

*According to the Group's/Company's estimates as at December 31, 2017 the guarantee provisions should amount to 8,182 thsd euros (2016: 10,557 thsd euros), of which 2,196 thsd euros are covered from the risk coverage amount (2016: 1,218 euros).

The guarantee provisions are measured at the highest of the unamortised amount and impairment amount which amounts to 5,986 thsd euros as at 31 Dec 2017.

Movement in *onerous contracts* provisions for guarantees:

	Group	Group	Company	Company
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Provisions at the beginning of period	9,019	8,810	9,019	8,810
Impairment allowance increase	3 940	7,178	3 940	7,178
Impairment allowance decrease	(4 415)	(6,969)	(4 415)	(6,969)
Provisions at the end of period	8,544	9,019	8,544	9,019

Guarantee gross and net amounts

	Group	Group	Company	Company
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Maximum exposure to credit for off balance sheet amount	182,376	147,175	182,376	147,175
Provisions for guarantees	(5,986)	(7,845)	(5,986)	(7,845)
Off-balance sheet amount of guarantee	176,390	139,330	176,390	139,330

For information on amounts and categories of guarantees see Note 36. For information on the method for guarantee accounting see Note 2 (22).

31 Other liabilities

	Group	Group	Company	Company
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Due to customers	2,148	2,945	2,148	2,945
Other liabilities	1,616	3,614	1,340	1,337
Total other liabilities	3,764	6,559	3,488	4,282

Due to customers include funds received from clients of the Group/Company to be used for repayment of the loans at a later stage.

Other liabilities include short-term funds, which are connected with other liabilities.

32 Accrued expense

	Group	Group	Company	Company
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Other accrued expense	488	743	488	743
Bonuses of the employees and Board	479	444	479	444
Audit services	15	11	15	11
Total accrued expense	982	1,198	982	1,198

33 Issued debt securities

On October 17, 2017 the Company issued its first Green bonds in amount of 20 mln euros. The bonds are listed on the Baltic Bond List by Nasdaq Riga as of October 24, 2017.

ISIN	Currency	Number of initially issued securities	Par value	Date of emission	Date of maturity	Discount / Coupon rate, %	Group	Group	Company	Company
							31/12/2017	31/12/2016	31/12/2017	31/12/2016
LV0000802353	EUR	20,000	1,000	17.10.2017	17.10.2024	1.37	19,852	-	19,852	-

Green minded financing instruments is used to support sustainability projects in Latvia, while providing the Company with an opportunity to diversify Company's funding base and support development of the Baltic Bond market.

For details on the recognition and measurement valuation techniques for these liabilities, refer Note 2 (5) (*viii)*.

34 Share capital

The share capital of the Company was as follows:

	31/12/2017		31/12/2016	
	Quantity	EUR	Quantity	EUR
Fully paid share capital				
Ordinary shares	204,862,332	204,862,332	204,862,332	204,862,332
Total fully paid share capital	204,862,332	204,862,332	204,862,332	204,862,332

The decision about establishment of the Company was made by the Latvian Cabinet decision on 17 December 2013. The Company was registered in the Commercial Register on 27 December 2013, having share capital of LVL 400,130, which corresponds to 569,334 euros.

A capital increase was made on 11 September 2014 by investing equity shares of Latvian Guarantee Agency Ltd, the SJSC Latvian Development Finance Institution ALTUM and the SJSC Rural Development Fund. The amount of share capital after its increase was 204,862,333 euros. The face value of each share is 1 euro.

34 Share capital (continued)

All shares of the JSC Development Finance Institution Altum are owned by the Government of Latvia. The Ministry of Finance was appointed to be the shareholder until 28 February 2015. According to the Development Finance Institution Law that came to effect on 1 March 2015, as of its effective day, the holder of 40% of the financial institution's shares is the Ministry of Finance, the holder of 30% of shares – the Ministry of Economy, and the holder of 30% of shares – the Ministry of Agriculture.

For more information see Note 1 (1).

35 Reserves

Information about the Group's reserves movements below:

	Specific reserves				
	Difference recognised in Group's reorganisation reserve, thsd EUR	Reserve capital for Housing Guarantee Programme, thsd EUR	General reserve capital, thsd EUR	Reserve of available for sale investments*, thsd EUR	Reserves, thsd EUR
Reserves as at 01/01/2016	(17,717)	1,635	-	8,625	(7,457)
Changes of reserves **	458	-	-	-	458
Distribution of 2015 year profit of Company***	-	-	1,829	-	1,829
Increase of reserve capital	-	5,560	-	-	5,560
Increase of available for sale reserve (Note 38)	-	-	-	467	467
Reserves as at 31/12/2016	(17,259)	7,195	1,829	9,092	857
Changes of reserves **	4,108	-	-	-	4,108
Distribution of 2016 year profit of Company***	-	-	4,025	-	4,025
Increase of reserve capital	-	2,500	-	-	2,500
(Decrease)/increase of available for sale reserve (Note 38)	-	-	-	(1,161)	(1,161)
Reserves as at 31/12/2017	(13,151)	9,695	5,854	7,931*	10,329

* As at 31 December 2017 Reserve of available for sale investments includes Reserve of disposal group classified as held for sale in amount of 1,839 thsd euro.

** Group consolidation corrections of prior periods that are accounted in Group's reorganisation reserve as at 1 January 2017.

*** The shareholders of the Group/Company take a decision of profit distribution and its transfer to the General reserve capital in full amount.

See information about the Company's reserves movements below:

	Difference recognised in Company's reorganisation reserve, thsd EUR	Reserve of available for sale investments*, thsd EUR	Reserve capital for Housing Guarantee Programme**, thsd EUR	Reserve capital, thsd EUR	Reserve capital, thsd EUR
Reserves as at 01/01/2016	(15,935)	8,667	1,635	-	(5,633)
Increase of available for sale reserve (Note 38)	-	425	-	-	425
Distribution of 2015 year profit	-	-	-	1,829	1,829
Increase of reserve capital	-	-	5,560	-	5,560
Reserves as at 31/12/2016	(15,935)	9,092	7,195	1,829	2,181
Decrease of available for sale reserve (Note 38)	-	(1,161)	-	-	(1,161)
Distribution of 2016 year profit	-	-	-	4,025	4,025
Increase of reserve capital	-	-	2,500	-	2,500
Reserves as at 31/12/2017	(15,935)	7,931	9,695	5,854	7,545

* As at 31 December 2017 Reserve of available for sale investments includes Reserve of disposal group classified as held for sale in amount of 1,839 thsd euro.

**One of the Group's/Company's reserve capital is related to *Housing Guarantee Programme*. To implement this programme the Group's/Company's reserve capital was increased 2,500 thsd euros in 2017. See more information in Note 2 (24).

36 Off balance sheet items and contingent liabilities

	Group	Group	Company	Company
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Contingent liabilities:				
outstanding guarantees	182,376	147,175	182,376	147,175
Financial commitments:				
unutilised loan facilities	8,788	6,324	8,788	6,324
commitments to venture capital funds	27,020	28,940	27,020	28,940
other liabilities	-	142	-	142
Total contingent liabilities	218,184	182,581	218,184	182,581

The guarantees issued by Group/Company account for the largest sum in the Group's/Company's off-balance sheet items as contingent liabilities. The Company's guarantee portfolio consists of the portfolios of the state aid programmes implemented through guarantees.

Active guarantee programmes – the programmes that are being absorbed and that issue new guarantees:

- SME Loan Guarantee Programme, the gross value of the guarantee portfolio as at 31 December 2017: EUR 36,781thsd (in year 2016: EUR 12,802 thsd);
- Guarantee Programme for Clients of State Aid Cumulation, Grace Period and Large Economic Operators, the gross value of the guarantee portfolio as at 31 December 2017: EUR 8,503 thsd (in year 2016: EUR 608 thsd);
- Guarantee Programme for Agricultural Loans, the gross value of the guarantee portfolio as at 31 December 2017: EUR 11,386 thsd (in year 2016: EUR 10,838 thsd);
- SME portfolio guarantees, the gross value of the guarantee portfolio as at 31 December 2017: EUR 0 thsd (in year 2016: EUR 0 thsd);
- Housing Guarantee Programme, the gross value of the guarantee portfolio as at 31 December 2017: EUR 46,696 thsd (in year 2016: EUR 26,614 thsd);
- Guarantee Programme for Increasing of Energy Efficiency of Multi-apartment Buildings (EEPMB programme), the gross value of the guarantee portfolio as at 31 December 2017: EUR 2,012 thsd (in year 2016: EUR 0 thsd);
- Short-term export credit guarantees, the gross value of the guarantee portfolio as at 31 December 2017: EUR 2,012 thsd (in year 2016: EUR 0 thsd);
- Medium and Long-term Export Credit Guarantees, the gross value of the guarantee portfolio as at 31 December 2017: EUR 0 thsd (in year 2016: EUR 0 thsd);
- Other export credit guarantees, the gross value of the guarantee portfolio as at 31 December 2017: EUR 3,704 thsd (in year 2016: EUR 6,607 thsd).

Inactive guarantee programmes - the absorption period of these programmes has closed; no new guarantees are issued; the established portfolios are being serviced:

- as at 31 December 2017 the gross value of the guarantee portfolio of the inactive programmes amounted to EUR 70,915 thsd (in year 2016: EUR 89,706 thsd).

On 5 September 2017 the Cabinet of Ministers approved Regulations No 537 governing implementation of the new Portfolio Guarantee Programme.

For information on the provisions built for the issued guarantees see Note 30 .

36 Off balance sheet items and contingent liabilities (continued)

Commitments to venture capital funds are contingent liabilities, which are based on contractual agreements between the Group/Company and a venture capital fund that obligates the Group/Company to contribute money to the fund.

The table below presents the information about commitments to venture capital funds:

	Contract period	Commitment, thsd EUR	Sum of commitment, which is not contributed to the fund 31.12.2017., thsd EUR	Sum of commitment, which is not contributed to the fund 31.12.2016., thsd EUR
BaltCap LatviaVentureCapital Fund,KS	22.01.2020.	20,000	4,114	4,401
AIF Impr.Cap.Technol.Vent.Fund,KS	11.06.2020.	4,966	638	836
AIF Imprimatur Capital Seed Fund,KS	11.06.2020.	10,000	893	41
ZGI-3,KS	31.12.2020.	11,800	1,502	1,648
FlyCap Investment Fund I AIF,KS	31.12.2020.	15,000	1,875	2,135
Expansion Capital Fund AIF,KS	31.12.2020.	15,000	331	412
Baltic Innovation Fund	01.01.2029.	26,000	17,667	19,467
Total		102,766	27,020	28,940

The table below allocates the Group's / Company's off balance sheet items and contingent liabilities to maturity groupings as at 31 December 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	-	19	832	13,165	58,688	109,672	182,376
Financial commitments							
unutilised loan facilities	8,788	-	-	-	-	-	8,788
commitments to venture capital funds	436	714	1,676	3,732	16,246	4,216	27,020
other liabilities	-	-	-	-	-	-	-
Total financial commitments	9,224	714	1,676	3,732	16,246	4,216	35,808
Total	9,224	733	2,508	16,897	74,934	113,888	218,184

The table below allocates the Group's / Company'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

37 Cash and cash equivalents

	Group	Group	Company	Company
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Demand deposits with other credit institutions	100,597	79,553	100,597	79,408
Deposits with credit institutions with original maturity of less than 3 months	-	5,000	-	5,000
Total	100,597	84,553	100,597	84,408

38 Movement in revaluation reserve of investment securities available for sale

	Group	Group	Company	Company
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
As at 1 January	9,092	8,625	9,092	8,667
(Profit) from sales (Note 8)	-	-	-	-
Gain / (loss) from changes in fair value*	(1,161)	467	(1,161)	425
Other comprehensive income	(1,161)	467	(1,161)	425
Total	7,931	9,092	7,931	9,092
Reserve of disposal group classified as held for sale	(1,839)	-	(1,839)	-
As at 31 December	6,092	9,092	6,092	9,092

* The position *Gain from changes in fair value* includes the revaluation of Latvian Treasury bills and government bonds as well as *Alternative investment fund Hipo Latvia Real Estate Fund I* and *Alternative investment fund Hipo Latvia Real Estate Fund II* registered in Latvia.
Information regarding revaluation of investment securities is provided in Note 2 (5).

39 Related party transactions

Related parties are defined as Council and Board members of the Group/Company, their close relatives, as well as companies under their control.

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/Company's operations are treated as related parties to the Group/Company.

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

The remuneration of the members of the Company's Council and Board in the reporting period amounted to 376 thsd euros (2016: 282 thsd euros) (Note 10).

The Company has entered into number of transactions with other government entities. The most significant were obtaining financing from Investment and Development Agency of Latvia, Ministry of Finance, Ministry of Economics, Rural Support Service and Central Finance and Contracting Agency, which co-finance development programmes of the Company.

The following table provides the total amount of transactions of the Group that have been entered into with related parties for the relevant financial year as at 31 December 2017 and 31 December 2016:

		Received support programme funding, thsd EUR	Granted support programme funding or funding paid back, thsd EUR	Received reserve capital, thsd EUR
Transactions with shareholders: Ministry of Finance	31/12/2017	-	(336)	-
	31/12/2016	-	-	5,559
Ministry of Economics	31/12/2017	5,349	(217)	-
	31/12/2016	29,610	-	-
Entity with significant influence: Alternative investment funds	31/12/2017	-	-	-
	31/12/2016	-	-	-
Associates:				
Venture capital funds	31/12/2017	3,030	(3,998)	-
	31/12/2016	684	(21,054)	-
Other companies owned by Group shareholders:				
Rural Support Service	31/12/2017	-	(3,304)	-
	31/12/2016	-	(9,387)	-
Central Finance and Contracting Agency	31/12/2017	4,946	-	-
	31/12/2016	5,563	-	-

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

39 Related party transactions (continued)

Balances, including off-balance sheet financial liabilities of the Group with related parties as at 31 December 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	31/12/2017	-	-	-	-
	31/12/2016	34	-	-	-
Investment property	31/12/2017	-	-	-	-
	31/12/2016	11,273	-	-	-
Investments in venture capital funds – associates	31/12/2017	-	-	51,310	-
(Allowance for impairment loss) (Note 12)	31/12/2017	-	-	(140)	-
	31/12/2016	-	-	58,541	-
	31/12/2016	-	-	(245)	-
Other assets	31/12/2017	-	-	-	-
	31/12/2016	140	-	-	-
Assets held for sale	31/12/2017	12,935	-	-	-
	31/12/2016	-	-	-	-
Due to general governments (Note 28)	31/12/2017	-	-	-	9,686
	31/12/2016	-	-	-	12,990
Support programme funding and state aid (Note 29 and 2 (23))*	31/12/2017	-	85,646	-	10,362
	31/12/2016	-	98,108	-	5,563
Liabilities directly associated with assets held for sale	31/12/2017	2,000	-	-	-
	31/12/2016	-	-	-	-
Commitments to venture capital funds	31/12/2017	-	-	27,020	-
(Note 36)	31/12/2016	-	-	28,940	-

*Item *Support programme funding* and *State aid service* were restated for the previous period (see Note 2 (29)).

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

		Received state aid funding, thsd EUR	Granted state aid funding or repayment of the funding, thsd EUR	Received reserve capital, thsd EUR
Transactions with shareholders: Ministry of Finance	31/12/2017	-	(336)	-
	31/12/2016	-	-	5,559
Ministry of Economics	31/12/2017	5,349	(217)	-
	31/12/2016	29,610	-	-
Entity with significant influence: Alternative investment funds	31/12/2017	-	-	-
	31/12/2016	-	-	-
Associates: Venture capital funds	31/12/2017	1,715	(3,998)	-
	31/12/2016	205	(22,932)	-
Other companies owned by Altum shareholders Rural Support Service	31/12/2017	-	(3,304)	-
	31/12/2016	-	(9,387)	-
Central Finance and Contracting Agency	31/12/2017	4,946	-	-
	31/12/2016	5,563	-	-

39 Related party transactions (continued)

Gain and expense on related party transactions within year 2017 and year 2016:

		Interest received, thsd EUR	Interest paid, thsd EUR	Other expenses, thsd EUR
Associates:				
Venture capital funds	2017	1,249	(1,249)	-
	2016	365	(365)	-

During 2017 year the venture capital funds yielded 1,012 thsd euros of interest income and 237 thsd euros of income realised on the investments that were 100% attributed to the funding by Ministry of Economics of the Republic of Latvia (Note 4 and Note 9).

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

		Significant influence entity, thsd EUR	Transactions with shareholders, thsd EUR	Associates, thsd, EUR	Other companies owned by Altum shareholders, thsd EUR
Investments in venture capital funds – associates	31/12/2017	-	-	63,504	-
(Provisions for impairment) (Note 12)	31/12/2017	-	-	(14,396)	-
	31/12/2016	-	-	64,746	-
	31/12/2016	-	-	(8,024)	-
Investments in subsidiaries	31/12/2017	-	-	-	-
	31/12/2016	10,376	-	-	-
Due to general governments	31/12/2017	-	-	-	9,685
(Note 28)	31/12/2016	-	-	-	12,990
Support programme funding and state aid (Note 29 and 2 (23))*	31/12/2017	-	87,686	-	10,362
	31/12/2016	-	95,711	-	5,563
Off-balance sheet financial liabilities for venture capital funds	31/12/2017	-	-	27,020	-
(Note 36)	31/12/2016	-	-	28,940	-

*Item *Support programme funding* and *State aid service* were restated for the previous period (see Note 2 (29)).

The table below provides information about Group:

Name	Legal address	Investment % in capital
Investments in associates		
KS Otrais Eko Fonds	Dārza 2, Riga, LV-1007	33
KS Baltcap Latvia Venture Capital Fund	Jaunmoku street 34, Riga, Latvia, LV-1046	67
KS Imprimatur Capital Technology Venture Fund	Elizabetes street 85a-18, Riga, Latvia, LV-1050	67
KS Imprimatur Capital Seed Fund	Elizabetes street 85a-18, Riga, Latvia, LV-1050	100
KS ZGI-3	Daugavgrivas street 21, Riga, Latvia, LV-1048	95
KS FlyCap investment Fund	Matrožu iela 15A, Riga, Latvia, LV-1048	95
KS Expansion Capital fund	Krišjāņa Barona street 32-7, Riga, Latvia, LV-1011	95
Baltic Innovation Fund	European Investment Fund, 37B, avenue J.F. Kennedy, L-2968 Luxembourg	20
Alternative investment funds over which Company has control		
Hipo Latvia Real Estate Fund I	Elizabetes street 41/43, Riga, Latvia, LV-1010	100
Hipo Latvia Real Estate Fund II	Elizabetes street 41/43, Riga, Latvia, LV-1010	100
Liquidated entities during 2017 year		
KS ZGI Fonds	Ausekļa street 1, Riga, Latvia, LV-1010	65

40 Segment information

The management of the Group believe that the Group's operations can be organised info four segments based on the core business activities as follows: loan service, guarantee service, venture capital funds service and other services.

The Group defines its operating segments based on financial products, which are issued to Group clients.

Operating segment information is prepared on the basis of internal reports.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Management board of the Company is the chief operating decision maker.

The Group doesn't provide detailed information on the type of transaction since all the transactions are external.

Analysis of the operating segments of the Group for the period from January 1, 2017 till December 31, 2017:

	Loan service, thsd EUR	Guarantee service, thsd EUR	Venture capital funds service, thsd EUR	Other services, thsd EUR	Total, thsd EUR
Net interest income	9,671	1,399	96	208	11,374
Net income from fees and commissions	449	(24)	(191)	(6)	228
Net trading income	(97)	(83)	(10)	(1)	(191)
Share of (loss) of investment in joint venture and associate	-	-	818	-	818
Other income	1,623	454	636	5,078	7,791
Operating income before operating expenses	11,646	1,746	1,349	5,279	20,020
Staff costs	(3,653)	(1,203)	(241)	(1,425)	(6,522)
Administrative expense	(2,849)	(275)	(140)	(746)	(4,010)
Amortisation of intangible assets and depreciation of property, plant and equipment	(344)	(40)	(7)	(26)	(417)
Net impairment provisions	(2,390)	2,318	-	(1,929)	(2,001)
Corporate income tax	(43)	(45)	(17)	(20)	(125)
Total segment profit/(loss)	2,367	2,501	944	1,133	6,945
Investments in venture capital funds - associates	-	-	51,310	-	51,310
Additions of property and equipment, intangible assets and investment property	786	234	49	273	1,342
Total segment assets	286,204	82,305	57,582	25,595	451,686
Total segment liabilities	176,196	31,014	12,453	9,537	229,200

Other services include Land Fund's transactions, service centres for Energy Efficiency Programme for Multi-apartment Buildings, Social Entrepreneurship Programme's grants, transaction, which are connected to the assets that have been taken over in the debt collection process, new state aid development, as well as transactions, which cannot be attributed to state aid programmes.

40 Segment information (continued)

Analysis of the operating segments of the Group for the period from January 1, 2016 till December 31, 2016:

	Loan service, thsd EUR	Guarantee service, thsd EUR	Venture capital funds service, thsd EUR	Other services, thsd EUR	Total, thsd EUR
Net interest income	8,775	1,565	640	-	10,980
Net income from fees and commissions	468	(53)	(277)	9	147
Net trading income	(99)	(113)	9	-	(203)
Share of (loss) of investment in joint venture and associate	-	-	(1,758)	-	(1,758)
Other income	937	505	620	3,466	5,528
Operating income before operating expenses	10,081	1,904	(766)	3,475	14,694
Staff costs	(4,326)	(981)	(251)	(1,224)	(6,782)
Administrative expense	(2,337)	(804)	(414)	(2,026)	(5,581)
Amortisation of intangible assets and depreciation of property, plant and equipment	(354)	(72)	(13)	(90)	(529)
Net impairment provisions	(2,833)	3,093	(246)	457	471
Corporate income tax	-	-	-	-	-
(Loss) after tax for the year from discontinued operations	-	-	-	(103)	(103)
Total segment profit/(loss)	231	3 140	(1 690)	489	2,170
Investments in venture capital funds – associates	-	-	58,541	-	58,541
Additions of property and equipment, intangible assets and investment property	198	40	7	4,236	5,012
Total segment assets	286,452	70,705	62,647	23,322	443,126
Total segment liabilities	164,593	29,147	35,969	3,323	233,032

41 Maximum exposure to credit risk

The credit risk is a risk that a customer or cooperation partner of the Group/Company is unable or unwilling to meet its liabilities towards the Group/Company 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):

	Group	Group	Company	Company
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Statement of financial position assets exposed to credit risk				
Due from other credit institutions and Treasury	109,594	89,553	109,594	89,408
Investment securities - available for sale	61,760	64,294	61,760	64,294
Investment securities – held to maturity	443	1,531	443	1,531
Loans and receivables	192,147	201,250	192,147	201,250
Investments in venture capital funds	51,170	58,296	49,108	56,722
Other assets	3,886	901	3,886	762
Total	419,000	415,825	416,938	413,967

41 Maximum exposure to credit risk (continued)

	Group	Group	Company	Company
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Off-balance sheet items exposed to credit risk				
Contingent liabilities (Note 36)	182,376	147,175	182,376	147,175
Financial commitments (Note 36)	35,808	35,406	35,808	35,406
Total	218,184	182,581	218,184	182,581

As at December 31, 2017 a part of the Group's/Company's assets amounting to EUR 79,134 thsd has been pledged. Detailed information about the loan agreements concluded by the Group/Company as at 31 December 2017:

On June 16, 2015 the commercial pledge stemming from the loan agreement No A/1/F12/296 and its amendments concluded between the Group/Company and Ministry of Finance of the Republic of Latvia was renewed. The commercial pledge is related to the loans granted by Group/Company 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) (Note 28).

As at 31 December 2017 the total amount of Group's/Company's entitlements considered as an aggregate property in favour of the Ministry of Finance was 46,933 thsd euros (2016: 56,195 thsd euros). Guarantee of the Ministry of Finance of the Republic of Latvia amounting to EUR 46,933 thsd that has been issued to back the Group's/Company's loan from EIB (2016: 56,111 thsd euros) (Note 27).

Further disclosed information on commercial pledges stemming from the signed loan agreements where, as at 31 December 2017, the available funding has not been disbursed at all:

Based on the loan agreement No A1/1/F16/474 dated 24 November 2016 between the Group/Company 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/Company 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/Company has granted. Within year 2017 the Group/ Company had not started to use the Treasury's loan as yet.

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/Company and Treasury of the Republic of Latvia. The commercial pledge refers to the loan funds the Group/Company 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/Company and Treasury of the Republic of Latvia. The commercial pledge refers to the loan funds the Group/Company 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/Company has granted. Within 2017 year the Group/Company had not started to use the Treasury's loan as yet.

On 19 October 2017 a loan agreement with the Council of Europe Development Bank was signed. Within the framework of the loan agreement Group/Company would have the opportunity of borrowing EUR 50 mln for implementation of the energy efficiency improvement measures in multi-apartment buildings. The agreement has been signed to fund Group's/Company's loans within the energy efficiency programme of the multi-apartment buildings. Nevertheless, in year 2017 Group/Company didn't use the funds of the Council of Europe Development Bank as Group's/Company's loan for implementation of the project involving the multi-apartment buildings could only be issued if the commercial banks refused to fund the project, but in view of the current economic circumstances such occurrences were rear (in year 2017 – 4 loans worth EUR 0.6 mln). The funds available through the loan agreement won't be used to grant small loans; these funds will be used only if there is a demand for Group's/Company's loans of at least 12,5 mln which is the minimum amount of the tranche. As stipulated by agreement, the first tranche has to be disbursed within 12 months and there is no payment on the portion of the loan that has not been disbursed. The loan is not secured by a registered collateral, but presents *pari passu* rights against other collaterals.

Transactions with derivatives, in effect on 31 December 2017, had been concluded seeking to cushion the effect of exchange rate fluctuations on the value of balance-sheet assets (see Note 17).

Loans to customers are secured, mostly by real estate, to a lesser extent – by other types of assets or commercial pledge. Some loans, granted during lending campaigns, are partially covered by guarantees of the state aid programmes. Loan impairment estimates take into account the expected cash flows from collateral. Loan quality is described in Note 19.

41 Maximum exposure to credit risk (continued)

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 31 December 2017, 243 guarantees with the total funding of 39,1 mln euros were issued under specific support objective 3.1.1.1., whereas 19 guarantees with the total funding of 8.8 mln euros were issued to large companies. From 1 January 2017 to 31 December 2017 there were 34 guarantees with the total funding of 4.4 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 31 December 2017 there were 7 guarantees issued with InnovFin counter guarantee with the total funding of 1,2 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 31 December 2017 there were 18 EEPMB guarantees granted for 2.1 mln 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. 3,113 housing guarantees for 22.3 mln euros were granted from 1 January 2017 to 31 December 2017.

42 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:

	31/12/2017		31/12/2016	
	Carrying amount	Fair value	Carrying amount Restated	Fair value Restated
Assets				
Due from other credit institutions and Treasury	109,594	109,594	89,553	89,537
Individuals	21,635	21,597	22,722	22,684
Companies	170,512	169,699	178,528	177,644
Loans and receivables	192,147	191,296	201,250	200,328
Debt securities	443	1,208	1,531	3,315
Investment securities – held to maturity	443	1,208	1,531	3,315
Investments in venture capital funds	51,170	51,170	58,296	58,296
Assets held for sale	12,935	12,935	1,367	3,488
Liabilities				
Due to credit institutions	46,933	46,933	56,195	56,195
Due to general governments	43,609	42,103	46,914	46,914
Support program funding, net of state aid *	92,041	92,041	98,096	98,096

*Item *Support programme funding* and *State aid service* were restated for the previous period (see Note 2 (29)).

42 Fair values of assets and liabilities (continued)

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

	31/12/2017		31/12/2016	
	Carrying amount	Fair value	Carrying amount Restated	Fair value Restated
Assets				
Due from other credit institutions and Treasury	109,594	109,594	89,408	89,392
Individuals	21,635	21,597	22,722	22,684
Companies	170,512	169,699	178,528	177,644
Loans and receivables	192,147	191,296	201,250	200,328
Debt securities	443	1,208	1,531	3,315
Investment securities – held to maturity	443	1,208	1,531	3,315
Investments in subsidiaries	-	-	10,376	10,376
Investments in venture capital funds	49,108	49,108	56,722	56,722
Assets held for sale	10,565	10,565	1,367	3,488
Liabilities				
Due to credit institutions	46,933	46,933	56,195	56,195
Due to general governments	43,609	42,103	46,914	46,914
Support program funding, net of state aid *	94,080	94,080	95,699	95,699

*Item *Support programme funding* and *State aid service* were restated for the previous period (see Note 2 (29)).

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/Company 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 have 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) have been estimated to be approximately equal to its carrying amount.

42 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 or for which fair value is disclosed as at 31 December 2017:

	Level 1	Level 2	Level 3	Total
Assets measured at fair value:				
Investment property (Note 15)	-	-	10,808	10,808
Debt securities - available for sale (Note 14)	37,723	24,037	-	61,760
Derivatives	-	142	-	142
Assets held for sale (Note 26)	-	-	12,935	12,935
Assets for which fair values are disclosed:				
Loans and receivables (Note 19)	-	-	191,296	191,296
Due from other credit institutions and Treasury (Notes 16, 37)	100,594	-	9,000	109,594
Total assets	138,317	24,179	224,039	386,535
Liabilities measured at fair value:				
Derivatives (Note 17)	-	-	-	-
Liabilities for which fair values are disclosed:				
Due to credit institutions (Note 27)	-	-	46,933	46,933
Due to general governments (Note 28)	-	-	43,609	43,609
Support program funding (Note 29)	-	-	92,041	92,041
Total liabilities	-	-	182,583	182,583

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

	Level 1	Level 2	Level 3	Total Restated
Assets measured at fair value:				
Investment property (Note 15)	-	-	17,087	17,087
Debt securities - available for sale (Note 14)	39,026	25,268	-	64,294
Assets for which fair values are disclosed:				
Loans and receivables (Note 19)	-	-	200,328	200,328
Assets held for sale				
Due from other credit institutions and Treasury (Notes 16, 37)	79,437	-	10,100	89,537
Total assets	118,463	25,268	227,515	371,246
Liabilities measured at fair value:				
Derivatives (Note 17)	-	854	-	854
Liabilities for which fair values are disclosed:				
Due to credit institutions (Note 27)	-	-	56,195	56,195
Due to general governments (Note 28)	-	-	46,914	46,914
Support program funding * (Note 29)	-	-	98,096	98,096
Total liabilities	-	854	201,205	202,059

*Item *Support programme funding* and *State aid service* were restated for the previous period (see Note 2 (29)).

42 Fair values of assets and liabilities (continued)

The following table shows the hierarchy of the Company's financial assets and liabilities assessed and recognised at fair value or for which fair value is disclosed as at 31 December 2017:

	Level 1	Level 2	Level 3	Total
Assets measured at fair value:				
Investment property (Note 15)	-	-	10,808	10,808
Debt securities - available for sale (Note 14)	37,723	24,037	-	61,760
Investments in subsidiaries	-	-	-	-
Derivatives (Note 17)	-	142	-	142
Assets held for sale (Note 26)	-	-	10,565	10,565
Assets for which fair values are disclosed:				
Loans and receivables (Note 19)	-	-	191,296	191,296
Due from other credit institutions and Treasury (Notes 16, 37)	100,594	-	9,000	109,594
Total assets	138,317	24,179	221,669	384,165
Liabilities measured at fair value:				
Derivatives	-	-	-	-
Liabilities for which fair values are disclosed:				
Due to credit institutions (Note 27)	-	-	46,933	46,933
Due to general governments (Note 28)	-	-	43,609	43,609
Support program funding (Note 29)	-	-	94,080	94,080
Total liabilities	-	-	184,622	184,622

The following table shows the hierarchy of the Company's financial assets and liabilities assessed and recognised at fair value or for which fair value is disclosed as at 31 December 2016:

	Level 1	Level 2	Level 3	Total Restated
Assets measured at fair value:				
Investment property (Note 15)	-	-	4,869	4,869
Debt securities - available for sale (Note 14)	39,026	25,268	-	64,294
Investments in subsidiaries (Note 20)	-	-	10,376	10,376
Assets for which fair values are disclosed:				
Loans and receivables (Note 19)	-	-	200,328	200,328
Assets held for sale				
Due from other credit institutions and Treasury (Notes 16, 37)	79,292	-	10,100	89,392
Total assets	118,318	25,268	225,673	369,259
Liabilities measured at fair value:				
Derivatives (Note 17)	-	855	-	855
Liabilities for which fair values are disclosed:				
Due to credit institutions (Note 27)	-	-	56,195	56,195
Due to general governments (Note 28)	-	-	46,914	46,914
Support program funding (Note 29)*	-	-	95,699	95,699
Total liabilities	-	855	198,808	199,663

*Item *Support programme funding* and *State aid service* were restated for the previous period (see Note 2 (29)).

42 Fair values of assets and liabilities (continued)

Fair value hierarchy of financial assets and liabilities

The Group/Company 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/Company has 3 levels:

- *Level 1* includes due from other credit institutions and the State Treasury as well as listed financial instruments having an active market, if the Group/Company, 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/Company that enable a credible measurement of the financial instrument's value.

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.

Investments in venture capital funds

Measuring of investments in venture capital funds is explained in Note 2 (6).

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.

Assets held for sale

Measuring of assets held for sale, which include investments in alternative interments funds, is explained in Note 2 (25).

43 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, which are included balances of due from other credit institutions and the State Treasury and investment securities as at 31 December 2017. The presentation is based on the expected future cash flows based on payment schedules and includes interest while the maturity analysis presented in Note 44 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 other credit institutions	8,857	32,376	6,309	47,542
Due to general governments	163	612	44,869	45,644
Support programme funding	-	-	92,041	92,041
Other liabilities	-	-	3,764	3,764
Total financial liabilities	9,020	32,988	146,983	188,991
Off-balance items and contingent liabilities	29,361	74,935	113,888	218,185
Total financial liabilities, off-balance items and contingent liabilities	38,381	107,923	260,871	407,176
Due from other credit institutions and the State Treasury	109,594	-	-	109,594
Investment securities	38	51,426	10,738	62,203
Liquid assets	109,632	51,426	10,738	171,797

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 Restated
Due to other credit institutions	9,483	35,368	12,293	57,144
Due to general governments	163	653	50,017	50,833
Support programme funding*	-	-	98,096	98,096
Other liabilities	-	-	6,559	6,559
Total financial liabilities	9,646	36,021	166,965	212,632
Off-balance items and contingent liabilities	63,019	56,967	75,782	195,768
Total financial liabilities, off-balance items and contingent liabilities	72,665	92,988	242,747	408,400
Due from other credit institutions and the State 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

*Item *Support programme funding* and *State aid service* were restated for the previous period (see Note 2 (29)).

43 Liquidity risk (continued)

The table below provides the maturity structure of expected undiscounted future cash flows of the Company's financial liabilities, off-balance liabilities and liquid assets as at 31 December 2017:

	Up to 1 year	1 to 5 years	Over 5 years and w/o date	Total
Due to other credit institutions	8,857	32,376	6,309	47,542
Due to general governments	163	612	44,869	45,644
Support programme funding	-	-	94,080	94,080
Other liabilities	-	-	3,488	3,488
Total financial liabilities	9,020	32,988	148,746	190,754
Off-balance items and contingent liabilities	29,361	74,935	113,887	218,184
Total financial liabilities, off-balance items and contingent liabilities	38,381	107,923	262,633	408,938
Due from other credit institutions and the State Treasury	109,594	-	-	109,594
Investment securities	38	51,426	10,738	62,202
Liquid assets	109,632	51,426	10,738	171,796

The table below provides the maturity structure of expected undiscounted future cash flows of the Company'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 Restated
Due to other credit institutions	9,483	35,368	12,293	57,144
Due to general governments	163	653	50,017	50,833
Support programme funding*	-	-	95,699	95,699
Other liabilities	-	-	4,282	4,282
Total financial liabilities	9,646	36,021	162,291	207,958
Off-balance items and contingent liabilities	63,019	56,967	75,782	195,768
Total financial liabilities, off-balance items and contingent liabilities	72,665	92,988	238,073	403,726
Due from other credit institutions and the State Treasury	89,408	-	-	89,408
Investment securities	1,027	50,176	14,622	65,825
Liquid assets	90,435	50,176	14,622	155,233

*Item *Support programme funding* and *State aid service* were restated for the previous period (see Note 2 (29)).

44 Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities analysed according to when they are settled according to 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 EIR. Issued debt reflect the contractual coupon amortisations.

The table below allocates the Group's assets and liabilities to maturity groupings as at 31 December 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 the State Treasury	100,597	-	-	8,997	-	-	109,594
Investment securities	-	-	-	38	51,426	10,739	62,203
Loans and receivables	9,708	11,789	10,152	19,765	-	140,733	192,147
Derivatives	-	142	-	-	-	-	142
Investments in venture capital funds	-	864	-	-	43,964	6,342	51,170
Deferred expense and accrued income	655	1,581	3	3	9	5	2,256
Investment property	-	-	-	234	8,142	2,432	10,808
Property, plant and equipment	-	-	-	-	-	3,828	3,828
Intangible assets	-	-	-	-	-	771	771
Corporate income tax overpaid	-	-	-	-	-	-	-
Other assets	271	-	139	-	1,966	3,456	5,832
Assets held for sale	-	-	-	12,935	-	-	12,935
Total assets	111,231	14,376	10,294	41,972	105,507	168,306	451,686
Liabilities							
Due to credit institutions	-	4,399	-	4,340	31,944	6,250	46,933
Due to general governments	-	-	-	-	5,000	38,609	43,609
Issued debt securities	-	-	-	53	-	19,799	19,852
Deferred income and accrued expense	48	87	451	425	135	1,231	2,377
Support programme funding and state aid	9,795	-	-	8,290	20,798	57,126	96,009
Provisions for off-balance sheet commitments	843	757	66	259	4 199	8,407	14,531
Corporate income tax liabilities	125	-	-	-	-	-	125
Other liabilities	2,962	-	53	319	-	430	3,764
Liabilities directly associated with assets held for sale	-	-	-	2,000	-	-	2,000
Total liabilities	13,773	5,243	570	15,686	62,076	131,852	229,200
Net liquidity	97,458	9,133	9,724	26,286	43,431	36,454	222,486

44 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 the State 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
Corporate income tax overpaid	-	-	-	-	-	-	-
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 and state aid	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

44 Maturity analysis of assets and liabilities (continued)

The table below allocates the Company's assets and liabilities to maturity groupings as at 31 December 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 the State Treasury	100,597	-	-	8,997	-	-	109,594
Investment securities	-	-	-	38	51,426	10,739	62,203
Loans and receivables	9,708	11,789	10,152	19,765	-	140,733	192,147
Derivatives	-	142	-	-	-	-	142
Investments in venture capital funds	-	1,008	-	-	41,757	6,343	49,108
Deferred expense and accrued income	655	1 581	3	3	9	5	2,256
Investment property	-	-	-	234	8,142	2,432	10,808
Property, plant and equipment	-	-	-	-	-	3,828	3,828
Intangible assets	-	-	-	-	-	771	771
Other assets	271	-	139	-	1,966	3,456	5,832
Assets held for sale	-	-	-	10,565	-	-	10,565
Total assets	111,231	14,520	10,294	39,602	103,300	168,307	447,254
Liabilities							
Due to credit institutions	-	4,399	-	4,340	31,944	6,250	46,933
Due to general governments	-	-	-	-	5,000	38,609	43,609
Issued debt securities	-	-	-	53	-	19,799	19,852
Deferred income and accrued expense	48	87	451	425	135	1,231	2,377
Support programme funding and state aid	9,625	-	-	1,904	29,392	57,127	98,048
Provisions for off-balance sheet commitments	843	757	66	259	4 199	8,407	14,531
Corporate income tax liabilities	125	-	-	-	-	-	125
Other liabilities	2,962	-	53	42	-	431	3,488
Total liabilities	13,603	5,243	570	7,023	70,670	131,854	228,963
Net liquidity	97,628	9,277	9,724	32,579	32,630	36,453	218,291

44 Maturity analysis of assets and liabilities (continued)

The table below allocates the Company'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 the State Treasury	79,408	5,000	-	5,000	-	-	89,408
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	-	864	-	-	50,045	5,813	56,722
Deferred expense and accrued income	410	1,640	4	1	5	-	2,060
Investment property	-	-	-	-	-	4,869	4,869
Property, plant and equipment	-	-	-	-	-	3,507	3,507
Intangible assets	-	-	-	-	-	168	168
Investment in subsidiaries	-	-	-	10,376	-	-	10,376
Corporate income tax overpaid	-	-	-	-	-	-	-
Other assets	596	-	-	1	3,113	165	3,875
Assets held for sale	-	-	-	1,367	-	-	1,367
Total assets	94,783	16,977	10,028	36,058	194,471	87,110	439,427
Liabilities							
Due to credit institutions	-	4,896	93	4,340	34,717	12,149	56,195
Derivatives	-	855	-	-	-	-	855
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 and state aid	3,785	-	-	2,098	36,995	58,396	101,274
Provisions for off-balance sheet commitments	2,509	1,195	970	31	6,591	5,568	16,864
Other liabilities	3,409	-	376	174	292	31	4,282
Total liabilities	11,586	6,963	1,903	7,070	78,796	122,041	228,359
Net liquidity	83,197	10,014	8,125	28,988	115,675	(34,931)	211,068

45 Assets and liabilities by currency profile

The table below provides data of the Group's assets, liabilities, shareholders' equity and reserves as well as off-balance sheet items outstanding as at 31 December 2017 by currency profile:

	EUR	USD	Other	Total
Assets				
Due from other credit institutions and Treasury	109,329	265	-	109,594
Investment securities	51,443	10,760	-	62,203
Loans and receivables	191,800	347	-	192,147
Derivatives	-	142	-	142
Investments in venture capital funds	51,170	-	-	51,170
Deferred expense and accrued income	2,253	3	-	2,256
Investment property	10,808	-	-	10,808
Property, plant and equipment	3,828	-	-	3,828
Intangible assets	771	-	-	771
Corporate income tax overpaid	-	-	-	-
Other assets	5,832	-	-	5,832
Asset held for sale	12,935	-	-	12,935
Total assets	440,169	11,517	-	451,686
Liabilities and shareholders' equity				
Due to credit institutions	46,933	-	-	46,933
Due to general governments	43,609	-	-	43,609
Issued debt securities	19,852	-	-	19,852
Deferred income and accrued expense	2,375	2	-	2,377
Support programme funding	92,041	-	-	92,041
State aid	3,968	-	-	3,968
Provisions for off-balance sheet commitments	14,424	107	-	14,531
Corporate income tax liabilities	125	-	-	125
Other liabilities	3,764	-	-	3,764
Liabilities directly associated with assets held for sale	2,000	-	-	2,000
Capital and reserves	221,495	991	-	221,496
Total liabilities and shareholders' equity	450,586	1 100	-	451,686
Forward foreign exchange (payables)	1,089	(947)	-	142
Currency position	(9,328)	9,470	-	142

45 Assets and liabilities by currency profile (continued)

The table below provides data of the Group's assets, liabilities, shareholders' equity and reserves as well as off-balance sheet items outstanding as at 31 December 2016 by currency profile:

	EUR	USD	Other	Total Restated
Assets				
Due from other credit institutions and Treasury	89,259	294	-	89,553
Investment securities	52,876	12,949	-	65,825
Loans and receivables	200,775	475	-	201,250
Investments in venture capital funds	58,296	-	-	58,296
Deferred expense and accrued income	2,059	-	-	2,059
Investment property	17,087	-	-	17,087
Property, plant and equipment	3,507	-	-	3,507
Intangible assets	168	-	-	168
Corporate income tax overpaid	-	-	-	-
Other assets	4,014	-	-	4,014
Asset held for sale	1,367	-	-	1,367
Total assets	429,408	13,718	-	443,126
Liabilities and shareholders' equity				
due to credit institutions	56,195	-	-	56,195
Derivatives	854	-	-	854
Due to general governments	46,914	-	-	46,914
Deferred income and accrued expense	1,973	2	-	1,975
Support programme funding*	98,096	-	-	98,096
State aid*	5,575	-	-	5,575
Provisions for off-balance sheet commitments	16,784	80	-	16,864
Other liabilities	6,558	1	-	6,559
Capital and reserves	208,797	1,297	-	210,094
Total liabilities and shareholders' equity	441,746	1,380	-	443,126
Forward foreign exchange (payables)	(846)	(8)	-	(854)
Currency position	(13,184)	12,330	-	(854)

*Item *Support programme funding* and *State aid service* were restated for the previous period (see Note 2 (29)).

45 Assets and liabilities by currency profile (continued)

The table below provides data of the Company's assets, liabilities and shareholders' equity as well as off-balance sheet items outstanding as at 31 December 2017 by currency profile:

	EUR	USD	Other	Total
Assets				
Due from other credit institutions and the State Treasury	109,329	265	-	109,594
Investment securities	51,443	10,760	-	62,203
Loans and receivables	191,800	347	-	192,147
Derivatives	-	142	-	142
Investments in venture capital funds	49,108	-	-	49,108
Deferred expense and accrued income	2,253	3	-	2,256
Investment property	10,808	-	-	10,808
Property, plant and equipment	3,828	-	-	3,828
Intangible assets	771	-	-	771
Investment in subsidiaries	-	-	-	-
Corporate income tax overpaid	-	-	-	-
Other assets	5,832	-	-	5,832
Asset held for sale	10,565	-	-	10,565
Total assets	435,737	11,517	-	447,254
Liabilities and shareholders' equity				
Due to credit institutions	46,933	-	-	46,933
Due to general governments and	43,609	-	-	43,609
Issued debt securities	19,852	-	-	19,852
Deferred income and accrued expense	2,375	2	-	2,377
Support programme funding and state aid	98,048	-	-	98,048
Provisions for off-balance sheet commitments	14,424	107	-	14,531
Corporate income tax liabilities	125	-	-	125
Other liabilities	3,488	-	-	3,488
Capital and reserves	217,300	991	-	218,291
Total liabilities and shareholders' equity	446,154	1,100	-	447,254
Forward foreign (payables)	1,089	(947)	-	142
Currency position	(9,328)	9,470	-	142

45 Assets and liabilities by currency profile (continued)

The table below provides data of the Company's assets, liabilities and shareholders' equity as well as off-balance sheet items outstanding as at 31 December 2016 by currency profile:

	EUR	USD	Other	Total Restated
Assets				
Due from other credit institutions and the State Treasury	89,114	294	-	89,408
Investment securities	52,876	12,949	-	65,825
Loans and receivables	200,775	475	-	201,250
Investments in venture capital funds	56,722	-	-	56,722
Deferred expense and accrued income	2,060	-	-	2,060
Investment property	4,869	-	-	4,869
Property, plant and equipment	3,507	-	-	3,507
Intangible assets	168	-	-	168
Investment in subsidiaries	10,376	-	-	10,376
Corporate income tax overpaid	-	-	-	-
Other assets	1,367	-	-	1,367
Asset held for sale	3,875	-	-	3,875
Total assets	425,709	13,718	-	439,427
Liabilities and shareholders' equity				
Due to credit institutions	56,195	-	-	56,195
Derivatives	855	-	-	855
Due to general governments and	46,914	-	-	46,914
Deferred income and accrued expense	1,973	2	-	1,975
Support programme funding*	95,699	-	-	95,699
State aid*	5,575			5,575
Provisions for off-balance sheet commitments	16,784	80	-	16,864
Other liabilities	4,281	1	-	4,282
Capital and reserves	209,771	1,297	-	211,068
Total liabilities and shareholders' equity	438,047	1,380	-	439,427
Forward foreign (payables)	(847)	(8)	-	(855)
Currency position	(13,185)	12,330	-	(855)

*Item *Support programme funding* and *State aid service* were restated for the previous period (see Note 2 (29)).

46 Minimum future lease payments

The table below discloses minimum future lease payments for premises (there are other lease payments as well, but those are relatively minor):

	Group	Company
Year 2018	94	94
Year 2019	51	51
Year 2020	47	47
Year 2021	33	33
Year 2022	27	27
Total for 5 years	252	252
Year 2023 and later	69	69

47 Financial assets and liabilities by classification principles

The assets and liabilities of the Group as at 31 December 2017 by classification principles are as follows:

	Financial assets un liabilities held for trading	Financial assets available for sale	Amortised cost	At equity method	Total book value
Assets					
Investment securities	-	61,760	443	-	62,203
Due from other credit institutions and Treasury	-	-	109,594	-	109,594
Loans and receivables	-	-	192,147	-	192,147
Derivatives	142	-	-	-	142
Investments in venture capital funds	-	-	-	51,170	51,170
Other financial assets	-	12,935	18,896	-	31,831
Total financial assets	142	74,695	321,080	51,170	447,087
Non-financial assets	-	-	4,599	-	4,599
Total assets	142	74,695	325,679	51,170	451,686
Liabilities					
Due to credit institutions	-	-	46,933	-	46,933
Due to general governments	-	-	43,609	-	43,609
Issued debt securities	-	-	19,852	-	19,852
Support programme funding	-	-	92,041	-	92,041
State aid	-	-	3,968	-	3,968
Corporate income tax liabilities	-	-	125	-	125
Other financial liabilities	-	-	20,672	-	20,672
Liabilities directly associated with assets held for sale	-	-	2,000	-	2,000
Total financial liabilities	-	-	229,200	-	229,200
Non-financial liabilities	-	-	222,486	-	222,486
Total liabilities	-	-	451,686	-	451,686

The assets and liabilities of the Group as at 31 December 2016 by classification principles are as follows:

	Financial assets un liabilities held for trading	Financial assets available for sale	Amortised cost	At equity method	Total book value Restated
Assets					
Investment securities	-	64,294	1,541	-	65,835
Due from other credit institutions and Treasury	-	-	89,553	-	89,553
Loans and receivables	-	-	201,250	-	201,250
Investments in venture capital funds	-	-	-	58,296	58,296
Other financial assets	-	-	24,517	-	24,517
Total financial assets	-	64,294	316,861	58,296	439,451
Non-financial assets	-	-	3,675	-	3,675
Total assets	-	64,294	320,536	58,296	443,126
Liabilities					
Due to credit institutions	-	-	56,195	-	56,195
Due to general governments	-	-	46,914	-	46,914
Support programme funding*	-	-	98,096	-	98,096
State aid*			5,575	-	5,575
Derivatives	854	-	-	-	854
Other financial liabilities	-	-	25,398	-	25,398
Total financial liabilities	854	-	232,178	-	233,032
Non-financial liabilities	-	-	210,094	-	210,094
Total liabilities	854	-	442,272	-	443,126

*Item *Support programme funding* and *State aid service* were restated for the previous period (see Note 2 (29)).

47 Financial assets and liabilities by classification principles (continued)

The assets and liabilities of the Company as at 31 December 2017 by classification principles are as follows:

	Financial assets un liabilities held to trading	Financial assets available for sale	Amortised cost	At cost	Total book value
Assets					
Investment securities	-	61 760	443	-	62,203
Due from other credit institutions and the State Treasury	-	-	109,594	-	109,594
Loans and receivables	-	-	192,147	-	192,147
Derivatives	142	-	-	-	142
Investments in venture capital funds	-	-	-	49,108	49,108
Investments in subsidiaries	-	-	-	-	-
Other financial assets	-	10,565	18,896	-	29,461
Total financial assets	142	72,325	321,080	49,108	442,655
Non-financial assets	-	-	4,599	-	4,599
Total assets	142	72,325	325,679	49,108	447,254
Liabilities					
Due to credit institutions	-	-	46,933	-	46,933
Due to general governments	-	-	43,609	-	43,609
Issued debt securities	-	-	19,852	-	19,852
Support programme funding and state aid	-	-	94,080	-	94,080
State aid	-	-	3,968		3,968
Corporate income tax liabilities	-	-	125	-	125
Other financial liabilities	-	-	20,396	-	20,396
Total financial liabilities	-	-	228,963	-	228,963
Non-financial liabilities	-	-	218,291	-	218,291
Total liabilities	-	-	447,254	-	447,254

The assets and liabilities of the Company as at 31 December 2016 by classification principles are as follows:

	Financial assets un liabilities held to trading	Financial assets available for sale	Amortised cost	At cost	Total book value Restated
Assets					
Investment securities	-	64,294	1,531	-	65,825
Due from other credit institutions and the State Treasury	-	-	89,408	-	89,408
Loans and receivables	-	-	201,250	-	201,250
Investments in venture capital funds	-	-	-	56,722	56,722
Investments in subsidiaries	-	10,376	-	-	10,376
Other financial assets	-	-	12,171	-	12,171
Total financial assets	-	74,670	304,360	56,722	435,752
Non-financial assets	-	-	3,675	-	3,675
Total assets	-	74,670	308,035	56,722	439,427
Liabilities					
Due to credit institutions	-	-	56,195	-	56,195
Due to general governments	-	-	46,914	-	46,914
Support programme funding*	-	-	95,699	-	95,699
State aid*			5,575		5,575
Derivatives	855	-	-	-	855
Other financial liabilities	-	-	23,121		23,121
Total financial liabilities	855	-	227,504		228,359
Non-financial liabilities	-	-	211,068	-	211,068
Total liabilities	855	-	438,572	-	439,427

*Item *Support programme funding* and *State aid service* were restated for the previous period (see Note 2 (29)).

48 SUBSEQUENT EVENTS

On March 2, 2018, under the bond issue program, the Company has issued bonds totaling EUR 10 million with maturity date of 7 March 2025, a fixed annual interest rate (coupon) of 1.3% and a yield of 1.3805%. The aggregate demand for bonds exceeded the planned amount of issue 6 times. Bonds are listed on the Nasdaq Riga Stock Exchange. Earnings from bond issues will be used to finance the Company's financial instruments.

There are no other subsequent events since the last day of the reporting year, which would have a significant effect on the financial position of the Group /Company.

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of JSC Finance Development Institution ALTUM

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of JSC Finance Development Institution ALTUM and its subsidiaries (the Group) and the accompanying financial statements of JSC Finance Development Institution ALTUM (the Company) set out on pages 11 to 99 of the accompanying Annual Report, which comprise the statements of financial position as at 31 December 2017, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements of the Group and the Company give a true and fair view of the financial position of the Group and the Company as at 31 December 2017, and of financial performance of the Group and the Company and cash flows of the Group and the Company for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing adopted in the Republic of Latvia (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Group and the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the independence requirements included in the Law on Audit Services of Republic of Latvia that are relevant to our audit of the financial statements in the Republic of Latvia. We have fulfilled our other ethical responsibilities in accordance with the Law on Audit Services of Republic of Latvia and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the Group and the Company of the current period. These matters were addressed in the context of our audit of the financial statements of the Group and the Company as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements of the Group and the Company. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements of the Group and the Company.

Key audit matter	How we addressed the key audit matter
Loan and guarantee provisioning (the Group and the Company)	
As disclosed in Note 19, the carrying amount of loans in separate and consolidated financial statements as at 31	Our audit procedures included, among others, the understanding of the loan and guarantee issuance, booking and monitoring process

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December 2017 amounts to 192 147 thousand EUR. The total impairment loss allowance as at 31 December 2017 amounts to 15 438 thousand EUR in the separate and consolidated financial statements. In 2017, the impairment reversal recognised by the Group and the Company amounts 2 112 thousand EUR and the impairment charge to 5 683 thousand EUR. As outlined in Note 36, the amount of issued guarantees in separate and consolidated financial statements as at 31 December 2017 amounts to 182 376 thousand EUR. The total provision amount for guarantees as at 31 December 2017 amounts to 5 986 thousand EUR in the separate financial and the consolidated financial statements as disclosed in Note 30. The provision reversal for guarantees recognized in 2017 by the Group and the Company amounts to 5 101 thousand EUR and the provision charge to 3 258 thousand EUR. Impairment of loans and provision for guarantees is a highly subjective area due to the level of judgement applied by the management in determining the extent of credit losses, which is dependent on the credit risk related to such loans and guarantees. The judgements applied by the management in determining the level of provisioning for loans and guarantees include the identification of events that could possibly result in an impairment, an appropriate valuation of the related collateral, the assessment of customers that are likely to default, and the future cash flows relating to loans and guarantees. Provisioning of loans and guarantees is significant to our audit due to the material balance of loans and guarantees and the related estimation uncertainties involved. The basis of the Group's and Company's impairment provision policy is presented in the accounting policies section in Note 2 (5)(iv), 2 (10) and 2(22) to the financial statements. Critical accounting estimates and judgments, disclosures of loans and guarantees and the credit risk management are set out in Notes 2 (24), 19 and 30 to the financial statements.	and loan and guarantee provisioning process. We tested the controls over the issuance, booking and monitoring processes of loans and guarantees, and the individual and collective provisioning process. In addition to testing the key controls, we selected samples of loans and guarantees outstanding as at the reporting date and critically assessed the criteria for determining whether such events had occurred that would require provision. Specifically, for sample of loans and guarantees, we assessed the existence of any provisioning triggers by reviewing the underlying loan and guarantee files, discussed the respective loans and guarantees with loan officers, for nonperforming loans we reviewed forecasts of future cash flows used in the assessment of loan impairment, evaluating key assumptions made by management such as applied discount rates, collateral values, forecasted business performance as well as were applicable, collateral sales costs and sales periods, and also risk coverage reserve. We involved our valuation specialist for the assessment of collateral valuation methodology. For the samples selected, we have assessed that all impairment events identified by us had also been identified by the Company's management. For the performing loans and guarantees, through the review of underlying credit and guarantee files and discussion with credit analysts, we assessed whether the borrowers exhibited possible default risk that may affect meeting their scheduled repayment obligations. For collective impairment provisions, we obtained an understanding of the methodology used by the Company and the Group to determine the collective provision, assessed the underlying assumptions and key parameters such as the probability of default and loss given default. We also assessed whether the financial statement disclosures in Notes 2(24), 19 and 30 appropriately reflect the requirements of IFRS.
Accounting of state aid related to funds received from the Government (the Group and the Company)	
As disclosed in Notes 2 (23) and 2 (24), the Company receives funding from the Government at zero-interest rate for implementation of various financing programs. As outlined in Note 29, as at 31 December 2017 the amount of received funding amounted to 98 048 thousand EUR in the separate financial statements and 96 009 thousand EUR in the consolidated financial statements. The benefit of the zero-interest rate funding is treated under IAS 20 "Government grants and assistance" as	We obtained the list of received funding and selected a sample of funds flow and traced to supporting documentation, as well as reconciled the outstanding balances with the Ministry of Economics, Central Finance and Contracting Agency, and Rural Support Service. We performed inquiries to ensure that no significant agreements for new funding programs were signed and no significant amendments to the conditions of the existing funding programs were made. We also obtained understanding over the accounting treatment and calculation process of the funds received from the Government. We

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additional government assistance (state aid); therefore, the Company's management estimates the amount of state aid upon initial recognition, using significant management assumptions, including the selection of the discount rate and estimated notional profit of the individual funding programs. The calculation of the state aid is significant to our audit given the significance of the funding amount involved and significant management estimates involved in determining the state aid amount.	reviewed calculations performed by the Company on the amount of state aid and financial liability on zero-interest rate funding. We assessed the underlying assumptions for the determination of the discount rate and estimated notional profit for each funding program. We also evaluated the related disclosures included in Notes 2(23) and 29.
Valuation and impairment of investments in Venture Capital Funds (VCFs) (the Group and the Company)	
As disclosed in Note 2 (24) *Classification of venture capital funds*, the Group and the Company concludes that it exercises significant influence over Venture Capital Funds (VCFs), assessed to be associates. In the consolidated financial statements, under the equity method of accounting for associates, these interests are initially stated at cost, and are adjusted thereafter for the post-acquisition change in the Company's share of the net assets of the associate less any impairment provisions. In the separate financial statements, these interests are accounted at cost minus impairment. The Group's and the Company's management performed impairment tests of investments in Venture Capital Funds, which are recognized in the Group's and the Company's statement of the financial position and disclosed in Note 18. The Group's and the Company's management assessment of the recoverable amount of investments in VCFs requires estimation and judgement around the assumptions used, including the recoverable value of underlying investments. These assumptions are outlined in Note 2(24) *Impairment losses of investments in venture capital funds.* Impairment assessment of investments in VCFs was significant to our audit due to materiality of investment amounts in VCFs to the Group's and the Company's financial statements and the fact that changes in the assumptions could lead to material changes in the estimated recoverable amount, impacting potential impairment charges.	We obtained the calculation of impairment prepared by the management of the Company as well as the full list of the investments made by VCFs into the companies and using sampling selection techniques, selected a sample of investments for review and assessment of impairment indications and the impairment amount. We met with the representatives of the Company responsible for monitoring the performance of the underlying investments made by the VCFs to understand current business performance of these investments and expectations and whether they were properly reflected in the Groups and the Company's assessment of impairment and specifically in the methodology used for investment valuation, financial forecast and current situation as well as assumptions underlying the decision for provision. We reviewed the agreements register and inquired the Company whether any new agreements with VCFs have been signed during 2017 and whether any amendments to existing agreements have been made that would result in the change of accounting treatment for VCFs. Furthermore, we considered whether the Group's and the Company's disclosures of the application of judgement in estimating the recoverable amount and the sensitivity of the results of those estimates adequately reflect the risks associated with impairment of interests in associates.
Valuation and accounting of guarantees issued at below market rates (the Group and the Company)	
The Group and the Company issues certain guarantees at interest rate below market rate. As outlined in the Group's and the Company's accounting policy in Note 2 (22), at the day of guarantee issuance, a provision for onerous contracts (which equals the difference between the present value of total commissions receivable for the guarantees and the present value of the market price of	We obtained the calculation of the amount of provision for onerous contracts prepared by the Group's and the Company's management and gained an understanding of how the management evaluates the amount of provisions. We involved a valuation specialist to support us with the assessment of market rates used in the calculation of the provision for onerous contracts.

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those commissions) is recorded and it is subsequently recognised in the statement of comprehensive income, using a straight line method, as commissions' income over the lifetime of a guarantee. As disclosed in Note 30, provisions amount to 8 544 thousand EUR in the Group and in the Company as at 31 December 2017. Based on calculation in year 2017, the Group and the Company has recognized additional provisions in the amount of 3 940 thousand EUR and released provisions for onerous guarantee contracts in the amount of 4 415 thousand EUR. The provision for onerous contracts was significant to our audit due to the complexity of the calculations and the significant Company's management's judgement required to determine the amount of the provision for onerous contracts.	Our audit procedures also included, among others, assessment of the methodologies and assumptions used by the Group's and the Company's management, in particular those related to the market rate estimates and length of guarantee contracts. We tested the controls over the application of market rates and calculation of provision for onerous contracts. Finally, we also assessed the adequacy of related disclosures contained in Note 30, as well as the Group's and the Company's accounting policy outlined in Notes 2 (22) and 2(24).

Reporting on Other Information

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

- the Management Report, as set out on pages 3 to 8 of the accompanying Annual Report;
- the Statement on Management Responsibility, as set out on page 10 of the accompanying Annual Report;
- the Statement of Corporate Governance, as set out on pages 109 to 110 of the accompanying Annual Report,

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

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, except as described in the Other reporting responsibilities in accordance with the legislation of the Republic of Latvia section of our report.

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

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

Other reporting responsibilities in accordance with the legislation of the Republic of Latvia

We have other reporting responsibilities in accordance with the Law on Audit Services of the Republic of Latvia with respect to the Management Report and the Statement of Corporate Governance. These additional reporting responsibilities are beyond those required under the ISAs.

Our responsibility is to consider whether the Management Report is prepared in accordance with the requirements of the Law on the Annual Reports and Consolidated Annual Reports of the Republic of Latvia.

Based solely on the work undertaken in the course of our audit, in our opinion:

- the information given in the Management Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Management Report has been prepared in accordance with the requirements of the Law on Annual Reports and Consolidated Annual Reports of the Republic of Latvia.

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In accordance with the Law on Audit Services of the Republic of Latvia with respect to the Statement of Corporate Governance, our responsibility is to consider whether the Statement of Corporate Governance includes the information required in Article 56^2, paragraph three of the Financial Instruments Market Law.

In our opinion, the Statement of Corporate Governance includes the information required in Article 56^2 paragraph three of the Financial Instruments Market Law.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with the International Financial Reporting Standards as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Group's and the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Other Reporting Responsibilities and Confirmations Required by the Legislation of the Republic of Latvia and European Union when Providing Audit Services to Public Interest Entities

We were first appointed as auditors of the Group and the Company on 23 September 2014 by shareholders. Our appointment has been renewed annually by shareholder resolution representing a total period of uninterrupted engagement appointment of 4 years.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Company;
- as stipulated in paragraph 37^6 of the Law on Audit Services of the Republic of Latvia we have not provided to the Group and the Company the prohibited non-audit services (NASs) referred to in EU Regulation (EU) No 537/2014. We also remained independent of the audited entity in conducting the audit.

The responsible certified auditor on the audit resulting in this independent auditors' report is Diāna Krišjāne.

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License No. 17

Diāna Krišjāne
Chairperson of the Board
Latvian Certified Auditor
Certificate No. 124

Riga, 29 March 2018

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OTHER NOTES TO THE ANNUAL REPORT

Group's key financial and performance indicators in 2015 - 2017

	2017	2016	2015
Key financial data			
Net income from interest, fees and commission (tEUR)	11,374	11,024	16,419
Profit for the period (tEUR)	6,945	2,170	4,924
Cost to income ratio (CIR)	54.7%	88.4%	55.8%
Employees	230	242	282
Total assets (tEUR)	451,686	443,126	406,918
Tangible common equity (TCE)/total tangible managed assets (TMA)	35.6%	35.2%	37.3%
Equity and reserves (tEUR)	222,486	210,094	199,610
Total risk coverage: (tEUR)	65,002	67,705	41,021
Risk coverage reserve	60,060	64,833	40,662
Risk coverage reserve used for provisions	-4,753	-4,323	-1,276
Portfolio loss reserve (specific reserve capital)	9,695	7,195	1,635
Liquidity ratio for 180 days	507%	449%	352%
Financial instruments (gross value)			
Outstanding (tEUR) (by financial instrument)			
Loans	207,585	217,429	218,562
Guarantees	182,376	147,175	131,120
Venture capital funds	51,310	58,541	39,929
Total	441,271	423,145	389,611
Number of contracts	14,402	11,449	8,901
Volumes granted (tEUR) (by financial instrument)			
Loans	51,869	59,465	52,329
Guarantees	68,615	56,109	50,065
Venture capital funds	2,638	21,356	18,798
Total	123,122	136,929	121,192
Number of contracts	4,697	4,461	2,819
Leverage for raised private funding	185%	162%	104%

OTHER NOTES TO THE ANNUAL REPORT (continued)

Definitions and ratios

Net Income from Interest, Fees and Commission.	Net Income from Interest, Fees and Commission consists of the following items of the Income statement: Net Interest Income and Net Commission Income. The indicator demonstrates operating income of ALTUM Group.
Cost to Income Ratio (CIR).	Cost to Income Ratio (CIR) is calculated by dividing the sum of the Personnel expenses, Administrative expenses and Depreciation of intangible assets and property, plant and equipment by Operating income before operating expense included in the Income Statement. CIR is the indicator for establishing efficiency of the operating activities.
Tangible Common Equity (TCE) / Tangible Managed Assets (TMA).	Tangible Common Equity (TCE) is calculated by subtracting from Total equity the Revaluation reserve of available for sale investments. The Total Tangible Managed Assets (TMA) include the total assets of ALTUM Group adding the guarantees entered into the off-balance and taking into account the provisions for guarantees from which the following is subtracted: Deferred expense, Accrued income, Property, plant and equipment, Intangible assets, Other assets and Available for sale assets. The items used to calculate both indicators (TCE, TMA) are included in the following financial statements of ALTUM Group: Statement of Financial Position and Statement of Changes in Equity, and in the following notes: Off-balance items and contingent liabilities and Provisions. TCE/TMA are used assess the Group's capital adequacy.
Total Risk Coverage.	Total Risk Coverage is the net funding available for covering of the expected credit losses of the state aid programmes implemented by ALTUM. The Total Risk Coverage is the sum total of Risk Coverage Reserve and Portfolio Loss Reserve (Specific Reserve Capital) less Risk Coverage Reserve Used for Provisions. The expected losses are estimated before implementation of the respective state aid programme and a portion of the public funding intended for coverage of the credit risk losses expected in the respective state aid programme is either transferred to the Portfolio Loss Reserve that is the Group's specific reserve capital or accounted for separately as provisions for risk coverage under liabilities' item Risk Coverage Reserve. The Portfolio Loss Reserve (specific reserve capital) is included in the Note on Reserves to the financial statements of ALTUM Group. While the Risk Coverage Reserve is included in the Note on Support Programme Funding and State Aid to the financial statements of ALTUM Group. The Risk Coverage Reserve Used for Provisions is the amount of the Risk Coverage Reserve allocated to and used for provisioning for impairment of the loan portfolio and guarantees which in its turn is included in the Note on Loans and Note on Provisions to the financial statements of ALTUM Group. Total Risk Coverage is a key indicator for assessment of the risk coverage in the state aid programmes implemented by ALTUM and long-term financial stability of the Group.
The liquidity ratio for 180 days.	The liquidity ratio for 180 days is calculated by dividing the sum of Due from other credit institutions and Treasury with a maturity of up to 1 month and Investment securities – available for sale by sum of Total liabilities maturing within 6 months and Total financial liabilities maturing within 6 months (off-balance item). The data required for calculation of the liquidity ratio for 180 days are included in the following financial statements of ALTUM Group: Financial Position Statement and notes – Off-balance items and contingent liabilities and Maturity analysis of assets and liabilities. The liquidity ratio for 180 days represents ability of ALTUM Group to honour its obligations in due time with currently available liquid assets.
Leverage for raised private funding.	Leverage for raised private funding indicates the amount of additional private funds invested in a project on top of funding provided by ALTUM. Leverage is determined considering the funding invested by a private co-financier and a project's implementer on top of ALTUM's funding, which, on average, makes up to 50 per cent for loans, up to 70 per cent for guarantees and venture capital (except for the first instalment of the Housing Guarantee Programme where the ratio is 795 per cent).
Venture capital.	In accordance with the accounting policies, the part of the losses from investments in associates is included.

Corporate governance report

The statement of joint-stock company Attīstības Finanšu Institūcija Altum (Development Finance Institution Altum, hereinafter – Altum), unified registration No. 50103744891, on corporate governance in 2017 is prepared in accordance with the requirements of Section 56.2 Paragraph three of the Financial Instruments Market Law.

Information on the key elements of the internal control and risk management system of the enterprise that are applied in the preparation of the financial statements

Internal control

The purpose of the internal control system is to provide reasoned assurance that the assets of Altum and the Group (Altum and the total of companies included in the consolidation group) are secured against loss and unauthorised their management and use, the operational risks are identified and managed on an ongoing basis, the amount of capital is adequate to cover the identified risks inherent to the operation of Altum and the Group, the transactions are performed in line with the procedures established by Altum and the Group, Altum and the Group operate reasonably, prudently and efficiently in compliance with the requirements of laws and regulations, and the drawbacks identified in the management of Altum and the Group are fixed.

The management of Altum and the Group bears responsibility for establishing a comprehensive internal control system (ICS) and its effective functioning. With respect to preparing the financial statements and the truthfulness, impartiality, clarity and completeness of the information disclosed therein, this responsibility is materialized by selecting adequate accounting methods that are described in internal regulatory documents.

Independent supervision of the internal control system, assessment of its adequacy and efficiency in Altum and the Group is conducted by the Internal Audit Division, the Council controls, how the Board takes care of establishment of internal control system and its efficient functioning. The reports on internal audit results prepared by the Internal Audit Division are submitted to the Board and the Council. Minimum once a year, the Internal Audit Division prepares a report, submitting it to the Shareholders' meeting, on the conducted audits, main identified problems, providing assessment of the ICS efficiency and providing opinion on activities to be done for improvement of the ICS functionality. The Shareholders' meeting approves the basic principles of the ICS. An Audit Committee has been established in Altum and the Group, which, inter alia, monitors the efficiency of the internal control and risk management system, inasmuch as it pertains to maintaining the credibility and impartiality of annual reports and consolidated annual reports. The Internal Audit Division performs its duties in accordance with the applicable laws and regulations, the international standards for the professional practice in internal auditing and the internal regulations of Altum and the Group.

An Accounting Policy has been developed in Altum and the Group, the purpose of which is to define principles, methods and rules for the accounting, assessment and disclosure of transactions, facts, events and items in financial statements. The management of Altum and the Group has established an accounting policy that ensures that the financial statements provide information that is reliable and useful for the users of such statements in decision-making. The applied accounting policy ensures that the information disclosed in the statements of Altum and the Group is true, comparable, timely, significant, explicit, relevant and complete. Altum and the Group have developed internal regulatory documents defining the procedure of preparing the financial statements. According to the Shareholders decision, an Audit Committee operates in Altum and the Group, which, in line with the requirements of Law on the Financial Instruments Market, monitors the process of the preparation of financial statements of Altum and the Group, and performs other duties assigned to it by laws and regulations. An independent audit of the financial statements of Altum and the Group is performed by independent auditors who provide their opinion stating whether the financial statements of Altum and the Group give a true and fair view of the financial position, financial performance and cash flows of Altum and the Group in accordance with the International Financial Reporting Standards as adopted by the European Union.

Risk management

Information about the key elements of the risk management system of enterprises involved in consolidation, applied in preparation of consolidated financial statements, is provided in the annual report of the Group and Altum for the year ended on 31st December 2017.

Corporate governance report (continued)

The Group's report for 2017 and Altum's report for 2017 are publicly available in the premises of Altum at 4 Dome Square, Riga and in electronic form – on the website www.altum.lv, in INVESTORS section under FINANCIAL INFORMATION tab and in ABOUT ALTUM section under FINANCIAL INFORMATION tab.

This statement is publicly available at Altum's premises at 4 Dome Square, Riga and in electronic form – on the website www.altum.lv, in INVESTORS section under FINANCIAL INFORMATION tab.

Reinis Bērziņš
Chairman of the Board

29 March 2018

JSC DEVELOPMENT FINANCE INSTITUTION ALTUM

Consolidated and Separate Annual Report
for the year ended 31 December 2018

(the 5th reporting period)

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Altum group

MISSION	We help Latvia grow!
VISION	Cooperation partner and expert in finance promoting the growth of national economy
VALUES	Excellence / Team / Responsibility

JSC Development Finance Institution Altum as Altum Group parent company is a Latvia state-owned company ensuring access of enterprises and households to the financing resources by means of support financial instruments - loans, guarantees, investments in venture capital funds - in areas defined as important and to be supported by the state, thus developing national economy and by such way enhancing mobilization of private capital and financial resources.

Long-term financial objectives until 2018

The Management Board and Supervisory Council of JSC Development Finance Institution Altum have approved the Company's strategic development directions and long-term financial objectives for the period 2016 – 2018, which are:

Effective management of State funds, preserving the capital and achieving positive return on equity in the long-term

Implement new state aid programmes, including, multi-apartment buildings energy efficiency programmes, several new guarantee and agricultural land sales and leaseback products

Considerably increase the scope of activities

- Steep growth of guarantee portfolio
- Moderate growth of loan and investments in venture capital funds portfolios

Increase operational efficiency

Management report

Activity during the reporting period

In 2018, Development Finance Institution Altum group (hereinafter – the Group) earned a profit of EUR 4.092 million. The Group's parent company, the joint-stock company Development Finance Institution Altum (hereinafter – the Company), earned a profit of EUR 4.462 million.

Key financial and performance indicators of the Group

	2018 (audited)	2017 (restated*)	2016 (restated*)
Key financial data			
Net income from interest, fees and commission (tEUR)	11,554	11,602*	11,024
Profit for the period (tEUR)	4,092	8,709*	2,170
Cost to income ratio (CIR)	77.1%	50.3%*	88.4%
Employees	222	230	242
Total assets (tEUR)	495,939	453,668*	443,400*
Tangible common equity (TCE)/total tangible managed assets (TMA)**	31.7%	35.1%*	36.5%*
Equity and reserves (tEUR)	221,590	222,848*	210,406*
Total risk coverage: (tEUR)	77,815	67,593*	66,508*
Risk coverage reserve	85,276	62,651*	63,636*
Risk coverage reserve used for provisions	-19,268	-4,753	-4,323
Portfolio loss reserve (specific reserve capital)	11,807	9,695	7,195
Liquidity ratio for 180 days***	227%	482%*	449%
Financial instruments (gross value)			
Outstanding (tEUR) (by financial instrument)			
Loans	217,131	207,585	217,429
Guarantees	236,895	182,376	147,175
Venture capital funds	59,698	62,299*****	64,785*****
Total	513,724	452,260*****	429,389*****
Number of contracts	18,280	14,402	11,449
Volumes issued (tEUR) (by financial instrument)			
Loans	66,443****	51,869	59,465
Guarantees	88,765	68,615	56,109
Venture capital funds	4,149	2,638	21,356
Total	159,357	123,122	136,929
Number of contracts	5,464	4,697	4,461
Leverage for raised private funding	162%	185%	162%

* Due to change of accounting policy regarding investments in venture capital funds and adoption of IFRS 9 requirements that effects the accounting of public funding risk coverage the comparatives for 2017 and 2016 have been restated.
** TMA includes off-balance sheet item outstanding guarantees.
***Liquidity ratio calculation takes into account previous experience and management estimate of expected amount and timing of guarantees claims.
**** Loans issued.
***** The Venture Capital Funds presented at their gross value.

The figures are explained in the section "Key Financial and Performance Indicators" under Other Notes to the Group's Financial Statements.

Financial instrument portfolio

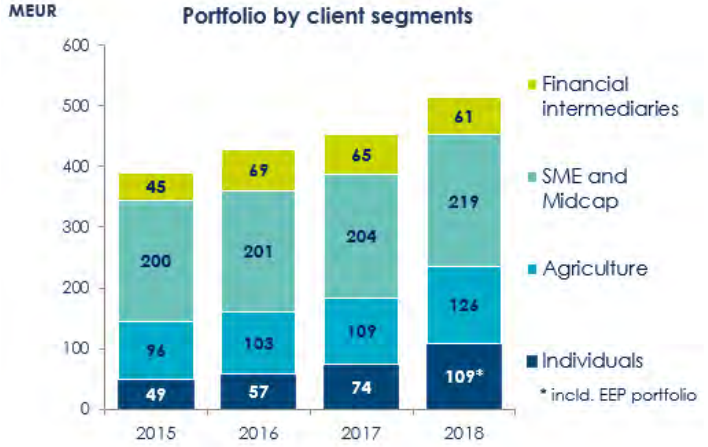
As at 31 December 2018, the Group held a portfolio of financial instruments for the total value of EUR 514 million (gross) issued for 18,280 projects under the support programmes.

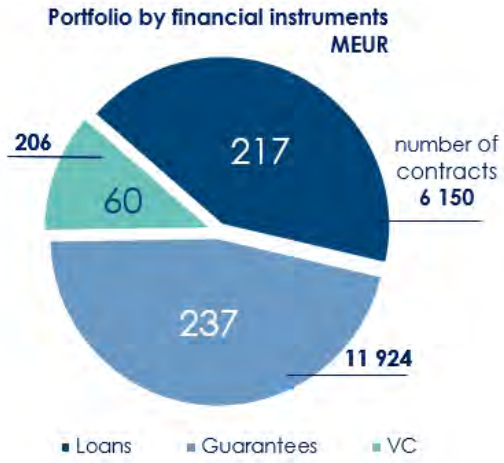
In 2018, the portfolio of the Group's financial instruments increased by 13.6% (EUR 61.5 million) in terms of volume and by 26.9% in terms of the number of projects (by 3,878 projects) vs year-end of 2017. Of the financial instruments, the guarantee portfolio had the most rapid growth by 30% in terms of volume (EUR 54.5 million) and by 48 % in terms of the number of transactions.

Already in 2Q 2018, the volume of the guarantee portfolio exceeded the loan portfolio reaching the target set in the Company's Strategy for 2016-2018 – to achieve a significant augmentation of the operational volumes through the focus on the indirect financial instruments (guarantees).

The segment analysis reveals that the financed projects of the small, medium-sized and intermediate enterprises (SME and Mid-cap companies) account for most of the portfolio. In 2018 the highest growth was in the segment of Individuals +46.8% (+EUR 34.7 million). During the reporting period, the portfolio increased also in the Agriculture segment (+EUR 16.7 million) and SME and Mid-cap segment (+EUR 14.3 million), while decreased in the segment of Financial intermediaries (-EUR 4.3 million).

Management report **(cont'd)**





Group 31/12/2018

In terms of the number of transactions, the largest increase vs year-end of 2017 was observed in the segment of Individuals. Implementation of the Housing Guarantee Programme has contributed to the rising number of transactions in this segment. The amendments to the programme's framework expanding the programme to young professionals effective as of March 2018 have given a new impetus to implementation of the programme.

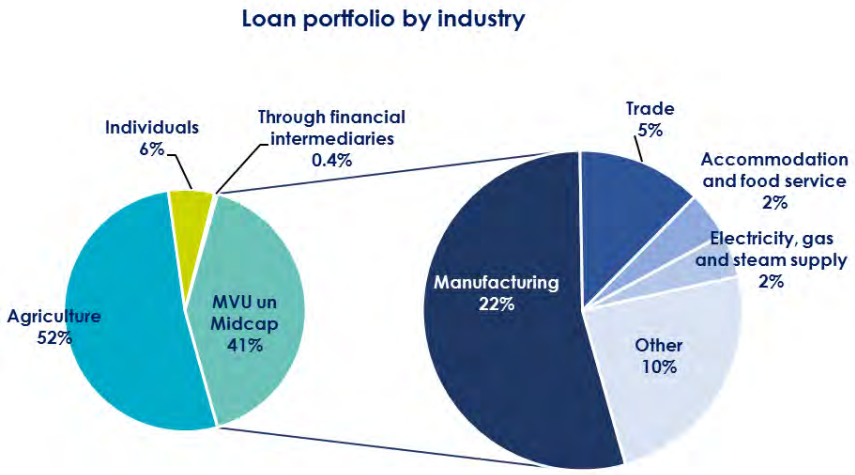
The portfolio structure of the loan and guarantee financial instruments demonstrates the priorities of the Latvian government regarding the implementation of State aid.

The State aid programmes implemented by the Group embrace different industries of the national economy and client segments resulting in a broadly diversified financial instruments portfolio of the Group.

Right from the start of its operation, the Group has implemented a range of lending programmes for farmers which is reflected in the structure of the loan portfolio where the segment of agriculture accounts for 52%. A considerable portion of the loan portfolio goes to manufacturing (22%) and trading companies (5%).

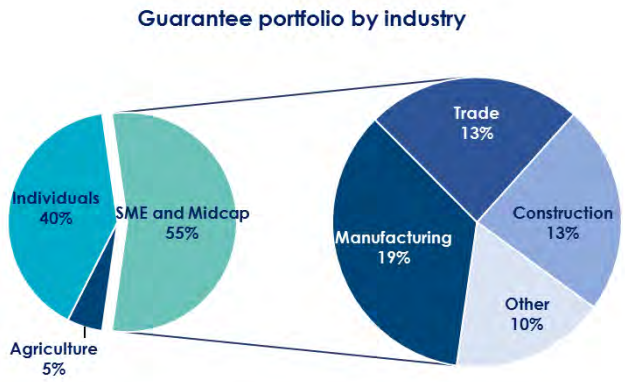
With the approved State aid programmes closing market gaps, the SME and Mid-caps account for most of the Group's guarantees - 55%, while the segment of Individuals accounts for 40% of the guarantees comprised of the housing acquisition guarantees issued to families with children and young professionals as well as guarantees within the Energy Efficiency Programme for Multi-apartment Buildings (EEP).

In terms of industries, the guarantees to manufacturing account for 19% of the guarantee portfolio, whereas both – trade and construction industries account for 13% each which is a substantial amount.



Group 31/12/2018

Management Report (cont'd)



Group 31/12/2018

As at 31 December 2018, as part of the State aid for housing acquisition by families with children, the Housing Guarantee Programme had granted 10,194 guarantees worth EUR 72 million. The programme's guarantees that help saving for the first instalment required to obtain a mortgage loan are used by families throughout Latvia: of the total number of the issued guarantees 67% were granted in Riga and its conurbations, 14% - in Vidzeme, 9% - in Kurzeme, 7% - in Zemgale and 3% - in Latgale. The average amount of one guarantee is EUR 7 thousand. From 1 March 2018, when the programme was expanded to include young professionals, up to 31 December 2018, a total of 849 guarantees worth 6 million euro were issued to young professionals.

As at 31 December 2018, the balance sheet of the Land Fund administered by the Group listed 429properties with a total land area of 7,818 ha worth EUR 21.71 million, including investment properties rented to the farmers with a total land area of 5,633 ha worth EUR 14.79 million and sales and leaseback transactions accounted for in the loan portfolio with a total land area of 2,185 ha worth EUR 6.92 million.

Volume of new transactions

During the reporting period while implementing the State aid programmes, the amount of funding issued was EUR 159.4 million (56% - guarantees, 42% - loans and 2% - investments in venture capital funds). In total, 5,464 projects were supported. Compared to the respective period of the previous year, the volume of new transactions has increased by 29% (EUR 36 million), 29% more guarantees were issued (EUR 20 million), whereas the amount of loans increased by 28% (EUR 15 million).

During the 12 months of 2018, loans for the total amount of EUR 66.4 million were issued. The biggest volume of issued loans accounts for agricultural, forestry and fishery companies – EUR 43.9 million (66% out of total volume issued) as well as manufacturing companies – EUR 13.9 million (21% out of total volume issued). In 2018 the average new loan amount has increased up to EUR 74 thousand (in 1Q and 2Q 2018 it was EUR 44 thousand, in 3Q 2018 – EUR 63 thousand, in 4Q 2018 – EUR 74 thousand).

During 12 months of this year, in order to facilitate entrepreneurship, new guarantees for the total amount of EUR 49.7 million were issued to business projects. In 2018 the commercial banks have taken particular advantage of the loan guarantees when funding manufacturing, trade and construction companies, using the guarantees as the security for issuing bank credit lines. As in the previous periods, the portfolio of newly issued guarantees was well diversified. The decision of 2017 to increase the maximum amount of the guarantee from EUR 1.5 million to EUR 3 million had a positive effect as more and more enterprises that had reached the maximum available guarantee limits asked for new support.

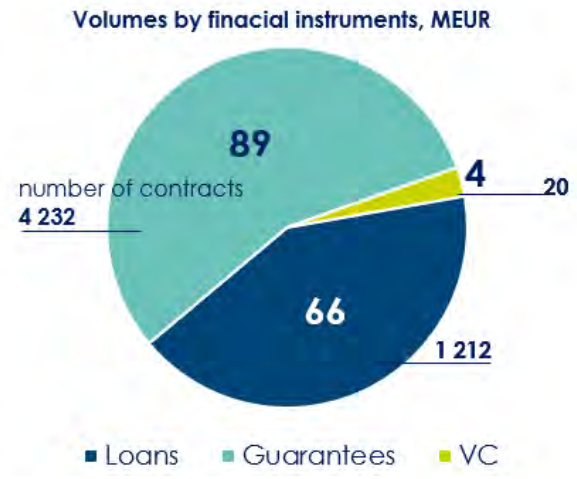
So far a total of 436 project applications for EUR 75 million have been submitted to the Energy Efficiency Programme for Multi-apartment Buildings for reviewing; 336 projects for a total amount of EUR 59 million were approved. The number of projects submitted so far accounts for 39% of the total number of projects planned for the entire EEP implementation period (utilisation of the funds until 2022). Within the programme, a total of 166 grants for EUR 30.9 million were given, 55 guarantees for EUR 10.4 million and 10 Altum loans for EUR 1.6 million.

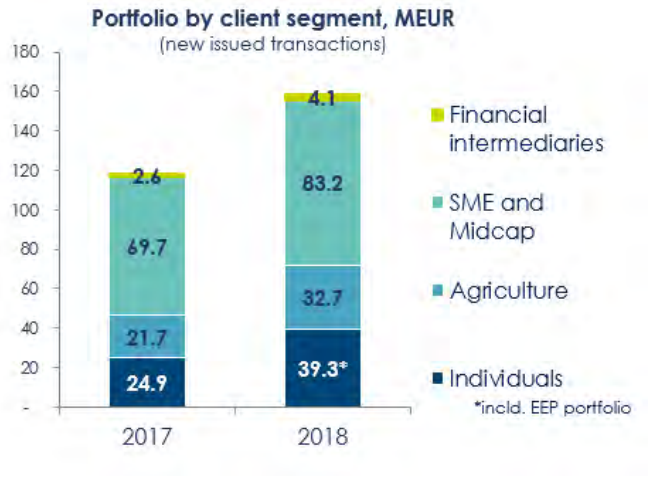
In year 2018 the amount of short-term export guarantees increased significantly reaching EUR 7.1 million (in the respective period of the previous year: EUR 2.9 million). The product sales increase, occurring in the first three quarters, continued into 4Q of this year. The increase was brought about by expanding the programme in the previous year when including transactions to the European Union and some OECD member states effected by small-scale exporters (export turnover less than EUR 2 million) or exporters with a larger export turnover provided the maturity of the deferred payment exceeded 180 days as well as the removal of the condition for the product to be of local origin, thus making it also possible for re-exporters to qualify for the guarantee cover.

During the reporting period, the largest number of new transactions was recorded in the following segments - small, medium-sized and intermediate enterprises Mid-caps - 52%, Individuals - 25% and Agriculture - 21%. Compared to 12 months period of 2017, the segment of Individuals demonstrated a 58% (EUR 14.4 million) increase in new transactions brought about by the expansion of the Housing Guarantee Programme to young professionals from March 2018 as well as improving accessibility to the Energy Efficiency

Management Report (cont'd)

Programme for Multi-apartment Buildings (EEP). Agriculture and SME and Mid-caps segments demonstrated increase in new transactions of 51% (EUR 11 million) and 19% (EUR 13.5 million) respectively.





Group 31/12/2018

In the segment of financial intermediaries dominated by venture capital investments, the volume of new transactions is based on the investments made by the managers of the new (4th generation) accelerator funds and venture capital funds that started to invest in the companies actively in Q4 2018. Three accelerator funds have made 18 pre-seed investments for EUR 440 thousand where Altum provided 100% of the funding, whereas the manager of the seed capital fund has made one investment where Altum's contribution amounted to EUR 750 thousand.

New products and increasing operational efficiency

In order to foster development of the national economy through an influx of additional financial resources, the Group, following its strategy for the years 2016–2018, expanded its business of loan guarantees for promotion of entrepreneurship and access to the funding by offering both – new guarantee products and improving the existing products.

In year of 2018 the range of the eligible recipients of the guarantee products was expanded. Now also the companies renting vehicles, personal goods, domestic hardware and appliances, producing electricity and heat and real estate developers working for the hotel and service operator will be eligible for guarantees. In view of the demand of the financial market, the Group has proposed amending the rules for granting guarantees i.e. to increase the maximum amount of the guarantee from EUR 3 million to EUR 5 million and make acquisition of capital shares eligible for guarantees. The decisions on these issues are expected to be taken in 2Q 2019.

In 2018 the credit institutions selected by Altum started to offer with great success the new guarantee product developed by Altum – portfolio guarantees. As opposed to individual guarantees, a credit institution may itself apply a portfolio guarantee instrument to its own financial services, incl. to loans of up to EUR 250 000, offering better terms to the entrepreneurs – lower interest rates and also faster receiving of the loan (probably within a couple of days).

In order to simplify implementation of the Agriculture Guarantee Programme, the Group, in co-operation with the Ministry of Agriculture, reviewed and streamlined the rules for granting guarantees to farmers, thus improving access to the funding for farmers significantly: the guarantee coverage was set at up to 80% (formerly from 50% to 80%) and uniform maximum guarantee cap – EUR 1 million (formerly from EUR 43 thousand to EUR 712 thousand) envisaging also guarantees for financial leasing.

In September 2018 Altum launched a new loan product "Loans for enterprises in rural territories" developed together with Ministry of Agriculture to ensure easier access to funding for entrepreneurs performing commercial activities outside big towns and having relatively small annual turnover (up to EUR 70 thousand). This loan product not exceeding EUR 100 thousand is intended for investments and working capital. These loans are attractive for agricultural start-ups, small-scale and bio-farmers as well as service providers in rural territories. The advantages of the said loan product can be used also by fishery companies irrespective of turnover and location.

In year 2018 significant amendments were introduced into the Programme for Acquisition of Agricultural Land - agricultural start-ups were made eligible for the loans of the programme and requirements were alleviated for the farmers whose income plummeted due to unfavourable weather (incessant rain, frost, draught).

By way of ensuring access to the funding for a broader range of clients, significant improvements were made to the SME loans for start-ups that became effective in February 2018 – the maturity of the loan was extended from 8 years to 10 years, but in the event of funding for real estate – up to 15 years, also the companies that had been in the business for less than 5 years (instead of the previous criterion of 3 years) and self-employed persons were included as eligible loan applicants.

Management Report (cont'd)

The amendments that were made to the Cabinet of Ministers Regulation No 160 in year 2018 improved accessibility of EEP significantly and incited greater interest on the part of the implementing bodies of the projects: the amount of the eligible expenditure had been increased for each project, the repayment period of the project had been extended to 40 years.

In September 2018 Altum also launched European Investment Fund (EIF) COSME and EaSI counter guarantees for loans up to EUR 25 thousand issued within the scope of following loan products – start-up loans, micro loans, funding for working capital for farmers, loans for enterprises in rural territories. The loans eligible according to the terms and conditions of COSME or EaSI counter guarantees are issued without additional collaterals, with a personal guarantee only, and at a lower interest rate compared with unsecured loans.

In year 2018 the selection of managers for Stage 4 venture capital funds was finalised.

As of Q3 2018 the venture capital accelerator investments for very early stage companies have been made available in Latvia which is a novelty in the Latvian start-ups eco-system. In Q3 the process of stage one application and assessment of the business projects organized by the managers of all three accelerator funds was completed. Out of 641 applications 20 teams were selected. Approximately 120 feasible and sustainable business ideas will receive the planned accelerator investments within the next 3 years. The total public funding for the Group's investments in these funds would amount to EUR 15 million.

In the 2nd half-year of 2018 the investment period commenced for three Stage 4 funds: one growth venture capital fund, one seed and one start-up venture capital fund. An investment agreement was signed with one growth venture capital fund expecting the investment period for this fund to start in June 2019. The total public funding for the Group's investments in Stage 4 venture capital funds is expected to be EUR 75 million; the investments in the growth funds are expected to reach at least EUR 30 million, in the start-up and seed venture capital funds – EUR 30 million, in accelerator funds, as reported earlier – EUR 15 million. At the beginning of 2019, one of the selected seed venture capital funds and one start-up venture capital fund were unable to attract the necessary financing from private investors by the agreed term, and a decision was made in March 2019 to liquidate these funds. It needs to be said that investors in the Baltic region have a broad range of opportunities in terms of expected return, risk appetite, and investment amounts, which further heightens competition among fund managers. Altum will consider diverting financing meant for the liquidated funds to other venture capital funds.

Altum is working actively to introduce customer service improvements and make the process of reviewing applications more efficient. As of August 2018, the clients of Altum are able to register, submit their applications for loans and upload the required documents electronically only. It speeds up the decision-making for issue of the State aid funding. Along with implementation of an entirely electronic application system the number of documents that the clients have to submit has also decreased. The first to benefit from a faster review of their applications were those clients applying for start-up or business development loans up to EUR 25 thousand. Now the clients are able to complete all the steps of the loan application remotely and visit ALTUM only to sign the loan agreement.

Continuing to work at the optimisation of the management cost of the programmes, in 2018 the Group transitioned to a new transaction accounting information system that would ensure further gradual reduction of management costs over the coming years. Once implemented, the annual maintenance costs of the information system would decrease by more than EUR 0.4 million, apart from the upgrade and maintenance costs of the related infrastructure. The new system will improve the speed of information circulation and client service.

Following implementation of several centralization of operations and automation projects at Altum, including development of new IT solutions and optimization of the operations and support functions for the regional customer service network, the number of employees was reduced by 12% in 2018 (from 231 to 203 employees). The average number of employees in 2018 was 222 (compared to 230 in 2017).

Long-term funding

In October 2017, the Company issued transferable debt securities as a series of notes in the form of a programme, which were registered with the Latvian Central Depository and listed on Nasdaq Riga. Within the framework of this EUR 30 million bonds programme and a view to diversify funding sources, on 2 March 2018 the Company issued 7-year debt securities with a total value of EUR 10 million. The investors in Latvia, Lithuania and Estonia have shown a substantial interest. Similar to the issue of bond securities by the Company in October 2017, also this time the subscribed volume exceeded the issued volume more than 6 times. The bonds were purchased by 14 investors: asset management funds, insurance companies and banks in Latvia (53%), Lithuania (22%) and Estonia (25%). By issuance of these notes the Group continues its long term active participation in the capital markets and also pursuing diversification of the structure of the attracted funding. In January 2019 Altum received Nasdq Baltic Awards 2019 prize in the nomination "Latvian Stock Exchange event of the Year".

Risk management

In order to have an adequate risk management, the 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, the Group retains the long-term capability of implementing the established operational targets and assignments. To manage risks, the Group makes use of various risk management methods and instruments as well as establishes risk limits and restrictions. The choice of the risk management methods is based on the materiality of the particular risk and its impact on the Group's operations.

In view of the Group's activities in high-risk areas when implementing the State aid programmes, the Group has created risk coverage of EUR 78 million (as at 31 December 2018) which is available to cover the expected credit loss of the State aid programmes. The expected loss is assessed before implementing the respective aid programme and a portion of the public funding

Management Report (cont'd)

received within the respective State aid programme for coverage of the expected credit loss is allocated to the risk coverage. The risk coverage consists of the sum total of the risk coverage reserve and portfolio loss reserve (special reserve capital) less the risk coverage reserve used for provisions.

As of September 2018 compliance of customer is being assessed in a centralised manner based on the Law on Prevention of Money Laundering and Terrorism Financing and Law on International Sanctions and National Sanctions of the Republic of Latvia. Also the very process of customer compliance assessment has been automated.

Rating

On 25 March 2019 Moody's Investors Service ("Moody's") confirmed Altum's (the parent company of the Group) Baa1 long-term issuer rating. The baseline credit assessment (BCA) was upgraded to baa3 from ba2. The short-term issuer rating was affirmed at P-2. The outlook on the long-term issuer rating is stable. This action concludes the Moody's review for upgrade initiated on 12 December 2018 following the introduction of an updated Moody's finance companies methodology on 10 December 2018.
Moody's initially assigned to Altum a long-term issuer rating Baa1 in June 2017. The assigned Moody's rating of Altum of Baa1 is one of the highest issuer ratings assigned to corporate entities in Latvia.
Altum baseline credit assessment upgrade from ba2 to investment grade rating baa3 as follows from Moody's assessment, represents:
the strong financial profile of the company with very strong capitalization, large risk coverage reserve incorporated in the public funding as well as the funding reinvestment in implementation of new financial instruments products against moderate profitability and level of problem loans, as stipulated by Altum business specifics; and
the unique standing of Altum in Latvia's financial services industry reflecting its policy mandate to provide a distribution channel for state and EU program funds to both end-customers (business startups, small and medium corporates, farmers, etc.) and other financial institutions.

The assigned rating makes it possible for the Group to implement more successfully the Group's long-term strategy for raising funding by being a regular participant in the capital market and issuing of notes.

Future outlook

In view of what has been achieved and in order to set new long-term financial goals, a medium-term strategy of Altum is being drafted for the years 2019-2021. The strategy is in the approval process.

Reinis Bērziņš
Chairman of the Board

29 March 2019

Supervisory Council and Management Board

Supervisory Council

Name, surname	Position	Appointment date	Date of expiry of the term of the mandate
Līga Kļaviņa	Chairperson of the Council	29/12/2016	28/12/2019
Jānis Šnore	Council Member	29/12/2016	28/12/2019
Kristaps Soms	Council Member	29/12/2016	28/12/2019

There were no changes in the Supervisory Council of the Company during the reporting period.

Management Board

On 11 June 2018, four members of Company's Board were re-elected.

Name, surname	Position	Appointment date	Date of expiry of the term of the mandate
Reinis Bērziņš	Chairman of the Board	11/06/2018	10/06/2021
Jēkabs Krieviņš	Board Member	11/06/2018	10/06/2021
Juris Vaskāns	Board Member	11/06/2018	10/06/2021
Inese Zīle	Board Member	11/06/2018	10/06/2021
Aleksandrs Bimbirulis	Board Member	07/07/2017	06/07/2020

Statement of the management's responsibility

Riga 29 March 2019

The supervisory council and the board of directors (hereinafter – Management) of joint stock company Development Finance Institution Altum (hereinafter - Company) are responsible for preparation of the financial statements of the Company as well as for preparation of the consolidated financial statements of the Company and its subsidiaries (hereinafter – Group) and information disclosed in the Other notes to Annual Report.

The financial statements and notes thereto set out on pages 11 to 100 are prepared in accordance with the source documents and present truly and fairly the financial position of the Company and the Group as at 31 December 2018 and 2017, and the results of their operations, changes in the shareholders' equity and cash flows for the years then ended.

The aforementioned financial statements are prepared on a going concern basis in conformity with International Financial Reporting Standards as adopted by the European Union. Prudent and reasonable judgements and estimates have been made by the Management in the preparation of the financial statements.

The Management are responsible for the maintenance of proper accounting records, the safeguarding of the Group's assets, and the prevention and detection of fraud and other irregularities in the Group. The Management are also responsible for operating the Group and the Company in compliance with the Law of the Republic of Latvia on Development Finance Institution and other laws of the Republic of Latvia as well as European Union Regulations applicable to Company.

Reinis Bērziņš
Chairman of the Board

Statement of comprehensive income

all amounts in thousands of euro

	Notes	Group 01/01/2018-31/12/2018	Group 01/01/2017-31/12/2017 (restated)	Company 01/01/2018-31/12/2018	Company 01/01/2017-31/12/2017 (restated)
Interest income	4	11,934	12,194	11,934	11,950
out of this income at effective interest rate		*11,934*	*11,950*	*11,934*	*11,950*
Interest expense	5	(763)	(820)	(763)	(819)
Net interest income		11,171	11,374	11,171	11,131
Fee and commission income	6	539	484	539	484
Fee and commission expense	7	(156)	(256)	(156)	(256)
Net income from fees and commissions		383	228	383	228
Gains or (loss) from debt securities and foreign exchange transaction	8	122	(191)	122	(191)
Share of gain or (loss) of investment in joint venture and associate	18	(1,348)	1,672	(1,348)	(3)
Share of gain or (loss) of investment in joint venture and associate at fair value through profit or loss	18	257	910	257	910
Gains less losses from liabilities at fair value through profit or loss	29	953	-	953	-
Other income	9	2,979	7,791	2,979	7,791
Gains on the revaluation of assets held for sale	26	408	-	778	-
Operating income before operating expenses		14,925	21,784	15,295	19,866
Staff costs	10	(7,368)	(6,522)	(7,368)	(6,522)
Administrative expense	11	(3,517)	(4,010)	(3,517)	(4,010)
Amortisation of intangible assets and depreciation of property, plant and equipment	21, 22	(620)	(417)	(620)	(417)
(Impairment) loss, net	12	672	(2,001)	672	(2,001)
Profit before corporate income tax		4,092	8,834	4,462	6,916
Corporate income tax	13	-	(125)	-	(125)
Profit for the year		4,092	8,709	4,462	6,791
Other comprehensive income: *Items that can be reclassified to profit or loss* Net loss from financial assets measured at fair value through other comprehensive income	35	(2,495)	(1,161)	(2,495)	(1,161)
Total comprehensive income for the year		1,597	7,548	1,967	5,630
Profit is attributable to:					
Owners of the Company		4,092	8,709	-	-
Non-controlling interest		-	-	-	-
Profit for the year		4,092	8,709	-	-
Total comprehensive income is attributable to:					
Owners of the Company		(2,495)	(1,161)	-	-
Non-controlling interest		-	-	-	-
Total comprehensive income for the year		(2,495)	(1,161)	-	-

The Notes on pages 16 to 100 are an integral part of these financial statements.

Reinis Bērziņš
Chairman of the Board

Marina Baranovska
Chief accountant

29 March 2018

Statement of financial position

all amounts in thousands of euro

	Notes	Group 31/12/2018	Group 31/12/2017 (restated)	Group 31/12/2016 (restated)	Company 31/12/2018	Company 31/12/2017 (restated)	Company 31/12/2016 (restated)
Assets							
Due from other credit institutions and Treasury	16	137,026	109,594	89,553	136,646	109,594	89,408
Financial assets at fair value through profit or loss	17	1,160	142	-	-	142	-
Financial assets at fair value through other comprehensive income - investment securities	14	50,389	61,760	64,294	50,389	61,760	64,294
Financial assets at amortised cost:							
Investment securities	14	467	443	1,531	467	443	1,531
Loans	19	197,755	192,147	201,250	197,473	192,147	201,250
Deferred expense	24	349	176	413	349	176	413
Accrued income	25	1,723	2,080	1,646	1,723	2,080	1,647
Assets held for sale	26	11,343	12,935	1,367	11,343	10,565	1,367
Investments in venture capital funds – associates	18	50,239	53,152	58,570	50,239	53,152	58,570
Investments in subsidiaries	20	-	-	-	1,492	-	10,376
Investment property	15	14,794	10,808	17,087	14,794	10,808	4,869
Property, plant and equipment	22	4,228	3,828	3,507	4,228	3,828	3,507
Intangible assets	21	1,347	771	168	1,347	771	168
Other assets	23	25,119	5,832	4,014	25,119	5,832	3,875
Total assets		495,939	453,668	443,400	495,609	451,298	441,275
Liabilities							
Due to credit institutions	27	38,245	46,933	56,195	38,245	46,933	56,195
Financial liabilities at fair value through profit or loss – derivatives	17	2	-	854	2	-	855
Due to general governments	28	48,110	43,609	46,914	48,110	43,609	46,914
Financial liabilities at amortised cost - Issued debt securities	33	29,943	19,852	-	29,943	19,852	-
Deferred income		2,181	1,395	777	2,181	1,395	777
Accrued expense	32	830	982	1,198	830	982	1,198
Liabilities directly associated with assets held for sale	26	-	2,000	-	-	-	-
Provisions	30	25,373	14,531	16,864	25,373	14,531	16,864
Support programme funding	29	126,959	93,661	98,058	126,959	96,520	96,850
State aid	29	-	3,968	5,575	-	3,968	5,575
Other liabilities	31	2,706	3,764	6,559	2,643	3,488	4,282
Corporate Income tax liabilities	13	-	125	-	-	125	-
Total liabilities		274,349	230,820	232,994	274,286	231,403	229,510
Equity							
Share capital	34	204,862	204,862	204,862	204,862	204,862	204,862
Reserves	35	7,965	722	(8,197)	7,610	(386)	(6,911)
Reserve of disposal group classified as held for sale	26, 38	-	1,839	-	-	1,839	-
Revaluation reserve of financial assets measured at fair value through other comprehensive income	38	3,597	6,092	9,092	3,597	6,092	9,092
Retained earnings		4,900	9,333	4,649	5,254	7,488	4,722
Net assets attributable to the Company's owners		221,324	222,848	210,406	-	-	-
Non-controlling interest		266	-	-	-	-	-
Total equity		221,590	222,848	210,406	221,323	219,895	211,765
Total equity and liabilities		495,939	453,668	443,400	495,609	451,298	441,275

The Notes on pages 16 to 100 are an integral part of these financial statements.

Reinis Bērziņš
Chairman of the Board

Marina Baranovska
Chief accountant

29 March 2019

Consolidated statement of changes in equity

all amounts in thousands of euro

	Attributable to owners of the Company						
	Share capital	Reserves	Revaluation reserve of financial assets measured at fair value through other comprehensive income	Reserve of disposal group classified as held for sale	Retained earnings	Non-controlling interest	Total equity
As at 31 December 2016	204,862	(8,235)	9,092	-	4,375	-	210,094
Change in accounting policy (see Note 2 (19) item (iv))	-	38	-	-	274	-	312
As at 31 December 2016 (restated)	204,862	(8,197)	9,092	-	4,649	-	210,406
Profit for the period	-	-	-	-	8,709	-	8,709
Other comprehensive income	-	-	(1,161)	-	-	-	(1,161)
Other comprehensive income associated with assets held for sale (Note 38)	-	-	(1,839)	1,839	-	-	-
Total comprehensive income	-	-	(3,000)	1,839	8,709	-	7,548
Changes of reserves (see Note 35, Note 2 (19) item (iv))	-	2,394	-	-	-	-	2,394
Increase of reserve capital (see Note 35)	-	2,500	-	-	-	-	2,500
Distribution of 2016 year profit of Company (Note 35)	-	4,025	-	-	(4,025)	-	-
As at 31 December 2017 (restated)	204,862	722	6,092	1,839	9,333	-	222,848
Impact of IFRS 9 adoption (Note 2 (17)	-	-	-	(1,839)	(812)	-	(2,651)
Reclassification of distribution of 2015 year profit of the Company	-	-	-	-	(1,829)	-	(1,829)
As at 1 January 2018	204,862	722	6,092	-	6,692	-	218,368
Profit for the period	-	-	-	-	4,092	-	4,092
Other comprehensive income	-	-	(2,495)	-	-	-	(2,495)
Total comprehensive income	-	-	(2,495)	-	4,092	-	1,597
Changes of reserves (see Note 35)	-	(753)	-	-	-	-	(753)
Increase of reserve capital (see Note 35)	-	2,112	-	-	-	-	2,112
Distribution of 2017 year profit of Company (Note 35)	-	5,884	-	-	(5,884)	-	-
Non-controlling interest	-	-	-	-	-	266	266
As at 31 December 2018	204,862	7,965	3,597	-	4,900	266	221,590

The Notes on pages 16 to 100 are an integral part of these financial statements.

Statement of changes in equity for the Company

all amounts in thousands of euro

	Share capital	Reserves	Revaluation reserve of financial assets measured at fair value through other comprehensive income	Reserve of disposal group classified as held for sale	Retained earnings	Total capital
As at 31 December 2016	204,862	(6,911)	9,092	-	4,025	211,068
Change in accounting policy (see Note 2 (19) item (iv))	-	-	-	-	697	697
As at 31 December 2016 (restated)	204,862	(6,911)	9,092	-	4,722	211,765
Profit for the year	-	-	-	-	6,791	6,791
Other comprehensive income	-	-	(1,161)	-	-	(1,161)
Other comprehensive income associated with assets held for sale (Note 38)	-	-	(1,839)	1,839	-	-
Total comprehensive income	-	-	(3,000)	1,839	6,791	5,630
Increase of reserve capital (see Note 35)	-	2,500	-	-	-	2,500
Distribution of 2016 year profit (Note 35)	-	4,025	-	-	(4,025)	-
As at 31 December 2017 (restated)	204,862	(386)	6,092	1,839	7,488	219,895
Impact of IFRS 9 adoption (Note 2 (17))	-	-	-	(1,839)	(812)	(2,651)
As at 1 January 2018	204,862	(386)	6,092	-	6,676	217,244
Profit for the year	-	-	-	-	4,462	4,462
Other comprehensive income (Note 35)	-	-	(2,495)	-	-	(2,495)
Total comprehensive income	-	-	(2,495)	-	4,462	1,967
Increase of reserve capital	-	2,112	-	-	-	2,112
Distribution of 2017 year profit (Note 35)	-	5,884	-	-	(5,884)	-
As at 31 December 2018	204,862	7,610	3,597	-	5,254	221,323

The notes on pages 16 to 100 are an integral part of these financial statements.

Cash flow statement

all amounts in thousands of euro

	Notes	Group 01/01/2018-31/12/2018	Group 01/01/2017-31/12/2017 (restated)	Company 01/01/2018-31/12/2018	Company 01/01/2017-31/12/2017 (restated)
Profit before taxes		4,092	8,709	4,462	6,791
Amortisation of intangible assets and depreciation of property, plant and equipment	22,21	620	417	620	417
Interest income	4	(11,934)	(12,194)	(11,934)	(11,950)
Interest received		8,687	10,446	8,687	10,200
Interest expenses	5	763	820	763	819
Interests paid		(542)	(207)	(542)	(191)
(Decrease) / increase in provisions for impairment	12	(672)	2,001	(672)	2,001
(Increase) in share of profit / (loss) in joint venture and associate capital funds		(207)	(907)	(207)	(907)
Increase of cash and cash equivalents from operating activities before changes in assets and liabilities		807	9,085	1,177	7,180
Increase in deferred income and accrued expense		634	402	634	591
(Decrease) in deferred expense and accrued income		184	(196)	184	(196)
(Increase) of other assets		(19,164)	(8,727)	(21,534)	(8,149)
Increase / (decrease) in other liabilities		33,131	(1,085)	34,803	388
Due from credit institutions (increase)		888	(3,998)	888	(3,998)
(Increase) / decrease of loans		(4,237)	7,149	(3,954)	7,148
Due to credit institutions (decrease)		(4,246)	(12,776)	(4,247)	(12,775)
Corporate income tax		-	-	-	-
Net cash flows to/ from operating activities		7,997	(10,146)	7,951	(9,811)
Cash flows from investment activities					
Sale of investment securities		12,856	5,066	12,856	4,876
Acquisition of property, plant and equipment and intangible assets		(1,596)	(5,818)	(1,596)	(5,818)
Purchase of investment properties	15	(3,754)	(1,342)	(3,754)	(1,342)
Sale of assets held for sale		-	5,239	-	5,239
Investments in venture capital funds, net	18	1,961	746	1,961	746
Investments of subsidiaries in share capital		(1,160)	-	-	-
Investments in subsidiaries		-	-	(1,492)	-
Net cash flows to/ from investing activities		8,307	3,891	7,975	3,701
Cash flows from financing activities					
Issued debt securities		9,901	19,799	9,901	19,799
Increase in share capital	35	2,112	2,500	2,112	2,500
Net cash flow from financing activities		12,013	22,299	12,013	22,299
Increase in cash and cash equivalents		28,317	16,044	27,939	16,189
Cash and cash equivalents at the beginning of period		100,597	84,553	100,597	84,408
Cash and cash equivalents at the end of period	37	128,916	100,597	128,536	100,597

The Notes on pages 16 to 100 are an integral part of these financial statements

Approval of consolidated financial statements

The management of the Group/Company has approved these financial statements on 29 March 2019. The Commercial Law of the Republic of Latvia as well as Development Finance Institution Law stipulates that the shareholders' meeting is entitled to pass a decision on approval of the financial statements.

1 General information

(1) Background information

These financial statements contain the financial information about joint-stock company Development Finance Institution Altum (Company) and its subsidiaries (hereinafter — the Group). The separate financial statements of the Company are included alongside these consolidated financial statements to comply with legal requirements. The Company is the parent entity of the Group (Note 39).

The Group ensures access of enterprises and households to the financing resources by means of support financial instruments – loans, guarantees, investments in venture capital funds – in areas defined as important and to be supported by the state, thus developing national economy and by such way enhancing mobilisation of private capital and financial resources.

Company is a Latvia state owned company, established on 27 December 2013 based on the decision of the Cabinet of Ministers.

The mission of the Company 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. 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 implemented the existing state aid programmes and financial instruments of ALTUM, LGA and RDF and, together with policy makers, develops 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.

2 Accounting policies

(1) Basis of preparation

These Group's and the Company's financial statements are financial statements prepared in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union, on a going concern basis. In preparation of these financial statements on a going concern basis the management considered the Group's/Company's financial position, access to financial resources and analysed the impact of the external factors on future operations of the Group/Company.

The Group's and the Company's financial statements are prepared under the historical cost convention as modified by the fair valuation of financial assets measured at fair value through other comprehensive income, derivative financial instruments and investment properties, non-current assets held for sale measured at fair value less costs to sell and state aid financing.

The preparation of financial statements in accordance with International Financial Reporting Standards as adopted by European Union requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on the Management's best knowledge of current events and actions, actual results ultimately may differ from those estimates (Note 2 (16)).

In the financial statements the amounts are given in thousands of euros, unless specified otherwise. The functional currency of the Company and its subsidiaries as well presentation currency of the Group/Company has been the euro.

(2) Consolidation and investments in subsidiaries

Consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2018.

Subsidiaries are companies, over which the Group has control. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement and has the ability to use its power to affect the amount of the returns. Control is deemed to exist when the parent company (i) has power to direct relevant activities of the investee that significantly affect their returns, (ii) has exposure or rights to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns.

The financial statements of the parent company and the consolidated subsidiaries refer to the same period and have been drawn up according to the accounting policies applicable to the Group. A subsidiary is included in the consolidated financial statements from the time of acquisition, being the date when the parent company gains control over the subsidiary. The subsidiary is included in the consolidated financial statements until the date when control over the company ceases to exist. The entities of the Group are listed in Note 39.

The consolidated financial statements are prepared in accordance with the acquisition method. The acquisition value is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed.

The identifiable assets acquired and the liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values on acquisition date, irrespective of any minority interest. Intra-group transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated.

At the level of the Company, the investments in subsidiaries upon their initial recognition at cost are recorded at fair value with revaluation in the profit or loss calculation. Some of the venture capital funds' investments are classified as investments in subsidiaries. See Note 39 for details.

Investments in associates

Associates are all entities over which the Group has significant influence but no control.

The Group / Company ceases to have a significant influence over a company when it loses power to participate in the company's financial and operating policy decisions. Loss of significant influence may happen with or without changes in the absolute or relative participation.

The Group / Company classifies investments in the associates in two categories using a different accounting method for each. The first category is measured based on the equity capital method (Note 2 (6)), whereas the second category – fair value with revaluation in the profit or loss calculation (Note 2 (6) item (ii) and Note 2 (6) item (iii)). Some of the venture capital funds investments are classified as investments in the *Associate*. See Note 39 for details.

(3) Foreign currency translation

During the reporting period the transactions in foreign currencies were converted into euro based on the foreign exchange rate of the European Central Bank effective on the day of the transaction. The monetary assets and liabilities as well as off-balance sheet claims and foreign currency liabilities were converted into euro based on the foreign exchange rate of the European Central Bank effective at the end of the reporting period. Income or loss on foreign exchange rate fluctuations was included in the statement of comprehensive income of the reporting period.

Non-monetary items that are measured at of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

2 Accounting policies (cont'd)

(3) Foreign currency translation (cont'd)

The applicable rates for the principal currencies at the end of the reporting period were the following:

as on 31 December 2018	as on 31 December 2017
1 USD = EUR 1.14500	1 USD = EUR 1.19930
1 GBP = EUR 0.89453	1 GBP = EUR 0.88723
1 CHF = EUR 1.12690	1 CHF = EUR 1.17020
1 NOK = E UR 9.94830	1 NOK = E UR 9.84030

(4) Income and expense recognition

Income and expense accounting of the Group/Company is based on accrual basis, i.e.:

- income and expense, pertaining to the reporting period, are included in the statement of comprehensive income regardless of the day of their receipt or origination;
- income is included in the statement of comprehensive income, when obtained, or there is no doubt about receiving it on the expected time, and expense is accounted as soon as there is evidence clearly indicating the occurrence of expense.

Foreign income and expense are calculated and presented in euro based on the foreign exchange rate of the European Central Bank on the respective day.

Foreign exchange income and expense are recognised in the profit or loss of the reporting period.

Interest income and expense are recognised in profit or loss for all interest bearing instruments on an accrual basis using the effective interest rate method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group/Company estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options), but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Interest accrued on loans is included in profit or loss based on the following complementary principles:

- interest accrual calculation uses various day accounting methods, specified in agreements with customers (30/360 or actual days / 360).

The following principles are applied with respect to *contractual penalties (late payment charge)*:

- contractual penalties are calculated for each day and are recorded in the off-balance sheet (recognized at a point in time);
- included in the profit or loss only when being paid by the customer (recognized at a point in time);
- subject to grace days – i.e., if customer pays the entire amount in full within 3 days after the scheduled payment date, contractual penalties are not calculated.

Commissions from advancing loans and their management are included in profit or loss based on the following principles:

- loan processing and disbursement commissions (including loan application fee) together with related direct costs – using effective interest rate method;
- other commissions (loan account management, amendment of terms, reservation fee, a.o.) – are recognised on the day of their receipt (recognized at a point in time).

Commissions from granting and maintenance of financial guarantees are included in the profit or loss following the principles below:

- commissions from granted financial guarantees – according to principles described in Note 2 (5) item (xvi) (recognised over the time);
- other commissions – are recognised on the day of their receipt (recognized at a point in time).

Interest accrued on loans and commissions from financial guarantees exclude pricing for credit risk if such is covered by allocated support programme funding. See Note 29.

Other commission income and expense, which are not related to financial guarantees, are recognized as they occur.

2 Accounting policies (cont'd)

(5) Financial assets and liabilities - initial recognition and subsequent measurement

(i) Initial recognition

Financial instruments at fair value through profit or loss (FVTPL) are initially recorded at fair value. All other financial instruments are initially recorded at fair value adjusted for transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets. After the initial recognition, an expected credit loss (ECL) allowance is recognised for financial assets measured at amortised cost (AC) and investments in debt instruments measured at fair value through other comprehensive income (FVOCI), resulting in an immediate accounting loss.

All purchases and sales of financial assets that require delivery within the time frame established by market convention ("regular way" purchases and sales) are recorded at trade date, which is the date on which the Group / Company commits to deliver a financial asset. All other purchases are recognised when the Group/Company becomes a party to the contractual provisions of the instrument.

(ii) Financial assets – classification and subsequent measurement – measurement categories

The Group/Company classifies financial assets in the following measurement categories: FVTPL, FVOCI and AC. The classification and subsequent measurement of debt financial assets depends on:

a) the Group's/Company's business model for managing the related assets portfolio and

b) the cash flow characteristics of the asset.

(iii) Financial assets – classification and subsequent measurement – business model

The business model reflects how the Group/Company manages the assets in order to generate cash flows – whether the Group's/ Company's objective is:

a) solely to collect the contractual cash flows from the assets ("hold to collect contractual cash flows",) or

b) to collect both the contractual cash flows and the cash flows arising from the sale of assets ("hold to collect contractual cash flows and sell") or,

c) if neither of (a) and (b) is applicable, the financial assets are classified as part of "other" business model and measured at FVTPL.

Business model is determined for a group of assets (on a portfolio level) based on all relevant evidence about the activities that the Group/Company undertakes to achieve the objective set out for the portfolio available at the date of the assessment. Factors considered by the Group/Company in determining the business model include the purpose and composition of a portfolio, past experience on how the cash flows for the respective assets were collected, how risks are assessed and managed and how the assets' performance is assessed. Refer to Note 2 (15) for critical judgements applied by the Group/Company in determining the business models for its financial assets.

(iv) Financial assets – classification and subsequent measurement – cash flow characteristics

Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Group/Company assesses whether the cash flows represent solely payments of principal and interest ("SPPI"). Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are consistent with the SPPI feature. In making this assessment, the Group/Company considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for credit risk, time value of money, other basic lending risks and profit margin.

Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the financial asset is classified and measured at FVTPL. The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed. Refer to Note 2 (15) for critical judgements applied by the Group/Company in performing the SPPI test for its financial assets.

(v) Financial assets – reclassification.

Financial instruments are reclassified only when the business model for managing the portfolio as a whole changes. The reclassification has a prospective effect and takes place from the beginning of the first reporting period that follows after the change in the business model.

(vi) Financial assets impairment – credit loss allowance for expected credit losses

IFRS 9 introduces an expected credit loss model for the measurement of impairment, where credit loss allowance is recognised on financial assets classified as AC and FVOCI and for the exposures arising from loan commitments and financial guarantee contracts. Expected credit losses ("ECL") are measured based on whether there has been a significant increase in credit risk since initial recognition of an instrument and on unbiased forward-looking information, even if no actual loss events have taken place. The ECL are estimated considering a broad range of information, including past events, current conditions and reasonable and supportable forecasts of future economic conditions that could affect the expected collectability of the future cash flows. Consequently, credit loss allowance is more sensitive to changes in the future economic outlook and are likely to be more volatile as compared to IAS 39.

2 Accounting policies (cont'd)

(5) Financial assets and liabilities - initial recognition and subsequent measurement (cont'd)

(vi) Financial assets impairment – credit loss allowance for expected credit losses (cont'd)
Credit loss allowance is measured according to the ECL model and reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes and considering all reasonable and supportable information available without undue cost or effort at the reporting date. Such allowance is measured according to whether there has been a significant increase in credit risk since initial recognition of an instrument.

Stage 1 includes financial instruments that have not experienced a significant increase in credit risk since initial recognition and those within the Company's policy to assess for low credit risk at the reporting date.

Stage 2 includes financial instruments that have deteriorated significantly in credit quality since the initial recognition but for which there is no objective evidence of credit impairment.

Stage 3 includes financial instruments which are credit-impaired and for which there is objective evidence of impairment.

The 12-month ECL are recognized on instruments in Stage 1 and the lifetime ECL are recognized on instruments in Stage 2 and Stage 3. The lifetime ECL represent losses from all possible default events over the remaining life of the financial instrument. The 12-month ECL are the portion of the lifetime ECL resulting from the default events that are possible within 12 months after the reporting date. Consequently, the 12-month ECL are not the expected cash shortfalls over the next 12 months or the credit losses on financial assets that are forecast to default in the next 12 months.

Measurement of expected credit losses
The ECL are measured for each individual exposure as the discounted product of a probability of default ("PD"), an exposure at default ("EAD"), and a loss given default ("LGD"). The PD represents the likelihood that a borrower will default on its obligation, during the next 12 months or during the remaining lifetime of the obligation. The EAD is an expected exposure at the time of default, taking into account scheduled repayments of principal and interest, and expected further drawdowns from loan commitments. The LGD represents the expected loss on a defaulted exposure, taking into account such factors as counterparty characteristics, collateral and product type.

The ECL are determined by projecting the PD, LGD and EAD for each future month over the expected lifetime of an exposure. The three parameters are multiplied together and adjusted for the probability of survival, or the likelihood that the exposure has not been prepaid. This effectively calculates monthly ECL, which are discounted back to the reporting date using the original effective interest rate and summed. The sum of all months over the remaining expected lifetime results in the lifetime the ECL and the sum of the next 12 months results in the 12-month ECL.

The risk parameters used to estimate ECL incorporate the effects of the macroeconomic forecasts and associated expected probabilities, to measure an unbiased, probability weighted average.

The Group/Company assesses material credit-impaired exposures individually and without the use of modelled inputs. The credit loss allowance for these exposures are established using the discounted expected cash flows.

Definition of default and credit-impaired financial assets
Default is an input to the PD, which affects both the identification of a significant increase in credit risk and the measurement of the ECL. Financial assets classified as credit-impaired are included in Stage 3. Default and credit-impaired are triggered when one of the following occurs: an exposure is more than 90 days past due, an exposure is declared in bankruptcy or similar order, a non-performing forbearance measure is applied towards the borrower or there is an assessment that the borrower is unlikely to pay its obligations as agreed. When assessing whether a borrower is unlikely to pay its obligations, the Group/Company takes into account both qualitative and quantitative factors including, but not limited to the overdue status or non-payment on other obligations of the same borrower, expected bankruptcy and breaches of financial covenants. An instrument is no longer considered to be in default or credit-impaired when all overdue amounts are repaid, there is sufficient evidence to demonstrate that there is a significant reduction in the risk of non-payment of future cash flows and there are no other indicators of credit-impairment.

Determining a significant increase in credit risk since initial recognition
The Group/Company assesses changes in credit risk using a combination of individual and collective information and reflects significant increases in credit risk at the individual financial instrument level. For financial instruments with an initial recognition date of 1 January 2018 or later, the primary indicator used to assess changes in credit risk is changes in the forward-looking lifetime probability of default since initial recognition, which incorporates the effects of past and current forecasted economic conditions. A financial instrument is no longer considered to have experienced a significant increase in credit risk when all indicators are no longer breached.

Stage 2 includes financial instruments that have deteriorated significantly in credit quality since the initial recognition but for which there is no objective evidence of credit impairment. The Group/Company primarily identifies whether a significant increase in credit risk has occurred for an exposure due to "days past due" status and changes in qualitative credit risk indicators, e.g., financial performance of the borrower, breaches of covenants, industry specific information, etc. For loans and financial guarantee agreements, the Group/Company uses 31+ "days past due" status for transfer exposure from Stage 1 to Stage 2. Investments in securities and due from other credit institutions are included in Stage 1 if external rating is A3/A- or higher, while lowering of the external rating by at least two notches (Baa1/BBB+ or lower) results in transfer of exposure from Stage 1 to Stage 2.

2 Accounting policies (cont'd)

(5) Financial assets and liabilities - initial recognition and subsequent measurement (cont'd)

(vi) Financial assets impairment – credit loss allowance for expected credit losses (cont'd)

Expected lifetime
The lifetime of a financial instrument is relevant for both the assessment of significant increase in credit risk, which considers changes in the probability of default over the expected lifetime, and the measurement of the lifetime ECL. The expected lifetime is generally limited the maximum contractual period over which the Group/Company is exposed to credit risk, even if a longer period is consistent with business practice. All contractual terms are considered when determining the expected lifetime, including prepayment options and extension and rollover options that are binding to the Group/Company.

Modifications
Where a loan is modified but is not derecognised, significant increases in credit risk continue to be assessed for impairment purposes as compared to the initial recognition credit risk. Modifications do not automatically lead to a decrease in credit risk and all quantitative and qualitative indicators will continue to be assessed.

Estimates
The Group/Company use both models and expert credit judgement (ECJ) in order to determine ECLs. The degree of judgement that is required to estimate ECL depends on the model outcome, materiality and the availability of detailed information. The model provides guidance and transparency as to how economic events could affect the impairment of financial assets. Expert judgements may be applied to the modelled outcome to incorporate an estimated impact of factors not captured by the model. Such judgemental adjustment to the model-generated ECLs may be applied to significant exposures at a counterparty level. The adjustments are decided by the relevant credit committee using the model ECLs as guidance.

Presentation of credit impairments
For financial assets measured at AC, credit loss allowance is presented in the Group's/Company's statement of financial position as a reduction of the gross carrying amount of the assets.

For loan commitments and financial guarantee contracts, such allowance is presented as a liability in the Group's/Company's statement of financial position.

For debt instruments measured at FVOCI (investment securities), changes in amortised cost reduced by credit loss allowance for ECL are recognised as profit or loss and other changes in gross carrying value are recognised in the OCI as gains less losses on debt instruments measured at FVOCI.

A write-off reduces the gross carrying amount of a financial asset. Credit loss allowance and write-offs are presented as credit impairments in profit or loss. Write-offs are recognised when the amount of loss is ultimately determined and represent the amount before the utilisation of any previous provisions. Any subsequent recoveries of write-offs or credit loss allowance are recognised in profit or loss statement.

(vii) Financial assets – write-off
Financial assets are written-off, in whole or in part, when the Group/Company exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a derecognition event. The Group/ Company may write-off financial assets that are still subject to enforcement activity when the Group/ Company seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery.

(viii) Financial assets – derecognition.
The Group/Company derecognises financial assets when:

- the assets are redeemed or the rights to cash flows from the assets otherwise expired or
- the Group/Company has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership, but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose restrictions on the sale.

(ix) Financial assets – modification.
The Group/Company sometimes renegotiates or otherwise modifies the contractual terms of the financial assets.

In a situation where the renegotiation was driven by financial difficulties of the counterparty and inability to make the originally agreed payments, the Group/Company compares the original and revised expected cash flows to assets whether the risks and rewards of the asset are substantially different as a result of the contractual modification. If the risks and rewards do not change, the modified asset is not substantially different from the original asset and the modification does not result in derecognition. The Group/Company recalculates the gross carrying amount by discounting the modified contractual cash flows by the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit impaired (POCI) financial assets), and recognises a modification gain or loss in profit or loss.

2 Accounting policies (cont'd)

(5) Financial assets and liabilities - **initial recognition and subsequent measurement (cont'd)**

(x) Financial liabilities – measurement categories.

Financial liabilities are classified as subsequently measured at AC, except for:

- financial liabilities at FVTPL: this classification is applied to derivatives, Support programme funding.

(xi) Financial liabilities – derecognition.

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

(xii) Due from other credit institutions and Treasury

Amounts due from other credit institutions and Treasury are recorded when the Group/Company advances money to a credit institution with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from credit instructions are carried at amortised cost.

Item *Due from other credit institutions and the State Treasury* comprises cash and demand deposits with credit institutions with original maturity of 3 months or less (See Note 37) and demand deposits with the State Treasury and other credit institutions with original maturity of more than 3 months.

(xiii) Derivative financial instruments

Derivative financial instruments including foreign currency swaps are initially recognised at fair value and subsequently measured at their fair value. Fair values are obtained from quoted market prices and discounted cash flow models as appropriate. All derivatives are carried as assets when fair value is positive and liabilities when the fair value is negative. Changes in the fair value of derivatives are reported in the profit or loss. The Group/Company does not use hedge accounting.

(xiv) Investment securities

Based on the business model and the cash flow characteristics, the Group/Company classifies investments in securities as carried at AC or FVOCI.

Investment securities or debt securities are carried at AC if they are held for collection of contractual cash flows and where those cash flows represent SPPI, and if they are not voluntarily designated at FVTPL in order to significantly reduce an accounting mismatch. Part of fixed income securities held by the Group/Company are included into this category.

Debt securities are carried at FVOCI if they are held for collection of contractual cash flows and for selling, where those cash flows represent SPPI, and if they are not designated at FVTPL. Interest income from these assets is calculated using the effective interest method and recognised in profit or loss. An impairment allowance estimated using the expected credit loss model is recognised in profit or loss for the year. All other changes in the carrying value are recognised in OCI. When the debt security is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from OCI to profit or loss. Treasury bills, fixed income securities are included into this financial assets' measurement category.

(xv) Loans

For purposes of this section, loans are:

- direct lending products, i.e., the Group/Company grants a loan to a borrower, who is the end beneficiary of funds. Direct lending products include Reverse rent transaction;
- indirect lending products without assuming risk, i.e., the Group/Company grants a loan to a borrower, who is an intermediary. The intermediary then grants the received loan further to borrowers, who are the end beneficiaries of funds. The Group / Company recognizes loan impairment loss only when resulting from solvency problems of the borrower;
- indirect lending products with risk assumption, i.e., the Group/Company grants a loan to a borrower, who is an intermediary. The intermediary then grants the received loan further to borrowers, who are the end beneficiaries of funds. The Group / Company recognizes loan impairment loss both when resulting from solvency problems of the intermediary, as well as when resulting from solvency problems of the end beneficiary, proportionate to the share of risk.

The loans are recognised in the financial statements of the Group / Company when cash is advanced to borrowers. Granted, but not yet disbursed loans are recognised as loan commitments in off-balance sheet.

Based on the business model and the cash flow characteristics, the Group/Company classifies loans measured at AC. It means, that loans are held for collection of contractual cash flows.

Reverse rent

Reverse rent are agricultural land purchase transaction with rent and repurchase rights for the seller of the property established by agreement.

It was concluded that the reverse rent transactions embraced the repurchase option for the lessee that could be exercised nearly always. From IFRS point of view it means that such a rent falls outside the definition of rent as, in essence, the use rights of the asset are not transferred and remain with the lessee.

The nature of reverse rent transaction corresponds to the definition of financial asset where the purchase price is a long-term loan issued to the lessee (right to get the money in near future), whereas land functions as a collateral.

2 Accounting policies (cont'd)

(5) Financial assets and liabilities - initial recognition and sub**sequent measurement (cont'd)**

(xv) Loans (cont'd)

Following the same practice applied to the other loans the management assesses value impairment and provisioning for value impairment at each reporting date. A part of the value impairment assessment and calculation is linked to evaluation of the collateral.

Repossessed collateral

Repossessed collateral represents financial or non-financial assets acquired by the Group/Company in settlement of overdue loans. The assets are initially recognised at fair value when acquired and included in inventories within other assets depending on their nature and the Group's/Company's intention in respect of recovery of these assets, and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets. See Note 2 (9) item (vii) and Note 2 (9) item (viii) item for details

Loan commitments

The Group/Company issues commitments to provide loans. These commitments are irrevocable or revocable only in response to a material adverse change. Fees received for loan commitments are amortised on a straight-line basis over the life of the commitment. Further on such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at:

- the remaining unamortised balance of the amount at initial recognition, plus
- the amount of the loss allowance determined based on the expected credit loss model, unless the commitment is to provide a loan at a below market interest rate, in which case the measurement is at the higher of these two amounts.

The carrying amount of the loan commitments represents as liability in off-balance sheet.

For contracts that include both a loan and an undrawn commitment and where the Group/Company cannot separately distinguish the ECL on the undrawn loan component from the loan component, the ECL on the undrawn commitment is recognised together with the loss allowance for the loan. To the extent that the combined ECLs exceed the gross carrying amount of the loan, they are recognised as a liability.

(xvi) Financial guarantees

Financial guarantees require the Group/Company to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight-line basis over the life of the guarantee. At the end of each reporting period, the guarantees are measured at the higher of (i) the amount of the loss allowance for the guaranteed exposure determined based on the expected loss model and (ii) the remaining unamortised balance of the amount at initial recognition. In addition, an ECL loss allowance is recognised for fees receivable that are recognised in the statement of financial position as an asset.

Payments, which are made by the Group/Company, to reimburse the holder of the guarantee for a loss are included in *Other assets* item (Note 23).

The carrying amount of the financial guarantees contracts represents as liability in off-balance sheet Note 36.

(xvii) Financial liabilities carried at amortised cost

Financial liabilities carried at amortised cost are mainly amounts due to the Treasury and credit institutions. These are initially recognised at fair value net of transaction costs incurred. Financial liabilities are subsequently measured at amortised cost and any difference between net proceeds and the redemption value is recognised in the profit or loss over the period of the borrowings using the effective interest method, less any impairment. In cases of early repayment, any difference between the repaid and carrying amounts is immediately included in the profit or loss.

(xviii) Issued debt securities

The Group and the Company recognise issued debt securities at the date when the respective funds are received. After initial recognition when these financial liabilities are initially recognised at fair value including direct transaction costs, those are subsequently carried at amortised cost using the effective interest method.

When issued debt securities are sold at a discount, the difference is amortised applying the effective interest method until the debt matures and charged to the statement of comprehensive income as interest expense.

(xix) Financial liabilities designated at FVTPL

The Group/Company designates liabilities such as Support *programme funding* at FVTPL at initial recognition. Gains and losses on such liabilities are presented in profit or loss.

In 2018 the Group/Company has changed accounting policy of these liabilities from valued at amortised cost to FVTPL. See Note 2 (19) item (iii) for details.

2 Accounting policies (cont'd)

(6) Investments in venture capital funds
Part of the Group's and the Company's investments in venture capital funds (VCF) are treated as *Associate,* other one – as *Investments in subsidiaries.*

The Group's / Company's investments in the *Associate* are stated under the equity method, except investments in *Baltic Innovation fund.*

Investments in *Associate* initially are recognised at acquisition cost. For subsequent measurement equity method is used, which is based on the following principle: on its balance sheet Group/Company recognizes the value of VCF as its proportionate share of the net asset value (NAV) of the venture capital funds. VCF' NAV is based on fair value measurement, which can be adjusted by the Group/Company to align the accounting policies of the *Associate* with accounting policies of the Group.

The carrying value of the investment includes changes in the Group's/Company's NAV in the associate since acquisition date. The changes in the operational results of the VCF' NAV is included in Group's/Company's profit or loss statement as *Share of gain or (loss) of investment in joint venture and associate*.

The realised gains, which are received from Associate, are recognised as VCF' carrying value decrease.

The financial statements of the Associate and Group cover the same reporting period.

In 2018 the Company management decided to unify the policies for the accounting for investments in venture capital funds between the Company's separate and consolidated financial statements. It means that the accounting for the investments in venture capital funds in the Company's separate financial statements was changed from the cost less impairment method to the equity method. See Note 2 (19) item (i) and 2 (19) item (iii) for details.

(i) Other accounting issues
The management fees of the venture capital funds referable to the reporting period (previous periods) are treated as fees for services received and are included in profit or loss.

As foreseen by the new wording of the agreement No 2015/15 On Implementation of the Holding Fund dated 23 December 2015 concluded between the Company and Ministry of Economics, the Group/Company is reimbursed from the funding of the Ministry of Economics for the following:

- management fees of the financial intermediaries for implementation of the financial engineering instruments;
- value impairment of the investments of the financial engineering instruments due to valuation or revaluation.

The above risk cover mechanism is valid for the second and third generation venture capital funds, such as BaltCap Latvia Venture Capital Fund, Imprimatur Capital Technology Venture Fund, Imprimatur Capital Seed Fund, ZGI-3 fund, FlyCap Investment Fund I and Expansion Capital Fund (Note 18) as well as for Baltic Innovation fund from the December 2017.

(ii) Investments in the Baltic Innovation Fund
In 2018 Group/Company has changed accounting policy for investments in Baltic Innovation Funds to *assets valued at fair value through profit or loss.*

See Note 2 (19) item (ii) for details.

(iii) Investments by subsidiaries in the shares of companies
Investments in equity securities are measured at FVTPL, except where the Group elects at initial recognition to irrevocably designate equity investments at FVOCI. Dividends continue to be recognised in profit or loss when the Group's right to receive payments is established except when they represent a recovery of an investment rather than a return on such investment. The investments made by risk venture capital funds into equity securities at the level of the Group are included into this financial assets' measurement category.

(7) Fair values of assets and liabilities
Fair value is the price that would be received when selling an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. Fair values of financial assets and liabilities, including derivative financial instruments, are based on market prices quoted in active markets.

If the market for a financial asset or liability (and for unlisted securities) is not active, the Group/Company establishes fair value by using valuation techniques. These include the use of discounted cash flow analysis, option pricing models and recent comparative transactions as appropriate. Where, in the opinion of the Management of the Group/ Company, the fair values of financial assets and liabilities differ materially from their book values, such fair values are separately disclosed in the notes to the accounts.

2 Accounting policies (cont'd)

(7) Fair values of assets and liabilities (cont'd)

The Group/Company measures financial assets, such as derivatives, part of investments securities, investments in Baltic Innovation Fund, non-financial assets, such as investment properties and assets held for sale, such as investments in alternative investment funds, and financial liabilities, such as Support Programme funding, at fair value at each balance sheet date. The information about financial and non-financial assets and liabilities, which are measured at fair value or which values are disclosed, are summarised in the following notes:

▪ Disclosures for valuation methods, significant estimates and assumptions	Note 2 (5), 2 (6),2 (8), 2 (9), 2 (15), 2 (17), 2 (19), 2 (20)
▪ Quantitative disclosures of fair value measurement hierarchy	Note 42
▪ Investment property	Note 2 (9) item (viii)
▪ Financial instruments (including those carried at amortised cost)	Note 2 (5)

(8) Off-setting financial instruments

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

(9) Non – financial assets - initial recognition and subsequent measurement

(i) Intangible assets
Acquired computer software and licences are recognised as intangible assets on the basis of the costs incurred to acquire and bring to use the software. Intangible assets are amortised on the basis of their expected useful lives (5 years) and less impairment, if there is an indication that intangible asset may be impaired. The costs associated with developing or maintaining computer software programs are recognised as an expense when incurred.

(ii) Property, plant and equipment and depreciation
All property, plant and equipment are stated at historical cost less accumulated depreciation and impairment, if any. Depreciation is provided using the straight-line method to write off the cost of each asset to its residual value over the estimated useful life of the asset. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

The annual depreciation rates are as follows:

Category	Depreciation rate
Land and buildings	2% p.a.
Furniture and fittings	10 - 20% p.a.
Computers and equipment	16.67 – 33.33% p.a.
Vehicles	20% p.a.
Leasehold improvements	over the term of the lease agreements

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains and losses on disposals of property and equipment are recognised in the profit or loss in the period of disposal. Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group/Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred. Property, plant and equipment are periodically reviewed for impairment.

(iii) Impairment of non-financial assets
The Group/Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group/Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

2 Accounting policies (cont'd)

(9) Non – financial assets - initial recognition and subsequent measurement (cont'd)

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group/Company estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the profit or loss. Goodwill impairment losses cannot be reversed over the next reporting periods.

(iv) Investment property
Investment property, comprises land or buildings, which are held in order to earn rentals or for capital appreciation or both, and which are not occupied by the Group/Company or otherwise held for sale. Property rented out under operating lease is classified as investment property if, and only if, it meets the definition of an investment property.

Investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, to any difference in the nature, location or condition of the asset. The fair value of investment property is based on a valuation by an independent valuator who holds a recognised and relevant professional qualification and who has recent experience in the location and category of the investment property being valued. If this information is not available, the Group/Company uses alternative valuation methods such as discounted cash flow projections. Changes in the fair value of investment property are recorded in the profit or loss as part of operating income.

Gains and losses on sale of investment properties is recognised at sale as the difference between the proceeds from the sale and the carrying amount (fair value) of investment properties.

(v) Inventory (included in Other assets)
Inventory includes movable assets, lands and buildings that have been acquired in the debt collecting process, for the purpose to hold them and sell in an ordinary course of business. Inventory is reported at the lower of cost or net realizable value. Net realizable value is a selling price during an ordinary course of business of the Group/Company less selling expenses. Depreciation of Inventory is not calculated. Changes in value of Inventory are recognised in of profit or loss. The value of Inventory is reassessed at each reporting date to ensure it is stated at the lower of cost and net realisable value. The inventory consists of properties taken over with an aim to sell them in the near future.

Realised gains and losses on sale of the properties taken over are recognised at sale as the difference between sale price of inventory and carrying amount as at the moment of sale.

(vi) Assets held for sale
Non-current assets and disposal groups held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

For details of financial information of these investments see Note 26. The impact of the transition to IFRS 9 to these assets is disclosed in Note 17 (iv).

(10) Leases

(i) Finance lease receivables
Where the Group is a lessor in a lease which transfers substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as a finance lease receivable and carried at the present value of the future lease payments. Finance lease receivables are initially recognised at commencement (when the lease term begins) using a discount rate determined at inception (the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease).

The difference between the gross receivable and the present value represents unearned finance income. This income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Incremental costs directly attributable to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term. Finance income from leases is recorded within *Other income* in profit or loss for the year.

Credit loss allowance is recognised using a simplified approach at the lifetime ECL. The ECL is determined in the same way as for loans and advances measured at the AC and recognised through an allowance account to write down the receivables' net carrying amount to the present value of expected cash flows discounted at the interest rates implicit in the finance leases. The estimated future cash flows reflect the cash flows that may result from obtaining and selling the assets subject to the lease.

2 Accounting policies (cont'd)

(10) Leases (cont'd)

(ii) Finance lease liabilities
Where the Group/Company is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group/Company, the assets leased are capitalised in *premises and equipment* at the commencement of the lease at the lower of the fair value of the leased asset, and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are included in other borrowed funds. The interest cost is charged to profit or loss for the year over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life, or the shorter lease term if the Group/Company is not reasonably certain that it will obtain ownership by the end of the lease term.

(iii) Operating lease
Where the Group/Company is a lessor in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group/Company, the total lease payments are charged to profit or loss for the year (rental income) on a straight-line basis over the period of the lease. Operating leases include long-term leases of land, which was acquired by the Land Fund (Note 15).

(11) Corporate income tax
On 28 July 2017, Latvian parliament passed amendments to the Latvian tax legislations which will become effective on 1 January 2018. The amendments concern corporate income tax regime and certain other taxes in Latvia. Up to now corporate income tax in Latvia was payable on taxable profits and the taxable profits could be partially offset by tax loss carry forward from previous tax periods. The new regime introduces a concept where corporate income tax is payable only on dividend pay-outs (irrespective of profits in the particular period) and certain expenses which for tax purposes are considered earnings distributions (e.g. non-business expenses and representative expenses that exceed specific threshold). In accordance with the amendments, for profits which are generated within Latvian jurisdiction and is not paid out in dividends, corporate income tax will not be payable.

Due to the amendments to the Latvian legislation, starting from 31 December 2017 The Group/Company doesn't recognize any deferred tax asset or liability.

(12) Provisions
The Group/Company utilises off-balance sheet financial instruments that include loan commitments and financial guarantees (Note 36). Such financial transactions are recognized in the financial statements as of the respective agreement dates.

Principles of establishment of provisions for loan commitments and financial guarantees are presented in Note 2 (5) item (vi).

(13) Vacation reserve
Provisions for employee leaves are recognised on an accrual basis.

The volume of provisions for leaves is calculated, based on the number of leave days earned but unused by the staff members of the Group/Company, and following the principles listed below:

- provisions are built for payment for all unused leave days of staff members;
- the value of one unused leave day is defined as the staff members' average salary per day at the end of the reporting year, plus the appropriate compulsory social insurance contributions;
- movements in provisions are recognised in the profit or loss.

(14) Employee benefits
The Group/Company pays social security contributions for state pension insurance and to the state funded pension scheme in accordance with Latvian legislation. State funded pension scheme is a defined contribution plan under which the Group/Company pays fixed contributions determined by the law and has no legal or constructive obligations to pay further contributions if the state pension insurance system or state funded pension scheme are not able to settle their liabilities to employees. The social security contributions are recognised as an expense on an accrual basis and are included within staff costs.

2 Accounting policies (cont'd)

(15) Critical accounting estimates and judgements

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group and the Company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group/Company. Such changes are reflected in the assumptions when they occur.

The estimates and assumptions are evaluated regularly and are based on the historic experience and other factors, including expectations of future events that are believed to be reasonable under the current circumstances. Such estimates are disclosed below:

- *Impairment losses of loans.* In order to assess impairment allowance, the management needs to make assumptions regarding the estimated cash flows and their timing related to loans. Significant estimates need to be made in relation to value of the collateral of the loans and advances. The assessment of the collateral includes the amounts of such impairment losses covered by Support programme funding provided by state, see Note 29. Further details disclosed in Note 2 (5) item (vi), Note 19, Note 20 (ii);
- *Fair value of investments in venture capital funds.* The Group's/Company's management checks regularly that the value of the underlying investments of the venture capital funds is properly reflected. If the information about investments' evaluation is not sufficient or does not confirm the value, the management needs to make assumptions about the fair value of venture capital funds. The information about changes in accounting policy are represented in Note 2 (19) item (i), (ii) and (iv). Further details disclosed in Note 18.
- *Impairment allowance for securities valued at amortised cost.* Similarly as for loans, the Group/Company estimates expected credit losses to reflect changes in credit risk since initial recognition of debt securities. Impairment allowances are recognised based on forward looking information, even if no credit loss event has happened. The assessment considers broad range of information, but as most of these types of exposures are rated, it relies heavily on external credit ratings and rating agencies' reported default rates derived by calculating multi-period rating transition matrices. Credit risk triggers (event of insolvency, any delay of payments, restructuring of debt) and individual credit risk analysis of the issuer are also considered. The Group/Company deems investment grade rated exposures as low credit risk, thus these are assumed no to have experienced a significant increase in credit risk. For non-investment grade exposures decrease in external credit rating by more than 3 notches since acquisition is deemed significant increase in credit risk. Expected credit losses are recognised based on the stage in which the exposure is allocated at the reporting date. 12-month expected credit losses are recognised for Stage 1 exposures, where credit risk since initial recognition has not increased significantly. Lifetime expected credit losses are recognised for Stage 2 exposures whose credit risk has increased significantly since initial recognition and Stage 3 exposures which are credit impaired. Stage 3 exposures, if any were identified, would additionally be subjected to comprehensive evaluation, including comparison to market valuations for similar exposures, analysis of market depth of the respective security, past trading performance and all other available information.
- *Revaluation of investment properties.* The Group/Company carries its investment properties at fair value, with changes in fair value being recognised in the statement of profit or loss. The Group/Company engaged an independent valuation specialist to assess fair value as at 31 December 2018 and 31 December 2017 for investment properties. Investment property consists of agricultural land. Comparable transaction method is applied mostly for investment property. More information is provided in Notes 2 (9) item (vii) and Note 15.

Such judgments are outlined below:

- *Classification of the 1st, 2nd and 3rd generation of venture capital funds.* The Group/Company considers that it does not control the venture capital funds even though it owns more than 50% in majority of the funds. Instead, it has been concluded that the Group/Company has significant influence over venture capital funds and therefore investments in venture capital funds are classified as *Associates* and are measured at using the equity method.

  The Group/Company has invested in several venture capital funds having ownerships of 20% and 33% in two of the funds and 64%- 100% in rest of them (for more details, please see Note18). The main reason for the Group/Company to invest in these funds is to implement a public funding function imposed by the government. Despite the high direct investments and ownership above 50% in most of the funds, Group's/Company's ability to exercise its power over the venture capital funds is limited by the terms of the agreements signed between Group/Company and the fund managers. The Group/Company has assessed that it doesn't control the funds, but can exercise significant influence over them. The Group/Company is forbidden to take part in the management of the Funds' businesses. However, Group's/Company's representatives are present in different bodies of the funds (e.g. Advisory Board, Investment Committee, etc.) granting it a right to approve or reject certain limited transactions and advising the fund manager. The Group/Company is obliged to implement the Investment Fund in line with the business plan and agreement signed with the State.

2 Accounting policies (cont'd)

(15) Critical accounting estimates and judgements (cont'd)

The Group/Company has to monitor the implementation of financing instruments, select financial intermediaries according to legal acts and aim to increase the amount of Investment Fund. The Group/Company could stop the cooperation with the fund managers only in cases when the fund managers cease their operations or illegal actions would be discovered. Under these circumstances, the funds in question would either be closed - the liquidation process would be initiated, no new investments would be made or a search for a new fund manager would be initiated through public tender. The selection of a fund manager for implementation of the state aid programmes requires following the legislation on public tenders, as would the change of fund managers. According to the law, the replacement of the fund manager can occur only as a result of reorganization and selection procedure is costly and time-consuming. The disruption of the cooperation with the fund manager would put under threat the implementation of State and EU support programs which is the main goal of the Group/Company given it is a finance development institution. The Group's/Company's management considers that the monetary amounts required to change the fund manager are material and substantial (the estimated expenses and penalties for fund manager removal would range from 2.6% to 5.9% of the net investment in the fund) and along with the abovementioned circumstances constitute an obstacle to exercising its power over the venture capital funds.

Classification of the 4th generation of venture capital funds.
In year 2018 active co-operation with Stage 4 venture capital funds was started. In order to establish existence of control or significant influence, the Group/Company assessed thoroughly the concluded co-operation agreements applying IFRS 10 control criteria and IAS 28 significant influence criteria.

Upon assessment of all the factors, the rights and obligations arising under the agreements demonstrate that those venture capital funds over which Altum exercises the sole right of dismissing the Fund's manager without any additional reasons should be treated as the subsidiaries of the Group/Company as the Group/Company has power over the investment object. While the investments in those venture capital funds over which the Group/Company exercises no such right should be treated as associates over which the Group/Company has no control, but significant influence.

The management of the Group/Company is aware that on most occasions the circumstances that point to the power of the Group/Company over the investment will cease to exist within two years once the amount of the minimum capital investment is reached. For this reason, once the term has expired, the management of the Group/Company will do a repeated assessment of the presence of the control indicators.

Monitoring of investment in Venture Capital Funds value. In accordance with the Limited Partnership Agreement the General Partner, professionals of the venture capital industry, is fully responsible for all aspects of investment fund`s operation, including investment assessment, revaluation and determination of impairment if carrying value of investment exceeds recoverable amount. Carrying value and impairment is recorded and reported on the fund`s financial statement (audited on an annual basis).

Carrying value of investments made by venture capital funds on the funds` financial statement are recorded at fair value complying with the Group`s accounting policy. However, other aspect is determination of fair value used by funds management for making different management decisions, including decisions regarding exit strategy, timing etc. Fair value is reported on Funds` Quarterly Investment Reports. The value of the investment is established based on the most appropriate technique from the International Private Equity and Venture Capital Valuation Guidelines. The employed methods include Third party assessments, Industry Valuation Benchmarks, Discounted cash-flow method and other.

In accordance with the Group`s/Company's principles, the Group/Company considers valuations presented by the fund management as a reliable source as only professionals with respective experience and proven track record are selected as fund managers. However, in order to ensure a sound and transparent finance management, the Group/Company conducts a regular monitoring procedure (typically on a quarterly basis) for evolution of portfolio value of the investments funds. The assessment is carried out based on the information presented by funds management. The process is divided into several stages:

- Financial Intermediary unit, business owner of venture capital segment, is responsible for initial analysis of Fund`s recorded and recognised investment value based on supporting information prepared and sent by fund management. The following information is presented by the investment funds for every investment exposure: the current development and dynamic of investment, the current financial performance and financial forecasts. It should be noted that the funds specialised in early-stage investments (mostly, pre-revenue projects) are not able to provide information about financial performance of projects. In this case investment scoring approach is used as a base;
- Financial Intermediary unit conducts Q&A sessions with venture capital fund management during which the fund management reports about every investment of the portfolio. If supporting information indicates about potential flaws in calculations of fair values, adjustment is made.
- adjusted (if any) information is provided to the Risk Management Department for revision of carrying value, then presented on Risk Management Committee for final approving before recognized in the Group`s/Company's accounting system.

If there is evidence of value decrease, the Group/Company calculates decrease of venture capital funds' net assets value (NAV) and recognises the loss in the profit or loss.

2 Accounting policies (cont'd)

(15) Critical accounting estimates and judgements (cont'd)

The Group/ Company applies Risk coverage reserve for venture capital funds' NAV value changes compensation. The risk cover mechanism is valid for the 2nd and 3rd generation venture capital funds, such as BaltCap LatviaVenture Capital Fund, Imprimatur Capital Technology Venture Fund, Imprimatur Capital Seed Fund, ZGI-3 fund, FlyCap Investment Fund I and Expansion Capital Fund (Note 18) as well as for Baltic Innovation fund from the December 2017.

The risk cover mechanism is valid also the 4th generation venture capital funds.

- *Reverse rent.* Exploring the options for recording of reverse rent transactions and IFRS compliance, the management based its opinion on the subject matter of the transaction and its economic justification rather than the legal form. As part of assessment of these transactions, the management paid much attention to exercising of the reverse repurchase right of the lessee.

- *Agent vs Principal.* For majority of state aid programs, the Group/Company considers that it acts as a *Principal*. The management of the Group/Company believes that the Group/Company is a *Principal* since the loan agreements concluded with the clients entail contractual rights to loan repayments from the borrowers or other beneficiaries of the investments. Moreover, the loan agreements are concluded for full amount of the loan and granted loans are carried as assets in the Group's/Company's statement of financial position. The investments made comply with the definition of an asset. The Group/Company is responsible for providing of the service and can affect the interest rate. However, some programmes have been imposed with a limit on the interest rates that cannot be exceeded.

  The Group/Company believes that the Group/Company is a *Principal* also for state aid programs, which are based on guarantee products, since the Group/Company is exposed to the risk of such guarantee agreements concluded with the clients.

  The Group/Company recognises its expenses due to impairment of the loans, guarantees or changes of value of venture capital funds in profit or loss for the portion of impairment that refers to the Group/Company (ranging from 20% to 100%). The portion of losses that the government reimburses by decreasing the amount of the loan repayable to the government, does not affect the Group's/Company's profit or loss as the loan received from the government is debited. Assets and liabilities are presented in gross values.

  The interest income received on the loans issued from *above mentioned activities and programs* includes the amounts collected on behalf of and for the benefit of other entities that do not increase the equity capital of the Group/Company and therefore cannot be considered as the Group's/Company's income. For this reason, the Group/Company carries as income only that part of the financial resources of the Loan Fund that is used to cover the management costs of the Loan Fund and this amount is included in the profit or loss calculation.

- *Below market rate loans.* The Group/Company implements the state aid programs by pursuing the government's policy in the national economy and supporting small and medium sized entities (SMEs). The funding of the state aid programs may be comprised of the following public funding sources – (i) European Union funds, other foreign financial aid, funding from the state budget as well as (ii) own funds of the very implementing body. The financing received for implementation of the programs, i.e. for issuing loans to SMEs, is interest free. When the public funding for implementation of the state aid programmes is given with an interest rate below the effective market rate, the effect of such favourable interest rate, i.e. the difference between the fair value of the liability and proceeds received is treated as income-generating government grant.

  Although a fraction of the public funding of some of the state aid programmes implemented by Group/Company may include the state budget funds and funds from Group's/Company's shareholders, this type of funding is not treated as a shareholder's equity contribution since the amount of the public funding earmarked for implementation of the specific state aid programme is received in the capacity of the implementing body of the specific state aid programme chosen as a result of public selection and not *in the capacity of entity implementing the assignment or instructions of its shareholder.*

  For more details on the accounting policy applied in 2018, see Note 2 (5) item (xvi), for year 2017 - Note 2 (20) item (vi). Further details on guarantees are disclosed in Notes 12, 36.

  The funding received from the state can be classified into three categories – equity financing (about guarantees see Notes 2 (5) item (xvi), 12, 36), loans (see Notes 19, 29) and state aid (see Note 29).

- State aid. The implementing body of each state aid programme is identified as a result of selection of applicants. The management of each applicant, including also the management of the Group and the Company, decides to participate in the selection by signing and submitting on behalf of the respective company the project application and business plan for the selection of the implementing body of the specific state aid programme.

  Although a fraction of the public funding of some of the state aid programmes implemented by The Group and the Company may include the state budget funds and funds from Group's /Company's shareholders, could be any of the ministries through which the public funding of the specific state aid programme is channelled, this type of the government funding has never been/currently cannot be treated as a shareholder's equity contribution since the amount of the public funding earmarked for implementation of the specific state aid programme is received <u>in the capacity of the implementing body of the specific state aid programme chosen as a result of public selection</u> and not in the capacity of entity implementing the assignment or instructions of its shareholder.

2 Accounting policies (cont'd)

(15) Critical accounting estimates and judgements (cont'd)

- Expected losses on credit risk. State support programmes implemented by Group/Company are designed according to the market gap to ensure access of enterprises and residentials to finance resources in areas that the government has defined as important and to be supported, fielding national policy in to the national economy or that access is not sufficient with available financial instruments in the market. Expected loss along with programme's impact, risk assessment, financial feasibility and implementation expenses are estimated prior to approval of respective programme at the Cabinet of Ministers.

  In assessment of expected loss for the programme the Group/Company evaluates incorporated credit risk, operational risk and other risks like market risks. For coverage of the programme's expected loss on credit risk respective portion of public funding available for that programme is allocated at full or partial extent of total expected credit loss depending on the agreed programme's structure. That public funding part allocated for the coverage of programme's expected loss on credit risk is transferred to particular support programme reserve capital within the Group's/Company's Reserve capital, for example Reserve capital for Housing Guarantee Programme (see Note 35), or accounted separately as provisions for risk coverage (Risk coverage reserve) classified within the liabilities (see Note 29).

  If public funding classified within Risk coverage reserve for coverage of particular programme's expected loss on credit risk exceeds actual credit loss incurred during the implementation of the programme, then respective excess portion of that public funding is repayable according to the terms of programme funding agreement.

(16) **Application of IFRS 9 "Financial Instruments"**

At classification of the financial assets and liabilities according to IFRS 9 – a) measured at amortised cost, b) measured at fair value through other comprehensive income or c) measured at fair value through profit or loss – the classification was changed for items *Assets Held for Sale* and *Support Programme Funding* and *State Aid* that affected the financial result of the Group / Company.

Comparison of classifications of financial instruments according to IAS 39 and IFRS 9:

	Classification according to IAS 39	Classification according to IFRS 9
Financial assets		
Due from other credit institutions and Treasury	Loans and receivables	Measured at amortised cost
Derivatives	Measured at fair value through profit or loss	Measured at fair value through profit or loss
Investment securities - available for sale	Financial assets available for sale	Measured at fair value through other comprehensive income
Investment securities - held to maturity	Financial assets held to maturity	Measured at amortised cost
Assets held for sale	Financial assets available for sale	Measured at fair value through profit or loss
Loans and receivables	Loans and receivables	Measured at amortised cost
Other financial assets	Loans and receivables	Measured at amortised cost
Financial liabilities		
Due to credit institutions	Measured at amortised cost	Measured at amortised cost
Derivatives	Measured at fair value through profit or loss	Measured at fair value through profit or loss
Due to general governments	Measured at amortised cost	Measured at amortised cost
Issued debt securities	Measured at amortised cost	Measured at amortised cost
Support programme funding and state aid	Measured at amortised cost	Measured at fair value through profit or loss
Other financial liabilities	Measured at amortised cost	Measured at amortised cost
Financial guarantees	Loans and receivables	Measured at amortised cost

2 Accounting policies (cont'd)

(16) **Application of IFRS 9 "Financial Instruments"** (cont'd)

The following table reconciles the gross carrying amounts of each class of financial assets and financial liabilities of the Group as previously measured in accordance with IAS 39 and the new amounts determined upon adoption of IFRS 9 on 1 January 2018.

	Measurement Category		Gross carrying value under IAS 39 - 31 December 2017	Effect of adopting IFRS 9		Gross carrying value under IFRS 9 - 1 January 2018
				Reclassification		
	IAS 39	IFRS 9		Mandatory	Voluntary	
Financial assets						
Due from other credit institutions and State Treasury	L&R	AC	109,594	-	-	109,594
Investment securities - held to maturity	HTM	AC	4,247	-	-	4,247
Loans	L&R	AC	207,585	-	-	207,585
Disbursed compensations under guarantee arrangements	L&R	AC	5,073	-	-	5,073
Financial assets – withdrawn grants	L&R	AC	2,772	-	-	2,772
Other financial assets	L&R	AC	197	-	-	197
Financial assets measured at amortised cost, total			329,468	-	-	329,468
Investment securities - available for sale	AFS	FVOCI	61,760	-	-	61,760
Financial assets measured at fair value through other comprehensive income, total			61,760	-	-	61,760
Derivatives	Designated at FVTPL	Mandatory at FVTPL	142	-	-	142
Investments by subsidiaries in the shares of companies	Designated at FVTPL	Mandatory at FVTPL	-	-	-	-
Financial assets measured at fair value through profit and loss, total			142	-	-	142
Total financial assets			391,370	-	-	391,370
Financial liabilities						
Reserve of disposal group classified as held for sale	FVOCI	P&L	1,839	-	(1,839)	-
Financial assets measured at fair value through other comprehensive income, total			1,839	-	(1,839)	-
Support Program Funding and State aid	AC	Mandatory at FVTPL	97,629	-	(8,449)	89,180
Financial assets measured at fair value through profit and loss, total			97,629	-	(8,449)	89,180
Total financial liabilities			99,468	-	(10,288)	89,180
Financial guarantees	L&R	AC	182,376	-	-	182,376
Off-balance sheet financial assets measured at amortised cost, total			182,376	-	-	182,376

2 Accounting policies (cont'd)

(16) **Application of IFRS 9 "Financial Instruments"** (cont'd)

The following table reconciles the gross carrying amounts of each class of financial assets and financial liabilities of the Company as previously measured in accordance with IAS 39 and the new amounts determined upon adoption of IFRS 9 on 1 January 2018.

	Measurement Category		Gross carrying value under IAS 39 - 31 December 2017	Effect of adopting IFRS 9		Gross carrying value under IFRS 9 - 1 January 2018
				Reclassification		
	IAS 39	IFRS 9		Mandatory	Voluntary	
Financial assets						
Due from other credit institutions and State Treasury	L&R	AC	109,594	-	-	109,594
Investment securities - held to maturity	HTM	AC	4,247	-	-	4,247
Loans	L&R	AC	207,585	-	-	207,585
Disbursed compensations under guarantee arrangements	L&R	AC	5,073	-	-	5,073
Financial assets	L&R	AC	197	-	-	197
Financial assets measured at amortised cost, total			326,696	-	-	326,696
Investment securities - available for sale	AFS	FVOCI	61,760	-	-	61,760
Financial assets measured at fair value through other comprehensive income, total			61,760	-	-	61,760
Derivatives	Designated at FVTPL	Mandatory at FVTPL	142	-	-	142
Investments by subsidiaries in the shares of companies	Designated at FVTPL	Mandatory at FVTPL	-	-	-	-
Financial assets measured at fair value through profit and loss, total			142	-	-	142
Total financial assets			388,598	-	-	388,598
Financial liabilities						
Reserves	FVOCI	P&L	1,839	-	(1,839)	-
Financial assets measured at fair value through other comprehensive income, total			1,839	-	(1,839)	-
Support Program Funding and State aid	AC	Mandatory at FVTPL	100,488	-	(8,449)	92,039
Financial assets measured at fair value through profit and loss, total			100,488	-	(8,449)	92,039
Total financial liabilities			102,327	-	(10,288)	92,039
Financial guarantees	L&R	AC	182,376	-	-	182,376
Off-balance sheet financial assets measured at amortised cost, total			182,376	-	-	182,376

2 Accounting policies (cont'd)

(17) **Impact of the transition to IFRS 9 "Financial Instruments"**

(i) Impact of the transition to IFRS 9 on impairment losses

On 1 January 2018, the Group/Company adopted the requirements of IFRS 9 "Financial Instruments" with respect to the recognition and measurement of financial instruments. As at 1 January 2018, the impact of transition from IAS 39 and IAS 37 to IFRS 9 was a decrease in equity of EUR 1,667 thousand, arising from additional impairment allowances.

The Group's/Company's total impairment due to credit losses as at 1 January 2018 was EUR 56,158 thousand (as of 31 December 2017: EUR 43,760 thousand), which comprised EUR 29,011 thousand (as of 31 December 2017: EUR 4,753 thousand) impairment from Risk Coverage reserve (part of Support programme funding and State aid recognised as liabilities due to the government and the EU funds) and EUR 27,148 thousand (as of 31 December 2017: EUR 39,007 thousand) impairment applied to the Group / Company.

The Group's/Company's financial instruments to which the IFRS 9 impairment requirements are applied:

		31.12.2017.					
	Gross carrying amount	Allowances for credit losses					
		IAS 39			IAS 37		
		Total	Risk Coverage	Altum	Total	Risk Coverage	Altum
Due to credit institutions and the Treasury	109,594	-	-	-	-	-	-
Investment securities held to maturity	4,247	3,804	-	3,804	-	-	-
Loans	207,585	17,995	2,557	15,438	-	-	-
Financial assets – withdrawn grants	2,772	-	-	-	-	-	-
Other financial assets	6,588	5,201	-	5,201	-	-	-
Financial assets measured at amortised cost, total	330,786	27,000	2,557	24,443	-	-	-
Investment securities available for sale	61,760	-	-	-	-	-	-
Financial assets measured at fair value through other comprehensive income, total	61,760	-	-	-	-	-	-
Off- balance sheet financial guarantees	182,376	8,182	2,196	5,986	8,544	-	8,544

Financial instruments to which the IFRS 9 impairment requirements are applied: (cont'd)

		01.01.2018.					
	Gross carrying amount	Allowances for credit losses					
		IFRS 9			IAS 37		
		Total	Risk Coverage	Altum	Total	Risk Coverage	Altum
Due to credit institutions and the Treasury	109,594	5	-	5	-	-	-
Investment securities held to maturity	4,247	3,804	-	3,804	-	-	-
Loans	207,586	24,064	4,412	19,652	-	-	-
Financial assets – withdrawn grants	2,772	2	-	2	-	-	-
Other financial assets	6,588	5,404	-	5,404	-	-	-
Financial assets measured at amortised cost, total	330,877	33,279	4,412	28,867	-	-	-
Investment securities available for sale	61,760	33	-	33	-	-	-
Financial assets measured at fair value through other comprehensive income, total	61,760	33	-	33	-	-	-
Off- balance sheet financial guarantees	182,376	22,849	9,359*	13,490	-	-	-

* 7,163 thsd euro, which is part of 9,359 thsd euro, refers to 31/12/2017, which was covered by the Risk Coverage Reserve.

On 31 December 2017, total impairment due to credit losses applied to the Group / Company consisted of credit losses EUR 30,462 thousand measured according to IAS 39 and credit losses EUR 8,544 measured according to IAS 37, while on 1 January 2018, total impairment due to credit losses applied to the Group/Company consisted of credit losses measured only according to IFRS 9.

(ii) Programme Funding

Until 1 January 2018, the Group/Company recognised the Programme Funding as liabilities towards the state and EU funds at amortised cost recognising the difference between the actual rate of the loan and market rate as state aid.

2 Accounting policies (cont'd)

(17) Impact of the transition to IFRS 9 "Financial Instruments" (cont'd)

(ii) Programme Funding (cont'd)
Although these liabilities are interest-free or have an interest rate that differs from the average market rate, they have an additional participation in the profit or loss related to the assets in which the Group/Company has invested using these resources. The management of the Group/Company is of the opinion that these liabilities have a different kind of interest return related to the return on the underlying assets. For the purposes of IFRS the interest return of this kind is considered as embedded derivative. As it follows from IFRS 9 Clause 4.3.5., the embedded derivatives may be recognised without separating them from the contract, together with the whole contract, at its fair value with re-measurement through profit or loss.

Considering the above, the management of the Group/Company decided to measure the liabilities at fair value through profit or loss that would help the user of the financial statements to appraise the actual situation with maximum adequacy. The fair value of the liability established in this manner will consist of the already carried Programmes' funding coupled with the state aid portion adjusted for the part of the future cash flow pertaining to reduction of additional payments due to value appreciation or impairment of the associated assets.

When calculating the fair value of the liabilities or Programmes' funding, an adjustment of EUR (8,449) thsd was made. As a result, EUR (7,465) thousand were attributed to the amount of the liabilities and EUR (984) thsd – to the retained earnings of the previous years.

The measurement of the liabilities at fair value affected the amount of the value impairment provisions of the Group / Company. If until 1 January 2018 the Group / Company recognised in its financial statements the value impairment provisions less the risk coverage amount, then, as of introduction of IFRS 9, the value impairment provisions are presented in gross amounts, i.e. taking into account the amount of the risk coverage. The change in the amount of the provisions affected the financial position statements of the Group / Company as at 31/12/2018, while it had no impact on the profit or loss statement of the Group / Company.

(iii) Investments of the Venture Capital Funds
Before 1 January 2018, IAS 39 Investment Instruments was in force stating, inter alia, that in case of investment funds, the investments in equity instruments should be treated as financial instruments, i.e. recognizing these investments under available-for-sale assets which were allowed to be measured at cost less any accumulated impairment when their fair values could not be reliably measured. Accordingly, Altum could use the costs included in the financial statements of venture capital funds for equity method purposes.

Since 1 January 2018, IFRS 9 Financial Instruments have been in force. According to IFRS 9, the above investments become financial assets held either at fair value through other comprehensive income or at fair value through profit or loss. In neither case, there is an option of stating the said assets at cost, unless the cost is estimated to be close to its fair value. Consequently, in calculating NAV for venture capital funds, fair values of these investments must be taken into account. The Group's / Company's financial statements present NAV taking account of the funds' fair value adjustments, i.e. fair values of investments in equity instruments.

For more on the change of the accounting policy of the venture capital investments and quantitative impact on the financial statements of the Company and Group see Note 2 (19) items (i), (ii) and (iv).

(iv) Classification of assets held for sale
The balance item Assets held for sale includes investments in alternative investment funds 'Hipo Latvia Real Estate Fund I' and 'Hipo Latvia Real Estate Fund II' concerning which sale decision was passed at the end of year 2017. As a result, these investments were classified in the Group's financial statements as Disposal group held for sale, but in the Company's standalone statements - reclassified from Investments in subsidiaries to Assets held for sale.

IFRS 5 provides for continued measurement of the Disposal groups held for sale that were measured earlier through application of IFRS 9 according to IFRS 9 (in year 2017 IAS 39 was used). As of adoption of IFRS 9 on 1 January 2018, the management, having decided to sell these investments and determined to make accounting for the investments more transparent that would, in its turn, give the users of the financial statements a better outlook, decided to measure the investments of the Disposal groups held for sale at fair value with revaluation in the profit or loss calculation. Earlier the investments of the Disposal groups held for sale were measured at fair value with recognition of the revaluation result in other income.

Reclassification from one category to another was done as part of adoption of IFRS 9 on 1 January 2018. The revaluation reserve of EUR 1,839 thsd recognised earlier in other income that was due to measurement at fair value as at 31 December 2017 was transferred to the retained earnings of the previous periods; while the revaluation result of year 2018 measured at fair value as at 31 December 2018, is included in the Group's profit or loss calculation for 408 thsd euro and in the Company's profit or loss calculation – for 778 thsd euro. For more information see Note 2 (9) item (ix), Note 26.

At the beginning of 2018 the sale process of the assets owned by the alternative investment funds 'Hipo Latvia Real Estate Fund I' and 'Hipo Latvia Real Estate Fund II' began following the sale plan prepared by the manager of the Funds. One of the fund-owned assets was sold in August 2018, while sale of the other asset was finalised in January 2019. The said investments are classified as Disposal groups held for sale as at 31 December 2018.

2 Accounting policies (cont'd)

(18) Implementation of IFRS 16

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 implementation of IFRS 16 will impact Group's / Company's financial statements.

Major lease types of the Group and Company falling under the scope of IFRS 16:

- Lease of vehicles to board members
- Rentals for premises of customer service centres throughout the territory of Latvia
- Lease of vehicles to Altum employees

IFRS 16 expands the financial statements of the Group and Company by increasing the sum total of the on-balance sheet assets and liabilities and depreciation and interest expenses in the profit or loss. According to management's current estimates, the assets are increased in amount of EUR 603 thousand, non-current liabilities in amount of EUR 482 thsd and current liabilities in amount of EUR 118 thsd.

(19) Change in accounting policies

(i) Investments in venture capital funds – associates, except an investment in the Baltic Innovation Fund
Before 1 January 2018, investments in venture capital funds were treated as associates which in the separate financial statements were stated at cost less any impairment in value, while in the consolidated financial statements the risk capital funds were stated under the equity method.

The equity method was based on the following principle: on its balance sheet Altum recognizes the value of venture capital funds as its proportionate share of the net asset value (NAV) of the venture capital funds. The NAV was adjusted to reflect Group's / Company's accounting policies, i.e. IFRS. The NAV of the venture capital funds mainly consisted of the venture capital funds' investments in equity instruments and issued loans as well as of the liabilities undertaken.

Taking into account the Altum Management's readiness to make the financial statements more transparent which would concurrently give the users of the financial statements a better understanding of the Company and Group's financial position and operational performance, the Management decided to unify the policies for the accounting for investments in venture capital funds between the separate and consolidated financial statements. It means that the accounting for the investments in venture capital funds in the separate financial statements was changed from the cost less impairment method to the equity method.

Change of accounting method was applied retrospectively.

(ii) Investments in the Baltic Innovation Fund

Before 1 January 2018, investments in the Baltic Innovation Fund (BIF) in separate financial statements were measured at cost. In the consolidated financial statements these investments were stated and measured under the equity method similarly to other investments in associates.

In 2018, coming into effect of the amendments to IAS 28 regarding the measurement of associates, in carrying out the reassessment of the BIF, it was concluded that:

- within the meaning of IAS 28, the Financial Intermediary Division of Altum and BIF correspond to the definition of a venture capital organisation or comparable to it entities;
- within the meaning of IAS 28, the BIF's investments should be classified as associates;
- The BIF measures its investments at fair value through profit or loss according to IAS 39/ IFRS 9.

The above conclusions enabled Altum to the exception in relation to the BIF measurement provided in IAS 28 and in its financial statements to measure BIF and its investments applying IFRS 9 and *deciding to state the respective assets at fair value through profit or loss.* Change of accounting method was applied retrospectively

(iii) Support programme funding
The change in the accounting policies described in Sections (i) and (ii) affects the item Support programme funding as well. The Group and the Company use part of the support programme funding as a Risk Coverage Reserve to compensate the change in the values of venture capital funds. The risk coverage mechanism is attributable to the 2nd and 3rd generation venture capital funds, such as *BaltCap LatviaVenture Capital Fund, Imprimatur Capital Technology Venture Fund, Imprimatur Capital Seed Fund, ZGI-3 fund, FlyCap Investment Fund I* un *Expansion Capital Fund*, and since December 2017 – also to the Baltic Innovation Fund.

The effect of the change in accounting policy described in the paragraphs above was reflected retrospectively by changing the balance / turnover in the previous period.

Accounting policies (cont'd)

(19) Change in accounting policies (cont'd)

(iii) Support programme funding (cont'd)

As of 1January 2018 the fair value of the funding of the Support Programmes established in this manner will comprise the carried liability coupled with the state aid portion adjusted for the part of the future cash flow of additional payments / reduction of payments due to value appreciation or impairment of the associated assets, i.e. the liability would be recognised to the extent that corresponds to the liability's repayment amount established for Altum.

Detailed information is provided in Note 29.

(iv) Quantitative impact of change in accounting policy

Detailed information on the amendments made is provided below:

Group, 2016		Reported as at 31/12/2016 (EUR '000)	Restatement (EUR '000)	Restated as at 31/12/2016 (EUR '000)
Restated items of the statement of financial position:	Note	Group		Group
Investments in venture capital funds – associates, of which:		58,296	274	58,570
Investments in VCF, excl. BIF	18	*52,691*	-	*52,691*
BIF	18	*5,605*	*274*	*5,879*
Support programme funding	29	(98,096)	(38)	(98,058)
Reserves	35	(8,235)	38	(8,197)
Retained earnings		4,375	274	4,649

Group, 2016		Initial amount in 2016 (EUR '000)	Restatement (EUR '000)	Restated amount in 2016 (EUR '000)
Restated items of statement of comprehensive income:	Note	Group		Group
Share of gain or (loss) of investment in joint venture and associate	*Note 18:* *– Reversal of BIF revaluation - EUR 92 thousand;* *– adjustment of ZGI-3 refund amount – EUR (38) thousand.*	(1,758)	54	(1,704)
Refunded from VCF	Note 18 – adjustment of ZGI-3 refund amount	(684)	38	(646)
Share of loss of investment in joint venture and associate at fair value through profit or loss	Note 18 – BIF revaluation at fair value	-	(134)	(134)
Changes in retained earnings of the reporting year		-	(42)	-
Retained earnings until 2016		-	316	-
Retained earnings for the year	Consolidated statement of changes in equity, Item Changes in accounting policy	4,375	274	4,649

Company, 2016		Reported as at 31/12/2016 (EUR '000)	Restatement (EUR '000)	Restated as at 31/12/2016 (EUR '000)
Restated items of the statement of financial position:	Note	Company		Company
Investments in venture capital funds – associates, of which:		56,722	1,848	58,570
Investments in VCF, excl. BIF	18	*50,962*	*1,729*	*52,691*
BIF	18	*5,760*	*119*	*5,879*
Support programme funding	29	(95,699)	(1,151)	(96,850)
Retained earnings		4,025	697	4,722

Accounting policies (cont'd)

(19) Change in accounting policies (cont'd)

(iv) Quantitative impact of change in accounting policy (cont'd)

Company, 2016		Initial amount in 2016 (EUR '000)	Restatement (EUR '000)	Restated amount in 2016 (EUR '000)
Restated items of statement of comprehensive income:	Note	Company		Company
Impairment loss	*Note 12 – reversal of BIF impairment loss*	(3)	3	-
Impairment loss	*Note 12 – compensation of BIF impairment loss reversal from Support programme funding*	3	(3)	-
Impairment loss	*Note 12 – reversal of 2nd un 3th generation VCF impairment loss*	(2,630)	2,630	-
Impairment loss	*Note 12 - compensation of 2nd un 3th generation VCF impairment loss from Support programme funding*	2,630	(2,630)	-
Impairment loss	*Note 12 – reversal of 1st generation VCF impairment loss*	(249)	249	-
Impairment loss	*Note 12,18– increase of 2nd un 3th generation VCF impairment loss*	-	(245)	(245)
Impairment loss	*Note 12 – compensation of increase of 2nd un 3th generation VCF impairment loss from Support programme funding*	-	245	245
Share (loss) of investment in joint venture and associate at fair value through profit or loss	*Note18 - BIF revaluation at fair value*	-	(134)	(134)
Share (loss) of investment in joint venture and associate	*Note18 – revaluation of 1st, 2nd and 3rd generation VCF by equity method*	-	(1,704)	(1,704)
Share of gain of investment in joint venture and associate	Revaluation result of 2nd and 3rd generation VCF was covered by Support programme funding	-	1,423	1,423
Interest income	Reversal of interest income received by the 2nd and 3rd generation VCF from Program funding	(465)	465	-
Interest income	According to the equity method, interest income received by the 1st, 2nd and 3rd generations VCF reduces the value of the VCF investment	480	(480)	-
Changes in retained earnings of the reporting year		-	(181)	-
Retained earnings until 2016		-	868	-
Retained earnings for the year	Company's statement of changes in equity, Item Changes in accounting policy	4,025	697	4,722

Group, 2017		Reported as at 31/12/2017 (EUR '000)	Restatement (EUR '000)	Restated as at 31/12/2017 (EUR '000)
Restated items of the statement of financial position:	Note	Group		Group
Investments in venture capital funds – associates, of which:		51,170	1,982	53,152
Investments in VCF, excl. BIF	*18*	*44,758*	*-*	*44,758*
BIF	*18*	*6,412*	*1,982*	*8,394*
Support programme funding	*29*	(92,041)	(1,619)	(93,661)
Reserves (the restatement relates to item Changes in the reserves)	*35*	2,398	1,676	722
Retained earnings		-	2,039	-
Retained earnings for 2016		-	(274)	-
Retained earnings for 2017		6,945	1,765	8,709

Group, 2017		Initial amount in 2017 (EUR '000)	Restatement (EUR '000)	Restated amount in 2017 (EUR '000)
Restated items of statement of comprehensive income:	Note	Group		Group
Share of gain of investment in joint venture and associate	*Note 18:* *– Reversal of BIF revaluation – EUR 798 thousand;* *– Adjustment of BIF revaluation result – EUR193 thousand;* *– Adjustment of 2nd and 3rd generation VCF revaluation result of 2017– EUR 1,521 thousand;* *– Revaluation result of BIF, 2nd and 3rd generation VCF was covered by Support programme funding – EUR (1,658) thousand.*	818	854	1,672
Share of loss of investment in joint venture and associate at fair value through profit or loss	*Note 18 – BIF revaluation at fair value*	-	910	910
Changes in retained earnings		-	1,765	-

2 Accounting policies (cont'd)

(19) Change in accounting policies (cont'd)

(iv) Quantitative impact of change in accounting policy (cont'd)

Company, 2017		Reported as at 31/12/2017 (EUR '000)	Restatement (EUR '000)	Restated as at 31/12/2017 (EUR '000)
Restated items of the statement of financial position:	Note	Company		Company
Investments in venture capital funds – associates, of which:		49,108	4,044	53,152
Investments in VCF, excl. BIF	*18*	*41,738*	*3,020*	*44,758*
BIF	*18*	*7,370*	*1,024*	*8,394*
Support programme funding	*29*	(94,080)	(2,440)	(96,520)
Retained earnings		-	1,604	-
Retained earnings for 2016		-	(697)	-
Retained earnings for 2017		5,884	907	6,791

Company, 2017		Initial amount in 2017 (EUR '000)	Restatement (EUR '000)	Restated amount in 2017 (EUR '000)
Restated items of statement of comprehensive income:	Note	Company		Company
Impairment loss	*Note 12 – reversal of BIF impairment loss*	(1,024)	1,024	-
Impairment loss	*Note 12 – compensation of BIF impairment loss reversal from Support programme funding*	1,024	(1,024)	-
Impairment loss	*Note 12 – reversal of 2nd un 3th generation VCF impairment loss*	(7,194)	7,194	-
Impairment loss	*Note 12 - compensation of 2nd un 3th generation VCF impairment loss from Support programme funding*	7,194	(7,194)	-
Impairment loss	*Note 12, 18 – decrease of 2nd un 3th generation VCF impairment loss*	-	105	105
Impairment loss	*Note 12 – compensation of decrease of 2nd un 3th generation VCF impairment loss from Support programme funding*	-	(105)	(105)
Share gain of investment in joint venture and associate at fair value through profit or loss	Note 18 – BIF revaluation at fair value	-	910	910
Share (loss) of investment in joint venture and associate	Note 18 – revaluation of 2nd and 3rd generation VCF by equity method	-	(5,682)	(5,682)
Share gain of investment in joint venture and associate	Revaluation result of 2nd and 3rd generation VCF was covered by Support programme funding	-	5,682	5,682
Share (loss) of investment in joint venture and associate	Note 18 – revaluation of 1st generation VCF by equity method	-	(3)	(3)
Interest income	Reversal of interest income received by the 2nd and 3rd generation VCF from Program funding	(1,245)	1,245	-
Interest income	According to the equity method, interest income received by the 1st, 2nd and 3rd generations VCF reduces the value of the VCF investment	1,245	(1,245)	
Changes in retained earnings of the reporting year			907	

2 Accounting policies (cont'd)

(20) Accounting policies used before IFRS 9 adoption

(i) Trading and investment securities

Trading and investment securities are comprised of the following categories:

- Trading securities comprise fixed income securities held by the Group/Company for trading purposes. They are accounted for at fair value and all gains and losses arising from changes in the fair value are included in the profit or loss as part of net trading income. As at 31 December 2017 there are no any fixed income securities, which are classified as Trading securities.
- Investment securities available-for-sale comprise treasury bills, investments in equity shares and other fixed income securities held by the Group/Company for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. They are stated at fair value with all gains and losses from revaluation recognised in the other comprehensive income, which is reclassified to profit/loss in subsequent periods, except for impairment losses, which are recognized in the profit or loss until derecognition. The cumulative change recognised as other comprehensive income is presented as Available for sale reserve under equity. The Group/Company reviews its debt securities classified as available-for-sale investments at each statement of financial position date to assess whether they are impaired. This requires estimates similar to those applied to the individual assessment of loans and advances. The Group/Company also records impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Group/Company evaluates, among other factors, historical share price fluctuations and duration and extent to which the fair value of an investment is less than its cost.
- Investment securities held-to-maturity comprise debt securities with fixed or determinable payments and fixed maturities that the Group's/Company's management has a positive intention and ability to hold to maturity. They are carried at amortised cost, that is calculated based on the purchase price of the securities adjusted by discount or premium amortised over the term of the securities, using the effective interest rate method. If the Group/Company was to sell or reclassify more than an insignificant amount of held-to-maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the Group/Company would be prohibited from classifying any financial asset as held to maturity during the following two years.

(ii) Loans and receivables

The loans granted to customers are accounted for as loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables initially are recognised at fair value and subsequently at amortised cost.

The loans and receivables are recognised in the financial statements of the Group / Company when cash is advanced to borrowers. Granted, but not yet disbursed loans are recognised as off-balance sheet liabilities.

Management considers risks for all loans to determine the provision for loan impairment. Provisions for individual loan impairment are established if there is objective evidence that it will not be possible to collect all amounts due according to the original contractual terms of loans. The amount of the provision is the difference between the carrying amount and the recoverable amount, being determined as the present value of expected cash flows, including amounts recoverable from guarantees and collateral. Impairment losses are recognised through an allowance account.

In addition to provisions for individual loans, provisions for homogeneous groups of loans based on similarities of credit risk involved, loan size, quality and loan terms are also established. The provisions for loan impairment losses for the loans included in homogeneous groups have been estimated based upon historical patterns of losses in each group, the historic pattern of timeliness of payments and current economic climate in which the borrowers operate.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss and disclosed as part of provision for impairment loss.

The methodology and assumptions used are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

When a loan or receivable is not recoverable, it is written off against the pre-arranged provisions for loan or receivable impairment, further recovery of this loan or receivable is stated as earnings in the profit or loss.

(iii) Impairment of financial assets

The Group/Company first assesses whether objective evidence of impairment exists individually for financial assets at amortised cost (such as due from banks, loans and held-to-maturity investments) and assesses whether each individual financial asset should be considered significant. Financial assets are considered impaired, supported by objective evidence, when loss events have occurred and they are highly likely not fully recoverable. Such include overdue financial assets, i.e., that have their regular principal and interest payments past due, as well as financial assets with other defaulted significant agreement terms. Financial assets are not considered impaired when having sufficient collateral, the disposal of which would result in full recovery of the financial asset.

2 Accounting policies (cont'd)

(20) Accounting policies used before IFRS 9 adoption (cont'd)

Impaired financial assets that each are considered significant, are assessed individually and are not included in homogenous groups of financial assets for collective assessment of their impairment. If the Group/Company determines that no objective evidence of impairment exists for an individually assessed financial asset, it is included in a group of loans with similar credit risk characteristics and collectively assessed for impairment. For the purposes of a collective evaluation of impairment the loans are grouped on a basis of similar credit risk characteristics.

The cumulative impairment loss - measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred) discounted at the financial asset's original effective interest rate - is reduced through use of an allowance account and the amount of the loss is recognised in the profit and loss. Interest income continues to be accrued on the reduced carrying amount at the interest rate used to discount the future cash flows for the purpose of measuring impairment loss, and is recognised as 'Interest income'. When a loan is uncollectible, it is written off against the related allowances for credit losses; subsequent recoveries, if any, are credited to the profit or loss.

The Group/Company reviews impairment of its financial assets at least once a quarter. In determining whether an impairment loss should be recorded in the profit or loss, the Group/Company makes judgments as to whether there is any objective indication that there is a measurable decrease in the estimated future cash flows before the decrease can be identified with an individual financial asset. The Management uses estimates based on historical loss experience for assets with similar credit risk characteristics and current economic climate in which the borrowers operate. The methodology and assumptions used are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Nevertheless, it is reasonably possible, based on the current experience and existing knowledge that outcomes within the next financial year will differ from the current assumptions, whereby the carrying amount of the asset or liability affected might require a material adjustment.

(iv) Restructured loans

Where possible, the Group/Company seeks to restructure loans rather than take possession of collateral. This mostly involves adjusting payment made by a borrower in a manner matching such a borrower's financial capacity (temporarily reducing principal repayments, extending payment terms) and agreement of new loan conditions. Once the terms have been renegotiated and executed a loan is no longer considered non-performing as long as a borrower complies with the renegotiated terms and conditions. Such loans are continuously reviewed to ensure that all criteria are met and that future payments are likely to occur and interest and fee income is accrued and recognised as for other performing loans. If the terms of the financial assets have been renegotiated, each restructured loan is assessed quarterly to identify possible impairment that otherwise would be treated as overdue or impaired. When a loan is restructured, it is also assessed for derecognition.

(v) Available for sale financial instruments
At each balance sheet date the Group/Company assesses whether there is objective evidence that available-for-sale securities are impaired. If any such evidence exists, for available for sale investments the cumulative impairment loss - measured as the difference between the amortised cost of the asset and the current fair value, less any impairment loss previously recognised - is removed from other comprehensive income and recognised in the profit or loss.

Impairment losses recognised in the profit or loss are subsequently reversed if a fair value increase is observed that can be objectively related to an event occurring after the impairment loss was recognised. The assessment of the evidence for impairment and determination of the amount of impairment or its reversal require application of management's judgement and estimates.

The Group/Company reviews its debt securities classified as available-for-sale investments at each statement of financial position date to assess whether they are impaired. This requires similar judgment as applied to the individual assessment of loans and advances. The Group/Company also records impairment charges on available-for- sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Group/Company evaluates, among other factors, historical share price fluctuations and duration and extent to which the fair value of an investment is less than its cost. No reversal of impairment through statement of comprehensive income is made for equity investments.

(vi) Financial guarantees
Financial guarantee contracts issued by the Group/Company are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument.

The Group/Company accounts for the guarantee commissions received in deferred income, to the extent they relate to prepayment for upcoming 12-18 months, and linearly recognizes the income in profit or loss (estimated to reflect the Effective Interest rate (EIR) amortisation). The difference between the present value of total commissions receivable for the guarantee and market price of those commissions, is recognised as a loss in profit or loss on the day of guarantee issuance, and as provisions for onerous contracts in the statement of financial position. Subsequently, the financial guarantees are measured at the higher of the amount determined in accordance with IAS 37 and the amount initially recognised less cumulative amortisation, on a straight line basis over the life of the guarantee.

Under IAS 37, the best estimate of expenditure required to settle the commitment at a balance sheet date is stated as provisions for financial guarantees and is determined in full, when reliable information is obtained about a necessity to settle particular assumed liabilities (for instance, a request to cover an issued guarantee is received).

2 Accounting policies (cont'd)

(20) Accounting policies used before IFRS 9 adoption (cont'd)

(vii) State aid

The Group and the Company implement the state aid programmes by pursuing the government's policy in the national economy and supporting specific branches of the national economy where the market instruments fail to provide the required accessibility of funds or where aims crucial for development of the economy are not attained.

The funding of the state aid programmes may be comprised of (i) the following public funding sources –European Union funds, other foreign financial aid, funding from the state budget as well as (ii) own funds of the very implementing body. The conditions for use of the public funding of each state aid programme, including covering of the management expenses and credit risk losses, are stipulated by agreement between the implementing body and line ministry and/or state-owned Central Finance and Contracting Agency. According to IAS 20 this type of state aid granted to the Group/Company, which is implementing body of the state aid programme, is treated as a government grant. When the public funding for implementation of the state aid programmes is given with an interest rate below the effective market rate, the effect of such favourable interest rate is treated by IAS 20 as additional government assistance.

The financing received in order to implement the programs is interest free. In accordance with IFRS, when a financial liability is recognised initially, it shall be measured at fair value plus, in the case of a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the issue of the financial liability. Therefore, financing received from the government is discounted using a prevailing market interest rate. The difference between the fair value of the liability and the proceeds received is considered to be a government grant according to IAS 20.

The Group and the Company recognises the state aid when there is reasonable assurance of receipt of the government grant and compliance with all the related conditions. According to IAS 20.12 the government grants are recognised on a systematic basis as income over the period necessary to match them with the related costs, for which they are intended to compensate. The Group and the Company receives government grants provided it complies with all the grant related conditions and obligations. For this reason the grants are recognised in income and matched with the related expenses for which they are intended to compensate.

Thus the Group and the Company applies the *income method* to the recognition of the government grants. The government grants related to assets are carried as deferred income and recognised in income in equal amounts over the useful life of the asset. The additional government assistance of the favourable interest rate is recognised as income during implementation of the state aid programmes.

(viii) Critical accounting estimates and judgements before IFRS 9 adoption

Below market rate guarantees. Up to mid-2016 the state aid programmes issuing guarantees to the economic operators of Latvia were implemented with the state aid funding invested in equity capital of Group/Company. The guarantee programmes issue guarantees to Group/Company clients at the rate that is below the currently effective market rate. The difference between the market rate and rate used in the guarantee agreements was covered by provisioning for onerous contracts, as required by IAS 37.

In year 2016 two guarantee programmes whose funding was attracted through non-current liabilities were included in Group's/Company's portfolio of state aid programmes. As at 31 December 2017 such programmes were: the Guarantee Programme of the *Fund of funds* and sub-activity 2.2.1.4.2. *Mezzanine Loans and Guarantees for Improvement of Competitiveness of Economic Operators.*

As of 8 June 2016 no provisions for onerous contracts are built for the *Guarantee Programme of the Fund of funds* as the principle of *Agent* is applied to the programme. With regard to this programme the Group/Company functions as an intermediary and therefore assumes no risk.

As of 31 October 2016, with regard to the sub-activity 2.2.1.4.2. Mezzanine Loans and Guarantees for Improvement of Competitiveness of Economic Operators, Group/Company is entitled to use the funding attracted to implementation of the programme to cover the implementation-related losses once the funding has been absorbed. The funding may be used both for the losses having originated from the issued guarantees and expected losses on the new guarantees (IAS 37). As at 31 December 2017 the available funding amounted to 5,3 mln euros. Since the contract stipulates that the funding earmarked for covering of the losses can be used also for the credit risk, Group/Company holds a view that the co-financing offsets the credit risk component in the calculation of the market rate by reducing it and that the funding may be used to build the required provisions for onerous contracts. The amount of the available funding is reduced at the moment when the credit risk manifests itself i.e. when the guarantee is written off as lost or disbursed.

2 Accounting policies (cont'd)

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

The following new or revised standards and interpretations will become effective for the Group/ Company from as of 1 January 2019 and might have an impact on the financial statements if the Group/ Company:

Long-term Interests in Associates and Joint Ventures - Amendments to IAS 28
(effective for annual periods beginning on or after 1 January 2019; not yet adopted by the EU)
The amendments clarify that reporting entities should apply IFRS 9 to long-term loans, preference shares and similar instruments that form part of a net investment in an equity method investee before they can reduce such carrying value by a share of loss of the investee that exceeds the amount of investor's interest in the investee. The Group's/Company's management is evaluating whether these amendments will have significant impact to the financial statements.

Amendments to the Conceptual Framework for Financial Reporting
(effective for annual periods beginning on or after 1 January 2020; not yet adopted by the EU)
The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance - in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Group's/Company's management is evaluating whether these amendments will have significant impact to the financial statements.

Definition of materiality – Amendments to IAS 1 and IAS 8
(effective for annual periods beginning on or after 1 January 2020; not yet adopted by the EU)
The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The Group's/Company's management is evaluating whether these amendments will have significant impact to the financial statements

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28
(effective date to be determined by the IASB; not yet adopted by the EU).
These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary and the shares of the subsidiary are transferred during the transaction. The Group's/Company's management is evaluating whether these amendments will have significant impact to the financial statements.

3 Risk management

For risk management, the Group/Company has developed a risk management system that takes into account its size, structure and operational characteristics as well as restricted options for management of certain risks. The Group/Company manages the risks affecting its operations in compliance with the risk management internal regulatory documents approved by the Group/Company that detail and establish the aggregate of measures used in management of the risks inherent to its operations.

The following major risk management principles are followed:

- risk management is a component of every-day functions;
- the Group/Company identifies and assesses the probable risks before launching of new products or services;
- while assuming the risks the companies forming the Group/Company are capable of long-term pursuit of the delegated aims and assignments;
- the Group/Company does not enter into transactions, operations, etc. entailing risks that endanger its operational stability or may result in substantial damage to its reputation.

In its risk management the Group/Company makes use of various risk analysis methods and instruments as well as establishes risk limits and restrictions.

The major risks that the Group/Company is exposed to are: credit, liquidity and operational risks.

Credit Risk

The credit risk is a risk that a customer or cooperation partner of the Group/Company is unable or unwilling to meet its liabilities towards the Group/Company in full and within the established term. Since the Group/Company is delegated implementation of the state aid programmes, it is mainly exposed to credit risk through its lending, guarantees to the third parties and other off-balance liabilities towards the third parties. The Group/Company is also subject to the credit risk due to its investment activities. Credit risk also includes concentration risk, which means large individual exposures as well as significant exposures to groups of customers or cooperation partners whose probability of default is driven by common underlying factors, such as sector, economy or type of instrument.

Credit risk governance

Credit risk governance is set in the Group's/Company's Risk Management Policy and Credit Policy:

- The overall risk appetite, decided by the Supervisory Board, is broken down into detailed risk limits and target levels for different sectors, geographies and products, but also to certain limits of each customer or cooperation partner and group of connected customers or cooperation partners.
- The business units are responsible for the credit operation, including the credit process and the credit risks stemming from all customers or cooperation partners within the unit. The business unit shall ensure that all credit risk exposures are assessed, decided, administrated, and followed-up according to the credit framework, including establishing an integrated internal control of high quality in the credit process. The business unit shall also make sure that the credit risk exposures are in line with the Group's/Company's strategies, policies, and instructions.
- The Risk Management Department is responsible for independent monitoring and control of credit risk management. The primary responsibility of the Risk Management Department is to maintain, develop and monitor the risk limits and the risk classification systems. The risk limit framework identifies areas where restrictions need to be set, in order to make sure that the portfolios exposed to the credit risk will stay within the decided risk appetite. The Risk Management Department is also responsible of controlling compliance to internal credit rules.
- The Internal Audit performs independent periodic reviews of the credit governance and the system of internal control.

Credit risk assessment and monitoring

The key principle of credit risk management in the Group/Company is the ability of the customers or cooperation partners to meet their liabilities towards the Group/Company, which is achieved by assessment of the customer and co-operation partner prior to transaction, as well as further continuous monitoring and evaluation.

To maintain a well-diversified credit portfolio with a low-risk profile and to find a favourable balance between risk and return, the Group/Company works continuously to understand the customers and their market conditions. When the Group/Company considers a credit application, a thorough analysis is performed which includes the customer's or cooperation partner's capacity and willingness to repay the new credit as well as other credits. A customer's or cooperation partner's cash flow and solvency are always key variables when deciding on credit and the Group/Company strives to obtain adequate collateral.

The risk profile of the portfolios exposed to credit risk is continuously analysed. For portfolio segments and individual customers or cooperation partners where the risk of default appears higher, reviews are performed more frequently. If a customer's or cooperation partner's risk profile has deteriorated, a number of corrective measures are considered and implemented. Each business unit is responsible for monitoring signals and conditions that might suggest that the level of credit risk in individual exposures has increased. In such situations a series of customised actions should be taken without delay to minimise the Group's/Company's risk or losses. A special restructuring and recovering unit supports the business units when the risk associated with a certain exposure has increased and it provides expertise in managing insolvency and restructuring cases.

3 Risk management (cont'd)

Mitigation of credit risk

The Group/Company reduces its exposure to credit risk by securing a pledge or other collateral adequate to the risk transaction and provisions of the target programme. The collateral, its value and risk mitigating effect is considered throughout the credit process. The term collateral covers pledges and guarantees. Credits without collateral are mainly granted for small loans. Special loan covenants are commonly created which entitle The Group/Company to renegotiate or terminate the agreement if the borrower's repayment capacity deteriorates, or if the covenants are otherwise breached.

The valuation of collateral is based on a thorough review and analysis of the pledged assets, and is an integrated part in the credit risk assessment of the customer. The establishment of the collateral value is part of the credit decision. The value of the collateral is reassessed within periodic credit reviews of the borrower and in situations where The Group/Company has reason to believe that the value has deteriorated or the exposure has become a problem loan.

The analysis of the assets and off-balance sheet liabilities subject to the credit risk is outlined in Note 41 to the financial statements.

Liquidity Risk

Liquidity risk is the risk that the Group/Company is unable to meet its contractual or contingent obligations, that it does not have the appropriate amount of funding and liquidity to support its assets or, in case of necessity, the resources might not be available to it on the market, and/or it might be unable to dispose of positions (for example, sell the assets) without considerable losses and in a short period of time to ensure the necessary liquidity.

The goal of liquidity risk management is to maintain liquidity resources that are sufficient in amount and quality and to provide the term structure of funding that is appropriate to meet its liabilities as they fall due.

Risk and liquidity management committee is responsible for monitoring and managing liquidity risk in line with the Group/Company's funding management objectives and risk framework.

Note 44 to the financial statements provides data on the Group's/Company's assets and liabilities by maturity profile.

Operational Risk

The operational risk results from intentional or unintentional deviations from the standards adopted in daily operation of the Group/Company, for example human mistake or fraud, malfunction of information systems, insufficient control procedures or their ignorance altogether, etc.

The goal of the operational risk management is timely identification of the potential operational risks and implementation of countermeasures to minimize the effect of operational risk on the Group's/Company's financials as much as possible and maintain the Group's operational continuity. The Group/Company achieves the established goal via identification of operational risk causes and taking preventive and corrective measures to eliminate them.

Interest Rate Risk

The interest rate risk is related to the possible influence of the fluctuations of the market rates onto the interest income and expenses of the Group / Company.

Interest rate management principles are determined in Risk management policy. Interest rate risk governance is performed by Asset and liability management committee, while daily interest rate analysis and management is performed by Budgeting and financial management department.

To assess the interest rate risk the Group/Company analyses the maturity structure of interest rate sensitive assets, liabilities and off-balance sheet items, net position of interest rate risk and its sensitivity to changes in interest rates.

The sensitivity has been measured calculating the impact of probable interest rate changes by 100 bps on the Group's/Company's interest income and expenses, assuming that all other variables held constant. Scenarios floor the lowest possible interest rate at zero if at the rate fixing date it is with negative value and if such a condition arises from the actual agreements.

The following table represents the impact of change in interest rates by 100 bps on the Group's interest income and expenses over 12-month period, with all other variables held constant:

Increase (+) /decrease (-) in interest rates by	Group 31/12/2018 (EUR '000)	Group 31/12/2017 (EUR '000)	Company 31/12/2018 (EUR '000)	Company 31/12/2017 (EUR '000)
+ 100 bps	1 081	973	1 081	973
-100 bps	(335)	(402)	(335)	(402)

3 Risk management (cont'd)

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The management believes that the Group's/Company's exposure to foreign currency risk is not significant as the major part of transactions are made in euro. The Group/Company manages its foreign currency risk by attracting financing and issuing financial instruments in euros.

In the event of exchange rates for the following currencies in which the Group and the Company has open positions adversely change as per scenario below, the potential total decrease in the Group's and Company's total equity (ignoring any tax effect) would amount approximately to the following:

	Group	Company
Scenario:	USD, (EUR '000)	USD, (EUR '000)
2018		
+5%	(111)	(111)
-5%	111	111
2017		
+5%	(686)	(686)
-5%	868	868

The carrying amount of assets and liabilities by currency profile is available in Note 45.

AML / CTF / sanctions risk

The Group/Company is subject to the Law on the Prevention of Money Laundering and Terrorism Financing (AML/CTF) and complies with the international legal acts and legal acts of the Republic of Latvia which regulate prevention of legalization of proceeds derived from criminal activity and financing of terrorism and ensures compliance with sanction lists (AML/CTF/Sanctions).

The internal control system of The Group/Company is based on the "Know Your Customer (KYC)" principles. Policies and procedures in place for the AML/CTF/Sanctions as well as control measures are developed on the basis of the international legal acts and legal acts of the Republic of Latvia that regulate AML/CTF/Sanctions. The international standards and the best practice guidelines as well as Policy and Guidelines of the Finance Latvia Association in the area of the AML/CFT/Sanctions are followed as well.

The Group/Company ensures compliance with Sanction lists requirements defined by EU regulations, OFAC and UN Regulations.

Since September 2018, The Group/Company has centralized AML/CTF/Sanctions compliance function with the Risk Management Department who carries client distance on-boarding with respect to the AML/CTF/Sanctions compliance through automated loan assessment system.

In February 2019, The Group/Company launched client's AML/CTF scoring system – every client who applies to loan, grant or export credit guarantee instrument as well as investments under venture capital instruments has been assigned the AML/CTF risk score.

4 Interest income

	Group	Group	Company	Company
	01/01/2018-31/12/2018	01/01/2017-31/12/2017 (restated)	01/01/2018-31/12/2018	01/01/2017-31/12/2017 (restated)
Interest income conculcated using effective rate	11,934	11,950	11,934	11,950
Interest on loans and guarantees*	9,934	9,791	9,934	9,791
Interest on securities at amortised cost	25	46	25	46
Interest on securities at fair value	1,966	2,094	1,966	2,094
Interest on balances due from credit institutions	9	19	9	19
Interest income conculcated without effective rate	-	244	-	-
Other interest income	-	244	-	-
Interest income from venture capital funds **	-	-	-	-
Total interest income	11,934	12,194	11,934	11,950

* Based on the Mezzanine and Guarantee Fund Activity Agreement concluded with the Ministry of Economics in 2016 (Agreement No 2011/16), the financing given by the Ministry of Economics must be increased by the income of the Mezzanine and Guarantee Fund from the placement of free funds, interest income from loans, premium income on issued guarantees, commissions, contractual penalties, etc. As a result, the Group's/Company's sub-item *Interest income on loans and guarantees* is reduced by EUR 703 thousand (2017: EUR 645 thousand).

** The Company's item *Interest income from venture capital funds* was restated for the previous period (see Note 2 (19), item (iv)).

5 Interest expense

	Group	Group	Company	Company
	01/01/2018-31/12/2018	01/01/2017-31/12/2017	01/01/2018-31/12/2018	01/01/2017-31/12/2017
Interest on balances due to credit institutions	184	218	184	218
Other interest expense	579	602	579	601
Total interest expense	763	820	763	819

6 Fee and commission income

	Group	Group	Company	Company
	01/01/2018-31/12/2018	01/01/2017-31/12/2017	01/01/2018-31/12/2018	01/01/2017-31/12/2017
From lending activities	537	472	537	472
Other fee and commission income	2	12	2	12
Total fee and commission income	539	484	539	484

7 Fee and commission expense

	Group	Group	Company	Company
	01/01/2018-31/12/2018	01/01/2017-31/12/2017	01/01/2018-31/12/2018	01/01/2017-31/12/2017
On venture capital fund management fee*	54	193	54	193
On securities portfolio maintenance	62	50	62	50
On asset management	-	7	-	7
Other fee and commission expense**	40	6	40	6
Total fee and commission expense	156	256	156	256

*As regards the Holding Fund Programme the expenses of the Group/Company for the reporting period include management fees of the venture capital funds amounting to 1,339 thsd euros (2017: 1,715 thsd euros) of which 1,339 thsd euros (2017: 1,522 thsd euros) were reimbursed (Note 18). The reimbursement scheme is stipulated by the agreement No 2011/15 On Implementation of the Holding Fund dated December 23, 2015.

Management fees for the *Baltic Innovation Fund* amounting to EUR 175 thousand (2017: EUR 193 thousand), of which EUR 121 thousand was compensated from the Support programme funding.

** Item *Other fee and commission expense* includes asset management fee of the financial intermediaries JSC SEB and JSC Swedbank. As regards the Holding Fund Programme the expenses of the Group / Company for the reporting period include the management fees of 8 thsd euros (2017: 15 thsd euros) of the financial intermediaries JSC SEB and JSC Swedbank that, according to the agreement No 2011/15 On Implementation of the Holding Fund, were reimbursed for 8 thsd euros (2017: 8 thsd euros).

8 Gains or (loss) from debt securities and foreign exchange transaction

	Group	Group	Company	Company
	01/01/2018-31/12/2018	01/01/2017-31/12/2017	01/01/2018-31/12/2018	01/01/2017-31/12/2017
Gain from trading securities	405	-	405	-
Loss on currency exchange and trade and revaluation of other financial instruments, net	(283)	(191)	(283)	(191)
Total net trading income	122	(191)	122	(191)

9 Other income

	Group	Group	Company	Company
	01/01/2018-31/12/2018	01/01/2017-31/12/2017	01/01/2018-31/12/2018	01/01/2017-31/12/2017
Other operating income*	48	4,542	418	4,542
Compensations**	1,877	2,992	1,877	2,992
Income from investment property revaluation	234	121	234	121
Income from lease payments for operational leases	421	136	421	136
Income from lease payments for financial leases	29	-	29	-
Total other income	2,979	7,791	2,979	7,791

* In year 2018 the other operating income of the Group/Company decreased considerably due to sale of the Group's/Company's real estate, situated at Elizabetes street 41/43, Riga in 2017.

** Compensations include the compensation for management expenses of state aid programs implemented by the Group/Company in amount of 1,877 thsd euros. Expenses in amount of 1,050 thsd euros (2017: 2,748 thsd euros) (on cash flow basis) are compensated to the Group/Company according to terms and budget of each particular programme. The compensation for management expenses includes personnel expenses of 810 thsd euros (2017: 2,012 thsd euros) (Note 10) and administrative and other operating expenses of 240 thsd euros (2017: 980 thsd euros) (Note 11).

10 Staff costs

	Group	Group	Company	Company
	01/01/2018-31/12/2018	01/01/2017-31/12/2017	01/01/2018-31/12/2018	01/01/2017-31/12/2017
Remuneration to the Council and the Board	503	376	503	376
To The Council	72	66	72	66
To The Board	431	310	431	310
Remuneration to staff	5,434	4,886	5,434	4,886
Social security contributions	1,431	1,260	1,431	1,260
Total staff costs	7,368	6,522	7,368	6,522

In year 2018, based on the implementation agreements of the state aid programmes concluded with the Responsible Institutions, the personnel expenses in amount of 810 thsd euros were compensated (on cash flow basis) to the Group/Company (2017: 2,012 thsd euros) (Note 9).

During the reporting period the Group/Company employed 227 employees on average (2017: 234). Due to optimisation of business purposes staff number has been reduced down to 208 as at 31/12/2018.

11 Administrative and other operating expense

	Group	Group	Company	Company
	01/01/2018-31/12/2018	01/01/2017-31/12/2017	01/01/2018-31/12/2018	01/01/2017-31/12/2017
Information system and communication expense	677	945	677	945
Maintenance costs of assets that have been taken over in the debt collection process	311	360	311	360
Premises and equipment maintenance expense	890	843	890	843
Other expense	516	258	516	258
Revaluation of assets that have been taken over in the debt collection process*	116	297	116	297
Advertising and public relations	291	495	291	495
Professional services**	398	428	398	428
Training and other staff expense	166	247	166	247
Real estate tax	152	137	152	137
Total administrative costs	3,517	4,010	3,517	4,010

In year 2018, based on the implementation agreements of the state aid programmes concluded with the Responsible Institutions, the Group/Company were compensated (on cash flow basis) the administrative and other operating expenses of 240 thsd euros (2017: 980 thsd euros) (Note 9).

*The accounting policy of the assets that have been taken over in the debt collection process is described in Note 2 (9) item (viii). See also Note 23 for details.

** Item *Professional services* includes tax and accounting consulting services in amount of 12 thsd euros, which were received during 2018 year from Group's / Company's sworn auditor PricewaterhouseCoopers, ltd.

12 Impairment provisions, net

	Group	Group	Company	Company
	01/01/2018-31/12/2018	01/01/2017-31/12/2017 (restated)	01/01/2018-31/12/2018	01/01/2017-31/12/2017 (restated)
impairment losses on:	9,540	11,467	9,540	11,467
Loans, net	4,710	5,683	4,710	5,683
impairment losses (Note19)	*5,917*	*5,683*	*5,917*	*5,683*
impairment losses covered by risk coverage reserve	*(1,207)*	-	*(1,207)*	-
other assets, net	1,803	2,526	1,803	2,526
impairment losses (Note 23)	*1,826*	-	*1,826*	-
impairment losses covered by risk coverage reserve	(23)	-	(23)	-
debt securities	-	-	-	-
investments in venture capital funds*	-	-	-	-
Guarantees, net**	2,939	3,258	2,939	3,258
impairment losses (Note 30)	*8,174*	*3,258*	*8,174*	*3,258*
impairment losses covered by risk coverage reserve	*(5,235)*	-	*(5,235)*	-
Loan commitments	88	-	88	-
impairment losses (Note 30)	*1,220*	-	*1,220*	-
compensation of impairment losses from risk coverage reserve	*(1,132)*	-	*(1,132)*	-
Reversal of impairment on:	(8,764)	(7,811)	(8,764)	(7,811)
Loans, net	(2,685)	(2,112)	(2,685)	(2,112)
reversal of impairment (Note 19)	*(3,408)*	*(2,112)*	*(3,408)*	*(2,112)*
reversal of impairment covered by risk coverage reserve	*723*	-	*723*	-
other assets, net	(424)	(467)	(424)	(467)
reversal of impairment (Note 23)	(1,229)	-	(1,229)	-
reversal of impairment covered by risk coverage reserve	805	-	805	-
debt securities	(211)	(130)	(211)	(130)
investments in venture capital funds*	-	-	-	-
Guarantees, net**	(5,444)	(5,102)	(5,444)	(5,102)
reversal of impairment (note 30)	*(6,876)*	*(5,102)*	*(6,876)*	*(5,102)*
reversal of impairment covered by risk coverage reserve	*1,432*	-	*1,432*	-
(Income) from release of provisions for onerous contracts (guarantees)	-	(474)	-	(474)
Recovery of loans written off in previous periods	(1,448)	(1,181)	(1,448)	(1,181)
Total impairment losses, net	(672)	2,001	(672)	2,001

* Company's items *Impairment losses on investments in venture capital funds and Reversal of impairment on investments in venture capital funds* were restated for the previous period. See Note 2 (19) item (iv) for details.
** As of adoption of IFRS 9 on 1 January 2018 the principles of establishment of provisions for financial guarantees are regulated by IFRS 9, exposing the financial guarantees for the establishment of the allowances for expected credit losses, as opposed to IAS 39. For more information see Note 2 (17) item (i).

13 Corporate income tax

	Group	Group	Company	Company
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Corporate income tax	-	125	-	125
Deferred tax	-	-	-	-
Total corporate income tax (income)	-	125	-	125

The Group/Company is not subject to special tax treatment.

The new wording of the Law on Enterprise Income Tax stipulates that the tax losses can be used for decreasing of the corporate income tax only for the dividends calculated over 5 years. The Group's/Company's tax losses to be carried forward amount to 42,041 thsd euro. The Group/Company will not be able to use the tax losses carried forward to decrease the corporate income tax as the Group/Company, being governed by Section 15.2.(5) of Development Finance Institution Law, may not pay dividends. See also Note 2 (11) for details.

14 Investment securities

	Group	Group	Company	Company
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Investment securities valued at amortised cost				
Latvian Treasury bills and government bonds	427	404	427	404
OECD corporate bonds	3,879	3,843	3,879	3,843
Total investment securities valued at amortised cost	4,306	4,247	4,306	4,247
Impairment allowance	(3,839)	(3,804)	(3,839)	(3,804)
Net investment securities valued at amortised cost	467	443	467	443
Investment securities valued at fair value through other comprehensive income				
Latvian Treasury bills and government bonds	50,390	61,760	50,390	61,760
Total investment securities valued at fair value through other comprehensive income	50,390	61,760	50,390	61,760
Total investment securities	50,857	62,203	50,857	62,203

When making investments in securities, the Group/Company analyses the external credit ratings assigned to these financial institutions and entities and their financial and operational standing. Once funds are placed, the Group/ Company monitors the monetary financial institutions and follows the compliance of the imposed limits to the credit risk rating. All Latvian Treasury bills and government bonds are Stage 1 instruments for ECL purposes, while All OECD corporate bonds are Stage 3 instruments, as these are already defaulted papers. There were no movements among Stages during the year.

The following table provides the Group's / Company's debt securities profile by the assigned long-term credit ratings (Moody`s Investors Service) as at 31 December 2018:

	Investment securities valued at fair value through other comprehensive income*	Investment securities valued at amortised cost*	Total net
A1 - A3	50,390	427	50,817
Unrated	-	40	40
Total	50,390	467	50,857

*As of adoption of IFRS 9 on 1 January 2018 the investment securities classification was changed. See Note 2 (16) for details.

The following table provides the Group's / Company's debt securities profile by the assigned long-term credit ratings (Moody`s Investors Service) as at 31 December 2017:

	Available-for-sale*	Held to maturity*	Total net
A1 - A3	61,760	405	62 165
Unrated	-	38	38
Total	61,760	443	62,203

*As of adoption of IFRS 9 on 1 January 2018 the investment securities classification was changed. See Note 2 (16) for details.

The information about investment securities classification, which was in force in 2017, is available in Note 2 (20) item (i).
All securities are quoted. The average yield on debt securities was 3.16 % as at 31 December 2018 (2017: 3.42%).

15 Investment property

	Group	Group	Company	Company
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Carrying amount at the beginning of period	10,808	17,087	10,808	17,087
Reclassified to Assets held for sale (Note 26)	-	(12,218)	-	(12,218)
Acquired during the period*	3,988	5,839	3,988	5,839
Disposals during the financial period	(234)	(21)	(234)	(21)
Net gain from fair value adjustment	232	121	232	121
Carrying amount at the end of period	14,794	10,808	14,794	10,808

* All investment property during the reporting period was acquired by the Land Fund. The Land Fund was established on July 1, 2015. According to the Cabinet of Ministers decree dated March 11, 2015 the Group/Company is the manager of the Land Fund.

The Law "On Land Privatisation in Rural Areas" stipulated establishment of the Land Fund. The Land Fund of Latvia is one of the tools used to ensure that agricultural land is preserved and used for agricultural purposes.

The Group/Company provides complete information on the operational results and financial standing of the Land Fund.

The accounting policy for Investment properties is described in Note 2 (9) item (viii).

16 Due from other credit institutions and treasury

	Group	Group	Company	Company
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Due from credit institutions registered in Latvia and the Treasury	137,031	109,594	136,651	109,594
Impairment allowances	(5)	-	(5)	-
Total net	137,026	109,594	136,646	109,594

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 individual ratings is based on the ratings assigned to their parent banks as well as their financial and operational assessments. Once the contracts have been concluded, the Group/Company supervises the monetary financial institutions and follows that the assigned limits comply with credit risk assessment. All assets in this category represent Stage 1 for ECL calculation purposes and there were no changes in staging during the year. There were no major changes in calculated ECL during the year.

The table below shows the breakdown of the Group's balances due from credit institutions and the Treasury by categories as at 31 December 2018 (gross):

Moody`s ratings	Aaa	Aa1-Aa3	A1-A3	Baa1-Baa3	Ba1-Ba3	B1-B3	Caa-C	Withdrawn rating (*WR*)	Total
Due from credit institutions registered in the Republic of Latvia and the Treasury	-	12,595	96,875	22,159	5,402	-	-	-	137,031
Total gross	-	12,595	96,875	22,159	5,402	-	-	-	137,031

The table below shows the breakdown of the Company's balances due from credit institutions and the Treasury by categories as at 31 December 2018 (gross):

Moody`s ratings	Aaa	Aa1-Aa3	A1-A3	Baa1-Baa3	Ba1-Ba3	B1-B3	Caa-C	Withdrawn rating (*WR*)	Total
Due from credit institutions registered in the Republic of Latvia and the Treasury	-	12,411	96,875	21,963	5,402	-	-	-	136,651
Total gross	-	12,411	96,875	21,963	5,402	-	-	-	136,651

16 Due from other credit institutions and treasury (cont'd)

The table below shows the breakdown of the Group's/Company's balances due from credit institutions and the Treasury by categories as at 31 December 2017:

Moody`s ratings	Aaa	Aa1-Aa3	A1-A3	Baa1-Baa3	Ba1-Ba3	B1-B3	Caa-C	Withdrawn rating (*WR*)	Total
Due from credit institutions registered in the Republic of Latvia and the Treasury	-	21,094	85,297	-	3,203	-	-	-	109,594
Total gross	-	21,094	85,297	-	3,203	-	-	-	109,594

The increase in balances due from other credit institutions and the Treasury is related to the advance payment of EUR 28 million received in 2018 from the Central Finance and Contracting Agency (CFLA) for the grants issued under the Energy Efficiency Programme for Multi-apartment Buildings. In addition, in March 2018, the Company issued EUR 10 million bonds maturing on 7 March 2025 (Note 33).

As at 31 December 2018, the Group/Company held accounts with 4 banks and the Treasury of the Republic of Latvia.

As at 31 December 2018, the average interest rate on balances due from credit institutions was 0.012% (31 December 2017: -0.078%).

For amount of cash and cash equivalents, please refer to Note 37.

17 Financial assets at fair value through profit or loss

	Group	Group	Company	Company
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Investments by subsidiaries in the shares of companies	1,160	-	-	-
Derivatives	-	142	-	142
Total	1,160	142	-	142

In 2018 disbursements were made to the 4nd generation venture capital funds, part of which are classified *as investments in subsidiaries*. For more information on the classification see Note 39, for accounting policy Note 2 (6).

At the Group level the participation in the share capital of subsidiaries is consolidated.

The Group/Company uses such derivative financial instruments as currency swaps representing commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies.

The Group's / Company's notional contract values and fair values of derivative instruments are provided in the table below:

	31/12/2018			31/12/2017		
	Notional contract value	Fair value		Notional contract value	Fair value	
		Assets	Liabilities		Assets	Liabilities
Currency swaps	1,507	-	2	11,435	142	
Total		-	2		142	

The contract is in force up to 21 January of 2019.

18 Investments in venture capital funds

The Group/Company has a number of investments in the venture capital funds, mentioned below.

All venture capital funds, except Baltic Innovation Fund, are limited partnership companies registered in Latvia. *Baltic Innovation Fund* is a Fund-of-Fund initiative launched by the European Investment Fund (EIF) in close co-operation with the Governments of Lithuania, Latvia and Estonia to boost equity investments into Baltic small and medium-sized enterprises with high growth potential. Baltic Innovation Fund is registered in Luxemburg. None of the funds is listed on any public stock exchange.

At Group level, together with transition to IFRS 9, the valuation of BIF and its *investments has been changed to investments valued at fair value through profit or loss.*

At the Company level, together with transition to IFRS 9, several changes have been made in the accounting policy:

- For all investments in associates, except BIF, the Company has changed the accounting policy from the cost less impairment method to the equity method;
- valuation of BIF and its investments has been changed to *investments valued at fair value through profit or loss.*

The change in the accounting policy has been made retrospectively. See Note 2 (19) item (i) un (ii).

18 Investments in venture capital funds (cont'd)

The Group's/Company's investments in associates as at 31/12/2018 on the basis of 2018 year audited financial statements, provided by venture capital fund managers:

Company or VCF generation	Country of incorporation	31/12/2018 VCF's equity	31/12/2018 Carrying amount
The 1st generation of VCF	LV	2,387	746
The 2nd generation of VCF	LV	20,399	14,623
The 3rd generation of VCF	LV	24,950	23,763
The 4th generation of VCF	LV	186	119
Baltic Innovation fund	LU	54,942	10,988
Total investments		102,864	50,239

At 31.12.2018. the VCF portfolio value at cost value is 59,698 thsd. euros.

The movement in the Group's/Company's investments in associates in 2018:

			Group/Company
	Investments in associates	BIF investments	01/01/2018-31/12/2018 Total amount
Carrying amount at the beginning of period (restated)	44,898	8,394	53,292
Invested	255	2,825	3,080
Refunded	(4,553)	(488)	(5,041)
Share of net loss of investment in joint venture and associate (See Note 2(19) item (iv))*	(1,348)	-	(1,348)
Share of gain of investment in joint venture and associate at fair value through profit or loss (See Note 2(19) item (iv))	-	257	257
Carrying amount at the end of the period ended	39,252	10,988	50,239
Impairment	-	-	-
Net carrying amount at the end of the period	39,252	10,988	50,239

* The 2nd and 3rd generation risk venture funds' revaluation result of 2018 was compensated by Risk coverage reserve in amount of EUR 1,298 thousand. The 1st generation risk venture funds' revaluation result of 2018 in amount of EUR 50 thousand was included into the profit or loss statement item *Share of loss of investment in joint venture and associate*.

The Group's/Company's investments in associates as at 31/12/2017:

Company	Country of Incorpo-ration	Gene-ration of VCF	31/12/2017 (restated) Equity per company	Group's correction*	Group's/Company's share of total share capital, %	31/12/2017 (restated) Carrying amount
KS ZGI Fonds	LV	1	-	-	-	-
KS Otrais Eko Fonds	LV	1	2,387	-	33.33	796
KS Baltcap Latvia Venture Capital Fund	LV	2	10,272		66.67	6,848
KS Imprimatur Capital Seed Fund	LV	2	4,474	(24)	100	4,450
KS Imprimatur Capital Technology Venture Fund	LV	2	3,899	(18)	67	2,600
KS Expansion Capital Fund	LV	3	13,738	-	95.24	13,084
KS ZGI-3	LV	3	7,474	-	95.24	7,118
KS Flycap Investment Fund	LV	3	10,502	-	95.24	10,002
Baltic Innovation Fund	LU	-	41,970	-	20	8,394
Total investments			94,716	(42)	x	53,292

* Adjustment to align with Group's accounting policies.

18 Investments in venture capital funds (cont'd)

The movement in the Group's/Company's investments in associates in 2017:

			Group/Company
	Investments in associates	BIF investments	01/01/2017-31/12/2017 Total amount (restated)
Carrying amount at the beginning of period	52,936	5,879	58,815
Invested	677	1,605	2,282
Refunded	(3,030)	-	(3,030)
Share of net loss of investment in joint venture and associate (See Note 2(19) item (iv))*	(5,685)	-	(5,685)
Share of gain of investment in joint venture and associate at fair value through profit or loss (See Note 2(19) item (iv))	-	910	910
Carrying amount at the end of the period ended	44,898	8,394	53,292
Impairment	(140)	-	(140)
Net carrying amount at the end of the period	44,758	8,394	53,152

* The 2nd and 3rd generation venture capital funds' revaluation result of 2017 was covered by Risk coverage reserve in amount of EUR 5,682 thousand. See Note 2 (19) item (iv) for details.

The Group's/Company's investments in associates as at 31/12/2016:

Company	Country of Incorpo-ration	Gene-ration of VCF	31/12/2016 (restated) Equity per company	Group's correction*	Group's/Company's share of total share capital, %	31/12/2016 (restated) Carrying amount
KS ZGI Fonds	LV	1	5	-	65.07	3
KS Otrais Eko Fonds	LV	1	2,387	-	33.33	796
KS Baltcap Latvia Venture Capital Fund	LV	2	14,341	-	66.67	9,561
KS Imprimatur Capital Seed Fund	LV	2	7,429	(1,869)	100	5,560
KS Imprimatur Capital Technology Venture Fund	LV	2	6,173	(2,070)	67	2,749
KS Expansion Capital Fund	LV	3	13,883	-	95.24	13,222
KS ZGI-3	LV	3	11,195	(1,957)	95.24	8,798
KS Flycap Investment Fund	LV	3	12,860	-	95.24	12,247
Baltic Innovation Fund	LU	-	29,385	-	20	5,879
Total investments			97,659	(5,896)	X	58,815

* Adjustment to align with Group's accounting policies.

The movement in the Group's/Company's investments in associates in 2016:

			Group/Company
	Investments in associates	BIF investments	01/01/2016-31/12/2016 Total amount (restated)
Carrying amount at the beginning of period	37,491	2,754	40,245
Invested	17,795	3,259	21,054
Refunded	(646)	-	(646)
Share of net loss of investment in joint venture and associate (See Note 2(19) item (iv))*	(1,704)	-	(1,704)
Share of loss of investment in joint venture and associate at fair value through profit or loss (See Note 2(19) item (iv))	-	(134)	(134)
Carrying amount at the end of the period ended	52,936	5,879	58,815
Impairment	(245)	-	(245)
Net carrying amount at the end of the period	52,691	5,879	58,570

* The 2nd and 3rd generation venture capital funds' revaluation result of 2016 was covered by Risk coverage reserve in amount of EUR 1,423 thousand. See Note 2 (19) item (iv) for details.

In the reporting period, the Group's / Company's expenses included:

- EUR 1,339 thousand from the risk coverage reserve used to cover management fees for the 2nd and 3rd generation venture capital funds (2017: EUR 1,521 thousand);
- Management fees for the *Baltic Innovation Fund* amounting to EUR 175 thousand (2017: EUR 193 thousand), of which EUR 121 thousand was compensated from the risk coverage reserve.

The program, through which are made investments into 4nd generation venture capital funds, is based on the *Agent* accounting principle. As a result, EUR 469 thousand from the risk coverage reserve used to cover management fees for the 4nd generation venture capital funds while it had no impact on the profit or loss statement of the Group / Company.

In 2018, disbursements were made to the 4nd generation venture capital funds, some of which are classified as *Investments in subsidiaries*. See Note 2 (2), Note 2 (6) and Note 39 for more detailed information on classification.

For information on the subscribed capital of the funds see Note 36.

19 Loans

The loan portfolio of the Company consists of the portfolios of the state aid programmes implemented (through loans) by Altum.

Loans by type of borrower:

	Group	Group	Company	Company
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Private companies	189,549	180,833	189,267	180,833
Individuals	25,853	23,324	25,853	23,324
Financial institutions	867	2,431	867	2,431
Local governments	239	292	239	292
Public and religious institutions	623	269	623	269
Total gross loans	217,131	207,585	216,849	207,585
Impairment allowances*	(19,376)	(15,438)	(19,376)	(15,438)
Total net loans	197,755	192,147	197,473	192,147

* The increase in impairment allowances for loans was affected by the transition to IFRS 9, which includes two factors:

- transition to the expected credit loss model (see Note 2 (5) item (vi) for details);
- gross recognition of support programme funding (liabilities) at fair value.

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

	Group	Group	Company	Company
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Agriculture and forestry	94,954	84,124	94,954	84,124
Manufacturing	46,192	44,949	46,192	44,949
Private individuals	23,481	23,373	23,481	23,373
Other industries	21,508	14,599	21,226	14,599
Retail and wholesale	11,371	14,167	11,371	14,167
Hotels and restaurants	4,256	6,578	4,256	6,578
Electricity, gas and water utilities	3,958	5,562	3,958	5,562
Transport, warehousing and communications	1,166	1,889	1,166	1,889
Real estate	4,219	4,341	4,219	4,341
Construction	2,586	3,139	2,586	3,139
Financial intermediation	867	1,221	867	1,221
Fishing	2,334	3,352	2,334	3,352
Municipal authorities	239	293	239	293
Total gross loans	217,131	207,585	216,849	207,585

The loan amount, equalling to or exceeding EUR 1,000 thousand, issued to one customer is presented below:

	Group	Group	Company	Company
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Number of customers	16	23	16	23
Total credit exposure of customers (EUR '000))	19,420	36,895	19,420	36,895
Percentage of total gross portfolio of loans	8.9%	17.7%	8.9%	17.7%

Breakdown of the Group's / Company's loans by their qualitative assessment after the adoption of IFRS 9:

	Group	Group	Company	Company
	31/12/2018	01/01/2018	31/12/2018	01/01/2018
Credit risk has not increased significantly (Stage 1)	163,133	149,296	162,851	149,296
Credit risk has increased significantly (Stage 2)	16,597	10,349	16,597	18,349
Loans which have objective evidence of impairment (Stage 3)	37,401	47,940	37,401	39,940
Total loans gross	217,131	207,585	216,849	207,585
Impairment allowances	(19,376)	(24,064)	(19,376)	(24,064)
Total net loans	197,755	183,521	197,473	183,521

19 Loans (cont'd)

Changes in the Group's credit loss allowance and gross carrying amount for loans:

	Credit loss allowance				Gross carrying amount			
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total
At 1 January 2018	1,393	1,895	20,775	24,063	151,247	10,311	46,027	207,585
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
to lifetime (from Stage 1 to Stage 2)	(255)	1,398	-	1,143	(7,298)	6,569	-	(729)
to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(194)	(300)	2,573	2,079	(5,830)	(902)	6,553	(179)
from credit-impaired to lifetime (from Stage 3 to Stage 2)	-	60	(697)	(637)	-	2,399	(2,916)	(517)
to 12-months ECL (from Stage 2 to Stage 1)	139	(428)	(6)	(295)	2,224	(2,486)	(23)	(285)
New originated or purchased	744	706	989	2,439	57,157	2,694	3,089	62,940
De-recognised during the period	(77)	(133)	(3,467)	(3,677)	(14,292)	(1,123)	(6,028)	(21,443)
Total movements with impact on credit loss allowance charge for the period	357	1,303	(608)	1,052	31,961	7,151	675	39,787
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	(7,200)	(7,200)	-	-	(7,851)	(7,851)
FX and other movements	-	-	3	3	-	-	-	-
Modification of contractual cash flows (no movements between stages)*	248	(433)	1,643	1,458	(19,949)	(807)	(1,393)	(22,149)
Other movements (changes due to IFRS 9 correction)	-	-	-	-	(409)	(60)	(54)	(523)
Other movements	-	-	-	-	282	-	-	282
Total movements without impact on credit loss allowance charge for the period	248	(433)	(5,554)	(5,739)	(20,076)	(867)	(9,298)	(30,241)
At 31 December 2018	1,998	2,765	14,613	19,376	163,132	16,595	37,404	217,131

* Ordinary contractual cashflows from repayment of principal.

Changes in the Company's credit loss allowance and gross carrying amount for loans:

	Credit loss allowance				Gross carrying amount			
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total
At 1 January 2018	1,393	1,895	20,776	24,064	151,247	10,311	46,027	207,585
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
to lifetime (from Stage 1 to Stage 2)	(255)	1,398	-	1,143	(7,298)	6,569	-	(729)
to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(194)	(300)	2,573	2,079	(5,830)	(902)	6,553	(179)
from credit-impaired to lifetime (from Stage 3 to Stage 2)	-	60	(697)	(637)	-	2,399	(2,916)	(517)
to 12-months ECL (from Stage 2 to Stage 1)	139	(428)	(6)	(295)	2,224	(2,486)	(23)	(285)
New originated or purchased	744	706	989	2,439	57,157	2,694	3,089	62,940
De-recognised during the period	(77)	(133)	(3,467)	(3,677)	(14,292)	(1,123)	(6,028)	(21,443)
Total movements with impact on credit loss allowance charge for the period	357	1,303	(608)	1,052	31,961	7,151	675	39,787
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	(7,200)	(7,200)	-	-	(7,851)	(7,851)
FX and other movements	-	-	3	3	-	-	-	-
Modification of contractual cash flows (no movements between stages)*	248	(433)	1,643	1,458	(19,949)	(807)	(1,393)	(22,149)
Other movements (changes due to IFRS 9 correction)	-	-	-	-	(409)	(60)	(54)	(523)
Total movements without impact on credit loss allowance charge for the period	248	(433)	(5,555)	(5,740)	(20,358)	(867)	(9,298)	(30,523)
At 31 December 2018	1,998	2,765	14,613	19,376	162,850	16,595	37,404	216,849

* Ordinary contractual cashflows from repayment of principal.

19 Loans (cont'd)

Aging analysis of the loans issued by the Group / Company, without accrued interest:

	Group	Group	Company	Company
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Performing	178,557	171,964	178,275	171,964
Past due up to 30 days	17,565	12,062	17,565	12,062
Past due from 31 to 60 days	3,012	887	3,012	887
Past due from 61 to 90 days	618	284	618	284
Past due over 90 days	17,379	22,388	17,379	22,388
Total gross loans, without interest accrued on the loans	217,131	207,585	216,849	207,585

Credit quality analysis of the loans issued by the Group/Company:

PD range	01.01.2018.				31.12.2018.			
	Group		Company		Group		Company	
	Gross book value	Credit loss allowance	Gross book value	Credit loss allowance	Gross book value	Credit loss allowance	Gross book value	Credit loss allowance
0.00% - 2.00%	55,836	148	55,836	148	98,094	337	97,812	337
2.01% - 5.00%	86,401	650	86,401	650	63,465	901	63,465	901
5.01% - 10.00%	13,605	1,333	13,605	1,333	1,246	47	1,246	47
10.01% - 15.00%	829	21	829	21	13,784	2,622	13,784	2,622
15.01% - 99.00%	66	4	66	4	1,328	297	1,328	297
99.01% - 100.00%	50,848	21,907	50,848	21,908	39,214	15,172	39,214	15,172
Total gross loans, without interest accrued on the loans	207,585	24,063	207,585	24,064	217,131	19,376	216,849	19,376

Movement in the Group's/ Company's impairment allowances:

	Group	Group	Company	Company
	01/01/2018-31/12/2018	01/01/2017-31/12/2017	01/01/2018-31/12/2018	01/01/2017-31/12/2017
Allowances at the beginning of the period	15,438	16,179	15,438	16,179
Covered by risk coverage reserve	2,557	-	2,557	-
Impact of IFRS 9 adoption	4,324	-	4,324	-
Allowances for accrued income	1,745	-	1,745	-
Allowances at 1 January 2018*	24,064	16,179	24,064	16,179
Increase in impairment allowances (Note 12)	5,917	5,683	5,917	5,683
Decrease in impairment allowances (Note 12)	(3,408)	(2,112)	(3,408)	(2,112)
Accrued interest	-	(793)	-	(793)
Write-off of loans	(7,200)	(3,519)	(7,200)	(3,519)
Currency change	3	-	3	-
Allowances at the end of the period ended 31 December	19,376	15,438	19,376	15,438
Group's / Company's share of provisions	14,426	15,438	14,426	15,438
Provisions covered by risk coverage	4,950	2,557**	4,950	2,557**

* As of January 1, 2018, the Group/Company has recognized the provision for impairment in gross amount, taking into account the amount covered by Risk Coverage reserve. See Note 2 (17) item (i) for details.

**According to the Group's/Company's estimates as at December 31, 2017 the loan loss provisions should amount to EUR 17,836 thousand. The Risk coverage amount available for such loan loss provisions equals to EUE 2,557 thousand.

The Group/Company has performed sensitivity analysis of the Group's/Company's credit loss allowance for loans as at 31 December 2018 and results are presented in the table below:

		Change in real estate prices		Change in GDP	
	Gross book value	+ 5%	- 5%	+ 1%	- 1%
Credit loss allowance for loans	14,426	(258)	343	(132)	142
Total credit loss allowance for loans	14,426	(258)	343	(132)	142

19 Loans (cont'd)

The Group/Company uses two macro-economic factors in assessment of the ECL – change in real estate prices and change in GDP. For the purpose of sensitivity analysis, the Company applied the following upward and downward scenarios:

- the 1st year projected real estate prices were adjusted by +/- 5% and this adjustment was applied to a) the LGD used to calculate the ECL for collectively assessed loans and b) collateral value used to calculate ECL for individually assessed loans;
- the 1st year projected GDP were adjusted by +/- 1% and this adjustment was applied to the marginal PD used to calculate the ECL for both collectively assessed loans and individually assessed loans.

In calculating the impairment loss due to default on loan principal or interest payments or other loss events the following is taken into account collateral, including real estate and commercial pledges measured at market value. The value of collateral is based on the valuations performed by independent valuers.

Information on the value of collateral and position against net loan portfolio is provided below:

	Group	Group	Company	Company
	31/12/2018	01/01/2018	31/12/2018	01/01/2018
Real estate (loans)	155,299	151,321	155,299	151,321
Credit risk has not increased significantly (Stage 1)	*125,426*	*116,786*	*125,426*	*116,786*
Credit risk has increased significantly (Stage 2)	*8,192*	*6,559*	*8,192*	*6,559*
Loans which have objective evidence of impairment (Stage 3)	*21,681*	*27,977*	*21,681*	*27,977*
Real estate (leaseback)	6,923	520	6,923	520
Credit risk has not increased significantly (Stage 1)	*6,620*	*520*	*6,620*	*520*
Credit risk has increased significantly (Stage 2)	*303*	*-*	*303*	*-*
Loans which have objective evidence of impairment (Stage 3)	*-*	*-*	*-*	*-*
Movable property	22,273	26,250	22,273	26,250
Credit risk has not increased significantly (Stage 1)	*15,608*	*19,493*	*15,608*	*19,493*
Credit risk has increased significantly (Stage 2)	*1,514*	*1,528*	*1,514*	*1,528*
Loans which have objective evidence of impairment (Stage 3)	*5,151*	*5,230*	*5,151*	*5,230*
Guarantees	305	238	305	238
Credit risk has not increased significantly (Stage 1)	*204*	*99*	*204*	*99*
Credit risk has increased significantly (Stage 2)	*-*	*23*	*-*	*23*
Loans which have objective evidence of impairment (Stage 3)	*101*	*116*	*101*	*116*
Total collateral	184,800	178,329	184,800	178,329
Loan portfolio, gross	217,131	207,585	216,849	207,585
Group's / Company's share of provisions	(14,426)	(19,652)	(14,426)	(19,652)
Provisions covered by risk coverage	(4,950)	(4,412)	(4,950)	(4,412)
Loan portfolio, net	197,755	183,521	197,473	183,521
Exposed	6.55%	3.11%	6.42%	3.11%

As at 31 December 2018, the average annual interest rate for the loan portfolio of the Group/Company was 4.15% (31 December 2017: 4.15%).

20 Investment in subsidiaries

In 2018 disbursements were made to the 4nd generation venture capital funds, part of which are classified *as investments in subsidiaries*, but part *as investments in associates*. All these investments are made into newly established venture capital funds with payments made upon call for funds. Altum has the right to appoint fund manager and fund manager is governing each particular venture capital fund. Altum also has ability to unconditionally remove fund manager. This ability expires within two years after certain date determined in each separate agreement with fund manager.

At the Group level the investments in subsidiaries are consolidated.

Company's investments in the share capital of subsidiaries:

	Company 31/12/2018	Company 31/12/2017
KS Overkill Ventures Fund I	231	-
KS Buildit Latvia Pre-Seed Fund	300	-
KS Commercialization Reactor Pre-seed Fund	141	-
KS INEC 1	787	-
KS INEC 2	33	-
KS AIF Imprimatur Seed Fund 2	-	-
KS AIF Imprimatur Venture Fund 2	-	-
Participation in the share capital of subsidiaries	1,492	-

For more information on the structure of Group see Note 39.

Accounting policies of investments in subsidiaries are described in Note 2 (2) and Note 2 (6).

The following table presents information about subsidiaries' volume of net assets as at 31/12/2018 and profit or loss volume in 2018, which is based on audited venture capital funds' financial statements for the year ended 31 December 2018:

	KS Overkill Ventures Fund I	KS Buildit Latvia Pre-Seed Fund	KS Commercialization Reactor Pre-seed Fund	KS INEC 1	KS INEC 2
Net assets value (NAV)	231	300	141	1,050	36
Profit or loss	(186)	(204)	(126)	(22)	(16)

21 Intangible assets

The following is included in the net book value of intangible assets:

	Group	Group	Company	Company
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Computer software	1,347	771	1,347	771
Total intangible assets	1,347	771	1,347	771

The following table presents movements in net book value of intangible assets:

	Group	Group	Company	Company
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Historical cost				
At the beginning of period	6,470	5,791	6,470	5,791
Additions*	765	679	765	679
Disposals**	(2,124)	-	(2,124)	-
As at 31 December	5,111	6,470	5,111	6,470
Accumulated amortisation				
At the beginning of period	5,699	5,623	5,699	5,623
Amortisation charge for the period	189	76	189	76
Disposals**	(2,124)	-	(2,124)	-
As at 31 December	3,764	5,699	3,764	5,699
Net book value at the beginning of period	771	168	771	168
Net book value as at 31 December	1,347	771	1,347	771

*Item *Additions* include 494 thsd euro (2016: 547 thsd euro) relating to development of software to support back-office processes.

** Item *Disposals* include 2,120 thsd euro from accounting software write-off, which was replaced with the new one.

22 Property, plant and equipment

Fully depreciated assets
A number of assets that have been fully depreciated are still in active use by the Group/Company. The total original cost value of these assets as at the end of the year is 7,538 thsd euros (2017: 10,807 thsd euros).

The table below reflects changes in property, plant and equipment of the Group / Company in the reporting period:

	Land and buildings	Vehicles	Office equipment*	Leasehold improvements	Total
Historical cost					
At the beginning of period	4,358	450	6,307	380	11,495
Additions	251	-	579	-	830
Disposals	-	(40)	(1,392)	-	(1,432)
Reclassified (Note 23)	-	17	-	-	17
as at 31 December 2018	4,609	427	5,494	380	10,910
Accumulated depreciation					
At the beginning of period	1,205	448	5,644	324	7,621
Depreciation charge for the period	135	2	281	12	430
Disposals	-	(40)	(1,387)	-	(1,427)
Reclassified (Note 23)	-	17	-	-	17
as at 31 December 2018	1,340	427	4538	336	6,641
Impairment provision					
At the beginning of period	-	-	-	(46)	(46)
Changes in provisions	-	-		5	5
as at 31 December 2018	-	-		(41)	(41)
Net book value at the beginning of period	3,153	2	663	10	3,828
Net book value as at 31 December 2017	3,269	-	956	3	4,228

The table below reflects changes in property, plant and equipment of the Group / Company in 2017 year:

	Land and buildings	Vehicles	Office equipment*	Leasehold improvements	Total
Historical cost					
At the beginning of period	4,130	774	7,154	380	12,438
Additions	238	-	425	-	663
Disposals	(10)	(324)	(1,272)	-	(1,606)
Reclassified	-	-	-	-	-
as at 31 December 2017	4,358	450	6,307	380	11,495
Accumulated depreciation					
At the beginning of period	1,107	765	6,692	312	8,876
Depreciation charge for the period	98	7	223	12	340
Disposals	-	(324)	(1,271)	-	(1,595)
as at 31 December 2017	1,205	448	5,644	324	7,621
Impairment provision					
At the beginning of period	-	-	(4)	(51)	(55)
Changes in provisions	-	-	4	5	9
as at 31 December 2017	-	-	-	(46)	(46)
Net book value at the beginning of period	3,023	9	458	17	3,507
Net book value as at 31 December 2017	3,153	2	663	10	3,828

*Office equipment includes such fixed assets categories as *Furniture and fittings* and *Computers and equipment*, Note 2 (9) item (v).

23 Other assets

	Group	Group	Company	Company
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Financial assets	30,349	16,735	30,349	16,735
Other assets (inventory)	819	1,946	819	1,946
Total other assets (gross)	31,168	18,681	31,168	18,681
Impairment provision for financial assets	(6,049)	(12,849)	(6,049)	(12,849)
Group's / Company's share of provisions	*(3,828)*	*(11,742)*	*(3,828)*	*(11,742)*
*Provisions covered by risk coverage**	*(23)*	*(1,107)*	*(23)*	*(1,107)*
Provisions compensated by risk coverage	*(2,198)*	-	*(2,198)*	-
Total other assets (net)	25,119	5,832	25,119	5,832

** As of January 1, 2018, the Group/Company has recognized the provision for impairment in gross amount, taking into account* the amount covered by Risk Coverage reserve. See Note 2 (17) item (i) for details.

The following table presents Group's/Company's movements in book value of financial assets, thsd. euro in 2018 year:

	Disbursed compensations	Grants*	Financial assets related to loan agreements	Other financial assets	Term deposits of JSC Savings Bank of Latvia being in liquidation	Total
Financial assets						
At the beginning of period	5,073	2,772	1,045	197	7,648	16,735
Changes	621	19,803	97	758	(7,648)	13,631
Reclassified (Note 22)	-	-	-	(17)	-	(17)
As at 31 December 2018	5,694	22,575	1,142	938	-	30,349
Impairment provision						
At the beginning of period	5,073	-	6	122	7,648	12,849
Impact of IFRS 9 adoption**	-	2	-	-	-	2
Changes in Impairment provisions	621	12	70	143	(7,648)	(6,802)
As at 31 December 2018	5,694	14	76	265	-	6,049
Net book value at the beginning of period	-	2,772	1,039	75	-	3,886
Net book value as at 31 December 2018	-	22,561	1,066	673	,	24,300

* Issued grants are assessed for credit loss allowance based on historical ratio of payments made from EU funds that have not been recognised as eligible expenses by competent authority and total payments made from EU funds. All issued grants represent Stage 1 for ECL calculation purposes and there were no changes in staging during the year. There were no major changes in calculated ECL during the year.

** As of January 1, 2018, the Group/Company has recognized the provision for impairment in gross amount, taking into account the amount covered by Risk Coverage reserve. See Note 2 (17) item (i) for details.

The following table presents Group's/Company's movements in book value of financial assets, thsd. euro in 2017 year:

	Disbursed compensations	Grants	Financial assets related to loan agreements	Other financial assets	Term deposits of JSC Savings Bank of Latvia being in liquidation	Total
Financial assets						
At the beginning of period	2,713	-	719	191	7,648	11,271
Changes	2,360	2,772	326	6	-	5,464
As at 31 December 2017	5,073	2,772	1,045	197	7,648	16,735
Impairment provision						
At the beginning of period	2,686	-	10	26	7,648	10,370
Changes in Impairment provisions	2,387	-	(4)	96	-	2,479
As at 31 December 2017	5,073	-	6	122	7,648	12,849
Net book value at the beginning of period	27	-	709	165	-	901
Net book value as at 31 December 2017	-	2,772	1,039	75	-	3,886

23 Other assets (cont'd)

Other assets - assets that have been taken over in the debt collection process and are held to be sold in the ordinary course of business.

The following table presents movements in book value of assets, that have been taken over in the debt collection process, thsd. euro:

	Group	Company
At the beginning of period	3,113	3,113
Additions	271	271
Disposals	(1,141)	(1,141)
Reclassified	-	-
Revaluation	(297)	(297)
as at 31 December 2017	1,946	1,946
Additions	264	264
Disposals	(1,118)	(1,118)
Reclassified	(157)	(157)
Revaluation	(116)	(116)
as at 31 December 2018	819	819

24 Deferred expense

	Group	Group	Company	Company
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Management fees paid in advance	122	65	122	65
Other deferred expense	227	111	227	111
Total deferred expense	349	176	349	176

25 Accrued income

	Group	Group	Company	Company
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Compensation for management expenses of state aid programs	1,717	2,066	1,717	2,066
Other accrued income	6	14	6	14
Total accrued income	1,723	2,080	1,723	2,080

26 Assets held for sale

As at the reporting date, the carrying amount equals the fair value of the instruments.

	Company	Company
	31/12/2018	31/12/2017
Hipo Latvia Real Estate Fund I	10,550	9,013
Hipo Latvia Real Estate Fund II	793	1,552
Assets held for sale	11,343	10,565

The following table presents Company's gains on the revaluation of assets held for sale:

	Company	Company
	01/01/2018-31/12/2018	01/01/2017-31/12/2017 (restated)
Gains on the revaluation of assets held for sale	778	-
Total	778	-

More information is available in Note 2 (9) item (ix) and Note 2 (17) item (iii).

26 Assets held for sale (cont'd)

The major classes of assets and liabilities of *Alternative investment fund Hipo Latvia Real Estate Fund I* and *Alternative investment fund Hipo Latvia Real Estate Fund II* classified as held for sale as at 31 December are, as follows:

	Group	Group
	31/12/2018	31/12/2017
Assets		
Due from other credit institutions and Treasury	3,539	256
Investment property	7,803	12,540
Other assets	-	139
Assets held for sale	11,342	12,935
Liabilities		
Other liabilities	-	2,000
Liabilities directly associated with assets held for sale	-	2,000
Amounts included in Group's Capital and reserve		
Reserves	-	1,839
Reserve of disposal group classified as held for sale	-	1,839

The following table presents Group's gains on the revaluation of assets held for sale:

	Group	Group
	01/01/2018-31/12/2018	01/01/2017-31/12/2017 (restated)
Gains on the revaluation of assets held for sale	408	-
Total	408	-

More information is available in Note 2 (9) item (ix) and Note 2 (17) item (iii).

27 Due to credit institutions

	Group	Group	Company	Company
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Due to credit institutions registered in OECD countries	38,245	46,933	38,245	46,933
Total	38,245	46,933	38,245	46,933

Balances due to credit institutions registered in the OECD countries include loans received by the Group/Company from the European Investment Bank (EIB) of EUR 38,245 thousand, of which EUR 58 thousand constitutes accrued interest expenses.

During the reporting period, the Group/Company repaid EUR 8,855 thousand, of which accrued interest was EUR 175 thousand.

The Ministry of Finance of the Republic of Latvia has issued a guarantee for the loan of EUR 38,187 thousand (Note 41) which is considered a parent guarantee on behalf of the Group/Company.

As at 31 December 2018, the average interest rate for the balances due to credit institutions was 0.41% (2017: 0.41%).

28 Due to general governments

	Group	Group	Company	Company
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Due to government entities	2,724	1,723	2,724	1,723
Loans received from Rural Support Service	7,171	9,685	7,171	9,685
Loans received from the Treasury	38,215	32,201	38,215	32,201
Total due to general governments	48,110	43,609	48,110	43,609

Liabilities due to government entities obligations worth 2,723 thsd euros (2017: 1,723 thsd euros), which, in amount of 1,723 thsd. euros, originate from reduction of capital of ERDFII and ESFII loan funds effected in year 2013 by ALTUM, whereby a share of public financing of ERDFII and ESFII was not repaid to the investors (state companies), although, an agreement was reached with the investors about accounting that amount outside the Statement of financial position of ERDFII and ESFII loan funds, i.e. on the liabilities side of the ALTUM Statement of financial position. In 2018, *Liabilities due to government entities were* increased by 1,001 thsd euros, because of Start-up State Aid Cumulation Lending Programme's funding redistribution.

Item *Loans from Rural Support Service* – in accordance with the Cabinet Regulation No 664 dated 20 July 2010 *Procedure for Administering and Supervising the State and European Union Aid for Agriculture, Rural and Fisheries Development through Establishment of the Loan Fund* and Financing Agreement dated 7 September 2010 concluded among the Ministry of Agriculture, Rural Support Service and ALTUM stipulating the provisions for establishment, operation and supervision of the Loan Fund, absorption of the funds and performance of the Business Plan and its purpose, ALTUM was granted 44, 711 thsd euros (7,114 thsd euros from the European Fisheries Fund (EFF); 37,596 thsd euros – European Agricultural Fund for Rural Development (EAFRD)) to transfer these resources of the Loan Fund to the eligible beneficiaries via financial intermediaries.

As at 31 December 2018, based on the requests for funds received from the Ministry of Agriculture, the Group/Company had repaid to the Rural Support Service (RSS) EUR 35,308 thsd of which EUR 11,855 thsd (EFF – EUR 2,503 thsd; EAFRD – EUR 9,352 thsd) were non-disbursed loan funds and EUR 23,453 thsd (EFF – EUR 2,449 thsd; EAFRD – EUR 21,004 thsd) – the principal amount re-flows from the financial intermediaries.

In the reporting period, the Group/Company had not made any reimbursements to RSS. However, in year 2018, based on the Agreement No 2018/88 dated 29 August 2018 concluded between Altum and Ministry of Agriculture and Section 4.1. and Section 4.2. of the Cabinet of Ministers Regulations No 446 dated 24 July 2018 On the Lending Programmes for Agricultural, Rural and Fisheries Economic Operators, the Group/Company invested EUR 2,5 mln in the Lending Programme for Agricultural and Rural Economic Activities and Lending Programme for Fisheries Economic Activities resulting in a EUR 2 mln reduction of the funding repaid by measure 'Loan Fund' under 'Modernisation 121' and EUR 500 thsd reduction of the funding repaid by measure 'Loan Fund' under 'EFF measures'.

As at the end of year 2018 Group/Company liabilities towards RSS consist of the principal amount of 6,903 thsd euros and accrued interest – 269 thsd euros.

The granted financing is to be repaid by 31 December 2030.

Loans received from the Treasury of Latvia includes the loan of 38,215 thsd euros received by the Group/Company for implementation of land acquisition programmes. In compliance with Articles 9 and 13 of the Cabinet regulation No 381 "Procedure of granting state aid for procurement of agricultural land for producing agricultural produce" of 29 May 2012, the Republic of Latvia and Group/Company concluded loan agreement *No A1/1/F12/296* and the State Treasury on 25 June 2012.

The Group/Company has issued 1,483 loans (2017: 1,253 loans) of 60,198 thsd euros as at 31 December 2018 (2017: 51,465 thsd euros). These assets are pledged. The secured claim amount is 38,215 thsd euros. More information is available in Note 41.

29 Support programme funding and state aid

	Group	Group	Group	Company	Company	Company
	31/12/2018	31/12/2017 (restated)	31/12/2016 (restated)	31/12/2018	31/12/2017 (restated)	31/12/2016 (restated)
Support programme funding	126,959	93,661	98,058	126,959	96,520	96,850
State aid	-	3,968	5,575	-	3,968	5,575

Group/Company has changed the accounting methodology for Support programme funding. For more information see Note 2 (17) item (ii) and Note 2 (19) item (iii).

The table below presents the Risk coverage reserve included in the Support programme funding and State aid, which can be used for covering the Group's credit risk losses as at 31 December 2018, 31 December 2017 and 31 December 2016:

Programme	Programme funding as at 31/12/2018, **EUR '000**	Credit risk cover as at 31/12/2018, **EUR '000**	Provisions covered by risk coverage as at 31/12/2018, EUR **'000**	Net programme funding as at 31/12/2018, **EUR '000**	Programme funding as at 31/12/2017, **EUR '000** (restated)	Credit risk cover as at 31/12/2017, **EUR '000** (restated)	Programme funding as at 31/12/2016, **EUR '000** (restated)	Credit risk cover as at 31/12/2016, **EUR '000** (restated)
ERDF II	11,888	5,208	(984)	10,904	25,269	6,451	25,746	9669
ESF II	1,422	1,225	(363)	1059	6,392	2,436	9,466	3937
Microcredits of Swiss programme	5,435	1,366	(43)	5,392	5,643	1,657	5,711	2201
ERDF I	606	197	(28)	578	1,285	620	1,470	972
ESF I	380	157	(77)	303	1,008	184	987	210
Microcredits	15	-	-	15	605	3	616	5
ERDF II (second round)	5,733	1,662	(186)	5,547	5,528	2,703	5,051	3685
Incubators (from ESF II)	78	20	(2)	76	546	546	545	545
ERAF II 2 Public fund	2,396	317	(16)	2,380	2,485	960	2,485	1691
Fund of Funds and venture capital funds	24,914	19,931	-	24,914	16,424	12,699	24,207	12609
Fund of Funds programme - Start-up loans	2,283	2,282	(354)	1,929	1,316	1,079	625	513
Fund of Funds programme – Microcredits	297	297	(42)	255	257	141	80	44
Fund of Funds programme - Parallel loans	2,143	2,143	(2,044)	99	1,200	1,080	1,200	1080
Fund of Funds programme - Guarantees	14,981	14,981	(4,254)	10,727	9,500	8645	3,522	3205
EEPMB* loan fond	2,388	2,388	-	2,388	2,512	452	2,512	452
EEPMB guarantees	3,008	2,400	(530)	2,478	2,994	2,006	3,051	2044
EEPMB grants	31,305	-	-	31,305	4,856	-	-	-
Housing Guarantee Programme	6,849	6,849	(5,769)	1,080	2,849	2,849	-	-
Social Entrepreneurship Programme	302	-	-	302	-	-	-	-
Start-up State Aid Cumulation Lending Programme	1,000	1,000	(342)	658	2,000	2,000	-	-
GPLEC **	6,158	6,158	(1,090)	5,068	5,000	4,750	5,000	4,750
Other loans to start-ups	2,407	898	(94)	2,313	2,239	1,677	2,481	1,677
Mezzanine Loan Programme	3,806	3,045	(2,906)	900	4,462	3,793	5,322	4,524
Investment Fund Activity***	1,130	836	-	1,130	2,693	2,586	11,441	10,984
Baltic Innovation Fund***	1,860	930	-	1,860	1,420	1,420	-	-
Guarantees and interest grants programme	4,278	4,278	-	4,278	1,904	1,904	-	-
Parallel loans to large entrepreneurs	580	580	-	580	-	-	-	-
Portfolio Guarantee Fund	1,923	1,923	(42)	1,881	-	-	-	-
Parallel loans	2,000	2,000	(21)	1,979	-	-	-	-
Export guarantees	2,030	2,030	(79)	1,951	-	-	-	-
Loans for enterprises in rural territories	2,499	175	(2)	2,497	-	-	-	-
Energy Efficiency Fund	133	-	-	133	-	-	-	-
Total	146,227	85,276	(19,268)	126,959	110,387	62,641	111,518	64,797

*EEPMB – Energy Efficiency Programme for Multi-apartment Buildings
**GPLEC - Guarantee Programme for Clients of State Aid Accumulation, Grace Period and Large Economic Operators
***Programme funding for *Investment Fund Activity* and *Baltic Innovation Fund* has been revised for previous periods. Corrections are due to the changes of accounting methodology for venture capital funds. For more information see Note 2(19) item (iv).

29 Support programme funding and state aid (cont'd)

The table below presents the Risk coverage reserve included in the Support programme funding and State aid, which can be used for covering the Company's credit risk losses as at 31 December 2018, 31 December 2017 and 31 December 2016:

Programme	Programme funding as at 31/12/2018, **EUR '000**	Credit risk cover as at 31/12/2018, **EUR '000**	Provisions covered by risk coverage as at 31/12/2018, EUR **'000**	Net programme funding as at 31/12/2018, **EUR '000**	Programme funding as at 31/12/2017, **EUR '000** (restated)	Credit risk cover as at 31/12/2017, **EUR '000** (restated)	Programme funding as at 31/12/2016, **EUR '000** (restated)	Credit risk cover as at 31/12/2016, **EUR '000** (restated)
ERDFII	11,888	5,208	(984)	10,904	25,269	6,451	25,746	9,669
ESF II	1,422	1,225	(363)	1059	6,392	2,436	9,466	3,937
Microcredits of Swiss programme	5,435	1,366	(43)	5,392	5,643	1,657	5,711	2,201
ERDF I	606	197	(28)	578	1,285	620	1,470	972
ESF I	380	157	(77)	303	1,008	184	987	210
Microcredits	15	-	-	15	605	3	616	5
ERDF II (second round)	5,733	1,662	(186)	5,547	5,528	2,703	5,051	3,685
Incubators (from ESF II)	78	20	(2)	76	546	546	545	545
ERAF II 2 Public fund	2,396	317	(16)	2,380	2,485	960	2,485	1,691
Fund of Funds and venture capital funds	24,914	19,931	-	24,914	16,424	12,699	24,207	12,609
Fund of Funds programme - Start-up loans	2,283	2,282	(354)	1,929	1,316	1,079	625	513
Fund of Funds programme – Microcredits	297	297	(42)	255	257	141	80	44
Fund of Funds programme - Parallel loans	2,143	2,143	(2,044)	99	1,200	1,080	1,200	1,080
Fund of Funds programme - Guarantees	14,981	14,981	(4,254)	10,727	9,500	8,645	3,522	3,205
EEPMB* loan fond	2,388	2,388	-	2,388	2,512	452	2,512	452
EEPMB guarantees	3,008	2,400	(530)	2,478	2,994	2,006	3,051	2,044
EEPMB grants	31,305	-	-	31,305	4,856	-	-	-
Housing Guarantee Programme	6,849	6,849	(5,769)	1,080	2,849	2,849	-	-
Social Entrepreneurship Programme	302	-	-	302	-	-	-	-
Start-up State Aid Cumulation Lending Programme	1,000	1,000	(342)	658	2,000	2,000	-	-
GPLEC **	6,158	6,158	(1,090)	5,068	5,000	4,750	5,000	4,750
Other loans to start-ups	2,407	898	(94)	2,313	2,239	1,677	2,481	1,677
Mezzanine Loan Programme	3,806	3,045	(2,906)	900	4,462	3,793	5,322	4,524
Investment Fund Activity***	1,130	836	-	1,130	2,704	2,596	10,232	9,823
Baltic Innovation Fund***	1,860	930	-	1,860	1,420	1,420	-	-
Guarantees and interest grants programme	4,278	4,278	-	4,278	1,904	1,904	-	-
Parallel loans to large entrepreneurs	580	580	-	580	-	-	-	-
Portfolio Guarantee Fund	1,923	1,923	(42)	1,881	-	-	-	-
Parallel loans	2,000	2,000	(21)	1,979	-	-	-	-
Export guarantees	2,030	2,030	(79)	1,951	-	-	-	-
Loans for enterprises in rural territories	2,499	175	(2)	2,497	-	-	-	-
Energy Efficiency Fund	133	-	-	133	-	-	-	-
Total	146,227	85,276	(19,268)	126,959	110,398	62,651	110,309	63,636

*EEPMB – Energy Efficiency Programme for Multi-apartment Buildings
**GPLEC - Guarantee Programme for Clients of State Aid Accumulation, Grace Period and Large Economic Operators
***Programme funding for *Investment Fund Activity* and *Baltic Innovation Fund* has been revised for previous periods. Corrections are due to the changes of accounting methodology for venture capital funds. For more information see Note 2(19) item (iv).

29 Support programme funding and state aid (cont'd)

Provisions covered by risk coverage

	31/12/2018	31/12/2017	31/12/2016
Provisions for financial guarantees covered by risk coverage (Note 30)	13,162	2,196	1,218
Provisions for loans covered by risk coverage (Note 19)	4,951	2,557	3,105
Provisions loan commitments covered by risk coverage (Note 30)	1,132	-	-
Provisions for financial assets (disbursed compensations) (Note 23)	23	-	-
Total provisions covered by risk coverage	19,268	4,753	4,323

Based on the concluded programme implementation contracts, the funding received could be reduced by the outstanding principal amount of the loans classified as lost, non-repaid loan principal amount and / or disbursements of guarantee compensations. The Group/Company need not have to repay the reductions of funding to the funding provider.
The table below presents the movement of Risk coverage reserve in 2018:

Programme	Programmes' funding as at 31/12/2017, EUR '000	Received funding during report period, EUR' 000	Reallocated funding among the programs, EUR'000	Grants compensation, EUR' 000	Compensation of write-off loan and disbursed compensations, EUR' 000	Impact of IFRS 9 adoption, EUR' 000	Management fees compensated by funding, EUR' 000	Altum management fee, EUR'000	Other changes, EUR' 000	Revaluation of liabilities EUR'000	Programs' funding as at 31/12/2018, EUR '000	Provisions covered by risk coverage as at 31/12/2018, EUR '000	Net programmes funding as at 31/12/2018, EUR '000
ERDFII	25,269	-	(6,655)	-	(32)	(4,405)	-	-	(1,971)	(316)	11,890	(984)	10,904
ESF II	6,392	-	(4,500)	-	(218)	(302)	-	-	(43)	93	1,422	(363)	1059
Microcredits of Swiss programme	5,643	-	-	-	(2)	(100)	-	-	(50)	(56)	5,435	(43)	5,392
ERDF I	1,285	-	-	-	(351)	(291)	-	-	(19)	(17)	606	(28)	578
ESF I	1,008	-	(676)	-	-	-	-	-	37	11	380	(77)	303
Microcredits	605	-	(580)	-	(3)	-	-	-	(7)	-	15	-	15
ERDF II (second round)	5,528	-	-	-	(17)	(476)	-	-	401	297	5,733	(186)	5,547
Incubators (from ESF II)	546	-	(483)	-	-		-	-	10	5	78	(2)	76
ERAF II 2 Public fund	2,485	-	-	-	-	(89)	-	-	-	-	2,396	(16)	2,380
Fund of Funds and venture capital funds	16,424	17,020	(8,420)	-	519	-	(597)	(719)	535	152	24,914	-	24,914
Fund of Funds programme - Start-up loans	1,316	-	904	-	-	(46)	-	-	109	-	2,283	(354)	1,929
Fund of Funds programme – Microcredits	257	-	24	-	-	(11)	-	-	27	-	297	(42)	255
Fund of Funds programme - Parallel loans	1,200	1,160	-	-	-	(217)	-	-	(5)	5	2,143	(2,044)	99
Fund of Funds programme - Guarantees	9,500	-	6,000	-	(519)	-	-	-	-	-	14,981	(4,254)	10,727
EEPMB* loan fond	2,512	-	-	-	-	(129)	-	-	5	-	2,388	-	2,388
EEPMB guarantees	2,994	-	-	-	-	-	-	(37)	51	-	3,008	(530)	2,478
EEPMB grants	4,856	28,000	-	(1,109)	-	-	-	(442)	-	-	31,305	-	31,305
Housing Guarantee Programme	2,849	4,000	-	-	-	-	-	-	-	-	6,849	(5,769)	1,080
Social Entrepreneurship Programme	-	1,209	120	(1,027)	-	-	-	-	-	-	302	-	302
Start-up State Aid Cumulation Lending Programme	2,000	-	(1,000)	-	-	(16)	-	-	16	-	1,000	(342)	658
GPLEC **	5,000	-	1,158	-	-	-	-	-	-	-	6,158	(1,090)	5,068
Other loans to start-ups	2,239	-	(82)	-	-	(136)	-	-	212	171	2,404	(94)	2,313
Mezzanine Loan Programme	4,462	-	-	-	(835)	(264)	-	(261)	705	-	3,807	(2,906)	900
Investment Fund Activity***	2,704	-	2,000	-	-	(983)	(1,378)	(134)	219	(1,298)	1,130	-	1,130
Baltic Innovation Fund***	1,420	-	580	-	-	-	(120)	(20)	-	-	1,860	-	1,860
Guarantees and interest grants programme	1,904	-	2,500	-	-	-	-	-	(126)	-	4278	-	4,278
Parallel loans to large entrepreneurs	-	-	580	-	-	-	-	-	-	-	580	-	580
Portfolio Guarantee Fund	-	-	2,000	-	-	-	-	(77)	-	-	1923	(42)	1,881
Parallel loans	-	-	2,000	-	-	-	-	-	-	-	2000	(21)	1,979
Export guarantees	-	-	2,030	-	-	-	-	-	-	-	2030	(79)	1,951
Loans for enterprises in rural territories	-	-	2,499	-	-	-	-	-	-	-	2,499	(2)	2,497
Energy Efficiency Fund	-	133	-	-	-	-	-	-	-	-	133	-	133
Total	110,398	51,521	-	(2,136)	(1,458)	(7,465)	(2,095)	(1,690)	106	(953)	146,227	(19,268)	126,959

*EEPMB – Energy Efficiency Programme for Multi-apartment Buildings
**GPLEC - Guarantee Programme for Clients of State Aid Accumulation, Grace Period and Large Economic Operators
***Programme funding for *Investment Fund Activity* and *Baltic Innovation Fund* has been revised for previous periods. Corrections are due to the changes of accounting methodology for venture capital funds. For more information see Note 2(19) item (iv).

30 Provisions

	Group	Group	Company	Company
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Provisions for financial guarantees	24,144	14,531	24,144	14,531
Provisions for loan commitments	1,220	-	1,220	-
Provisions for grant commitments	9	-	9	-
Total provisions	25,373	14,531	25,363	14,531

As of adoption of IFRS 9 on 1 January 2018 the principles of establishment of provisions for financial guarantees are regulated by IFRS 9, exposing the financial guarantees for the establishment of the allowances for expected credit losses, as opposed to IAS 39. For more information see Note 2 (5) item (vi) and Note 2 (17) item (i).

Provisions for financial guarantees:

	Group	Group	Company	Company
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Provisions for:				
Onerous contracts*	-	8,544	-	8,544
Other guarantee programmes	10,294	3,818	10,294	3,818
Guarantee activity	1,219	941	1,219	941
Loan guarantees to rural entrepreneurs	2,220	824	2,220	824
Guarantees *under the Mezzanine loan programme*	1,421	391	1,421	391
Housing Guarantee Programme	8,990	13	8,990	13
Total provisions*	24,144	14,531	24,144	14,531
Group's / Company's share of provisions	10,982	14,531	10,982	14,531
Provisions covered by risk coverage**	13,162	-	13,162	-

*On 31 December 2017, total impairment due to credit losses applied to the Group / Company were measured according to IAS 39 and IAS 37, while on 1 January 2018, total impairment due to credit losses applied to the Group/Company consisted of credit losses measured only according to IFRS 9. For more information see Note 2 (17) item (i).

**As of 1 January 2018, Group's /Company's allowances for expected credit losses disclosed at gross value, including the risk coverage amount. Provisions covered by risk coverage as at 1 January 2018 amounts 9,359 thsd euros comprising 2,196 thsd euros originated by applying IAS 39 and 7,163 thsd euros by applying IAS 37 for the period until 31 December 2017. For more information see Note 2 (5) item (vi) and Note 2 (17) item (i). For more information see Note 2 (5) item (vi) and Note 2 (17) item (i).

As a result of the transition to the expected credit loss model, which is basis of IFRS 9, Group/Company has estimated allowances for expected credit losses for loan commitments:

	Group	Group	Company	Company
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Total provisions for loan commitments	1,220	-	1,220	-
Group's / Company's share of provisions	88	-	88	-
Provisions covered by risk coverage	1,132	-	1,132	-

For more information see Note 2 (5) item (vi).

As a result of the transition to the expected credit loss model, which is basis of IFRS 9, Group/Company has estimated allowances for expected credit losses for grant commitments:

	Group	Group	Company	Company
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Total provisions for grant commitments	9	-	9	-
Group's / Company's share of provisions	9	-	9	-
Provisions covered by risk coverage	-	-	-	-

For more information see Note 2 (5) item (vi).

30 Provisions (cont'd)

Movements in the Group's / Company's provisions for financial guarantees, except for Onerous contracts:

	Group	Group	Company	Company
	01/01/2018-31/12/2018	01/01/2017-31/12/2017	01/01/2018-31/12/2018	01/01/2017-31/12/2017
Provisions at the beginning of the period	5,986	7,845	5,986	7,845
Impact of IFRS 9 adaption*	6,123	-	6,123	-
Reclassification IAS 37 (Provisions for onerous contracts) **	8,544	-	8,544	-
Provisions covered by risk coverage*	2,196	-	2,196	-
Provisions as at 1 January 2018	22,849	7,845	22,849	7,845
Increase in provisions (Note 12)	8,174	3,258	8,174	3,258
Decrease in provisions (Note 12)	(6,876)	(5,101)	(6,876)	(5,101)
Currency change	(3)	(16)	(3)	(16)
Provisions at the end of the period	24,144	5,986	24,144	5,986
Group's / Company's share of provisions	10,982	5,986	10,982	5,986
Provisions covered by risk coverage	13,162	2,196***	13,162	2,196***

*For more information see Note 2 (5) item (vi).

** As of adoption of IFRS 9 on 1 January 2018 the principles of establishment of provisions for financial guarantees are regulated by IFRS 9, exposing the financial guarantees for the establishment of the allowances for expected credit losses, as opposed to IAS 39. For more information see Note 2 (17) item (i).

*** According to the Group's/Company's estimates as at December 31, 2017 the guarantee provisions (except for provisions for onerous contracts) should amount to 8,182 thsd euros, of which 2,196 thsd euros are covered from the risk coverage amount.

The Group/Company has performed sensitivity analysis of the Company's credit loss allowance for financial guarantees as at 31 December 2018 and results are presented in the table below:

		Change in real estate prices		Change in GDP	
	Gross book value	+ 5%	- 5%	+ 1%	- 1%
Credit loss allowance for financial guarantees	10,982	(96)	96	(9)	9
Total credit loss allowance for financial guarantees	10,982	(96)	96	(9)	9

The Company uses two macro-economic factors in assessment of the ECL – change in real estate prices and change in GDP. For the purpose of sensitivity analysis, the Company applied the following upward and downward scenarios:

- the 1st year projected real estate prices were adjusted by +/- 5% and this adjustment was applied to the LGD used to calculate the ECL for financial guarantees;
- the 1st year projected GDP were adjusted by +/- 1% and this adjustment was applied to the marginal PD used to calculate the ECL for financial guarantees.

30 Provisions (cont'd)

Changes in the Group's/Company's credit loss allowance and gross carrying amount for financial guarantees in 2018:

	Credit loss allowance				Gross carrying amount			
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total
At 1 January 2018	15,627	267	6,955	22,849	171,753	1,461	9,162	182,376
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
to lifetime (from Stage 1 to Stage 2)	(146)	260	-	114	(1,122)	779	-	(343)
to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(160)	(19)	1,176	997	(1,682)	(41)	1,709	(14)
from credit-impaired to lifetime (from Stage 3 to Stage 2)	-	17	(536)	(519)	-	656	(820)	(164)
to 12-months ECL (from Stage 2 to Stage 1)	3	(8)	1	(4)	24	(31)	-	(7)
New originated or purchased	6,600	-	-	6,600	88,590	-	-	88,590
De-recognised during the period	(1,101)	(2)	(1,212)	(2,315)	(21,201)	(74)	(1,447)	(22,722)
Other movements (changes due to paid out compensation and reclassification from off-balance sheet liabilities to receivables)	(31)	-	(1,351)	(1,382)	(610)	-	(1,863)	(2,473)
Total movements with impact on credit loss allowance charge for the period	5,165	248	(1,922)	3,491	63,999	1,289	(2,421)	62,867
Movements without impact on credit loss allowance charge for the period:								
FX and other movements	-	-	(1)	(1)	-	-	-	-
Modification of contractual cash flows (no movements between stages)*	(1,774)	(43)	(378)	(2,195)	(7,671)	(254)	(423)	(8,348)
Total movements without impact on credit loss allowance charge for the period	(1,774)	(43)	(379)	(2,196)	(7,671)	(254)	(423)	(8,348)
At 31 December 2018	19,018	472	4,654	24,144	228,081	2,496	6,318	236,895

* Ordinary contractual cashflows from repayment of principal.

Breakdown of the Group's / Company's guarantees by their qualitative assessment after the adoption of IFRS 9:

	Group	Group	Company	Company
	31/12/2018	01/01/2018	31/12/2018	01/01/2018
Credit risk has not increased significantly (Stage 1)	228,081	171,753	228,081	171,753
Credit risk has increased significantly (Stage 2)	2,496	1,461	2,496	1,461
Loans which have objective evidence of impairment (Stage 3)	6,317	9,163	6,317	9,163
Total gross	236,895	182,376	236,895	182,376
Impairment allowances	(24,144)	(22,849)	(24,144)	(22,849)
Total net	212 750	159,527	212 750	159,527

See Note 2(17) item (i) for details.

Analysis of the movement in the Group's / Company's provisions for onerous contracts:

	Group	Group	Company	Company
	01/01/2018-31/12/2018	01/01/2017-31/12/2017	01/01/2018-31/12/2018	01/01/2017-31/12/2017
Provisions at the beginning of the period	8,544	9,019	8,544	9,019
Impact of IFRS 9 adaption*	(8,544)	-	(8,544)	-
Provisions as at 1 January 2018	-	9,019	-	9,019
Increase in provisions	-	3,940	-	3,940
Decrease in provisions	-	(4,415)	-	(4,415)
Provisions at the end of the period ended	-	8,544	-	8,544
Group's / Company's share of provisions	-	8,544	-	8,544
Provisions covered by risk coverage	-	-	-	-

As of adoption of IFRS 9 on 1 January 2018 the principles of establishment of provisions for financial guarantees are regulated by IFRS 9, exposing the financial guarantees for the establishment of the allowances for expected credit losses, as opposed to IAS 37. For more information Note 2 (17) item (i).

30 Provisions (cont'd)

Financial guarantees, gross and net amounts:

	Group	Group	Company	Company
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Maximum exposure to credit risk with regard to the off-balance sheet amount	236,895	182,376	236,895	182,376
Provisions for financial guarantees	(24,144)	(5,986)	(24,144)	(5,986)
Off-balance sheet net amount of guarantees	212,751	176,390	212,751	176,390

Loan commitments, gross and net amounts:

	Group	Group	Company	Company
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Loan commitments	19,611	8,788	19,611	8,788
Provisions for loan commitments	(1,220)	-	(1,220)	-
Net amount of loan commitments	18,391	8,788	18,391	8,788

Grant commitments, gross and net amounts:

	Group	Group	Company	Company
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Grant commitments	7,320	365	7,320	365
Provisions for grant commitments	(9)	-	(9)	-
Net amount of loan commitments	7,311	365	7,311	365

For more information on the amount of guarantees, loan and grant commitments see Note 36.

31 Other liabilities

	Group	Group	Company	Company
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Due to customers	1,895	2,148	1,895	2,148
Other liabilities	811	1,616	748	1,340
Total other liabilities	2,706	3,764	2,643	3,488

Due to customers include funds received from clients of the Group/Company to be used for repayment of the loans at a later stage.

Other liabilities include short-term funds, which are connected with other liabilities.

32 Accrued expense

	Group	Group	Company	Company
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Other accrued expense	461	488	461	488
Bonuses of the employees and Board	354	479	354	479
Audit services	15	15	15	15
Total accrued expense	830	982	830	982

33 Issued debt securities

In March 2018, the Company's second bond issue took place totalling EUR 10 million. All bonds are listed on the *Nasdaq Baltic Bond List*.

ISIN	Currency	Number of initially issued securities	Par value	Date of emission	Date of maturity	Discount / Coupon rate, %	Group 31/12/2018	Group 31/12/2017	Company 31/12/2018	Company 31/12/2017
LV0000802353	EUR	20,000	1,000	17.10.2017	17.10.2024	1.3	19,883	19,852	19,883	19,852
LV0000880037	EUR	10,000	1,000	07.03.2018	07.03.2025	1.3	10,060	-	10,060	-
Total issued debt securities							29,943	19,852	29,943	19,852

So called "Green bonds" are financial instruments used to support sustainability projects in Latvia, while providing the Company with an opportunity to diversify Company's funding base and support development of the Baltic Bond market.

For details on the recognition and measurement for these liabilities, refer Note 2 (5) item(*xviii)*.

The next table presents movement of issued debt securities:

	Group 01/01/2018-31/12/2018	Group 01/01/2017-31/12/2017	Company 01/01/2018-31/12/2018	Company 01/01/2017-31/12/2017
at the beginning of the period	19,852	-	19,852	-
Bond issue	10,000	20,000	10,000	20,000
Accrued coupon	370	53	370	53
Coupon pay-out	(260)	-	(260)	-
Amortisation	(19)	(201)	(19)	(201)
At the end of the period	29,943	19,852	29,943	19,852

34 Share capital

The share capital of the Company was as follows:

	31/12/2018		31/12/2017	
	Quantity	EUR	Quantity	EUR
Fully paid share capital				
Ordinary shares	204,862,332	204,862,332	204,862,332	204,862,332
Total fully paid share capital	204,862,332	204,862,332	204,862,332	204,862,332

The decision about establishment of the Company was made by the Latvian Cabinet decision on 17 December 2013. The Company was registered in the Commercial Register on 27 December 2013, having share capital of LVL 400,130, which corresponds to 569,334 euros.

A capital increase was made on 11 September 2014 by investing equity shares of Latvian Guarantee Agency Ltd, the SJSC Latvian Development Finance Institution ALTUM and the SJSC Rural Development Fund. The amount of share capital after its increase was 204,862,333 euros. The face value of each share is 1 euro.

All shares of the JSC Development Finance Institution Altum are owned by the Government of Latvia. The Ministry of Finance was appointed to be the shareholder until 28 February 2015. According to the Development Finance Institution Law that came to effect on 1 March 2015, as of its effective day, the holder of 40% of the financial institution's shares is the Ministry of Finance, the holder of 30% of shares – the Ministry of Economy, and the holder of 30% of shares – the Ministry of Agriculture.

For more information see Note 1 (1).

35 Reserves

Information about the Group's reserves movements below:

	Specific reserves				
	Difference recognised in Group's reorganisation reserve, EUR '000	Reserve capital for Housing Guarantee Programme, EUR '000	General reserve capital, EUR '000	Revaluation reserve of financial assets measured at fair value through other comprehensive income, EUR '000	Reserves, EUR '000
Reserves as at 31/12/2016	(17,259)	7,195	1,829	9,092	857
Change in accounting policy (see Note 2 (19) item (iv))	38	-	-	-	38
Reserves as at 31/12/2016 (restated)	(17,221)	7,195	1,829	9,092	895
Changes of reserves (see Note 2 (17) item (i))	2,394	-	-	-	2,394
Distribution of 2016 year profit of Company	-	-	4,025	-	4,025
Increase of reserve capital	-	2,500	-	-	2,500
(Decrease) in revaluation reserve of financial assets measured at fair value through other comprehensive income (Note 38	-	-	-	(1,161)	(1,161)
Reserves as at 31/12/2017 (restated)	(14,827)	9,695	5,854	7,931	8,653
Impact of IFRS 9 adoption (Note 2 (17))	-	-	-	(1,839)	(1,839)
Reserves as at 01/01/2018 (restated)	(14,827)	9,695	5,854	6,092	6,814
Changes of reserves	(753)	-	-	-	(753)
Distribution of 2017 year profit of Company	-	-	5,884	-	5,884
Increase of reserve capital	-	2,112	-	-	2,112
(Decrease) in revaluation reserve of financial assets measured at fair value through other comprehensive income (Note 38)	-	-	-	(2,495)	(2,495)
Reserves as at 31/12/2018	(15,580)	11,807	11,738	3,597	11,562

Applying the new accounting policy on investments in venture capital funds, Changes of reserves was restated for the previous periods. See more information in Note 2 (19) item (iv).

One of the Group's/Company's reserve capital is related to *Housing Guarantee Programme*. To implement this programme the Group's/Company's reserve capital was increased in 2,112 thsd euros in 2018 and in 2,500 thsd euros in 2017 by Company's shareholders. The reserve capital increase was fully paid.

Information about the Company's reserves movements below:

	Difference recognised in Company's reorganisation reserve, EUR '000	Revaluation reserve of financial assets measured at fair value through other comprehensive income, EUR '000	Reserve capital for Housing Guarantee Programme, EUR '000	General reserve capital, EUR '000	Reserves, EUR '000
Reserves as at 31/12/2016	(15,935)	9,092	7,195	1,829	2,181
(Decrease) in revaluation reserve of financial assets measured at fair value through other comprehensive income (Note 38)	-	(1,161)	-	-	(1,161)
Distribution of 2016 year profit of Company	-	-	-	4,025	4,025
Increase of reserve capital	-	-	2,500	-	2,500
Reserves as at 31/12/2017	(15,935)	7,931	9,695	5,854	7,545
Impact of IFRS 9 adoption (Note 2 (17))	-	(1,839)	-	-	(1,839)
Reserves as at 01/01/2018	(15,935)	6,092	9,695	5,854	5,706
(Decrease) in revaluation reserves of financial assets measured at fair value through other comprehensive income (Note 38)	-	(2,495)	-	-	(2,495)
Distribution of 2017 year profit of Company	-	-	-	5,884	5,884
Increase of reserve capital	-	-	2,112	-	2,112
Reserves as at 31/12/2018	(15,935)	3,597	11,807	11,738	11,207

36 Off balance sheet items and contingent liabilities

EUR '000	Group	Group	Company	Company
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Contingent liabilities:				
outstanding guarantees	236,895	182,376	236,895	182,376
Financial commitments:				
loan commitments	19,611	8,788	19,611	8,788
commitments to venture capital funds	60,258	27,020	60,258	27,020
grant commitments	7,320	-	7,320	-
Total contingent liabilities	324,084	218,184	324,084	218,184

The largest portion of the Group's/Company's off-balance sheet items presents the guarantees issued by the Group/Company. The Company's guarantee portfolio consists of the portfolios of the State aid programmes implemented through guarantees.

Commitments to venture capital funds are contingent liabilities, which are based on agreements between the Group/Company and the venture capital fund which put an obligation on the Group/Company to allocate financial resources to the fund. In the reporting period, the Group/Company concluded several agreements with the 4th generation venture capital funds.
For more information on the classification of the new venture capital funds see Note 39.

Approved funding for the venture capital funds:

	Contract period	Commitment, EUR '000	Approved funding not invested in fund as at 31/12/2018, EUR '000	Approved funding not invested in fund as at 31/12/2017, EUR '000
KS BaltCap LatviaVentureCapital Fund	22.01.2020.	20,000	3,994	4,114
KS Impr.Cap.Technol.Vent.Fund	11.06.2020.	4,966	419	638
KS Imprimatur Capital Seed Fund	11.06.2020.	10,000	755	893
KS ZGI-3	31.12.2020.	11,800	1,236	1,502
KS FlyCap Investment Fund I	31.12.2020.	15,000	1,484	1,875
KS Expansion Capital Fund	31.12.2020.	15,000	299	331
Baltic Innovation Fund	01.01.2029.	26,000	14,667	17,667
KS Overkill Ventures Fund I	09.05.2026.	3,200	2,783	-
KS Overkill Ventures Fund II	09.08.2026.	1,800	1,771	-
KS Buildit Latvia Seed Fund	20.06.2026.	1,800	1,765	-
KS Buildit Latvia Pre-Seed Fund	31.06.2026.	3,200	2,697	-
KS Commercialization Reactor Pre-seed Fund	24.07.2026.	3,200	2,933	-
KS Commercialization Reactor Seed Fund	22.08.2026.	1,800	1,773	-
KS ZGI-4	24.08.2028.	15,000	14,778	-
KS INEC 1	29.11.2028.	5,250	4,449	-
KS INEC 2	29.11.2020.	4,500	4,456	-
Total		142,516	60,259	27,020

36 Off-balance sheet items and contingent liabilities (cont'd)

The following table shows the remaining contractual maturities of the Group's / Company's off-balance sheet assets and contingent liabilities as at 31 December 2018:

EUR '000	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	236,895 *	-	-	-	-	-	236,895
Financial commitments							
loan commitments	19,611	-	-	-	-	-	19,611
grant commitments	7,320	-	-	-	-	-	7,320
commitments to venture capital funds	600	2,100	4,600	10,000	38,000	4,958	60,258
Total financial commitments	27,531	2,100	4,600	10,000	38,000	4,958	87,189
Total	264,426*	2,100	4,600	10,000	38,000	4,958	324,084

* According to IAS 7 "Financial Instruments: Disclosures" requirements the major part of the guarantee portfolio issued by the Group / Company has been classified within maturity "Up to 1 month" thus Total financial liabilities, off-balance sheet items and contingent liabilities substantially exceeds Liquid assets with maturity of "Up to 1 month". Track records of claimed guarantee compensations presents that the volume of guarantees claimed within such terms are considerably less than the amount of the commitment disclosed in the above maturity analyses. As a consequence, the liquidity of the Group / Company is not deteriorated.

The following table shows restated remaining contractual maturities of the Group's / Company's off-balance sheet assets and contingent liabilities as at 31 December 2017:

EUR '000	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	182,376 *	-	-	-	-	-	182,376
Financial commitments							
loan commitments	8,788	-	-	-	-	-	8,788
commitments to venture capital funds	436	714	1,676	3,732	16,246	4,216	27,020
Total financial commitments	9,224	714	1,676	3,732	16,246	4,216	35,808
Total	191,600 *	714	1,676	3,732	16,246	4,216	218,184

* According to IAS 7 "Financial Instruments: Disclosures" requirements the major part of the guarantee portfolio issued by the Group / Company has been classified within maturity "Up to 1 month" thus Total financial liabilities, off-balance sheet items and contingent liabilities substantially exceeds Liquid assets with maturity of "Up to 1 month". Track records of claimed guarantee compensations presents that the volume of guarantees claimed within such terms are considerably less than the amount of the commitment disclosed in the above maturity analyses. As a consequence, the liquidity of the Group / Company is not deteriorated.

37 Cash and cash equivalents

	Group	Group	Company	Company
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Demand deposits with other credit institutions	128,916	100,597	128,536	100,597
Total	128,916	100,597	128,536	100,597

38 Revaluation reserve of financial assets measured at fair value through other comprehensive income

	Group	Group	Company	Company
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
As at 31 December	7,931	9,092	7,931	9,092
Decrease of reserve of disposal group classified as held for sale Due to IFRS 9 adoption*	(1,839)	-	(1,839)	-
As at 1 January	6,092	9,092	6,092	9,092
(Loss) from changes in fair value	(2,472)	(1,161)	(2,472)	(1,161)
(Loss) from sales	(55)	-	(55)	-
Impairment loss*	32	-	32	-
Other comprehensive income (Note 35)	(2,495)	(1,161)	(2,495)	(1,161)
Total at the end of the period	3,597	7,931	3,597	7,931
Reserve of disposal group classified as held for sale	-	(1,839)	-	(1,839)
Revaluation reserve of financial assets measured at fair value through other comprehensive income	3,597	6,092	3,597	6,092

* For more information see Note 2 (5) item (xiv).

39 Related party transactions

Related parties are defined as Council and Board members of the Group/Company, their close relatives, as well as companies under their control.

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/Company's operations are treated as related parties to the Group/Company.

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

The remuneration of the members of the Company's Council and Board in the reporting period amounted to 503 thsd euros (2017: 376 thsd euros) (Note 10).

The Company has entered into number of transactions with other government entities. The most significant were obtaining financing from Investment and Development Agency of Latvia, Ministry of Finance, Ministry of Economics, Rural Support Service and Central Finance and Contracting Agency, which co-finance development programmes of the Company.

The Group's / Company's transactions with related parties in the reporting year ended 31 December 2018 and in the year ended 31 December 2017 are summarised below:

		Received Support programme funding, EUR '000	Issued programme funding or funding paid back, EUR '000
Transactions with shareholders: Ministry of Finance	31/12/2018	-	-
	31/12/2017	-	(336)
Ministry of Economics	31/12/2018	6,244	-
	31/12/2017	5,349	(217)
The Ministry of Welfare	31/12/2018	1,209	(1,027)
	31/12/2017	-	-
Associates: Venture capital funds	31/12/2018	4,553	(6,821)
	31/12/2017	3,030	(3,998)
Other companies owned by Group's shareholders: Rural Support Service	31/12/2018	-	-
	31/12/2017	-	(3,304)
Central Finance and Contracting Agency	31/12/2018	46,180	(1,109)
	31/12/2017	4,946	-

39 Related party transactions (cont'd)

Assessing the value of *Assets held for sale*, the revaluation result of the year 2018 measured at fair value as at 31 December 2018, is included in the Group's profit or loss calculation for 408 thsd euro and in the Company's profit or loss calculation – for 778 thsd euro (Note 26).

The Group's balances from transactions with related parties, including off-balance sheet financial liabilities, as at 31 December 2018 and 31 December 2017 summarised as follows:

		People with significant control (PSC), EUR '000	Transactions with shareholders, EUR '000	Associates, EUR '000	Other companies owned by the Group's shareholders, EUR '000
Due from other credit institutions and Treasury (Note 16)	31.12.2018.	-	-	-	-
	31.12.2017.	-	-	-	-
Financial assets at fair value through profit or loss	31.12.2018.	-	-	-	-
	31.12.2017.	-	-	-	-
Investments in venture capital funds – associates (Note 18)	31.12.2018.	-	-	50,239	-
	31.12.2017.	-	-	53,292	-
	31.12.2017.	-	-	(140)	-
Loans (Note 19)	31.12.2018.	-	-	-	-
	31.12.2017.	-	-	-	-
Assets held for sale (Note 26)	31.12.2018.	11,343	-	-	-
	31.12.2017.	12,935	-	-	-
Due to general governments	31.12.2018.	-	-	-	7,171
	31.12.2017.	-	-	-	9,686
Support programme funding un state aid (Note 29)*	31.12.2018.	-	102,045		23,422
	31.12.2017.	-	87,267	-	10,362
Liabilities directly associated with assets held for sale	31.12.2018.	-	-	-	-
	31.12.2017.	2,000	-	-	-
Other liabilities	31.12.2018.	-	-	-	-
	31.12.2017.	-	-	-	-
Non-controlling interest	31.12.2018.	-	-	-	-
	31.12.2017.	-	-	-	-
Off-balance sheet financial liabilities for venture capital funds (Note 26)	31.12.2018.	-	-	43,952	-
	31.12.2017.	-	-	27,020	-

*Item Support programme funding un state aid was restated for the previous period. See Note 2 (19) item (iv) for details.

The Company's balances from transactions with related parties, including off-balance sheet financial liabilities, as at 31 December 2018 and 31 December 2017 can be summarised as follows:

		People with significant control (PSC), EUR '000	Transactions with shareholders, EUR '000	Associates, EUR '000	Other companies owned by Altum shareholders, EUR '000	Investments in subsidiaries, EUR '000
Investments in venture capital funds – associates (Note 18)	31.12.2018.	-	-	50,239	-	-
	31.12.2017.	-	-	53,292	-	-
	31.12.2017.	-	-	(140)	-	
Investments in subsidiaries (Note 20)	31.12.2018.	-	-	-	-	1,492
	31.12.2017.	-	-	-	-	-
Due to general governments	31.12.2018.	-	-	-	7,171	-
	31.12.2017.	-	-	-	9,685	-
Support programme funding and State aid (Note 29)*	31.12.2018.	-	103,537		23,422	-
	31.12.2017.	-	90,126	-	10,362	-
Off-balance sheet financial liabilities for venture capital funds (Note 26)	31.12.2018.	-	-	43,952	-	-
	31.12.2017.	-	-	27,020	-	-

*Item Support programme funding un state aid was restated for the previous period. See Note 2 (19) item (iv) for details.

39 Related party transactions (cont'd)

The following table provides information regarding the Group:

Legal tittle	Legal address	Investment % in share capital	Classification
Venture capital funds			
KS Otrais Eko Fonds	Darza street 2, Riga, LV-1007	33	Associate
KS Baltcap Latvia Venture Capital Fund	Jaunmoku street 34, Riga, Latvia, LV-1046	67	Associate
KS Imprimatur Capital Technology Venture Fund	Elizabetes street 85a-18, Riga, Latvia, LV-1050	67	Associate
KS Imprimatur Capital Seed Fund	Elizabetes street 85a-18, Riga, Latvia, LV-1050	100	Associate
KS ZGI-3	Daugavgrivas street 21, Riga, Latvia, LV-1048	95	Associate
KS FlyCap investment Fund	Matrozu street 15A, Riga, Latvia, LV-1048	95	Associate
KS Expansion Capital fund	Kr. Barona street 32-7, Riga, Latvia, LV-1011	95	Associate
Baltic Innovation Fund	Eiropean Investment Fund, 37B, avenue J.F. Kennedy, L-2968 Luxembourg	20	Associate
KS Overkill Ventures Fund I	Dzirnavu street 105, Riga, Latvia, LV-1011	100	Subsidiary
KS Overkill Ventures Fund II	Dzirnavu street 105, Riga, Latvia, LV-1011	80	Associate
KS Buildit Latvia Seed Fund	Sporta street 2, Riga, Latvia, LV-1013	80	Associate
KS Buildit Latvia Pre-Seed Fund	Sporta street 2, Riga, Latvia, LV-1013	100	Subsidiary
KS Commercialization Reactor Pre-seed Fund	Brivibas gatve 300 -9, Riga, Latvia	100	Subsidiary
KS Commercialization Reactor Seed Fund	Brivibas gatve 300 -9, Riga, Latvia	80	Associate
KS ZGI-4	Daugavgrivas street 21, Riga, Latvia, LV-1048	60	Associate
KS INEC 1	Kr. Barona street 32-7, Riga, Latvia, LV-1011	75	Subsidiary
KS INEC 2	Kr. Barona street 32-7, Riga, Latvia, LV-1011	90	Subsidiary
KS Imprimatur Seed Fund 2 *	Elizabetes street 85A - 18, Riga, Latvia, LV -1050	90	Subsidiary
KS Imprimatur Venture Fund 2 *	Elizabetes street 85A - 18, Riga, Latvia, LV-1050	75	Subsidiary
Alternative investment funds controlled by the Company			
Hipo Latvia Real Estate Fund I	Elizabetes street 41/43, Riga, Latvia, LV-1010	100	
Hipo Latvia Real Estate Fund II	Elizabetes street 41/43, Riga, Latvia, LV-1010	100	

* Due to failure of raising capital to the extent stipulated in the agreement, decision about termination of operation of KS AIF Imprimatur Seed Fund 2 and KS AIF Imprimatur Venture Fund 2 and initiation of liquidation of the limited partnerships has been taken by unanimous decision of the shareholders. Applications about liquidation have been submitted to Commercial register and Financial Capital Market Commission. However, decisions have not yet been taken.

The above disclosed classification of venture capital fund as subsidiary or associate is only for purposes of financial accounting.

40 Segment information

The management of the Group believe that the Group's operations can be organised info four segments based on the core business activities as follows: loan service, guarantee service, venture capital funds service and other services.

The Group defines its operating segments based on financial products, which are issued to Group clients.

Operating segment information is prepared on the basis of internal reports.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Management board of the Company is the chief operating decision maker.

The Group doesn't provide detailed information on the type of transaction since all the transactions are external.

40 Segment information (cont'd)

Analysis of the operating segments of the Group for the period from January 1, 2018 till December 31, 2018:

	Loan service, thsd EUR	Guarantee service, thsd EUR	Venture capital funds service, thsd EUR	Other services, thsd EUR	Total, thsd EUR
Net interest income	9,715	1,167	46	243	11,171
Net income from fees and commissions	73	182	43	85	383
Net trading income	36	73	4	9	122
Share of (loss) of investment in joint venture and associate	-	-	(1,348)	-	(1,348)
Share of gain or (loss) of investment in joint venture and associate at fair value through profit or loss	-	-	257	-	257
Gains less losses from liabilities at fair value through profit or loss	201	46	(63)	769	953
Other income	627	145	(196)	2,403	2,979
Gains on the revaluation of assets held for sale	-	-	-	408	408
Operating income before operating expenses	10,652	1,613	(1,257)	3,917	14,925
Staff costs	(3,832)	(1,348)	(280)	(1,908)	(7,368)
Administrative expense	(1,855)	(640)	(161)	(861)	(3,517)
Amortisation of intangible assets and depreciation of property, plant and equipment	(326)	(136)	(21)	(137)	(620)
Net impairment provisions	(665)	2,569	-	(1,232)	672
Corporate income tax	-	-	-	-	-
Total segment profit/(loss)	3,974	2,058	(1,719)	(221)	4,092
Investments in venture capital funds - associates	-	-	50,239	-	50,239
Additions of property and equipment, intangible assets and investment property	830	292	61	412	1,595
Total segment assets	277,554	100,213	54,402	63,770	495,939
Total segment liabilities	158,045	55,012	25,901	35,391	274,349

Other services include Land Fund's transactions, service centres for Energy Efficiency Programme for Multi-apartment Buildings, Social Entrepreneurship Programme's grants, transaction, which are connected to the assets that have been taken over in the debt collection process, new state aid development, as well as transactions, which cannot be attributed to state aid programmes.

Restated analysis of the operating segments of the Group for the period from January 1, 2017 till December 31, 2017:

	Loan service, thsd EUR	Guarantee service, thsd EUR	Venture capital funds service, thsd EUR	Other services, thsd EUR	Total, thsd EUR
Net interest income	9,671	1,399	96	208	11,374
Net income from fees and commissions	449	(24)	(191)	(6)	228
Net trading income	(97)	(83)	(10)	(1)	(191)
Share of gain of investment in joint venture and associate*	-	-	1,672	-	1,672
Share of gain of investment in joint venture and associate at fair value through profit or loss*	-	-	910	-	910
Other income	1,623	454	636	5,078	7,791
Operating income before operating expenses	11,646	1,746	3,113	5,279	21,784
Staff costs	(3,653)	(1,203)	(241)	(1,425)	(6,522)
Administrative expense	(2,849)	(275)	(140)	(746)	(4,010)
Amortisation of intangible assets and depreciation of property, plant and equipment	(344)	(40)	(7)	(26)	(417)
Net impairment provisions	(2,390)	2,318	-	(1,929)	(2,001)
Corporate income tax	(43)	(45)	(17)	(20)	(125)
Total segment profit	2,367	2,501	2,708	1,133	8,709
Investments in venture capital funds - associates *	-	-	53,292	-	53,292
Additions of property and equipment, intangible assets and investment property	786	234	49	273	1,342
Total segment assets*	286,204	82,305	59,564	25,595	453,668
Total segment liabilities*	176,196	31,014	14,073	9,537	230,820

* Items were restated for previous period. See note 2 (19) item (iv) for details.

41 Maximum exposure to credit risk

Credit risk is a risk that a customer or cooperation partner of the Group/Company will be unable or unwilling to meet in full their liabilities towards the Group/Company and within the established timeframe.

The table below shows the credit risk exposures of the balance and off-balance sheet items (not including collateral held or other security):

	Group	Group	Company	Copany
	31/12/2018	31/12/2017 (restated)	31/12/2018	31/12/2017 (restated)
Assets exposed to credit risk				
Due from other credit institutions and the Treasury	137,026	109,594	136,646	109,594
Financial assets at fair value through other comprehensive income - investment securities	50,389	61,760	50,389	61,760
Financial assets at amortised cost:				
Investment securities	467	443	467	443
Loans	197,755	192,147	197,473	192,147
Investments in venture capital funds	50,239	53,152	50,239	53,152
Other assets	24,300	3,886	24,300	3,886
Total	460,176	420,982	459,514	420,982

	Group	Group	Company	Company
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Off-balance sheet items exposed to credit risk				
Contingent liabilities (Note 36)	236,895	182,376	236,895	182,376
Financial commitments (Note 36)	87,189	35,808	87,189	35,808
Total	324,084	218,184	324,084	218,184

As at 31 December 2018, a part of the Group/Company assets amounting to EUR 76,402 thousand were pledged. Detailed information on the loan agreements concluded by the Group/Company as at 31 December 2018:

On 16 June 2015, a commercial pledge stemming from loan agreement No A/1/F12/296 and its amendments concluded between the Group/Company and the Ministry of Finance of the Republic of Latvia was renewed. The commercial pledge refers to the loans granted by the Group/Company in compliance with Cabinet Regulation No 381 "Procedure for Granting State Aid for the Acquisition of Agricultural Land Used for Agricultural Production", dated 29 May 2012, as well as future components of the aggregation of property. The secured claim amount is EUR 38,215 thousand (2017: EUR 32,201 thousand) (Note 28).

As at 31 December 2018, the total amount of the Group/Company commitments considered as an aggregation of property in favour of the Ministry of Finance was EUR 38,205 thousand (2017: EUR 46,933 thousand). A guarantee of the Ministry of Finance of the Republic of Latvia amounting to EUR 38,187 thousand was issued to secure the Group's/Company's loan from EIB (Note 27).

Detailed information on commercial pledges stemming from the signed loan agreements, the funding under which was not disbursed, as at 31 December 2018:

Based on the loan agreement No A1/1/F16/474 dated 24 November 2016 between the Group/Company 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 that the Group/Company received from the Treasury and used to issue 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 euro. As at 31 December 2018 the Group/Company has not yet started to use the Treasury's.

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 commercial pledge refers to the funding the Group/Company received from the Treasury and used to issue 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 and Cabinet Regulation No 328 dated 31 May 2016 On Micro Loans and Start-up Loans. The maximum secured claim amount is 39,600 thsd euro. As at 31 December 2018the Group/Company has not yet started to use the Treasury's loan.

41 Maximum exposure to credit risk (cont'd)

On 30 October 2017 a loan agreement with the Council of Europe Development Bank was signed. Within the framework of the loan agreement Group/Company would have the opportunity of borrowing EUR 50 mln for implementation of the energy efficiency improvement measures in multi-apartment buildings. The agreement has been signed to fund Group's/Company's loans within the energy efficiency programme of the multi-apartment buildings. Nevertheless, as at 31 December 2018 Group/Company didn't use the funds of the Council of Europe Development Bank as Group's/Company's loan for implementation of the project involving the multi-apartment buildings could only be issued if the commercial banks refused to fund the project, but in view of the current economic circumstances such occurrences were rear (in year 2017 – 4 loans worth EUR 0.6 mln, in year 2018 – EUR 0.51 mln). These funds will be used only if there is a demand for Group's/Company's loans of at least 12,5 mln which is the minimum amount of the tranche. As stipulated by agreement, the first tranche has to be disbursed within September 2019 and there is no payment on the portion of the loan that has not been disbursed. The loan is not secured by a registered collateral, but presents pari passu rights against other creditors.

Transactions with derivatives, effective as at 31 December 2018, were concluded to minimise the effect of exchange rate fluctuations on the value of balance-sheet items.

Loans are secured mostly by real estate, to a lesser extent – by other types of assets or commercial pledges. Some loans, issued during lending campaigns, are partially covered by guarantees under the State aid programmes. In estimating the loan impairment, the expected cash flows from collateral are taken into account. Information on the loan quality is provided in Note 19.

42 Fair values of assets and liabilities

The Management considers that the fair value of assets and liabilities which in the Group's statement of financial position are not stated at their fair value differs from their carrying values and from those assets and liabilities which are stated at fair value, as follows:

	31/12/2018		31/12/2017 (restated)	
	Carrying amount, EUR '000	Fair value, EUR '000	Carrying amount, EUR '000	Fair value, EUR '000
Assets				
Due from other credit institutions and Treasury	137,026	137,007	109,594	109,594
Financial assets at fair value through profit or loss	1,160	1,160	142	142
Financial assets at fair value through other comprehensive income - investment securities	50,389	50,389	61,760	61,760
Financial assets at amortised cost:				
Investment securities	467	1,148	443	1,208
Individuals	*23,485*	*23,387*	*21,635*	*21,597*
Companies	*174,270*	*173,014*	*170,512*	*169,699*
Loans	197,755	196,401	192,147	191,296
Assets held for sale	11,343	11,343	12,935	12,935
Investments in venture capital funds – associates (investments in BIF)	10,988	10,988	8,394	8,394
Investment properties	14,794	14,794	10,808	10,808
Other assets	24,300	24,300	3,886	3,886
Total assets	448,222	447,530	400,109	400,023
Liabilities				
Due to credit institutions	38,245	38,245	46,933	46,933
Financial liabilities at fair value through profit or loss – derivatives	2	2	-	-
Due to general governments	48,110	47,370	43,609	42,103
Financial liabilities at amortised cost - Issued debt securities	29,943	29,943	19,852	19,852
Liabilities directly associated with assets held for sale	-	-	2,000	2,000
Support programme funding	126,959	126,959	93,661	93,661
Total liabilities	243,259	242,519	206,055	204,549

Information for the fair value of the Group's assets and liabilities as at 31 December 2017 has been restated considering the change of accounting policy in respect of investments in venture capital funds. For more information see Note 2 (19) item (iv).

42 Fair values of assets and liabilities (cont'd)

The Management considers that the fair value of assets and liabilities which in the Company's statement of financial position are not stated at their fair value differs from their carrying values and from those assets and liabilities which are stated at fair value, as follows:

	31/12/2018		31/12/2017 (restated)	
	Carrying amount, EUR '000	Fair value, EUR '000	Carrying amount, EUR '000	Fair value, EUR '000
Assets				
Due from other credit institutions and Treasury	136,646	136,627	109,594	109,594
Financial assets at fair value through profit or loss	-	-	142	142
Financial assets at fair value through other comprehensive income - investment securities	50,389	50,389	61,760	61,760
Financial assets at amortised cost:				
Investment securities	467	1,148	443	1,208
Individuals	*23,451*	*23,353*	*21,635*	*21,597*
Companies	*174,022*	*172,766*	*170,512*	*169,699*
Loans	197,473	196,119	192,147	191,296
Assets held for sale	11,343	11,343	10,565	10,565
Investments in venture capital funds – associates (investments in BIF)	10,988	10,988	8,394	8,394
Investments in subsidiaries	1,492	1,492	-	-
Investment properties	14,794	14,794	10,808	10,808
Other assets	24,300	24,300	3,886	3,886
Total assets	447,892	447,200	397,739	397,653
Liabilities				
Due to credit institutions	38,245	38,245	46,933	46,933
Financial liabilities at fair value through profit or loss – derivatives	2	2	-	-
Due to general governments	48,110	47,370	43,609	42,103
Financial liabilities at amortised cost - Issued debt securities	29,943	29,943	19,852	19,852
Support programme funding	126,959	126,959	96,520	96,520
Total liabilities	243,259	242,519	206,914	205,408

Information for the fair value of the Company's assets and liabilities as at 31 December 2017 has been restated considering the change of accounting policy in respect of investments in venture capital funds. For more information see Note 2 (19) item (iv).

Assets

Where possible, the fair value of securities is estimated on the basis of quoted market prices. For determining the fair value of other securities, the Management has applied the discounted cash flow method where the cash flow forecasts are based on assumptions and up-to-date market information available at the time of measurement. The fair value of loans with interest payable at fixed rates by specified dates was determined by applying the discounted cash flow method, whilst in regard to the fair value of loans with their basic interest rate tied to variable market rates, the Group/Company have assumed that the carrying amount of such loans corresponds to their fair value.

Liabilities

The fair value of financial liabilities stated at amortised cost, for example, the fair value of balances due to credit institutions, is estimated using the discounted cash flow method and the interest rates applied to similar products at the end of the year. The fair value of financial liabilities (for example, balances due to credit institutions) repayable on demand or subject to a variable interest rate, approximately corresponds to their carrying amount.

The value of Support programme funding is stated at fair value. Although these liabilities are interest-free or have an interest rate that differs from the average market rate, they have an additional participation in the profit or loss related to the assets in which the Group/Company has invested using these resources. So the fair value methodology means that all changes in assets value, in which this funding is invested, for example changes in credit risk, changes in venture capital funds' fair value, as well as venture capital funds' management fees immediately reflects on liabilities' value. See Note 2 (17) item (ii) and Note 29 for details.

42 Fair values of assets and liabilities (cont'd)

The following table shows the hierarchy of the Group's financial assets and liabilities measured and disclosed at fair value as at 31 December 2018:

	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Financial assets at fair value through profit or loss	-	-	1,160	1,160
Financial assets at fair value through other comprehensive income - investment securities	36,344	14,045	-	50,389
Assets held for sale	-	-	11,343	11,343
Investments in venture capital funds – associates (investments in BIF)	-	-	10,988	10,988
Investment properties	-	-	14,794	14,794
Assets with fair values disclosed				
Due from other credit institutions and Treasury	132,026	-	4,981	137,007
Financial assets at amortised cost:				
Investment securities	-	1,148	-	1,148
Loans	-	-	196,401	196,401
Other assets	-	-	24,300	24,300
Total assets	168,370	15,193	263,967	447,530
Liabilities measured at fair value				
Financial liabilities at fair value through profit or loss – derivatives	-	2	-	2
Liabilities directly associated with assets held for sale	-	-	-	-
Support programme funding	-	-	126,959	126,959
Liabilities with fair value disclosed				
Due to credit institutions	-	-	38,245	38,245
Due to general governments	-	-	47,370	47,370
Financial liabilities at amortised cost - Issued debt securities	-	-	29,943	29,943
Total liabilities	-	2	242,517	242,519

The following table shows the hierarchy of the Group's financial assets and liabilities measured and disclosed at fair value as at 31 December 2017:

	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Financial assets at fair value through other comprehensive income - investment securities	37,723	24,037	-	61,760
Financial assets at fair value through profit or loss - derivatives	-	142	-	142
Assets held for sales	-	-	10,565	10,565
Investments in venture capital funds – associates (investments in BIF)	-	-	8,394	8,394
Investment properties	-	-	10,808	10,808
Assets with fair values disclosed				
Due from other credit institutions and Treasury	100,594	-	9,000	109,594
Financial assets at amortised cost				
Investment securities	-	1,208	-	1,208
Loans	-	-	191,296	191,296
Other assets	-	-	3,886	3,886
Total assets	138,317	25,387	233,949	397,653
Liabilities measured at fair value				
Financial liabilities at fair value through profit or loss – derivatives	-	-	-	-
Liabilities with fair value disclosed				
Due to credit institutions	-	-	46,933	46,933
Due to general governments	-	-	42,103	42,103
Financial liabilities at amortised cost - Issued debt securities	-	-	19,852	19,852
Support programme funding	-	-	96,520	96,520
Total liabilities	-	-	205,408	205,408

42 Fair values of assets and liabilities (cont'd)

Information for the fair value of the Group's assets and liabilities as at 31 December 2017 has been restated considering the change of accounting policy in respect of investments in venture capital funds. For more information see Note 2 (19) item (iv).

The following table shows the hierarchy of the Company's financial assets and liabilities measured and disclosed at fair value as at 31 December 2018:

	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Financial assets at fair value through profit or loss	-	-	-	-
Financial assets at fair value through other comprehensive income - investment securities	36,344	14,045	-	50,389
Investments in venture capital funds – associates (investments in BIF)	-	-	10,988	10,988
Investments in subsidiaries	-	-	1,492	1,492
Investment properties	-	-	14,794	14,794
Assets held for sale	-	-	11,343	11,343
Assets with fair values disclosed				-
Due from other credit institutions and Treasury	131,646	-	4,981	136,627
Financial assets at amortised cost				
Investment securities	-	1148	-	1,148
Loans	-	-	196,119	196,119
Other assets	-	-	24,300	24,300
Total assets	167,990	15,193	264,017	447,200
Liabilities measured at fair value				
Financial liabilities at fair value through profit or loss – derivatives	-	2	-	2
Support programme funding	-	-	126,959	126,959
Liabilities with fair value disclosed				
Due to credit institutions	-	-	38,245	38,245
Due to general governments	-	-	47,370	47,370
Financial liabilities at amortised cost - Issued debt securities	-	-	29,943	29,943
Total liabilities	-	2	242,517	242,519

The following table shows the hierarchy of the Company's financial assets and liabilities measured and disclosed at fair value as at 31 December 2017:

	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Financial assets at fair value through other comprehensive income - investment securities	37,723	24,037	-	61,760
Financial assets at fair value through profit or loss - derivatives	-	142	-	142
Assets held for sales	-	-	10,565	10,565
Investments in venture capital funds – associates (investments in BIF)	-	-	8,394	8,394
Investments in subsidiaries	-	-	-	-
Investment properties	-	-	10,808	10,808
Assets with fair values disclosed				
Due from other credit institutions and Treasury	100,594	-	9,000	109,594
Financial assets at amortised cost				
Investment securities	-	1,208	-	1,208
Loans	-	-	191,296	191,296
Other assets	-	-	3,886	3,886
Total assets	138,317	25,387	233,949	397,653
Liabilities measured at fair value				
Financial liabilities at fair value through profit or loss – derivatives	-	-	-	-
Liabilities with fair value disclosed				
Due to credit institutions	-	-	46,933	46,933
Due to general governments	-	-	42,103	42,103
Financial liabilities at amortised cost - Issued debt securities	-	-	19,852	19,852
Support programme funding	-	-	96,520	96,520
Total liabilities	-	-	205,408	205,408

42 Fair values of assets and liabilities (cont'd)

Information for the fair value of the Company's assets and liabilities as at 31 December 2017 has been restated considering the change of accounting policy in respect of investments in venture capital funds. For more information see Note 2 (19) item(iv).

Fair value hierarchy of financial assets and liabilities

The Group/Company classify the fair value measurements based on the fair value hierarchy, reflecting the significance of the input data. The fair value hierarchy of the Group/Company has 3 levels:

- *Level 1* includes balances due from other credit institutions and the Treasury as well as listed financial instruments for which an active market exists, if in determining their fair value the Group/Company use unadjusted quoted market prices, obtained from a stock-exchange or reliable information systems;
- *Level 2* includes financial instruments traded over the counter (OTC) and financial instruments having no active market or a declining active market whose fair value measurement are based to a significant extent on observable market inputs (e.g., rates applied to similar instruments, benchmark financial instruments, credit risk insurance transactions, etc.);
- *Level 3* includes financial instruments whose fair value measurements rely on observable market inputs requiring significant adjustment and have to be supported by unobservable market inputs, and financial instruments whose fair value measurements are based to a significant extent on data that cannot be observed on the active market and assumptions and estimates of the Group/Company that enable a credible measurement of the financial instrument's value.

Debt securities

Debt securities are measured applying quoted prices or valuation techniques using observable or unobservable market inputs or combination of the two. The majority of investments in debt securities recognised at fair value are investments in Latvian treasury bills with a quoted price, but not traded on the active market. The Management has estimated that it is reasonable to presume the fair value of these securities to be equal to their quoted price.

Derivatives

The derivatives, measured using valuation techniques which rely on observable market inputs, are mainly currency swaps and forwards. The most frequently applied valuation techniques include discounted cash flow calculations, where inputs include foreign exchange spot and forward rates as well as interest rate curves.

Investments in venture capital funds

The Group/Company have a number of investments in venture capital funds.

The Group's and Company's investments in venture capital funds are classified as *Associates* or *Investments in subsidiaries*. Associate is the entity over which the Group/Company has significant influence, but no control. Significant influence is the power to participate in the financial and operating policy decisions of the investee. Subsidiary is the entity controlled by the Group/Company.

Investments in venture capital funds, except from investment in Baltic Innovation Fund, are measured using the equity method both at the Group and the Company level.

Investments in Baltic Innovation Fund are measured at fair value through profit or loss statement.

See more information on change of accounting policy regarding investments in venture capital funds in Note 2 (19).

Investment properties

The fair value of the Group's / Company's investment property is determined based on reports of independent appraisers, who hold a recognised and relevant professional qualification, and who have had recent experience of the valuation of property in similar locations and of similar category.

Investments in property are measured at fair value applying one or complex of the following three methods:

(a) Market approach;

(b) Income approach;

(c) Cost approach.

The appropriate valuation method is selected depending on the nature of property and acquisition purpose.

Investment property represents agricultural land, which average selling price per hectare is 2,5 thsd euro.

Assets held for sale

Non-current assets or disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amount is recovered through a sale transaction rather than through continuing use. This condition is regarded to be met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, and the sale transaction must be classified as a completed sale within one year from the date of classification.

The fair value of assets held for sale is based on selling price of underling investment properties.

43 Liquidity risk

The table below presents the maturity profile of expected undiscounted future cash flows of the Group's financial liabilities, off-balance liabilities and liquid assets, including balances due from other credit institutions and the Treasury and investment securities as at 31 December 2018. The amounts are based on the expected future cash flow dependent on payment schedules and includes interest while the maturity analysis presented in Note 44 discloses the maturity profile of the actual balances of liabilities and assets.

	Up to 1 year	1 to 5 years	Over 5 years and w/o date	Total
Due to other credit institutions	8,831	26,700	3,143	38,674
Due to general governments	191	764	51,406	52,361
Support programme funding	-	-	126,959	126,959
Issued debt securities	390	21,950	10,130	32,470
Other liabilities	-	-	2,706	2,706
Total financial liabilities	9,412	49,414	194,344	253,170
Off-balance sheet items and contingent liabilities	281,126	38,000	4,958	324,084
Total financial liabilities, off-balance items and contingent liabilities	290,538*	87,414	199,302	577,254
Due from other credit institutions and the State Treasury	137,026	-	-	137,026
Investment securities	1,696	38,839	10,321	50,856
Liquid assets	138,722	38,839	10,321	187,882

* According to IAS 7 "Financial Instruments: Disclosures" requirements the major part of the guarantee portfolio issued by the Group has been classified within maturity "Up to 1 year" thus Total financial liabilities, off-balance sheet items and contingent liabilities substantially exceeds Liquid assets with maturity of "Up to 1 year". Track records of claimed guarantee compensations presents that the volume of guarantees claimed within such terms are considerably less than the amount of the commitment disclosed in the above maturity analyses. As a consequence, the liquidity of the Group is not deteriorated.

The table below presents the maturity profile of expected undiscounted future cash flows of the Group's financial liabilities, off-balance liabilities and liquid assets as at 31 December 2017:

	Up to 1 year	1 to 5 years	Over 5 years and w/o date	Total
Due to other credit institutions	8,857	32,376	6,309	47,542
Due to general governments	163	612	44,869	45,644
Issued debt securities	260	1,300	20,260	21,820
Support programme funding and state aid *	-	-	97,629	97,629
Other liabilities	-	-	3,764	3,764
Total financial liabilities	9,280	34,288	172,831	216,399
Off-balance sheet items and contingent liabilities	197,722	16,247	4,215	218,184
Total financial liabilities, off-balance items and contingent liabilities	207,002**	50,535	177,046	434,583
Due from other credit institutions and the State Treasury	109,594	-	-	109,594
Investment securities	38	51,426	10,739	62,203
Liquid assets	109,632	51,426	10,739	171,797

* Support programme funding and state aid has been restated for the comparative period. For more information see Note 2 (19) item (iv).

** According to IAS 7 "Financial Instruments: Disclosures" requirements the major part of the guarantee portfolio issued by the Group has been classified within maturity "Up to 1 year" thus Total financial liabilities, off-balance sheet items and contingent liabilities substantially exceeds Liquid assets with maturity of "Up to 1 year". Track records of claimed guarantee compensations presents that the volume of guarantees claimed within such terms are considerably less than the amount of the commitment disclosed in the above maturity analyses. As a consequence, the liquidity of the Group is not deteriorated.

43 Liquidity risk (cont'd)

The table below presents the maturity profile of expected undiscounted future cash flows of the Company's financial liabilities, off-balance liabilities and liquid assets as at 31 December 2018:

	Up to 1 year	1 to 5 years	Over 5 years and w/o date	Total
Due to other credit institutions	8,831	26,700	3,143	38,674
Due to general governments	191	764	51,406	52,361
Issued debt securities	390	21,950	10,130	32,470
Support programme funding	-	-	126,959	126,959
Other liabilities	-	-	2,643	2,643
Total financial liabilities	9,412	49,414	194,281	253,107
Off-balance items and contingent liabilities	281,126	38,000	4,958	324,084
Total financial liabilities, off-balance items and contingent liabilities	290,538*	87,414	199,239	577,191
Due from other credit institutions and the State Treasury	136,646	-	-	136,646
Investment securities	1,696	38,839	10,321	50,856
Liquid assets	138,342	38,839	10,321	187,502

* According to IAS 7 "Financial Instruments: Disclosures" requirements the major part of the guarantee portfolio issued by the Company has been classified within maturity "Up to 1 year" thus Total financial liabilities, off-balance sheet items and contingent liabilities substantially exceeds Liquid assets with maturity of "Up to 1 year". Track records of claimed guarantee compensations presents that the volume of guarantees claimed within such terms are considerably less than the amount of the commitment disclosed in the above maturity analyses. As a consequence, the liquidity of the Company is not deteriorated.

The table below presents the maturity profile of expected undiscounted future cash flows of the Company's financial liabilities, off-balance liabilities and liquid assets as at 31 December 2017:

	Up to 1 year	1 to 5 years	Over 5 years and w/o date	Total
Due to other credit institutions	8,857	32,376	6,309	47,542
Due to general governments	163	612	44,869	45,644
Issued debt securities	260	1,300	20,260	21,820
Support programme funding and state aid *	-	-	100,488	100,488
Other liabilities	-	-	3,488	3,488
Total financial liabilities	9,280	34,288	175,414	218,982
Off-balance items and contingent liabilities	197,722	16,247	4,215	218,184
Total financial liabilities, off-balance items and contingent liabilities	207,002**	50,535	179,629	437,166
Due from other credit institutions and the State Treasury	109,594	-	-	109,594
Investment securities	38	51,426	10,738	62,202
Liquid assets	109,632	51,426	10,738	171,796

* Support programme funding and state aid has been restated for the comparative period. For more information see Note 2 (19) item (iv).

** According to IAS 7 "Financial Instruments: Disclosures" requirements the major part of the guarantee portfolio issued by the Company has been classified within maturity "Up to 1 year" thus Total financial liabilities, off-balance sheet items and contingent liabilities substantially exceeds Liquid assets with maturity of "Up to 1 year". Track records of claimed guarantee compensations presents that the volume of guarantees claimed within such terms are considerably less than the amount of the commitment disclosed in the above maturity analyses. As a consequence, the liquidity of the Company is not deteriorated.

44 Analysis of remaining maturities of assets and liabilities

The table below provides an analysis of assets and liabilities by 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. Investments in securities reflect their contractual coupon amortisations.

The table below presents the breakdown of the Group's assets by maturity profile as at 31 December 2018 based on the time remaining from the reporting date to their contractual maturity.

	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 the State Treasury	123,824	8,202	-	5,000	-	-	137,026
Financial assets at fair value through profit or loss	-	-	-	-	-	1,160	1,160
Investment securities	96	1,270	71	260	38,866	10,293	50,856
Loans	10,224	8,387	7,779	18,886	85,664	66,815	197,755
Assets held for sale	11,343	-	-	-	-	-	11,343
Investments in venture capital funds	746	-	-	-	38,505	10,988	50,239
Deferred expense and accrued income	158	-	-	1,703	211	-	2,072
Investment property	-	-	-	-	12,747	2,047	14,794
Property, plant and equipment	-	-	-	-	-	4,228	4,228
Intangible assets	-	-	-	-	-	1,347	1,347
Other assets	1,241	-	-	652	23,226	-	25,119
Total assets	147,632	17,859	7,850	26,501	199,219	96,878	495,939
Liabilities							
Due to credit institutions	-	4,398	-	4,333	26,389	3,125	38,245
Financial assets at fair value through profit or loss – derivatives	2	-	-	-	-	-	2
Due to general governments	-	1	-	-	-	48,109	48,110
Issued debt securities	109	-	-	-	-	29,834	29,943
Deferred income and accrued expense	970	185	228	253	789	586	3,011
Support programme funding and State aid	34,052	-	206	-	11,883	80,818	126,959
Liabilities directly associated with assets held for sale	-	-	-	-	-	-	-
Provisions	25,103	-	-	270	-	-	25,373
Corporate income tax liabilities	-	-	-	-	-	-	-
Other liabilities	2,706	-	-	-	-	-	2,706
Total liabilities	62,942	4,584	434	4,856	39,061	162,472	274,349
Net liquidity	84,690	13,275	7,416	21,645	160,158	(65,594)	221,590

44 Analysis of remaining maturities of assets and liabilities (cont'd)

The table below presents the restated breakdown of the Group's assets by maturity profile as at 31 December 2017 based on the time remaining from the reporting date to their contractual maturity.

	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 (restated)
Assets							
Due from other credit institutions and the State Treasury	100,597	-	-	8,997	-	-	109,594
Investment securities	-	-	-	38	51,426	10,739	62,203
Loans	9,708	11,789	10,152	19,765	-	140,733	192,147
Derivatives	-	142	-	-	-	-	142
Assets held for sale	-	-	-	12,935	-	-	12,935
Investments in venture capital funds*	-	796	-	-	43,962	8,394	53,152
Deferred expense and accrued income	655	1,581	3	3	9	5	2,256
Investment property	-	-	-	234	8,142	2,432	10,808
Property, plant and equipment	-	-	-	-	-	3,828	3,828
Intangible assets	-	-	-	-	-	771	771
Corporate income tax	-	-	-	-	-	-	-
Other assets	271	-	139	-	1,966	3,456	5,832
Total assets	111,231	14,308	10,294	41,972	105,505	170,358	453,668
Liabilities							
Due to credit institutions	-	4,399	-	4,340	31,944	6,250	46,933
Due to general governments	-	-	-	-	5,000	38,609	43,609
Issued debt securities	-	-	-	53	-	19,799	19,852
Deferred income and accrued expense	48	87	451	425	135	1,231	2,377
Support programme funding and State aid*	9,795	-	-	8,290	20,798	58746	97,629
Liabilities directly associated with assets held for sale	-	-	-	2,000	-	-	2,000
Provisions	843	757	66	259	4 199	8,407	14,531
Corporate income tax liabilities	125	-	-	-	-	-	125
Other liabilities	2,962	-	53	319	-	430	3,764
Total liabilities	13,773	5,243	570	15,686	62,076	133,472	230,820
Net liquidity	97,458	9,065	9,724	26,286	43,429	36,886	222,848

*Items *Investments in venture capital funds, Support programme funding* and *State aid service* were restated for the previous period (see Note 2 (19) item (iv)).

44 Analysis of remaining maturities of assets and liabilities (cont'd)

The table below presents the breakdown of the Company's assets by maturity profile as at 31 December 2018 based on the time remaining from the reporting date to their contractual maturity.

	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 the State Treasury	123,444	8,202	-	5,000	-	-	136,646
Investment securities	96	1,270	71	260	38,866	10,293	50,856
Loans	10,224	8,387	7,779	18,886	85,664	66,533	197,473
Derivatives	-	-	-	-	-	-	-
Assets held for sale	11,343	-	-	-	-	-	11,343
Investments in venture capital funds	746	-	-	-	38,505	10,988	50,239
Investments in subsidiaries	-	-	-	-	-	1,492	1,492
Deferred expense and accrued income	158	-	-	1,703	211	-	2,072
Investment property	-	-	-	-	12,747	2,047	14,794
Property, plant and equipment	-	-	-	-	-	4,228	4,228
Intangible assets	-	-	-	-	-	1,347	1,347
Other assets	1,241	-	-	652	23,226	-	25,119
Total assets	147,252	17,859	7,850	26,501	199,219	96,928	495,609
Liabilities							
Due to credit institutions	-	4,398	-	4,333	26,389	3,125	38,245
Derivatives	2	-	-	-	-	-	2
Due to general governments	-	1	-	-	-	48,109	48,110
Issued debt securities	109	-	-		-	29,834	29,943
Deferred income and accrued expense	970	185	228	253	789	586	3,011
Support programme funding and State aid	34,052	-	206	-	11,883	80,818	126,959
Provisions	25,103	-	-	270	-	-	25,373
Corporate income tax liabilities	-	-	-	-	-	-	-
Other liabilities	2,643	-	-	-	-	-	2,643
Total liabilities	62,879	4,584	434	4,856	39,061	162,472	274,286
Net liquidity	84,373	13,275	7,416	21,645	160,158	(65,544)	221,323

44 Analysis of remaining maturities of assets and liabilities (cont'**d)**

The table below presents the restated breakdown of the Company's assets by maturity profile as at 31 December 2017 based on the time remaining from the reporting date to their contractual maturity.

	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 (restated)
Assets							
Due from other credit institutions and the State Treasury	100,597	-	-	8,997	-	-	109,594
Investment securities	-	-	-	38	51,426	10,739	62,203
Loans	9,708	11,789	10,152	19,765	-	140,733	192,147
Derivatives	-	142	-	-	-	-	142
Investments in venture capital funds*	-	796	-	-	43 962	8 394	53 152
Deferred expense and accrued income	655	1 581	3	3	9	5	2,256
Investment property	-	-	-	234	8,142	2,432	10,808
Property, plant and equipment	-	-	-	-	-	3 828	3 828
Intangible assets	-	-	-	-	-	771	771
Corporate income tax liabilities	-	-	-	-	-	-	-
Other assets	271	-	139	-	1,966	3,456	5,832
Assets held for sale	-	-	-	10,565	-	-	10,565
Total assets	111,231	14,308	10,294	39,602	105,505	170,358	451,298
Liabilities							
Due to credit institutions	-	4,399	-	4,340	31,944	6,250	46,933
Due to general governments	-	-	-	-	5,000	38,609	43,609
Issued debt securities	-	-	-	53	-	19,799	19,852
Deferred income and accrued expense	48	87	451	425	135	1,231	2,377
Support programme funding and State aid*	9,625	-	-	1,904	29,392	59 567	100 488
Provisions	843	757	66	259	4 199	8,407	14,531
Corporate income tax liabilities	125	-	-	-	-	-	125
Other liabilities	2,962	-	53	42	-	431	3,488
Total liabilities	13,603	5,243	570	7,023	70,670	134,294	231,403
Net liquidity	97,628	9,065	9,724	32,579	34,835	36,064	219,895

*Items *Investments in venture capital funds*, *Support programme funding* and *State aid service* were restated for the previous period (see Note 2 (19) item (iv)).

45 Assets and liabilities by currency profile

The table below provides data of the Group's assets, liabilities, shareholders' equity and reserves as well as off-balance sheet items outstanding as at 31 December 2018 by currency profile:

	EUR	USD	Other	Total
Assets				
Due from other credit institutions and Treasury	137,012	14	-	137,026
Investment securities	48,931	1,925	-	50,856
Loans	197,457	298	-	197,755
Financial assets at fair value through profit or loss	1,160	-	-	1,160
Investments in venture capital funds	50,239	-	-	50,239
Deferred expense and accrued income	2,072	-	-	2,072
Assets held for sale	11,343	-	-	11,343
Investment property	14,794	-	-	14794
Property, plant and equipment	4,228	-	-	4,228
Intangible assets	1,347	-	-	1,347
Other assets	25,118	1	-	25,119
Total assets	493,701	2,238	-	495,939
Liabilities and shareholders' equity				
Due to credit institutions	38,245	-	-	38,245
Derivatives	2	-	-	2
Due to general governments	48,110	-	-	48,110
Issued debt securities	29,943	-	-	29,943
Deferred income and accrued expense	3,008	3	-	3,011
Support programme funding	126,959	-	-	126,959
State aid	-	-	-	
Provisions	25,373	-	-	25,373
Other liabilities	2,706	-	-	2,706
Liabilities directly associated with assets held for sale	-	-	-	-
Capital and reserves	221,590	-	-	221,590
Total liabilities and shareholders' equity	495,936	3		495,939
Forward foreign exchange (payables)	(1,511)	1,509	-	(2)
Currency position	(2,235)	2,237	-	2

45 Assets and liabilities by currency profile (cont'd)

The table below provides restated data of the Group's assets, liabilities, shareholders' equity and reserves as well as off-balance sheet items outstanding as at 31 December 2017 by currency profile:

	EUR	USD	Other	Total (restated)
Assets				
Due from other credit institutions and Treasury	109,329	265	-	109,594
Investment securities	51,443	10,760	-	62,203
Loans	191,800	347	-	192,147
Derivatives	-	142	-	142
Investments in venture capital funds*	53,152	-	-	53,152
Deferred expense and accrued income	2,253	3	-	2,256
Investment property	10,808	-	-	10,808
Property, plant and equipment	3,828	-	-	3,828
Intangible assets	771	-	-	771
Corporate income tax overpaid	-	-	-	-
Other assets	5,832	-	-	5,832
Asset held for sale	12,935	-	-	12,935
Total assets	442,151	11,517	-	453,668
Liabilities and shareholders' equity				
Due to credit institutions	46,933	-	-	46,933
Due to general governments	43,609	-	-	43,609
Issued debt securities	19,852	-	-	19,852
Deferred income and accrued expense	2,375	2	-	2,377
Support programme funding*	93,661	-	-	93,661
State aid	3,968	-	-	3,968
Provisions	14,424	107	-	14,531
Corporate income tax liabilities	125	-	-	125
Other liabilities	3,764	-	-	3,764
Liabilities directly associated with assets held for sale	2,000	-	-	2,000
Capital and reserves*	221,857	991	-	222,848
Total liabilities and shareholders' equity	452,568	1,100	-	453,668
Forward foreign exchange (payables)	1,089	(947)	-	142
Currency position	(9,328)	9,470	-	142

*Items *Investments in venture capital funds*, *Support programme funding* and *Capital and reserves* were restated for the previous period (see Note 2 (19) item (iv)).

45 Assets and liabilities by currency profile (cont'd)

The table below provides data of the Company's assets, liabilities and shareholders' equity as well as off-balance sheet items outstanding as at 31 December 2018 by currency profile:

	EUR	USD	Other	Total
Assets				
Due from other credit institutions and the State Treasury	136,632	14	-	136,646
Investment securities	48,931	1,925	-	50,856
Loans	197,175	298	-	197,473
Derivatives	-	-	-	-
Investments in venture capital funds	50,239	-	-	50,239
Investment in subsidiaries	1,492	-	-	1,492
Deferred expense and accrued income	2,072	-	-	2,072
Assets held for sale	11,343	-	-	11,343
Investment property	14,794	-	-	14,794
Property, plant and equipment	4,228	-	-	4,228
Intangible assets	1,347	-	-	1,347
Other assets	25,118	1	-	25,119
Total assets	493,371	2,238	-	495,609
Liabilities and shareholders' equity				
Due to credit institutions	38,245	-	-	38,245
Derivatives	2	-	-	2
Due to general governments	48,110	-	-	48,110
Issued debt securities	29,943	-	-	29,943
Deferred income and accrued expense	3,008	3	-	3,011
Provisions	25,373	-	-	25,373
Support programme funding	126,959	-	-	126,959
Other liabilities	2,643	-	-	2,643
Capital and reserves	221,323	-	-	221,323
Total liabilities and shareholders' equity	495,606	3	-	495,609
Forward foreign (payables)	(1,511)	1,509	-	(2)
Currency position	(2,235)	2,237	-	2

45 Assets and liabilities by currency profile (cont'd)

The table below provides restated data of the Company's assets, liabilities and shareholders' equity as well as off-balance sheet items outstanding as at 31 December 2017 by currency profile:

	EUR	USD	Other	Total
Assets				
Due from other credit institutions and the State Treasury	109,329	265	-	109,594
Investment securities	51,443	10,760	-	62,203
Loans	191,800	347	-	192,147
Derivatives	-	142	-	142
Investments in venture capital funds*	53,152			53,152
Deferred expense and accrued income	2,253	3	-	2,256
Investment property	10,808	-	-	10,808
Property, plant and equipment	3,828	-	-	3,828
Intangible assets	771	-	-	771
Investment in subsidiaries	-	-	-	-
Corporate income tax overpaid	-	-	-	-
Other assets	5,832	-	-	5,832
Asset held for sale	10,565	-	-	10,565
Total assets	439,781	11,517	-	451,298
Liabilities and shareholders' equity				
Due to credit institutions	46,933	-	-	46,933
Due to general governments	43,609	-	-	43,609
Issued debt securities	19,852	-	-	19,852
Deferred income and accrued expense	2,375	2	-	2,377
Support programme funding and state aid*	100,488	-	-	10,0488
Provisions	14,424	107	-	14,531
Corporate income tax liabilities	125	-	-	125
Other liabilities	3,488	-	-	3,488
Capital and reserves*	218,904	991	-	219,895
Total **liabilities and shareholders' equity**	450,198	1,100	-	451,298
Forward foreign (payables)	1,089	(947)	-	142
Currency position	(9,328)	9,470	-	142

*Items *Investments in venture capital funds, Support programme funding* and *State aid service* and *Capital and reserves* were restated for the previous period (see Note 2 (19) item (iv)).

46 Minimum future lease payments

The table below discloses minimum future lease payments for premises (there are other lease payments as well, but those are relatively minor):

	Group	Company
Year 2019	117	117
Year 2020	107	107
Year 2021	106	106
Year 2022	106	106
Year 2023	67	67
Total for 5 years	503	503
Year 2024 and later	57	57

47 Financial assets and liabilities by classification principles

The assets and liabilities of the Group as at 31 December 2018 by classification principles are as follows:

	Financial assets/ liabilities at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Financial assets/ liabilities at amortised cost	Financial assets at equity method	Total book value
Assets					
Due from other credit institutions and Treasury	-	-	137,026	-	137,026
Investments by subsidiaries in the shares of companies	1,160	-	-	-	1,160
Investment securities	-	50,389	467		50,856
Loans	-	-	197,755		197,755
Investments in venture capital funds	-	-	-	50 239	50 239
Other financial assets	26,137	-	27,191	-	53,328
Total financial assets	27,297	50,389	362,439	50,239	490,364
Non-financial assets	-	-	5,575	-	5,575
Total assets	27,297	50,389	368,014	50,239	495,939
Liabilities					
Due to credit institutions	-	-	38,245		38,245
Derivatives	2	-	-	-	2
Due to general governments	-	-	48,110	-	48,110
Issued debt securities	-	-	29,943	-	29,943
Liabilities directly associated with assets held for sale	-	-	-	-	-
Support programme funding	126,959	-	-	-	126,959
State aid	-	-	-	-	-
Corporate income tax liabilities	-	-	-	-	-
Other financial liabilities	-	-	31,090	-	31,090
Total financial liabilities	126,961	-	147,388	-	274,349
Non-financial liabilities	-	-	221,590	-	221,590
Total liabilities	126,961	-	368,978	-	495,939

The assets and liabilities of the Group as at 31 December 2017 by classification principles are as follows:

	Financial assets and liabilities held for trading	Financial assets available for sale	Financial assets/ liabilities at amortised cost	Financial assets at equity method	Total book value
Assets					
Due from other credit institutions and Treasury	-	-	109,594	-	109,594
Investment securities	-	61,760	443	-	62,203
Loans	-	-	192,147	-	192,147
Derivatives	142	-	-	-	142
Investments in venture capital funds*	-	-	-	53,152	53,152
Other financial assets	-	12,935	18,896	-	31,831
Total financial assets	142	74,695	321,080	53,152	449,069
Non-financial assets	-	-	4,599	-	4,599
Total assets	142	74,695	325,679	51,170	453,668
Liabilities					
Due to credit institutions	-	-	46,933	-	46,933
Due to general governments	-	-	43,609	-	43,609
Issued debt securities	-	-	19,852	-	19,852
Support programme funding*	-	-	93,661	-	93,661
State aid	-	-	3,968	-	3,968
Corporate income tax liabilities	-	-	125	-	125
Other financial liabilities	-	-	20,672	-	20,672
Liabilities directly associated with assets held for sale	-	-	2,000	-	2,000
Total financial liabilities	-	-	230,820		230,820
Non-financial liabilities*	-	-	222,848	-	222,848
Total liabilities	-	-	453,668	-	453,668

*Items *Investments in venture capital funds, Support programme funding* and *Non-financial liabilities* were restated for the previous period (see Note 2 (19) item (iv)).

47 Financial assets and liabilities by classification principles (cont'd)

The assets and liabilities of the Company as at 31 December 2018 by classification principles are as follows:

	Financial assets/ liabilities at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Financial assets/ liabilities at amortised cost	Financial assets at equity method	Total book value
Assets					
Due from other credit institutions and the State Treasury	-	-	136,646	-	136,646
Investment securities	-	50,389	467	-	50,856
Loans	-	-	197,473	-	197,473
Investments in venture capital funds	-	-	-	50,239	50,239
Investments in subsidiaries	1,492	-	-	-	1,492
Other financial assets	26,137	-	27,191	-	53,328
Total financial assets	27,629	50,389	361,777	50,239	490,034
Non-financial assets	-	-	5,575	-	5,575
Total assets	27,629	50,389	367,352	50,239	495,609
Liabilities					
Due to credit institutions	-	-	38,245	-	38,245
Derivatives	2	-	-	-	2
Due to general governments	-	-	48,110	-	48,110
Issued debt securities	-	-	29,943	-	29,943
Support programme funding	126,959	-	-	-	126,959
State aid	-	-	-	-	-
Corporate income tax liabilities	-	-	-	-	-
Other financial liabilities	-	-	31,027	-	31,027
Total financial liabilities	126,961	-	147,325	-	274,286
Non-financial liabilities	-	-	221,323	-	221,323
Total liabilities	126,961	-	368,648	-	495,609

The assets and liabilities of the Company as at 31 December 2017 by classification principles are as follows:

	Financial assets and liabilities held for trading	Financial assets available for sale	Financial assets/ liabilities at amortised cost	Financial assets at equity method	Total book value
Assets					
Due from other credit institutions and the State Treasury	-	-	109,594	-	109,594
Investment securities	-	61 760	443	-	62,203
Loans	-	-	192,147	-	192,147
Derivatives	142	-	-	-	142
Investments in venture capital funds*	-	-	-	53,152	53,152
Investments in subsidiaries	-	-	-	-	-
Other financial assets	-	10,565	18,896	-	29,461
Total financial assets	142	72,325	321,080	53,152	446,699
Non-financial assets	-	-	4,599	-	4,599
Total assets	142	72,325	325,679	53,152	451,298
Liabilities					
Due to credit institutions	-	-	46,933	-	46,933
Due to general governments	-	-	43,609	-	43,609
Issued debt securities	-	-	19,852	-	19,852
Support programme funding *	-	-	96,520	-	96,520
State aid	-	-	3,968		3,968
Corporate income tax liabilities	-	-	125	-	125
Other financial liabilities	-	-	20,396	-	20,396
Total financial liabilities	-	-	231,403		231,403
Non-financial liabilities*	-	-	219,895	-	219,895
Total liabilities	-	-	451,298		451,298

*Items *Investments in venture capital funds, Support programme funding* and *Non-financial liabilities* were restated for the previous period (see Note 2 (19) item (iv)).

48 Capital management

Capital management is forward-looking and aligned with short-term and long-term business plans and the macroeconomic environment. This is evaluated in the annual budgeting assessment process.

Capital management ensures that the Group and the Company use capital to implement the government-approved state aid programs. Capital planning involves assessing the impact of risks on capital by implementing all approved development programs at the full amount. In accordance with the Development Finance Institution Act, Company before the approval of each program by the Cabinet of Ministers evaluate the impact of the program, risks and expected losses, financial results and costs of program implementation.

In order to assess within the capital government that the amount of equity is in line with the risks arising from the scope of activity, the Group calculates the capital adequacy ratio, Tangible common equity (TCE) relative to the Tangible managed assets (TMA). An explanation of the indicator and the dynamics of changes over the periods is available in the section "Key Financial and Performance Indicators" under Other Notes to the Group's Financial Statements.

49 SUBSEQUENT EVENTS

There are no other subsequent events since the last day of the reporting year, which would have a significant effect on the financial position of the Group /Company.

Translation from Latvian original*

INDEPENDENT **AUDITOR'S REPORT**

To the Shareholder of JSC Finance Development Institution ALTUM

Report on the audit of the separate and consolidated financial statements

Our opinion

In our opinion, the separate and consolidated financial statements as set out on pages 11 to 100 of the accompanying Annual report give a true and fair view of the separate and consolidated financial position of JSC Finance Development Institution ALTUM ("the Company") and its subsidiaries ("the Group") as at 31 December 2018, and of their separate and consolidated financial performance and their separate and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Our opinion is consistent with our additional report to the Audit Committee dated 29 March 2019.

What we have audited

The separate financial statements of the Company and the consolidated financial statements of the Group (together "the financial statements") comprise:

- the separate and consolidated statements of financial position as at 31 December 2018;
- the separate and consolidated statements of comprehensive income for the year then ended;
- the separate and consolidated statements of changes in equity for the year then ended;
- the separate and consolidated cash flow statements for the year then ended; and
- the notes to the separate and consolidated financial statements, which include significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing adopted in the Republic of Latvia (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the separate and consolidated financial statements* section of our report.

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

Independence

We are independent of the Company and the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) and with the ethical requirements of the Law on Audit Services that are relevant to our audit of the financial statements in the Republic of Latvia. We have fulfilled our other ethical

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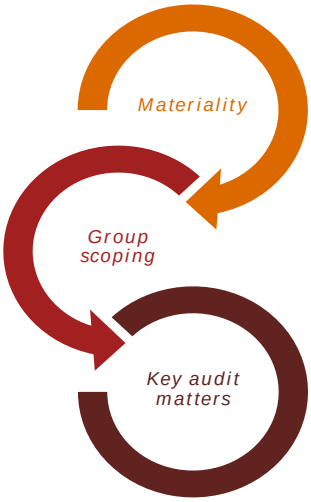
responsibilities in accordance with these requirements and the IESBA Code and the ethical requirements of the Law on Audit Services.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Company and the Group and their related entities are in accordance with the applicable law and regulations in Latvia and that we have not provided non-audit services that are prohibited under Article 37.6 of Law on Audit Services of the Republic of Latvia.

The non-audit services that we have provided to the Company and its subsidiaries, in the period from 1 January 2018 to 31 December 2018, are disclosed in Note 11 to the separate and consolidated financial statements.

Our audit approach

Overview



- Overall Company materiality: EUR 5,000 thousand.
- Overall Group materiality: EUR 5,000 thousand.

- We have audited the separate financial statements of the Company.
- We have performed selected audit procedures over assets owned by subsidiaries and associates.
- Our audit scope covered approximately 99% of the Group's revenues and 98% of the Group's total assets.

- Impairment of loans and financial guarantees
- Accounting for liabilities received at fair value
- Valuation of investments in Venture Capital Funds

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

Materiality

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

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

Overall Company and Group materiality	Overall materiality applied to the Company and to the Group was EUR 5,000 thousand.
How we determined it	1% of total assets
Rationale for the materiality benchmark applied	We chose total assets as the base benchmark because, in our view, it is the benchmark against which the performance of the Company and the Group is most commonly measured by users of the financial statements, and it is a generally accepted benchmark. We chose 1%, which is consistent with quantitative materiality thresholds used for entities in this sector.

We agreed with the Audit Committee that we would report to them the misstatements identified during our audit above EUR 250 thousand, as well as the misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

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

Key audit matter	*How our audit addressed the key audit matter*
Impairment of loans and guarantees *Refer to Notes 2 (16), 12, 19 and 30 to the financial statements on pages 31 – 33, 50, 56 – 59 and 70 - 73 respectively.* We focused on this area because management has adopted IFRS 9 "Financial instruments" in 2018 and implemented expected credit loss (ECL) model for impairment losses on loans and financial guarantees. Management makes complex and subjective judgements over the estimation of the ECL.	We assessed whether the Company's and Group's accounting policies in relation to the ECL of loans and guarantees are in compliance with IFRS 9 by assessing each significant model component for both loans ECL calculation tool and guarantees ECL calculation tool: exposure at default, probability of default and loss given default, definitions of default and significant increase

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Key audit matter	*How our audit addressed the key audit matter*
The key features of the ECL model include classification of loans and guarantees to 3 stages, assessment of credit risk parameters and application of forward looking information. The amount of impairment provision for the Company's and Group's loans and guarantees is based on the model calculations taking into consideration the exposure at default, probability of default, other known risk factors impacting stage of each exposure, and taking into account estimated future cash flows from the loan repayments or sale of collateral (loss given default), and ECL adjustments for expected impact of future macroeconomic scenarios. For all loans and guarantees in Stage 1 and 2 and insignificant loans in Stage 3 the expected credit losses are calculated using the ECL model, while for significant exposures and guarantees in Stage 3 additional specific provisions are calculated based on expert judgement to determine if the ECL calculated in accordance with the model needs to be adjusted. IFRS 9 adoption as at 1 January 2018 resulted in decrease of the Company's and Group's equity by EUR 1,667 thousand due to additional allowances for loans and guarantees. Net credits for expected credit losses for the year ended 31 December 2018 amounted EUR 672 thousand for the Company and Group (refer to note 12).	in credit risk, use of macroeconomic scenarios. Further, we performed detailed testing over reliability of loan and guarantee data, including contract dates, collateral values and types, allocation of stages, including aging and performing/non performing status and other inputs used in ECL calculation tools as at 1 January 2018 and 31 December 2018. We also performed detailed testing over macroeconomic factors used as inputs to ECL calculation tools. In addition, we performed detailed recalculations for selected items in ECL calculation tools to verify that the ECL is calculated correctly and that it is in line with our expectations. We also assessed the ECL adjustments related to specific provisions recognised for Stage 3 loans and guarantees on a sample of loans and guarantees. We verified the rationale of these adjustments and also verified the appropriateness of the valuation of collaterals used in the assessment of the adjustments.
Accounting for liabilities measured at fair value through profit or loss *Refer to Notes 2 (16) and 29 to the financial statements on pages 31 – 33 and 67 – 69 respectively.* The Company and the Group receive financing in the form of long term liabilities to ensure issuance of loans, guarantees and investments into venture capital funds. In the audited year, as the result of the implementation of IFRS 9, the Company and the Group changed their accounting policy for measurement of these liabilities. Due to the fact that these liabilities contain embedded derivatives they are measured at fair value through profit and loss.	We examined the liability contracts signed for a sample of selected programmes and obtained understanding with regards to the principles applied to calculate the fair value of those liabilities. We obtained understanding over the change in the accounting policies coming from the implementation of IFRS 9 which was made by the Company and the Group and assessed whether it was applied in accordance with IFRS requirements. We obtained and verified the calculations of fair value of liabilities performed by the

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Key audit matter	*How our audit addressed the key audit matter*
The calculation of fair value of liabilities was performed for the first time in 2018, therefore, it was considered a key audit matter during our audit, also taking into account the total amount of outstanding liability as at 31 December 2018 being EUR 126,959 thousand.	Company and the Group. We challenged the underlying assumptions for the determination of the discount rate and estimated returns for a sample of selected programmes. We investigated any significant differences identified with the Management.
Valuation of investments in Venture Capital Funds *Refer to Notes 2 (16), 2 (19), 18 and 20 to the financial statements on pages 31 – 33, 36 – 39, 53 – 55 and 60 respectively.* The Company and the Group has significant investments into Venture Capital Funds (VCFs). Depending on whether the Company has control or significant influence over VCFs, they are classified in the financial statements as subsidiaries or associates. Subsidiaries in separate financial statements are measured at fair value through profit and loss, while in consolidated financial statements they are fully consolidated. Associates in both separate and consolidated financial statements are measured using the equity method, except for Baltic Innovation Fund (BIF), which is measured in both separate and consolidated financial statements at fair value through profit or loss. The measurement of VCFs at equity method and BIF is performed using the fair values of underlying investments made by those associates. Because of significance of investments in VCFs to the separate and consolidated financial statements, and the fact that changes in assumptions could lead to material changes in estimated values of net assets, impacting value of investments in VCFs, we considered valuation of these investments as a key audit matter.	We assessed accounting policies used by the Company and the Group and verified that VCFs are appropriately classified as either associates or subsidiaries. We obtained the calculation of fair value of investments held by VCFs prepared by the management of the Company and the Group, as well as calculation of net asset values of VCFs and the full list of the investments made by VCFs into the companies. On a sample basis, we verified detailed calculations of fair value of investments and the amount of net assets value of particular funds. We met with the representatives of the Company and the Group responsible for monitoring of the performance of the underlying investments made by the VCFs to understand current business performance of these investments and expectations of their exit values, which are considered to be representative of fair values of underlying investments. We also reviewed the methodology for investment valuation. We reviewed the agreements register and inspected a sample of new investments made by VCFs in companies. We also assessed the information contained in investment memos prepared on initial investment.

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How we tailored our Group audit scope

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

We are not the statutory auditors of all of the Company's subsidiaries and associates, however, we have performed selected audit procedures over assets owned by subsidiaries and associates. We covered approximately 99% of the Group's revenues and 98% of the Group's total assets.

Reporting on other information, including the Management Report

Management is responsible for the other information. The other information, which we obtained prior to the date of this auditor's report, comprises:

- the Management Report (including Non-financial Statement), as set out on pages 3 to 8 of the accompanying Annual report;
- the Statement of management's responsibility, as set out on page 10 of the accompanying Annual report; and
- the Corporate Governance Report, as set out on pages 114 to 117 of the accompanying Annual report,

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

Our opinion on the separate and consolidated financial statements does not cover the other information, including the Management Report (including Non-financial Statement), the Statement of management's responsibility and the Corporate Governance Report.

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

With respect to the Management Report (including Non-financial Statement), we also performed the procedures required by Law on Audit Services. Those procedures include considering whether the Management Report (including Non-financial Statement) is prepared in accordance with the requirements of the applicable legislation.

In addition, in accordance with the Law on Audit Services of the Republic of Latvia with respect to the Corporate Governance Report, our responsibility is to consider whether the Corporate Governance Report includes the information required in accordance with Article 56.1, section 1, clauses 3, 4, 6, 8 and 9, as well as Article 56.2, section 2, clause 5 of the Financial Instruments Market Law and whether it includes the information stipulated in Article 56.2, section 2, clauses 1, 2, 3, 4, 7 and 8 of the Financial Instruments Market Law.

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

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- the information given in the Management Report (including Non-financial Statement) and the Statement of management's responsibility for the financial year for which the financial statements are prepared is consistent with the financial statements;

- the Management Report (including Non-financial Statement) has been prepared in accordance with the requirements of the Law on Annual Reports and Consolidated Annual Reports of the Republic of Latvia; and

- The Corporate Governance Report, included the information in accordance with Article 56.1, section 1, clauses 3, 4, 6, 8 and 9, as well as Article 56.2, section 2, clause 5 of the Financial Instruments Market Law and it included the information stipulated in Article 56.2, section 2, clauses 1, 2, 3, 4, 7 and 8 or the Financial Instruments Market Law.

Furthermore, in accordance with the Law on Audit Services of the Republic of Latvia with respect to the Non-financial Statement, our responsibility is to report whether the Company has prepared the Non-financial Statement and whether the Non-financial Statement is included in the Report of the board of directors or prepared as a separate element of the Annual Report.

We hereby report that the Company has prepared a Non-financial Statement, and it is included in the Report of the board of directors.

In addition, in light of the knowledge and understanding of the Company and the Group and their environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the Management Report (including Non-financial Statement) and the Statement of management's responsibility that we obtained prior to the date of this auditor's report. We have nothing to report in this respect.

Responsibilities of management and those charged with governance for the separate and consolidated financial statements

Management is responsible for the preparation of the separate and consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of separate and consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Company's and the Group's financial reporting process.

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Auditor's responsibilities for the audit of the separate and consolidated financial statements

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

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

- Identify and assess the risks of material misstatement of the separate and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company or the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate and consolidated financial statements, including the disclosures, and whether the separate and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated

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financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on other legal and regulatory requirements

Appointment

We were appointed as auditors of the Company and the Group on 25 April 2018. This is the first year of our appointment as auditors.

PricewaterhouseCoopers SIA
Certified audit company
License No. 5

Ilandra Lejiņa
Member of the Board

Terēze Labzova-Ceicāne
Certified auditor in charge
Certificate No.184

Riga, Latvia
29 March 2019

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OTHER NOTES TO THE ANNUAL REPORT

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KEY FINANCIAL AND PERFORMANCE INDICATORS

	2017 (restated*)	2016 (restated*)	2015 (restated*)	2018 (audited)	2017 (restated*)
Key financial data					
Net income from interest, fees and commission (tEUR)	11,602*	11,024	16,419	11,554	11,602*
Profit for the period (tEUR)	8,709*	2,170	4,924	4,092	8,709*
Cost to income ratio (CIR)	50.3%*	88,4%	55,8%	77.1%	50.3%*
Employees	230	242	282	222	230
Total assets (tEUR)	453,668*	443,400*	406,918	495,939	453,668*
Tangible common equity (TCE)/total tangible managed assets (TMA)**	35.1%*	36.5%*	37,3%	31.7%	35.1%*
Equity and reserves (tEUR)	222,848*	210,406*	199,610	221,590	222,848*
Total risk coverage: (tEUR)	67,593*	66,508*	41,021	77,815	67,593*
Risk coverage reserve	62,651*	63,636*	40,662	85,276	62,651*
Risk coverage reserve used for provisions	-4,753	-4,323	-1,276	-19,268	-4,753
Portfolio loss reserve (specific reserve capital)	9,695	7,195	1,635	11,807	9,695
Liquidity ratio for 180 days***	482%*	449%	352%	227%	482%*
Financial instruments (gross value)					
Outstanding (tEUR) (by financial instrument)					
Loans	207,585	217,429	218,562	217,131	207,585
Guarantees	182,376	147,175	131,120	236,895	182,376
Venture capital funds	62,299******	64,785*****	44,378*****	59,698	62,299*****
Total	452,260*****	429,389*****	394,060*****	513,724	452,260*****
Number of contracts	14,402	11,449	8,901	18,280	14,402
Volumes granted (tEUR) (by financial instrument)					
Loans	51,869	59,465	52,329	66,443****	51,869
Guarantees	68,615	56,109	50,065	88,765	68,615
Venture capital funds	2,638	21,356	18,798	4,149	2,638
Total	123,122	136,929	121,192	159,357	123,122
Number of contracts	4,697	4,461	2,819	5,464	4,697
Leverage for raised private funding	185%	162%	104%	162%	185%

* Due to change of accounting policy regarding investments in venture capital funds and adoption of IFRS 9 requirements that effects the accounting of public funding risk coverage the comparatives for 2017,2016 and 2015 have been restated.
** TMA includes off-balance sheet item outstanding guarantees.
***Liquidity ratio calculation takes into account previous experience and management estimate of expected amount and timing of guarantees claims.
**** Loans issued.
***** The Venture Capital Funds presented at their gross value.

Definitions of ratios

Net income from interest, fees and commission	Net income from interest, fees and commission consists of the following items in the statement of profit or loss: net interest income and net commission income. It measures operating income of the ALTUM Group.
Cost to income ratio (CIR)	Cost to income ratio (CIR) is calculated by dividing the amount of personnel expenses, administrative expenses and depreciation of intangible assets and property, plant and equipment by operating income before operating expense included in the statement of profit or loss. It measures operating income of the ALTUM.
Tangible common equity (TCE) / tangible managed assets (TMA)	Tangible Common Equity (TCE) is calculated by subtracting the revaluation reserve of available for sale investments from total equity. The amount of total managed assets (TMA) is calculated by adding the guarantees shown as off-balance sheet items to the total assets of ALTUM Group taking into account provisions for these guarantees and subtracting deferred expense, accrued income, property, plant and equipment, intangible assets, other assets and available for sale assets. The items used to calculate both indicators (TCE, TMA) are included in the following financial statements of the ALTUM Group: statement of financial position and statement of changes in equity, and in the following notes: Off-balance items and contingent liabilities and Provisions. TCE/TMA are used to measure the Group's capital adequacy.
Total risk coverage	Total Risk Coverage is the net funding available for covering the expected credit losses of the State aid programmes implemented by ALTUM. Total Risk Coverage is calculated as the total of the Risk Coverage Reserve and Portfolio Loss Reserve (Specific Capital Reserves) less Risk Coverage Reserve Used for Provisions. The expected losses are estimated before implementation of the respective State aid programme and a portion of the public funding intended for coverage of the credit risk losses expected in the respective State aid programme is either allocated to the Portfolio Loss Reserve which is the Group's specific capital reserve or alternatively accounted for separately as provisions for risk coverage under liabilities item "Risk Coverage Reserve". The Portfolio Loss Reserve (specific capital reserve) is disclosed in the Note on Reserves to the financial statements of the ALTUM Group. The Risk Coverage Reserve is disclosed in the Note on Support Programme Funding and State Aid to the financial statements of ALTUM Group. The Risk Coverage Reserve Used for Provisions is the amount of the Risk Coverage Reserve allocated to and used for provisioning for impairment of the loan portfolio and guarantees which in its turn is disclosed in the Note on Loans and Note on Provisions to the financial statements of ALTUM Group. Total Risk Coverage is a key indicator for measuring the risk coverage in the State aid programmes implemented by ALTUM and assessing the long-term financial stability of the Group.
180-day liquidity ratio	The180-day liquidity ratio is calculated by dividing the amount of the balances due from other credit institutions and the Treasury with a maturity of up to 1 month and available-for-sale Investment securities by the amount of the total liabilities maturing within 6 months and total financial commitments maturing within 6 months (off-balance items). The data required for the calculation of the liquidity ratio for 180 days is disclosed in the following notes of the financial statements of the ALTUM Group: Off-balance items and contingent liabilities and Analysis of remaining maturities of assets and liabilities. The 180-day liquidity ratio demonstrates the ability of the ALTUM Group to honour its obligations within the required time and with currently available liquid assets.
Leverage of raised private funding	Private financing leverage ratio measures the additional private funds raised and invested in a project funded by ALTUM. The leverage ratio is determined by assessing the funds which have been invested by a private co-financier and implementer of the project in addition to ALTUM's funding. On average, it makes up to 50 per cent for loans, up to 70 per cent for guarantees and venture capital (except for the first instalment of the Housing Guarantee Programme where the ratio is 795 per cent).
Staff number	Average number of employees in the period excluding members of the Council and the Audit Committee.

Venture capital	The Venture Capital Funds presented at their gross value

RESTATED KEY FINANCIAL AND PERFORMANCE INDICATORS

	2017 (audited)	2017 (restated*)	2016 (audited)	2016 (restated*)	2015 (audited)	2015 (restated*)
Key financial data						
Net income from interest, fees and commission (tEUR)	11,374	11,602*	11,024	11,024	16,419	16,419
Profit for the period (tEUR)	6,945	8,709*	2,170	2,170	4,924	4,924
Cost to income ratio (CIR)	54.7%	50.3%*	88.4%	88.4%	55,8%	55,8%
Employees	230	230	242	242	282	282
Total assets (tEUR)	451,686	453,668*	443,126	443,400*	406,918	406,918
Tangible common equity (TCE)/total tangible managed assets (TMA)**	35.6%	35.1%*	35.2%	36.5%*	37,3%	37,3%
Equity and reserves (tEUR)	222,486	222,848*	210,094	210,406*	199,610	199,610
Total risk coverage: (tEUR)	65,002	67,593*	67,705	66,508*	41,021	41,021
Risk coverage reserve	60,060	62,651*	64,833	63,636*	40,662	40,662
Risk coverage reserve used for provisions	-4,753	-4,753	-4,323	-4,323	-1,276	-1,276
Portfolio loss reserve (specific reserve capital)	9,695	9,695	7,195	7,195	1,635	1,635
Liquidity ratio for 180 days***	507%	482%*	449%	449%	352%	352%
Financial instruments (gross value)						
Outstanding (tEUR) (by financial instrument)						
Loans	207,585	207,585	217,429	217,429	218,562	218,562
Guarantees	182,376	182,376	147,175	147,175	131,120	131,120
Venture capital funds	51,310	62,299****	58,541	64,785****	39,929	44,378*****
Total	441,271	452,260****	423,145	429,389****	389,611	394,060*****

* Due to change of accounting policy regarding investments in venture capital funds and adoption of IFRS 9 requirements that effects the accounting of public funding risk coverage the comparatives for 2017, 2016 and 2015 have been restated.
** TMA includes off-balance sheet item outstanding guarantees.
***Liquidity ratio calculation takes into account previous experience and management estimate of expected amount and timing of guarantees claims.
**** The Venture Capital Funds presented at their gross value.

Corporate Governance Report 2018

The statement of joint-stock company Attīstības Finanšu Institūcija Altum (Development Finance Institution Altum, hereinafter – Altum), unified registration No. 50103744891, on corporate governance in 2018 is prepared in accordance with the requirements of Section 56.2 Paragraph three of the Financial Instruments Market Law.

Altum Group (Altum and the total of companies included in the consolidation group, hereinafter referred as the Group) parent company is a Latvia state-owned company ensuring access of enterprises and households to the financing resources by means of support financial instruments - loans, guarantees, investments in venture capital funds - in areas defined as important and to be supported by the state, thus developing national economy and by such way enhancing mobilization of private capital and financial resources.

Information about management of Altum and Group, representatives of the holders of the capital shares, Audit Committee and administrative structure of Altum is available on Altum's home page www.altum.lv, under section ABOUT ALTUM, sub-section Management and Structure.

Information on the key elements of the internal control and risk management system of Altum that are applied in the preparation of the financial statements

Internal control

The purpose of the internal control system is to provide a reasoned assurance that the assets of Altum and the Group are secured against loss and unauthorised management and use, the operational risks are identified and managed on an ongoing basis, the amount of capital is adequate to cover the identified risks inherent in the operation of Altum and the Group, the transactions are performed in line with the procedures established by Altum and the Group, Altum and the Group operate reasonably, prudently and efficiently in compliance with the requirements of laws and regulations, and the drawbacks identified in the management of Altum and the Group are fixed in due time.

The management of Altum and the Group bears responsibility for establishing a comprehensive internal control system (ICS) and its effective functioning. With respect to preparing the financial statements and the truthfulness, impartiality, clarity and completeness of the information disclosed therein, this responsibility is materialized by selecting adequate accounting methods that are described in internal regulatory documents.

The Internal Audit Division, being an independent body subordinated to Altum's Council with its head appointed based on the decision of Altum shareholders' meeting, supervises the internal control system at Altum and the Group and assesses its adequacy and efficiency. Every year the shareholders' meeting approves the annual action plan for the internal audit about which the Internal Audit Division reports to the Council. The Council supervises how the Board provides for establishment of the internal control system and its efficient operation. The reports on the results of the internal audits and functioning of the management and control system produced by the Internal Audit Division are submitted to the Council. At least once a year the Internal Audit Division drafts and submits to the Shareholders' meeting a report on the accomplished audits and major problems identified, gives its assessment of ICS efficiency and opinion on the measures to be undertaken to improve the operation of the internal control system. An Audit Committee has been established in Altum and the Group, which, inter alia, monitors the efficiency of the internal control and risk management system, in as much as it pertains to maintaining the credibility and impartiality of annual reports and consolidated annual reports. The Audit Committee, in line with the requirements of Law on the Financial Instruments Market, monitors the process of the preparation of financial statements of Altum and the Group, and performs other duties assigned to it by laws and regulations. The Internal Audit Division performs its duties in accordance with the applicable laws and regulations, the international standards for the professional practice in internal auditing and the internal regulations of Altum and the Group.

An Accounting Policy and Rules on Asset Assessment and Establishment of Provisions have been developed in Altum and the Group, the purpose of which is to define principles, methods and rules for the accounting, assessment and disclosure of transactions, facts, events and items in financial statements. The management of Altum and the Group has established an accounting policy that ensures that the financial statements provide information that is reliable and useful for the users of such statements in decision-making. The applied Accounting Policy and Rules on Asset Assessment and Establishment of Provisions ensure that the information disclosed in the statements of Altum and the Group is true, comparable, timely, significant, explicit, relevant and complete. Altum and the Group have developed internal regulatory documents defining the procedure of preparing the financial statements.

Corporate Governance Report 2018 (continued)

Risk management

For risk management, Altum and the Group have developed a risk management system that takes into account the size, structure and operational characteristics of Altum and the Group, as well as restricted options for management of certain risks. Altum and the Group manage the risks affecting their operations in compliance with the risk management internal regulatory documents approved by Altum and the Group that detail and establish the aggregate of measures used in management of the risks inherent to their operations.

The following major risk management principles are followed:

- Risk management is a component of every-day functions
- Altum and the Group identify and assess the probable risks before launching of new products or services
- While assuming the risks, Altum and the Group are capable of long-term pursuit of the delegated aims and assignments
- Altum and the Group do not enter into transactions, operations, etc. entailing risks that endanger their operational stability or may result in substantial damage to their reputation

In their risk management Altum and the Group make use of various risk analysis methods and instruments as well as establish risk limits and restrictions.

Information about the key elements of the risk management system of enterprises involved in consolidation, applied in preparation of consolidated financial statements, is provided in AS Attīstības finanšu institūcija Altum Consolidated and Separate Annual Report for the period ended 31 December 2018.

AS Attīstības finanšu institūcija Altum Consolidated and Separate Annual Report for the period ended 31 December 2018 is publicly available in the premises of Altum at 4 Dome Square, Riga and in electronic form – on the website www.altum.lv, in INVESTORS section under FINANCIAL INFORMATION sub-section and in ABOUT ALTUM section under FINANCIAL INFORMATION sub-section.

Independent audit

An independent audit of the financial statements of Altum and the Group is performed by independent auditors who provide their opinion stating whether the financial statements of Altum and the Group give a true and fair view of the financial position, financial performance and cash flows of Altum and the Group in accordance with the International Financial Reporting Standards as adopted by the European Union. SIA PricewaterhouseCoopers has been approved the auditor of the financial statements of Altum and Group for years 2018-2019. The auditor was selected following the procedure established by the Public Procurement Law. The following qualification criteria were considered in selection of the auditor:
- In the last 3 (three) years has had experience of at least 3 (three) audits performed on the annual reports of credit institutions and/or insurance companies
- Holds a licence for provision of the services of sworn auditor
- The auditor in charge holds the certificate of sworn auditor issued by Latvian Association of Sworn Auditors.
The following criteria were applied to selection of the auditor:
- The lowest price
- Performance of the contract involves an expert on International Financial Reporting Standards

Remuneration policy

Altum publishes information about the principles of remuneration policy alongside the fundamental principles of Altum's code of ethics, which are available at www.altum.lv, under section ABOUT ALTUM, sub-section Personnel/Vacancies.

Corporate social responsibility

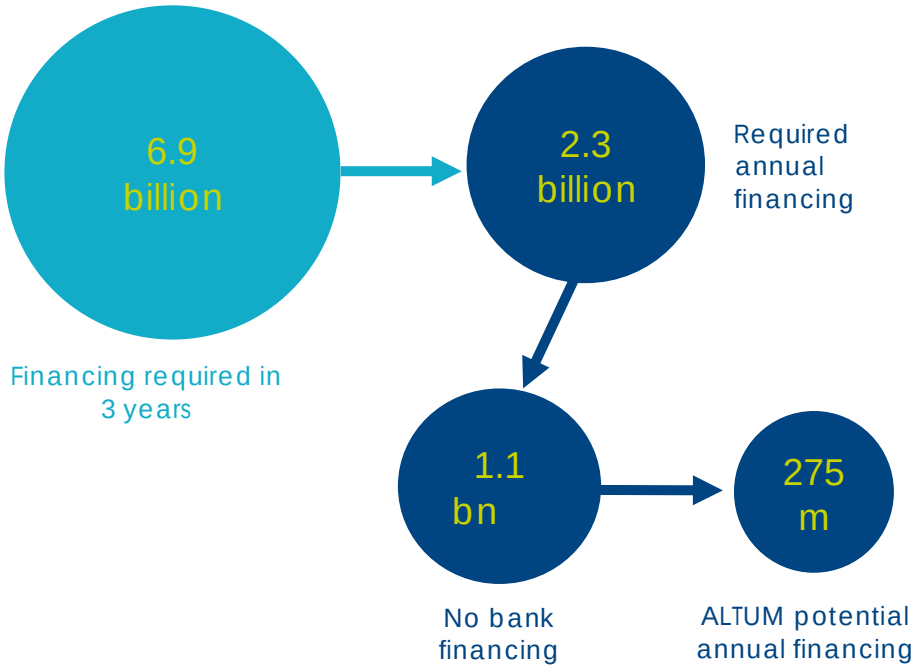
In its day-to-day operations in implementing State-delegated functions to foster development of the national economy and voluntarily taking the responsibility for its impact on society and the environment, Altum acts in compliance with the organization's strategy and values (Team, Excellence, Responsibility).

Altum uses support financial instruments to foster development of the national economy in areas defined as important and to be supported by the state, enhancing mobilization of private capital and financial resources. Altum has a long-term vision to attract financing for the purpose of ensuring the availability of resources to finance business projects important for the national economy.

Corporate Governance Report 2018 (continued)

A study carried out in 2018 found that the amount of Altum's potential financing for Latvian companies, adjusted for the existing market distortions, is EUR 275 million annually.

Amount of financing necessary for Latvian companies, EUR*



*Findings of the study that Altum carried out in cooperation with market and public opinion research centre SKDS, https://www.altum.lv/lv/jaunumi/altum-gatava-butiski-palielinat-valsts-atbalsta-finansejumu-uznemumiem .

ALTUM focuses on sustainable development and innovative solutions for ensuring financial stability.

ALTUM has identified and developed close cooperation with parties relevant to the organization, being aware of ALTUM's special role in the national economy and the needs of the relevant parties. In developing relations with the parties relevant, ALTUM organizes and is involved in consultations, establishes partnerships, organises informational and educational events.

ALTUM focuses on business development and makes no donations, it is part to goal-oriented projects to offer financial support for activities fostering entrepreneurship. ALTUM cooperates with Latvian universities and colleges by enhancing cooperation between science and business, fostering youth involvement in scientific research, supporting quality research and commercialization of innovative ideas.

Through implementing state support programmes in the small- and medium-sized enterprise segment, ALTUM helps energy efficiency and renewable energy measures, thereby contributing to reducing the impact on the environment and popularizing green thinking.

In 2017 Altum issued transferable debt securities as series of notes, registered them with the Latvian Central Depository and quoted on *Nasdaq Riga* for the total face value of EUR 20 million being in compliance with the Green Bond Framework, becoming the first national development institution of the Central and Eastern European countries that has issued the green bonds. In order to assure investors that funding attracted from the issue of the Green Bonds will be used by ALTUM to invest in environment-friendly projects and help attain specific environmental objectives, CICERO (Centre for International Climate and Environmental Research, Oslo) prepared an impartial opinion about the Green Bond Framework of ALTUM. CICERO recognised that the system of financial management and reporting of the funds acquired as a result of the issue of the notes complied with high standards. The funding attracted from the issue of the Green Bonds is used to fund sustainable business projects in the fields of energy efficiency, energy generation from renewable energy resources, green buildings and transport, including energy service companies (ESCO) that provide services to the companies in these fields.

Corporate Governance Report 2018 (continued)

For the purposes of improving the legal and social situation of its employees and creating a positive working environment based on justice, mutual trust, understanding and openness that would help achieve the established goals, Altum has concluded a Collective Agreement.

Corporate Governance Report 2018 is publicly available at Altum's premises at 4 Dome Square, Riga and in electronic form – on the website www.altum.lv, in INVESTORS section under FINANCIAL INFORMATION sub-section.

Reinis Bērziņš
Chairman of the Board

29 march 2019