

JSC DEVELOPMENT FINANCE INSTITUTION ALTUM

Consolidated and Separate Annual Report
for the year ended 31 December 2019

(the 6th reporting period)

TABLE OF CONTENTS	Page
Altum Group	2
Management Report	3 - 10
Supervisory Council and Management Board	11
Statement of Management's Responsibility	12
Financial statements:	
Statement of Comprehensive Income	13
Statement of Financial Position	14
Consolidated Statement of Changes in Equity	15
Company's Statement of Changes in Equity	16
Statement of Cash Flows	17
Notes to the Financial Statements	18 - 88
Independent Auditors' Report	89 - 95
Other Notes to the Annual Report	96 - 105

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Altum Group

MISSION We help Latvia grow!

VISION To be a partner and financial expert in economic development

VALUES Excellence / Team / Responsibility

JSC Development Finance Institution Altum - a parent company of Altum Group is a financial institution owned by the state of Latvia that implements the aid and development programmes by means of financial instruments and grants, pursues the state's policy in the national economy and provides for execution of other government assignments stipulated and delegated by laws and regulations. Closing of market gaps by the help of various support instruments that enhance development of the national economy is the fundamental purpose of Altum's activities.

Long-term objectives until 2021

Following strategic development directions and long-term objectives are set in the approved JSC Development Finance Institution Altum Strategy for the period 2019 – 2021:

- Major financial objective in implementation of the state aid programmes – positive return on Altum's capital.
- Major non-financial objective is to support and promote availability of finances to the business and development of the national economy.
- Priority directions of Altum are: issuing of guarantees and their servicing, venture capital investments, implementation of energy efficiency programmes with regard to both – heat insulation of multi-apartment buildings and corporate segment, development of the Latvian Land Fund as well as initiation of new projects by expanding the range of the financial instruments offered.
- Main target segments: support to entrepreneurs; energy efficiency; support to farmers; support to specific categories of persons; management of the Latvian Land Fund.



Management Report

Activity during the reporting period

In 2019, the Development Finance Institution Altum group (hereinafter – the Group) and the Group's parent company, the joint-stock company Development Finance Institution Altum (hereinafter – the Company), earned a profit of EUR 8.1 million.

Key financial and performance indicators of the Group

	2019 (audited)	2018 (audited)	2017 (restated*)
Key financial data			
Net interest income (EUR '000) **	11 569	11 302 **	11 602 *
Profit for the period (EUR '000)	8 131	4 092	8 709 *
Cost to income ratio (CIR) ***	52.6%	74.8% ***	50.3% *
Employees	203	222	230
Total assets (EUR '000)	560 061	495 939	453 668 *
Tangible common equity (TCE)/total tangible managed assets (TMA) ****	29.4%	31.7%	35.1% *
Equity and reserves (EUR '000)	232 738	221 590	222 848 *
Total risk coverage: (EUR '000)	87 456	77 815	67 593 *
Risk coverage reserve	99 778	85 276	62 651 *
Risk coverage reserve used for provisions	(27 829)	(19 268)	(4 753)
Portfolio loss reserve (specific reserve capital)	15 507	11 807	9 695
Liquidity ratio for 180 days *****	582%	227%	482% *
Financial instruments (gross value)			
Outstanding (EUR '000) (by financial instrument)			
Loans	240 412	217 131	207 585
Guarantees	284 232	236 895	182 376
Venture capital funds	68 331	59 698	62 299
Total	592 975	513 724	452 260
Number of contracts	22 022	18 280	14 402
Volumes issued in the period (EUR '000) (by financial instrument)			
Loans	71 559	66 443	51 869
Guarantees	98 240	88 765	68 615
Venture capital funds	9 022	4 149	2 638
Total	178 821	159 357	123 122
Number of contracts	5 466	5 464	4 697
Total contribution to economy, including the participation of the final recipients, by volumes issued in the period (EUR '000)	531 661	460 045	370 560
Leverage for raised private funding	142%	162%	185%
Volume of support programmes funding per employee (tEUR '000)	2 915	2 314	1 966
Long-term rating assigned by Moody's Investors Service	Baa1	Baa1	Baa1

* Due to the change of accounting policy on investments in venture capital funds and adoption of IFRS 9 requirements that affect the accounting of public funding risk coverage the comparatives for 2017 have been restated.

** Due to reclassification of fees and commission related to lending activities following the industry practise, excludes fees and commission not related to lending activities, the comparatives for 2018 have been reclassified with subsequent ratio recalculation.

*** Due to reclassification of staff and administrative costs to be compensated as well as respective income on compensation, the comparatives for 2018 have been reclassified with subsequent ratio recalculation.

**** TMA, taking into account the net outstanding guarantees recorded in the off-balance sheet.

***** Liquidity ratio calculation takes into account the previous experience and management estimate of expected amount and timing of guarantees claims.

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 2019, the Group held a (gross) portfolio of financial instruments at a total value of EUR 593 million issued for 22,022 projects under the support programmes.

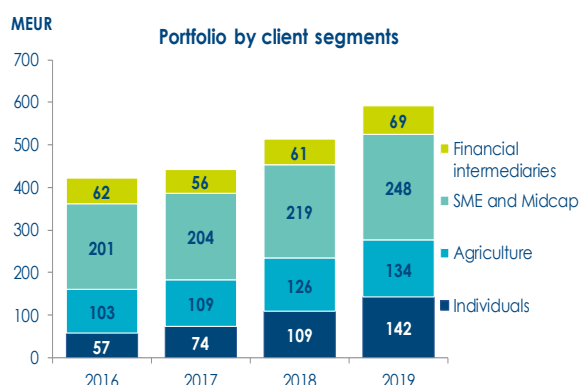
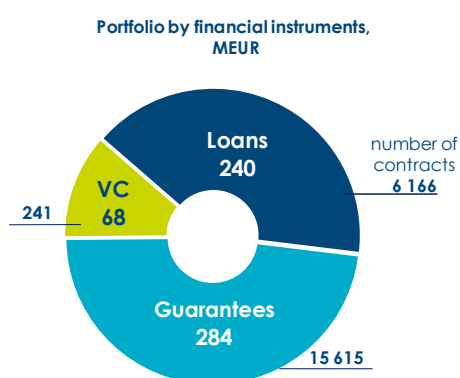
In 2019, the portfolio of the Group's financial instruments increased by 15.4% (EUR 79.3 million) in terms of volume and by 20.5% in terms of the number of projects (by 3,742 projects).

Management Report (cont'd)

Among the financial instruments, the guarantee portfolio had the most rapid growth in 2019 increasing by 20% in terms of volume (+EUR 47.3 million) and by 31% in terms of the number of transactions, while the venture capital funds increased by 14.5% (+EUR 8.6 million) in terms of volume and by 17% in terms of the number of transactions. The loan portfolio increased by 10.7% (+EUR 23.3 million) in terms of volume and by 0.26% in terms of the number of transactions.

In 2019, the greatest increase in the guarantee portfolio was mainly because of credit guarantees to enterprises (+EUR 23.1 million), Housing Guarantees for Families with Children (+EUR 18.2 million), Guarantee Programme for Improvement of Energy Efficiency of Multi-apartment Buildings (EPPMB) (+EUR 10.4 million) as well as SME Portfolio Guarantee Programme (+EUR 8.9 million) and Housing Guarantees for Young Professionals (+EUR 6.4 million).

In 2019, the greatest growth of the loan portfolio was ensured by the following: land leaseback transactions (+EUR 7.9 million), loans for acquisition of agricultural land intended for agricultural production (+EUR 7.9 million), SME growth loans (+EUR 7.3 million) and SME growth loans for the company's energy efficiency and renewable (+EUR 6.2 million), which are funded by green bonds.

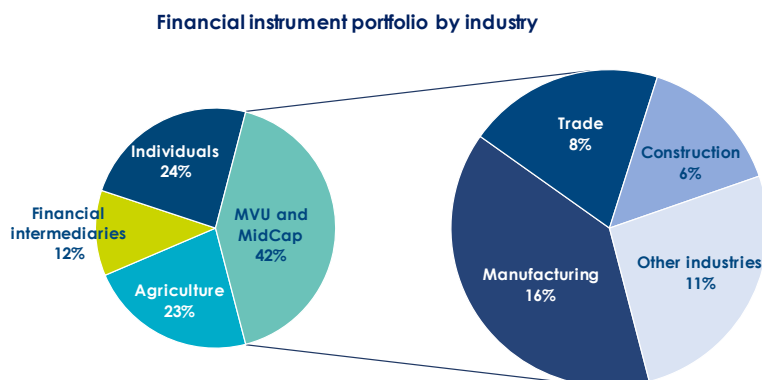


Group 31/12/2019

The portfolio of the Group's financial instruments is broken down as follows: the largest segment is that of SMEs and Midcaps – 41.9%, Individuals – accounts for 23.9%, the segment of Agriculture – 22.6% and Financial Intermediaries – 11.6%.

In 2019, the volume of the financial instrument portfolio increased in all segments – Individuals +30.5% (+EUR 33.1 million), SMEs and Midcaps +13.4% (+EUR 29.3 million), Agriculture + 6.7% (+EUR 8.4 million) and Financial Intermediaries +13.9% (+EUR 8.4 million).

As at 31 December 2019, manufacturing (16%), trade (8%) and construction (6%) sectors constituted the biggest proportion in the SME and Midcap segment.



Group 31/12/2019

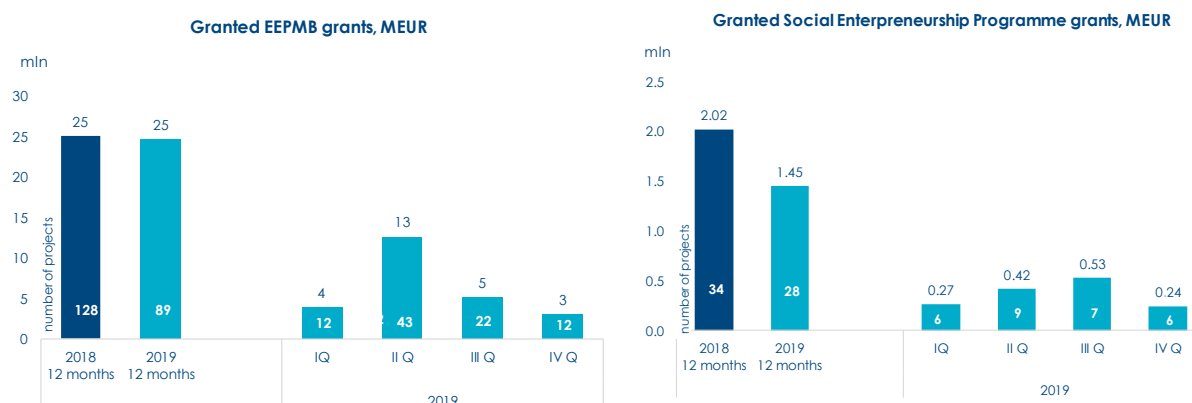
Management Report (cont'd)

As at 31 December 2019, the balance sheet of the Land Fund administered by the Group listed 668 properties with a total land area of 13,413 ha worth EUR 38 million, which is by 239 properties more compared to the end of 2018. As at 31 December 2019, the investment properties rented to farmers constituted a total land area of 7,996 ha worth EUR 23.4 million (31 December 2018: 5,633 ha, EUR 14.8 million), but the sales and leaseback transactions accounted for in the loan portfolio showed a total land area of 5,404 ha worth EUR 14.8 million (31 December 2018: 2,185 ha, EUR 6.92 million).

Non-financial instrument portfolio

In order to make accessing to the support instruments more convenient for its clients, apart from the financial instruments, the Group services some grant programmes as well, namely, the grants issued under the Energy Efficiency Programme for Multi-apartment Buildings (EEPMB), Social Entrepreneurship Programme and European Local Energy Assistance (ELENA).

Implementing the EEPMB programme, by 31 December 2019 a total of 255 grants were awarded for EUR 53.4 million, of which 12 grants for EUR 2.8 million in 4Q. It should be noted that successful progress of the EEPMB programme requires direct involvement of people and, consequently, their awareness of renovation solutions, investments and benefits. Therefore, communication with inhabitants, their authorised persons and other stakeholders was one of the core factors of the programme implementation. Within less than four years, namely, a year before the scheduled deadline, because of targeted communication focused on authorised persons, applications for renovation projects reached the number required for implementing the programme. In January 2020, Altum stopped accepting new applications passing to next stages of the programme, including evaluation of the submitted projects, awarding of grants; and carrying out renovation to ensure that all works are completed by 30 June 2023.



Group 31/12/2019

As at 31 December 2019, a total of 65 grants for EUR 4.2 million were awarded within the Social Entrepreneurship Programme.

In order to promote and support planning of the energy efficiency projects, Altum, acting in co-operation with the EIB, provides a supplementary grant as support to the energy efficiency loans issued to the companies; the support grant is earmarked to cover the costs related to expertise and drafting of energy efficiency projects. The first grants to the companies under the ELENA programme were awarded and disbursed in May 2019.

Volume of new transactions

In 2019, the total funding disbursed for the implementation of the state aid programmes amounted to EUR 178.8 million, of which 54.9% (EUR 98.2 million) in guarantee programmes, 40% (EUR 71.6 million) in loan programmes and 5.1% (EUR 9 million) in investments of the venture capital funds. In total, 5,466 projects were supported. Compared to the same period last year, the volume of the new transactions was larger by 12.2% (EUR 19.5 million) in 2019.

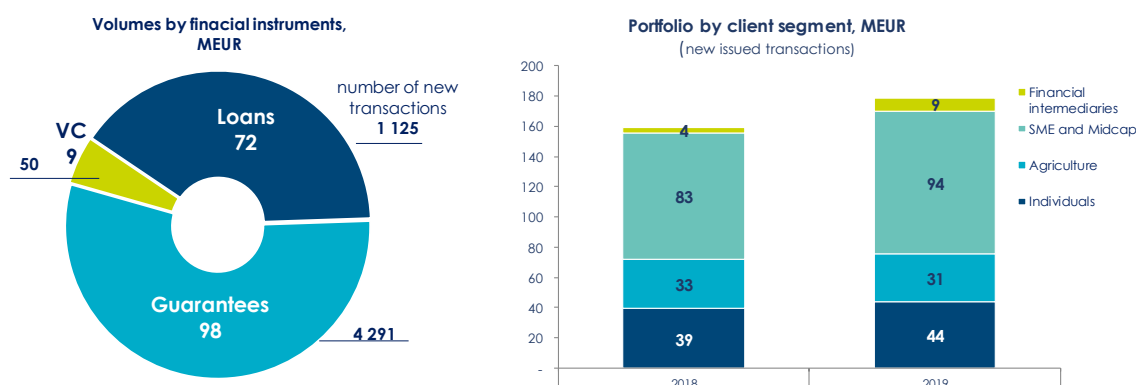
In 2019, the largest volume of new transactions was recorded in the segment of SMEs and Midcaps – 52.6%; in the other segments: Individuals – 24.7%, Agriculture – 17.6%, Financial Intermediaries – 5.1%.

Compared to the twelve months of 2018, the volume of new transactions in the SME and Midcap segment has grown by 13% (+EUR 10.9 million), Individuals – by 12.6% (+EUR 5 million) and Financial Intermediaries – by EUR 4.9 million more new transactions, while the segment of Agriculture demonstrates a 3.7% (-EUR 1.2 million) decrease, which can be explained by the impact of favourable weather conditions in 2019 on the agricultural sector.

Management Report (cont'd)

In 2019, the number of new loans issued amounted to EUR 71.6 million, which is by 7.7% more than in the year 2018. The largest increase came from loans issued to companies for implementing energy efficiency projects and to energy service companies (ESCO) operating in the business segment. The said loans are financed by funds raised by green bonds. In 2019 the loan volume was EUR 6.7 million, which by EUR 5 million exceeded that of 2018. The largest volume of loans in 2019 is in the energy efficiency segment, which dominates strongly in terms of number of projects and funding volume for transactions in renewable energy, sustainable transport and green building segments, where first loans were granted in 2019 and a number of project applications were received.

Energy efficiency investment projects are being implemented not only by companies but also in the municipal sector, where solutions for heating systems are mainly implemented. Several ESCO projects in the field of lighting and technology should also be highlighted as well. It should be noted that the good results are due to the explanatory work carried out, yielding a changing attitude of Latvian companies in favour of green and sustainable investments, considering not only gains these investments bring to the mitigation of climate change but also to immediate financial benefits of the company by decreased consumption of energy resources and maintenance costs.



Group 31/12/2019

The average volume of new loan transactions increased from EUR 54.8 thousand in 2018 to EUR 63.6 thousand in 2019 mostly due to the increase of the average transaction amount of new loans under the SME Growth Loans Programme from EUR 94 thousand in 2018 to EUR 108.3 thousand in 2019. Another factor was introducing the centralised procedure of reviewing applications for micro loans, thus increasing the capacity of employees in the regional centres for dealing with large projects.

Having launched the European Investment Fund (EIF) COSME and EaSI counter guarantees for loans up to EUR 25 thousand Altum has already supported 211 projects (COSME – 51 projects, EaSI – 160 projects) of which 122 projects were supported in 2019. If the loan is compatible with COSME or EaSI guarantee terms and conditions, the start-up and micro loans, working capital loans to farmers or small loans in rural areas are granted without an additional collateral, based only upon a personal guarantee and at a lower interest rate compared to other types of unsecured loans.

In 2019, there were issued new guarantees for EUR 98.2 million or by 10.7% more than in 2018. Most of the increase was because of the Portfolio Guarantee Programme launched in 2H 2018, whose volume of new transactions reached EUR 9.7 million in 2019. Due to the minimised transaction review procedure applicable to standard profile clients, the overall procedure for granting funds to customers is much faster as well as more convenient for the commercial bank itself. Thus, the portfolio guarantee instrument has proved itself as a successful product for funding just small and medium enterprises where the transaction amounts are relatively small. Optimal use of the commercial bank's capacity may ensure that these enterprises receive the required funding from the commercial bank up to EUR 250 thousand (investment loans, working capital loans, leases), which previously, in fact, was impossible, applying individual guarantees. In 2019, if compared to 2018, a sizeable increase in the volume of new transactions was also demonstrated by the Business Support Guarantees (+EUR 2.8 million) and guarantees under the EEPMB programme (+EUR 1.8 million).

As at 31 December 2019, as part of the Housing Guarantee Programme for Families with Children a total of 13,072 guarantees for EUR 94.9 million of the state aid for housing acquisition were granted. In 2019, guarantees issued under this programme totalled EUR 23.2 million, a 3% increase against the 2018. 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 79% were granted in Riga and its conurbations, 8% - in Kurzeme region, 7% - in Zemgale region, 4% - in Vidzeme region and 2% - in Latgale region. From March 2018, when the Programme was expanded to include young professionals, up to 31 December

Management Report (cont'd)

2019, a total of 1,786 guarantees worth EUR 12.8 million were issued to young professionals of which 941 housing guarantees worth EUR 6.8 million were issued to young professionals in 2019.

In 2019, the 4th generation venture capital funds reached stability, namely, a seed venture capital fund, a start-up venture capital fund and two growth-stage venture capital funds were operational. All these funds have raised private investments for carrying out active investing activities. In 2019, the investments made by the funds amounted to EUR 7.25 million of which the share of Altum's public funding totalled EUR 5.3 million. Investments made within the framework of the Baltic Innovation Funds amounted to EUR 3.7 million of which EUR 0.25 million were invested under the Baltic Innovation Fund 2, which is Altum's first investment in this Fund.

The Baltic Innovation Fund 2 is managed by the EIF. Its total capital is EUR 156 million contributed by the following institutions: 16.7% by each of the development finance institutions of the Baltic countries and 50% - by the EIF. In 2019, the acceleration pre-seed funds made 40 investments amounting to EUR 1.3 million, while the acceleration seed funds made 3 investments amounting to EUR 0.27 million.

In 2019, compared to 2018, the activities of the Land Fund gained momentum. The Fund effected land acquisition transactions for EUR 9.1 million, which is by EUR 5.2 million more than in 2018, and concluded leaseback transactions for EUR 7.2 million.

New products and increasing operational efficiency

In December 2019, Altum signed a loan agreement with the EIB for EUR 18 million for funding sustainable climate change mitigation projects. In addition to funds raised by green bonds, this funding will allow for offering loans to enterprises and ESCO with a considerably longer maturity up to 15 years aligning it with the investment project payback period. This loan agreement is supported by the EIB guarantee agreement regarding the loans issued by Altum thus making Altum's funding with a lower interest rate and less collateral sustainable for implementation of projects on climate change mitigation, including energy efficiency.

To support the achievement of the strategic goals of Altum regarding the development of the guarantee instrument, at the beginning of 2019, the products of credit guarantees for enterprises and farmers were considerably improved making them even more accessible to business community.

To simplify the implementation of the Agricultural Credit Guarantee Programme, new Cabinet regulations were approved in January 2019. They provide a considerable improvement regarding farmers' access to finance, namely, the guarantee amount up to 80% (previously from 50% to 80%) and the total maximum amount of a guarantee of EUR 1 million (previously from EUR 43 thousand to 712 thousand). Guarantees were also established for all the products of commercial banks – not only for loans but also for finance leases, factoring, bank guarantee limits or letters of credit. These Cabinet regulations reduced the administrative burden on transactions for both the borrower and the commercial bank thus speeding up the guarantee issuing process.

Since April 2019, with coming into effect of the amendments to the Cabinet regulations regarding credit guarantees to economic operators, the maximum guarantee amount has been increased from EUR 3 million to EUR 5 million, which was also highlighted as one of the goals in Altum's strategy. The scope of guarantees has been expanded considerably, too, – now Altum may issue guarantees for loans for acquisition of shares.

In its turn, since April 2019, the amount of parallel loan for all applicants has been established up to 45% (previously from 35%-45%) of the total eligible expenditure of the project. It is also possible to provide a parallel loan together with a financial service delivered by an international financial institution, previously – only if coupled with services of a Latvian commercial bank.

Regarding working capital loans offered by Altum to farmers in view of the amendments to the Cabinet regulations of December 2019, the range of beneficiaries has been by widened, including companies operating in the fishery and aquaculture sectors.

In 2019, the Cabinet approved several amendments to the terms and conditions of the EEPMB programme. Since February, according to the changes in this Programme, the maximum amount of the grant has been increased from 35% to 50% for the bodies implementing EEPMB projects provided they are executed with the help of Altum's loan. In view of the amendments to the Cabinet regulations of December 2019, ESCOs may ensure full implementation of a complex energy efficiency improvement project as well as carrying it out at a higher quality. This is due to the changes in the procurement regulation for ESCOs as to the selection of construction companies, namely, enabling them to select the best applicant for rendering construction services.

Management Report (cont'd)

Since spring 2019, Altum has acted as a national contact point (hub) of the Juncker Plan. Altum develops and strengthens the investment consulting services provided under the Juncker Plan in Latvia assisting developers of large investment projects in preparing higher quality project applications for the EIB. In 2019, Altum provided consultative support to several investment projects for a total amount of EUR 230 million making them eligible for co-funding by the EIB. It should be noted that grants up to 75% of the expenses for preparation of the project application (business plan, financial outlook and other expenses for outsourced project preparation services) are available to the developers of such projects.

In spring 2019, Citadele and SEB enlarged the existing range of credit institutions – Swedbank, Unicredit Leasing and Luminor – where Altum's portfolio guarantees are available for the banking products, further increase in the volume of portfolio guarantees and availability of banking products to SME transactions up to EUR 250 thousand are expected.

In 2H 2019, the Cabinet approved conceptually a new lending model for study and student loans. Under the new model, Altum will act in the capacity of a guarantor offering guarantees in the form of a portfolio guarantee instrument. At present, preparing is under way to ensure that housing guarantees, in 2019 reaching 2,904 (amounting to EUR 23.2 million), could be issued as a portfolio guarantee instrument already in 2020. Accordingly, in standard profile beneficiary transactions, Altum employees would no more be involved in reviewing individual transactions and the overall loan issuance procedure would be speeded up.

In 2019, proceeding with the centralised reviewing of the applications for micro loans (up to EUR 25 thousand) introduced within the framework of increasing and automation of Altum's operational efficiency, 35% of the total number of the granted loans were reviewed remotely, without involving the employees of the regional centres in the process of reviewing of the applications. This in its turn has sharply reduced the timeframe necessary for making decision on allocation of funding as well as increased the capacity of the employees of regional centres in terms of reviewing large projects. The granted amount under the centralised remote reviewing of applications and in regional centres increased by 17% or EUR 7.7 million, but the number of granted loans decreased by 7%. The average amount granted in regional centres increased from EUR 40 thousand in 2018 to EUR 71.4 thousand in 2019.

Although in 2019 the average number of employees decreased by 8.6% against the year 2018, the total amount of new loans issued in the reporting period compared with the year 2018 increased by 7.8%. As at 31 December 2019, the portfolio of the financial instruments issued by Altum within the framework of the state aid programmes reached EUR 2.9 million per employee and the amount of newly issued financial instruments per employee amounted to EUR 881 thousand (in 2018: EUR 2.3 million and EUR 717.8 thousand respectively per employee).

This year for the first time Altum applied for the Sustainability Index organised by the Institute for Corporate Sustainability and Responsibility, and scored Platinum Category accordingly. This is acknowledgement of the invisible daily performance of companies to become responsible earners, i.e., able to compete in the new business environment successfully. Every participating company acquires a social dimension, too, as there meet the interests of the shareholder, employee, client, environment, business partners and third parties. Balancing of these interests is a pre-condition for sustainable operation and financiers play and will play an immensely important role there.

Long-term Funding

On 29 May 2019, in order to maintain long-term participation in the capital markets and diversify the funding base, the Company issued transferrable debt securities for a total sum of EUR 15 million as the first series of bonds within the framework of a EUR 70 million bond issue programme, the yield to maturity 0.95%. The transaction attracted a great deal of interest from investors in Latvia, Lithuania and Estonia and the bonds were oversubscribed 13 times, thus ensuring Altum good terms for resource attraction. The bonds were allocated to 20 investors in the Baltics, namely, 5 banks (18%) and 15 asset managers and insurance companies (82%). The maturity date of these bonds is 7 March 2025. ALTUM will use the proceeds from the bonds for funding sustainable agriculture business projects that are vital for national economy. At present, the value of the bonds listed on Nasdaq Riga is EUR 45 million.

In January 2019 Altum received Nasdaq Baltic Awards 2019 prize in the nomination 'Latvian Stock Exchange Event of the Year'.

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.

Management Report (cont'd)

Moody's initially assigned to Altum a long-term issuer rating Baa1 in June 2017. The Baa1 rating that Moody's assigned to Altum is one of the highest issuer ratings assigned to a corporate entity in Latvia. Altum baseline credit assessment upgrade from ba2 to investment grade rating baa3, as follows from the Moody's assessment: *"The strong financial profile of Altum with a very high capitalization level, large risk coverage margin incorporated in the public funding as well as reinvestment of the funding 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 start-ups, small and medium enterprises, 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 the funding by being a regular participant in the capital market and issuing of notes.

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 risks, the Group retains the long-term capability of implementing the established operational targets and assignments.

To manage risks, the Group applies 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 the risk coverage of EUR 87.5 million (as at 31 December 2019) 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 received within the respective State aid programme for coverage of the expected credit loss is allocated to the risk coverage. The latter 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.

Since 2018, Altum has introduced a centralised client compliance assessment as stipulated by the Law on Prevention of Money Laundering and Terrorist and Proliferation Financing (AML/CFT Law) and the Law on International Sanctions and National Sanctions of the Republic of Latvia. At the beginning of 2019, the assessment procedure was automated. In February 2019, Altum launched a scoring system for customer compliance with the AML/CFT Law. According to the scoring system, a ML/FT risk score is assigned to each customer who applies for a loan, grant or export credit guarantee instrument as well as each investee under venture capital instruments.

Future Outlook

In order to ensure that Altum has direct access to the funds available under the InvestEU Programme 2021–2027, in addition to the already available EU funds, in 2019 the required steps for Pillar Assessment of Altum were taken. Its first stage includes Altum's self-assessment regarding the compliance of its internal control system, accounting system, internal and external procedures with the requirements set by the European Commission. This self-assessment is subject to valuation performed by the audit firm KPMG selected by the European Commission within the framework of the EC technical assistance project. At first, a mock assessment is carried out, followed by the real compliance assessment of Altum's activities.

In 2020, the new lending model for study and student loans is expected to be introduced in Latvia to ensure the availability of funding for the academic year 2020/2021. The major advantage of the new lending model is revoking the requirement for another guarantor and simplification of some procedures (digitalisation of the services, remote conclusion of agreements using e-signature); it would provide for receiving a loan within the shortest time possible. Neither the choice of the bank for granting a loan will be restricted, i.e., several credit institutions might qualify for issuing loans. Considering that in the new lending model Altum will offer the portfolio guarantee instrument, active digitalisation of the guarantee procedure takes place.

The existence of novel coronavirus (Covid-19) was confirmed in early 2020 and by now it has spread across the world, including Latvia, causing disruptions to businesses and economic activity.

As delegated by the government, the Group / Company has engaged actively on an ad hoc basis in mitigation of the adverse impact that Covid-19 exerts on the businesses in Latvia by drafting, in co-operation with the Ministry of Economics, two new state aid financial instruments to be implemented by the Group / Company for SMEs and Midcap in Latvia. On 19 March 2020, having convened for an extraordinary meeting, with follow-up on 24 March 2020, the Cabinet of Ministers approved the regulations of the new financial instruments. Both financial instruments became effective as of 25 March 2020 being already co-ordinated with the European Commission.

Management Report (cont'd)

Entrepreneurs encountering situation-based difficulties with execution of the obligations undertaken at the credit institutions will be offered credit guarantees, both long-term and short-term, up to 50% of the outstanding loan balance. These credit guarantees will allow SMEs and Midcap (i) to defer repayment of principal for up to two years for investment loans, financial lease and working capital loans, (ii) to prolong the repayment term of overdrafts as well as working capital loans, (iii) to raise new working capital loans and increase overdraft limits with banks as well as to (iv) have additional security for financial liabilities. The national budget funding of 50 million euro is available for implementation of the financial instrument that will make it possible for the Group / Company to issue 240 million euro guarantees for banks to restructure loans for the sum up to total of 715 million euro. The credit guarantees are structured in both formats – individual guarantees and portfolio guarantees ensuring fast and efficient solution irrespective the size of the company.

Meanwhile the companies struggling with substantial decrease in operations and therefore in need of liquidity support will be offered working capital loans by the Group / Company in amount of EUR 200 million. The national budget contributing 50 million euro and loans from the Treasury and international financial institutions - 150 million euro form the total funding of this programme.

At the same time, acting responsibly to the health of employees and customers and following the recommendations of the responsible authorities for actions to help reduce the risk of spreading the virus, the Group's / Company's Customer Service Centres have been closed for face-to-face visits as of 13 March. The Group / Company continues to provide all services remotely through the client portal mans.altum.lv, as well as telephone and video consultations.

The management of the Group / Company considers this outbreak to be a non-adjusting post balance sheet event. As the situation is uncertain and rapidly evolving, we do not consider it practicable to provide a quantitative estimate of the potential impact of this outbreak on the Company or the Group.



Reinis Bērziņš
Chairman of the Board

31 March 2020

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.	28.12.2022.
Jānis Šnore	Member of the Council	29.12.2016.	28.12.2022.
Kristaps Soms	Member of the Council	29.12.2016.	28.12.2022.

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	Member of the Board	11.06.2018.	10.06.2021.
Juris Vaskāns	Member of the Board	11.06.2018.	11.06.2018. - 28.11.2019.
Inese Zīle	Member of the Board	11.06.2018.	10.06.2021.
Aleksandrs Bimbirulis	Member of the Board	07.07.2017.	06.07.2020.

In 2019, there are changes in the Management Board. Juris Vaskāns has resigned from the Management Board as at 28 November 2019.

Statement of Management's responsibility

Riga

31 March 2020

The Supervisory Council and the Management Board (hereinafter – Management) of the 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 13 to 87 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 2019 and 2018, 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 maintenance of proper accounting records, safeguarding of the Group's assets, and 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 the Company.



Reinis Bērziņš
Chairman of the Board

Statement of Comprehensive Income

All amounts in thousands of euro

	Notes	Group 01.01.2019.- 31.12.2019.	Group 01.01.2018.- 31.12.2018. *	Company 01.01.2019.- 31.12.2019.	Company 01.01.2018.- 31.12.2018. *
Interest income	4.	13 344	12 450	13 344	12 450
Out of this income at effective interest rate		13 344	12 450	13 344	12 450
Interest expense	5.	(1 775)	(1 148)	(1 775)	(1 148)
Net interest income		11 569	11 302	11 569	11 302
Income for implementation of state aid programmes	6.	6 165	3 337	6 165	3 337
Expenses to be compensated for implementation of state aid programmes	7.	(5 584)	(3 391)	(5 584)	(3 391)
Net income for implementation of state aid programmes		581	(54)	581	(54)
Gains from debt securities and foreign exchange translation	8.	90	122	90	122
Share of (losses) of investment in joint venture and associate	17.	(136)	(1 348)	(136)	(1 348)
Share of gain of investment in joint venture and associate at fair value through profit or loss	17.	18	257	18	257
Gains less losses from liabilities at fair value through profit or loss	29.	129	953	129	953
Other income	9.	2 168	1 379	2 168	1 379
Other expense	10.	(634)	(639)	(634)	(639)
Operating income before operating expenses		13 785	11 972	13 785	11 972
Staff costs	11.	(4 640)	(5 861)	(4 640)	(5 861)
Administrative expense	12.	(1 821)	(2 479)	(1 821)	(2 479)
Amortisation of intangible assets and depreciation of property, plant and equipment	21., 22.	(787)	(620)	(787)	(620)
(Impairment) gain, net	13.	1 699	672	1 699	672
Profit or (loss) from assets held for sale revaluation	26.	(105)	408	(105)	778
Profit before corporate income tax		8 131	4 092	8 131	4 462
Corporate income tax		-	-	-	-
Profit for the period		8 131	4 092	8 131	4 462
Other comprehensive income:		(959)	(2 495)	(959)	(2 495)
Items to be reclassified to profit or loss in subsequent periods					
Net loss from financial assets measured at fair value through other comprehensive income	35.	(959)	(2 495)	(959)	(2 495)
Total comprehensive income for the period		7 172	1 597	7 172	1 967
Profit is attributable to:					
Owners of the Company		8 131	4 092	-	-
Non-controlling interest		-	-	-	-
Profit for the period		8 131	4 092	-	-
Other comprehensive income is attributable to:					
Owners of the Company		(959)	(2 495)	-	-
Non-controlling interest		-	-	-	-
Total comprehensive income for the period		7 172	1 597	-	-

* comparatives reclassified as stated in Section (1) of Note 2.

The accompanying notes on pages 18 through 88 form an integral part of these financial statements.



Reinis Bērziņš
Chairman of the Board



Kaspars Gibeiko
Chief Accountant

Statement of Financial Position

All amounts in thousands of euro

	Notes	Group 31.12.2019.	Group 31.12.2018. *	Company 31.12.2019.	Company 31.12.2018. *
Assets					
Due from credit institutions and the Treasury	14.	181 199	137 026	181 047	136 646
Financial assets at fair value through profit or loss	16.	4 217	1 160	-	-
Financial assets at fair value through other comprehensive income - investment securities	15.	47 941	50 389	47 941	50 389
Financial assets at amortised cost:					
Investment securities	15.	478	467	478	467
Loans and receivables	18.	220 129	197 755	220 129	197 473
Grants	38.	17 186	22 561	17 186	22 561
Deferred expense	24.	694	349	694	349
Accrued income	25.	1 649	1 723	1 649	1 723
Assets held for sale	26.	-	11 343	-	11 343
Investments in venture capital funds – associates	17.	52 543	50 239	52 543	50 239
investments in subsidiaries	20.	-	-	3 812	1 492
Investment property	19.	24 366	14 794	24 366	14 794
Property, plant and equipment	22.	4 694	4 228	4 694	4 228
Intangible assets	21.	1 395	1 347	1 395	1 347
Other assets	23.	3 570	2 558	3 570	2 558
Total assets		560 061	495 939	559 504	495 609
Liabilities					
Due to credit institutions	27.	29 542	38 245	29 542	38 245
Financial liabilities at fair value through profit or loss – derivatives	16.	-	2	-	2
Due to general governments	28.	86 272	48 110	86 272	48 110
Financial liabilities at amortised cost - Issued debt securities	33.	45 348	29 943	45 348	29 943
Deferred income		3 091	2 181	3 091	2 181
Accrued expense	32.	478	830	478	830
Provisions	30.	31 076	25 373	31 076	25 373
Support programme funding	29.	128 730	126 959	128 730	126 959
Other liabilities	31.	2 786	2 706	2 773	2 643
Total liabilities		327 323	274 349	327 310	274 286
Equity					
Share capital	34.	204 862	204 862	204 862	204 862
Reserves	35.	16 565	7 965	16 563	7 610
Revaluation reserve of financial assets measured at fair value through other comprehensive income	37.	2 638	3 597	2 638	3 597
Retained earnings		8 131	4 900	8 131	5 254
Net assets attributable to the Company's owners		232 196	221 324	232 194	221 323
Non-controlling interest		542	266	-	-
Total equity		232 738	221 590	232 194	221 323
Total equity and liabilities		560 061	495 939	559 504	495 609

* comparatives reclassified as stated in Section (1) of Note 2.

The accompanying notes on pages 18 through 88 form an integral part of these financial statements.



Reinis Bērziņš
Chairman of the Board



Kaspars Gibeiko
Chief Accountant

31 March 2020

Consolidated Statement of Changes in Equity

All amounts in thousands of euro

	Attributable to owners of the Company					Non-controlling interest	Total equity
	Share capital	Reserve capital	Revaluation reserve of financial assets measured at fair value through other comprehensive income	Reserve of disposal group classified as held for sale	Retained earnings		
As at 31 December 2017 (restated)	204 862	722	6 092	1 839	9 333	-	222 848
Impact of IFRS 9 adoption	-	-	-	(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 (Note 35)	-	(753)	-	-	-	-	(753)
Increase of reserve capital (Note 35)	-	2 112	-	-	-	-	2 112
Distribution of 2017 profit of the 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
Profit for the period	-	-	-	-	8 131	-	8 131
Other comprehensive income	-	-	(959)	-	-	-	(959)
Total comprehensive income	-	-	(959)	-	8 131	-	7 172
Increase of reserve capital (Note 35)	-	3 700	-	-	-	-	3 700
Distribution of profit of previous years (Note 35)	-	808	-	-	(808)	-	-
Distribution of 2018 profit of the Company (Note 35)	-	4 092	-	-	(4 092)	-	-
Non-controlling interest	-	-	-	-	-	276	276
As at 31 December 2019	204 862	16 565	2 638	-	8 131	542	232 738

The accompanying notes on pages 18 through 88 form an integral part of these financial statements.

Company's Statement of Changes in Equity

All amounts in thousands of euro

	Share capital	Reserve capital	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 2017 (restated)	204 862	(386)	6 092	1 839	7 488	219 895
Impact of IFRS 9 adoption	-	-	-	(1 839)	(812)	(2 651)
As at 1 January 2018	204 862	(386)	6 092	-	6 676	217 244
Profit for the period	-	-	-	-	4 462	4 462
Other comprehensive income	-	-	(2 495)	-	-	(2 495)
Total comprehensive income	-	-	(2 495)	-	4 462	1 967
Increase of reserve capital	-	2 112	-	-	-	2 112
Distribution of 2017 profit (Note 35)	-	5 884	-	-	(5 884)	-
As at 31 December 2018	204 862	7 610	3 597	-	5 254	221 323
Profit for the period	-	-	-	-	8 131	8 131
Other comprehensive income (Note 35)	-	-	(959)	-	-	(959)
Total comprehensive income	-	-	(959)	-	8 131	7 172
Increase of reserve capital	-	3 700	-	-	-	3 700
Distribution of profit of previous years	-	791	-	-	(791)	-
Distribution of 2018 profit (Note 35)	-	4 462	-	-	(4 462)	-
As at 31 December 2019	204 862	16 563	2 638	-	8 131	232 194

The accompanying notes on pages 18 through 88 form an integral part of these financial statements.

Statement of Cash Flows

All amounts in thousands of euro

	Notes	Group 01.01.2019.- 31.12.2019.	Group 01.01.2018.- 31.12.2018.	Company 01.01.2019.- 31.12.2019.	Company 01.01.2018.- 31.12.2018.
Cash and cash equivalents at the beginning of period		128 916	100 597	128 536	100 597
Cash flows from operating activities					
Profit before taxes		8 131	4 092	8 131	4 462
Amortisation of intangible assets and depreciation of property, plant and equipment	21., 22.	786	620	786	620
Interest income	4.	(9 882)	(11 934)	(9 882)	(11 934)
Interest received		6 205	8 687	6 205	8 687
Interest expenses	5.	1 433	763	1 433	763
Interests paid		(1 082)	(542)	(1 082)	(542)
(Decrease) in provisions for impairment	13.	(1 845)	(672)	(1 845)	(672)
(Increase) in share of profit / (loss) in joint venture and associate capital funds		-	(207)	-	(207)
Increase of cash and cash equivalents from operating activities before changes in assets and liabilities		3 746	807	3 746	1 177
Due from credit institutions decrease		3 114	888	3 117	888
(Increase) of loans		(20 575)	(4 237)	(20 857)	(3 954)
Decrease / (increase) of grants		5 375	(19 803)	5 375	(19 803)
Due to credit institutions increase / (decrease)		25 698	(4 246)	25 696	(4 247)
Increase in deferred income and accrued expense		558	634	558	634
(Decrease) in deferred expense and accrued income		(271)	184	(271)	184
Decrease / (Increase) of other assets		11 403	639	11 403	(1 731)
Increase in other liabilities		10 765	33 131	10 537	34 803
Net cash flows to/ from operating activities		39 813	7 997	39 304	7 951
Cash flows from investment activities					
Sale of investment securities		4 146	12 856	4 146	12 856
Acquisition of property, plant and equipment and intangible assets		(802)	(1 596)	(802)	(1 596)
Purchase of investment properties	19.	(9 604)	(3 754)	(9 604)	(3 754)
Sale of investment properties	19.	32	-	32	-
Investments in venture capital funds, net		(1 945)	1 961	(1 945)	1 961
Investments of subsidiaries in share capital		(3 057)	(1 160)	-	-
Investments in subsidiaries		-	-	(2 320)	(1 492)
Net cash flows to/ from investing activities		(11 230)	8 307	(10 493)	7 975
Cash flows from financing activities					
Issued debt securities		15 000	9 901	15 000	9 901
Increase of reserve capital	35.	3 700	2 112	3 700	2 112
Net cash flow from financing activities		18 700	12 013	18 700	12 013
Increase in cash and cash equivalents		47 432	28 317	47 660	27 939
Cash and cash equivalents at the end of period	14.	176 199	128 916	176 047	128 536

The accompanying notes on pages 18 through 88 form an integral part of these financial statements.

Approval of the Financial Statements

The management of the Company has approved these financial statements on 31 March 2020. 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) Corporate Information

These financial statements contain the financial information about joint-stock company Development Finance Institution Altum (Company) and its subsidiaries (hereinafter together — 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 20).

JSC Development Finance Institution Altum is a Latvia state-owned company that ensures access of the enterprises and households to the financial resources by means of support financial instruments - loans, guarantees, investments in venture capital funds - in the areas defined as important and to be supported by the state, thus developing the national economy and enhancing mobilization of the private capital and financial resources. On 25 March 2019 Moody's Investors Service (Moody's) reconfirmed Altum's Baa1 long-term issuer rating, with outlook stable. The assigned Moody's rating of Altum is one of the highest credit ratings assigned to corporate entities in Latvia.

JSC Development Finance Institution Altum was established on 27 December 2013 by a decision of the Cabinet of Ministers. The mission of the Company's establishment is by merging three prior independently operating companies providing state support into a single institution and further allocate the state funds for implementation of financial instrument state support and development programmes in one place. The Company's operations are governed by its specific law – Development Finance Institution Law. The Company's Article of Association has been approved by the Cabinet of Ministers. All voting shares of the Company are owned by the Republic of Latvia. The holders of the shares are ministries of the Republic of Latvia as stipulated by the Development Finance Institution Law with following split of the shares – the Ministry of Finance 40%, the Ministry of Economics 30% and the Ministry of Agriculture 30% respectively.

Altum Group includes the Company and two closed investment funds Hipo Latvia Real Estate Fund I and Hipo Real Estate Fund II (legal address – Elizabetes street 41/43, Riga, Latvia LV-1010) in which the Company was the sole investor. In August 2019, these funds were liquidated upon receipt of the liquidation quota by the Company.

The Group also includes several venture capital funds. The below listed venture capital funds - subsidiaries and associates - are treated as subsidiaries or associates only for purposes of financial accounting.

Legal Title	Legal Address	Investment % in share capital
Venture capital funds classified as Subsidiaries		
KS Overkill Ventures Fund I	Dzirnavu iela 105, Rīgas, Latvija, LV-1011	100
KS Buildit Latvia Pre-Seed Fund	Sporta iela 2, Rīga, Latvija, LV-1013	100
KS Commercialization Reactor Pre-seed Fund	Brīvības gatve 300 -9, Rīga, Latvija	100
KS INEC 1	Krišjāņa Barona iela 32-7, Rīga, Latvijas, LV-1011	75
KS INEC 2	Krišjāņa Barona iela 32-7, Rīga, Latvijas, LV-1011	90
Venture capital funds classified as Associates		
KS Overkill Ventures Fund II	Dzirnavu iela 105, Rīgas, Latvija, LV-1011	80
KS Buildit Latvia Seed Fund	Sporta iela 2, Rīga, Latvija, LV-1013	80
KS Commercialization Reactor Seed Fund	Brīvības gatve 300 -9, Rīga, Latvija	80
KS ZGI-4	Daugavgrīvas iela 21, Rīga, Latvija, LV-1048	60
FlyCap Mezzanine Fund II	Matrožu iela 15A, Rīga, LV-1048	60
KS Balticcap Latvia Venture Capital Fund	Jaunmoku iela 34, Rīga, Latvija, LV-1046	67
KS Imprimatur Capital Technology Venture Fund	Elizabetes iela 85a-18, Rīga, Latvija, LV-1050	67
KS Imprimatur Capital Seed Fund	Elizabetes iela 85a-18, Rīga, Latvija, LV-1050	100
KS ZGI-3	Daugavgrīvas iela 21, Rīga, Latvija, LV-1048	95
KS FlyCap investment Fund	Matrožu iela 15A, Rīga, Latvija, LV-1048	95
KS Expansion Capital fund	Krišjāņa Barona iela 32-7, Rīga, Latvija, LV-1011	95
Baltic Innovation Fund	European Investment Fund, 37B, avenue J.F. Kennedy, L-2968 Luxembourg	20
Baltic Innovation Fund II	European Investment Fund, 37B, avenue J.F. Kennedy, L-2968 Luxembourg	17
KS Otrais Eko Fonds	Dārza 2, Rīga, LV-1007	33

2 Accounting Policies

(1) Basis of presentation

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. For detailed disclosure on the impact of COVID-19 on the Group / Company see Note 42.

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)).

Considering the volume of one of the Group's / Company's business segments – issue of non-financial instrument grants – in order to ensure the users of the financial statements with a better understanding of the Group's / Company's financial position, the issued grants have been classified separately as Grants in the Statement of Financial Position comparing with the financial statements for the year 2018 where this item has been classified within Other assets. In light that part of the income is derived as income from implementation of state aid programmes for the compensated overheads and direct expenses related to the implementation of the state aid programmes, in order to ensure the users of the financial statements with a better understanding of the Company's and the Group's operational performance, such type of income and respective expenses has been classified separately in the Statement of Comprehensive Income as Income for implementation of state aid programmes and Expenses to be compensated for implementation of state aid programmes. Before such type of income has been classified within Other income, and compensated expenses have been classified within Staff costs and Administrative expense respectively. Following the industry practise Fee and commission income from lending activities is classified within Interest income. Maintenance and service costs of Land Fund, Loss on revaluation of assets that have been taken over in the debt collection process and Debt collection costs have been classified within Other expenses instead of Administrative expenses. The comparatives for the above noted items have been reclassified accordingly following the new classification in order to ensure comparability of information.

Detailed information on quantitative impact from reclassification of comparatives in 2018 is provided below, in thousands of euro:

Restated items of the statement of financial position *	Reported as at 31.12.2018 Group / Company	Reclassified	Reclassified as at 31.12.2018 Group / Company
Other assets	25 119	(22 561)	2 558
Financial assets	24 300	(22 561)	1 739
Grants	-	22 561	22 561

* Other items of the statement of financial position were not restated

2 Accounting Policies (cont'd)

(1) Basis of presentation (cont'd)

Detailed information on quantitative impact from reclassification of comparatives in 2018 is provided below, in thousands of euro: (cont'd)

Items of statement of comprehensive income	Initial amount in 2018, Group	Reclassified	Reclassified amount in 2018, Group
Restated items of statement of comprehensive income:			
Interest income	11 934	516	12 450
Interest on loans and guarantees	9 934	516	10 450
Interest expense	(763)	(385)	(1 148)
Interest on balances due to credit institutions	(184)	(192)	(376)
Interest on issued debt securities	-	(387)	(387)
Allocation of state support programmes' profit to support programme funding	-	(346)	(346)
Other interest expense	(579)	555	(24)
Other commission expense	-	(15)	(15)
Income from implementation of state support programmes	-	3 337	3 337
Compensation of expenses for management of state support programmes	-	1 877	1 877
Compensation of the venture capital funds' management fees	-	1 460	1 460
Compensated expense for implementation of state support programmes	-	(3 391)	(3 391)
Compensated staff costs	-	(1 507)	(1 507)
Compensated administrative expense	-	(370)	(370)
Compensated venture capital fund management fees	-	(1 514)	(1 514)
Fee and commission income	539	(539)	-
From lending activities	537	(537)	-
Other fee and commission income	2	(2)	-
Fee and commission expense	(156)	156	-
On venture capital fund management fee	(54)	54	-
On securities portfolio maintenance	(62)	62	-
Other fee and commission expense	(40)	40	-
Other income	2 979	(1 600)	1 379
Income from lease payments for operational leases	421	(36)	385
Income from sale of investment property	-	11	11
Income from sale of repossessed collateral	-	292	292
Other commission income	-	15	15
Other operating income	418	(5)	413
Compensation	1 877	(1 877)	-
Other expense	-	(639)	(639)
Maintenance and service costs of Land Fund	-	(105)	(105)
Debt collection costs	-	(286)	(286)
Maintenance costs of repossessed collateral	-	(38)	(38)
Revaluation of repossessed collateral	-	(116)	(116)
Commission expense on investments in securities	-	(89)	(89)
Other commission expense	-	(5)	(5)
Staff costs	(7 368)	1 507	(5 861)
Administrative costs	(3 517)	1 038	(2 479)
Maintenance costs of repossessed collateral	(311)	311	-
Revaluation of repossessed collateral	(116)	116	-
Real estate tax	(152)	78	(74)
Other expense	(516)	163	(353)
Items of statement of comprehensive income that were not restated:			
Gains or losses from debt securities and foreign exchange translation	122	-	122
Share of (losses) of investment in joint venture and associate	(1 348)	-	(1 348)
Share of gain 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	953	-	953
Amortisation of intangible assets and depreciation of property, plant and equipment	(620)	-	(620)
(Impairment) gain or loss, net	672	-	672
Profit or (loss) from assets held for sale revaluation	408	-	408
Profit for the period	4 092	-	4 092

2 Accounting Policies (cont'd)

(1) Basis of presentation (cont'd)

Detailed information on quantitative impact from reclassification of comparatives in 2018 is provided below, in thousands of euro: (cont'd)

Items of statement of comprehensive income	Initial amount in 2018, Company	Reclassified	Reclassified amount in 2018, Company
Restated items of statement of comprehensive income:			
Interest income	11 934	516	12 450
Interest on loans and guarantees	9 934	516	10 450
Interest expense	(763)	(385)	(1 148)
Interest on balances due to credit institutions	(184)	(192)	(376)
Interest on issued debt securities	-	(387)	(387)
Allocation of state support programmes' profit to support programme funding	-	(346)	(346)
Other interest expense	(579)	555	(24)
Other commission expense	-	(15)	(15)
Income from implementation of state support programmes	-	3 337	3 337
Compensation of expenses for management of state support programmes	-	1 877	1 877
Compensation of the venture capital funds' management fees	-	1 460	1 460
Compensated expense for implementation of state support programmes	-	(3 391)	(3 391)
Compensated staff costs	-	(1 507)	(1 507)
Compensated administrative expense	-	(370)	(370)
Compensated venture capital fund management fees	-	(1 514)	(1 514)
Fee and commission income	539	(539)	-
From lending activities	537	(537)	-
Other fee and commission income	2	(2)	-
Fee and commission expense	(156)	156	-
On venture capital fund management fee	(54)	54	-
On securities portfolio maintenance	(62)	62	-
Other fee and commission expense	(40)	40	-
Other income	2 979	(1 600)	1 379
Income from lease payments for operational leases	421	(36)	385
Income from sale of investment property	-	29	29
Income from sale of repossessed collateral	-	234	234
Other commission income	-	15	15
Other operating income	418	(5)	413
Compensation	1 877	(1 877)	-
Other expense	-	(639)	(639)
Maintenance and service costs of Land Fund	-	(105)	(105)
Debt collection costs	-	(286)	(286)
Maintenance costs of repossessed collateral	-	(38)	(38)
Revaluation of repossessed collateral	-	(116)	(116)
Commission expense on investments in securities	-	(89)	(89)
Other commission expense	-	(5)	(5)
Staff costs	(7 368)	1 507	(5 861)
Administrative costs	(3 517)	1 038	(2 479)
Maintenance costs of repossessed collateral	(311)	311	-
Revaluation of repossessed collateral	(116)	116	-
Real estate tax	(152)	78	(74)
Other expense	(516)	163	(353)
Items of statement of comprehensive income that were not restated:			
Gains or losses from debt securities and foreign exchange translation	122	-	122
Share of (losses) of investment in joint venture and associate	(1 348)	-	(1 348)
Share of gain 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	953	-	953
Amortisation of intangible assets and depreciation of property, plant and equipment	(620)	-	(620)
(Impairment) gain or loss, net	672	-	672
Profit or (loss) from assets held for sale revaluation	778	-	778
Profit for the period	4 462	-	4 462

2 Accounting Policies (cont'd)

(1) Basis of presentation (cont'd)

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 as presentation currency of the Group / Company has been the euro.

(2) Consolidation and investments in associates

(i) Consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2019.

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.

Financial statements of the parent company and of 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 20.

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.

Identifiable assets acquired and 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 (see Note 2 (6) item (iii)). Some of the venture capital funds' investments are classified as investments in subsidiaries See Note 20 for details.

(ii) Investments in associates

Associates are all entities over which the Group has significant influence, but doesn't control them.

The Group / Company ceases to have a significant influence over an entity when it loses power to participate in the entity'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 method (Note 2 (6) item (i)), whereas the second category – fair value with revaluation in the profit or loss (Note 2 (6) item (ii) and Note 2 (6) item (iii)). Some of the venture capital funds investments are classified as investments in associates. See Note 17 for details.

(3) Foreign currency translation

During the reporting period 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. 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. Gain or losses on foreign exchange rate fluctuations were included in the statement of comprehensive income of the reporting period.

Non-monetary items that are measured at 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:

31.12.2019	31.12.2018
1 USD = EUR 1.12340	1 USD = EUR 1.14500
1 GBP = EUR 0.85080	1 GBP = EUR 0.89453
1 CHF = EUR 1.08540	1 CHF = EUR 1.12690
1 NOK = E UR 9.86380	1 NOK = E UR 9.94830

(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.

(i) Foreign income and 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 gains and losses are recognised in the profit or loss of the reporting period.

(ii) Interest income and expense

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 and interest accrual calculation uses either "30/360" or "actual days/360" accounting method as specified in agreements with customers.

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 the terms, commitment fee etc.) 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 (xvii) (recognised over the time),
- other commissions are recognised on the day of their receipt (recognized at a point in time).

2 Accounting Policies (cont'd)

(4) Income and expense recognition (cont'd)

(ii) Interest income and expense (cont'd)

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.

(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 the Group's / Company's business model for managing the related assets portfolio and the cash flow characteristics of an asset.

(iii) Financial assets – classification and subsequent measurement – business model

The business model reflects how the Group / Company manages assets in order to generate cash flows – whether the Group's / Company's objective is:

- solely to collect the contractual cash flows from the assets ("hold to collect contractual cash flows"), or
- 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,
- 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 (16) 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 (16) for critical judgements applied by the Group / Company in performing the SPPI test for its financial assets.

2 Accounting Policies (cont'd)

(5) Financial assets and liabilities - initial recognition and subsequent measurement (cont'd)

(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

Credit loss allowance is recognised on financial assets classified at AC and FVOCI and for the exposures arising from loan commitments, grant commitments and financial guarantee contracts. Credit loss allowance is measured based on expected credit loss model. Expected credit losses ("ECL") reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes and considering all reasonable and supportable 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 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.

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 future information. 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 credit-impaired exposures individually 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 and LGD, which affects the measurement of the ECL. Financial assets which are credit-impaired are included in Stage 3. Default and credit-impaired are triggered when an exposure (principal or interest payment) 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.

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)

Determining a significant increase in credit risk since initial recognition

The Group / Company assesses changes in credit risk at the individual financial instrument level. 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 or internal rating status, e.g., for loans and financial guarantee agreements, the Group / Company uses 31+ "days past due" status or significant decrease in internal rating status – by two notches, for transferring 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. The Group / Company also identifies whether a significant increase in credit risk has occurred for an exposure due to changes in qualitative credit risk indicators such as financial performance of the borrower, breaches of covenants, industry specific information, etc.

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 limited to contractual period specified in respective agreement. 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 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, grant 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.

2 Accounting Policies (cont'd)

(5) Financial assets and liabilities - initial recognition and subsequent measurement (cont'd)

(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.

(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 and 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 credit institutions and the Treasury

Amounts due from credit institutions and the Treasury are recorded when the Group / Company advances money to a credit institution or the Treasury of the Republic of Latvia with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from credit institutions and the Treasury are carried at amortised cost. Amounts due from credit institutions and the Treasury comprises cash and demand deposits with original maturity of 3 months or less (See Note 14) and demand deposits 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.

2 Accounting Policies (cont'd)

(5) Financial assets and liabilities - initial recognition and subsequent measurement (cont'd)

(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.

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. The loans are recognised in the financial statements of the Group / Company when cash is advanced to borrowers.

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 ECL model, unless the commitment is to provide a loan at an interest rate below the market rate, in which case the measurement is at the higher of these two amounts.

The carrying amount of the loan commitments is presented as a liability within 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.

Reverse rent

Reverse rent is 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 usage 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 the future), whereas land functions as a collateral. Following the same practice applied to the other loans the management assesses impairment at each reporting date. A part of the impairment assessment and calculation is linked to evaluation of the collateral.

Reposessed collateral

Reposessed collateral represents movable assets, land and buildings that have been acquired in the debt collection process for the purpose to hold them and sell in an ordinary course of business. See Note 2 (9) item (v) details.

(xvi) Grants

The Group / Company acts as an agent when servicing grants. Grants are advanced in instalments and are recognized in the balance sheet liabilities as public funding. Grants committed to but not yet disbursed are accounted for on the Group's / Company's off-balance sheet. Provisions are made for expected losses. The grant agreement stipulates that the Company will provide grants to its clients in advance, and will submit quarterly reports to grantors on disbursed grants. Until grants are approved by the grantor for eligibility, they are recognized as financial assets at amortized cost. Upon approval by the funding provider for the eligibility of the disbursed grants, the amount of financial assets carried at amortized cost and, consequently, public funding are reduced by that amount.

2 Accounting Policies (cont'd)

(5) Financial assets and liabilities - initial recognition and subsequent measurement (cont'd)

(xvii) 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.

The carrying amount of the financial guarantees contracts is presented as a liability within off-balance sheet (Note 36).

Payments, which are made by the Group / Company, to reimburse the holder of the guarantee for a loss are included in Other assets (Note 23).

(xviii) Financial liabilities carried at amortised cost

Financial liabilities carried at amortised cost are mainly amounts due to the Treasury of the Republic of Latvia and credit institutions. These are initially recognised at fair value net of transaction costs incurred. Financial liabilities are subsequently measured at AC 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. In cases of early repayment, any difference between the repaid and carrying amounts is immediately included in the profit or loss.

(xix) Issued debt securities

The Group / Company recognises 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 or premium, the difference is amortised applying the effective interest method until the debt matures and charged to the statement of comprehensive income as interest expense.

(xx) 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. See Note 2 (15) for details.

(6) Investments in venture capital funds

The Group's / Company's investments in venture capital funds (VCF) are treated as either Investments in Associate or Investments in Subsidiaries. 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 net asset value (NAV) for the VCFs, 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.

(i) Investments in Associates

The Group's / Company's investments in Associate are stated under the equity method, except for investments in Baltic Innovation Fund and Baltic Innovation Fund II (jointly Baltic Innovation Funds / BIF).

Investments in Associate initially are recognised at acquisition cost. For subsequent measurement, the equity method is used: the Company recognizes on its balance sheet the value of the VCFs as its proportionate share of the NAV of the VCFs. The NAV was adjusted to reflect the Group's / Company's accounting policies, i.e. IFRS. The NAV of the VCFs mainly consisted of the VCFs' investments in equity instruments and issued loans as well as of the liabilities undertaken. The NAV of the VCF is based on the fair value measurement, which can be adjusted by the Group / Company to align the accounting policies of the Associates with accounting policy of the Group / Company.

The carrying value of investment in Associate includes changes in the Group's / Company's NAV in the Associate since acquisition date. Changes in the NAV from operational results of the VCF are included in the Group's / Company's profit or loss statement as a share of gain or (loss) of investment in joint venture and associate.

The realised gains, which are received from Associate, are recognised as decrease in the VCF's carrying value.

2 Accounting Policies (cont'd)

(6) Investments in venture capital funds (cont'd)

(i) Investments in Associates (cont'd)

The financial statements of the Associate and the Group cover the same reporting period.

The Group and the Company use part of the support programme funding, i.e., the 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 Latvia Venture Capital Fund, Imprimatur Capital Technology Venture Fund, Imprimatur Capital Seed Fund, ZGI-3 fund, FlyCap Investment Fund I un Expansion Capital Fund.

(ii) Investments in the Baltic Innovation Funds

Investments in Baltic Innovation Funds are valued at fair value through profit or loss. The management has made following assessment in order to support such valuation:

- within the meaning of IAS 28, the Financial Intermediary Division of the Company and the Baltic Innovation Fund correspond to the definition of a venture capital organisation or comparable to it entities;
- within the meaning of IAS 28, the Baltic Innovation Fund's investments should be classified as associates;
- the Baltic Innovation Fund measures its investments at fair value through profit or loss according to IAS 39 / IFRS 9.

The above conclusions enabled the Company to the exception in relation to the Baltic Innovation Fund measurement provided in IAS 28 and in its financial statements to measure the Baltic Innovation Fund and its investments applying IFRS 9 and deciding to state the respective assets at fair value through profit or loss.

The Group / Company use part of the support programme funding, i.e., the Risk Coverage Reserve to compensate the change in the values of venture capital funds. Since December 2017 the said risk coverage mechanism is attributable also to Baltic Innovation Funds.

(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 the VCFs into equity securities at the level of the Group are included into this financial assets' measurement category.

(iv) Other accounting issues

The management fees of the VCFs 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 the 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 VCFs 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 17) as well as for Baltic Innovation Fund from the December 2017.

(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, 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 (16)
Quantitative disclosures of fair value measurement hierarchy	Note 39
Investment property	Note 2 (9) item (iv)
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 live (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 live are reviewed, and adjusted if appropriate, at each balance sheet date.

The annual depreciation rates applied 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. Property, plant and equipment are periodically reviewed for impairment.

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 asset will flow to the Group / Company and the cost of the asset can be measured reliably.

Gains and losses on disposals of property and equipment are recognised in the profit or loss in the period of disposal.. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred..

(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

2 Accounting Policies (cont'd)

(9) Non-financial assets – initial recognition and subsequent measurement (cont'd)

(iii) Impairment of non-financial assets (cont'd)

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.

(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 through profit and loss. 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. Revaluation of investment property is performed annually.

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) Repossessed collateral (included in Other assets)

Repossessed collateral includes movable assets, land and buildings that have been acquired in the debt collection 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 realisable value. Net realisable value is a selling price during an ordinary course of business of the Group / Company less selling expenses.

Depreciation of repossessed collateral is not calculated. Changes in value of repossessed collateral are recognised in of profit or loss. The value of repossessed collateral is reassessed at each reporting date to ensure it is stated at the lower of cost or net realisable value. The repossessed collateral consists of properties taken over with an aim to sell them in the near future.

Realised gains and losses on sale of repossessed collateral are recognised at sale as the difference between sale price of repossessed collateral 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.

As at 31 December 2018 the balance sheet item Assets held for sale included investments in alternative investment funds 'Hipo Latvia Real Estate Fund I' and 'Hipo Latvia Real Estate Fund II' where respective funds' assets have been sold before January 2019. During 2019 Altum received the liquidation quota followed by the funds' liquidation in August 2019.

For details of financial information of these investments see Note 26.

2 Accounting Policies (cont'd)

(10) Leases

From 1 January 2019 the Group / Company applies IFRS 16. In accordance with the transitional provisions of IFRS 16, the standard is applied retrospectively with evaluation of its cumulative effect as of 1 January 2019. The Group / Company recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The Group / Company applies optional exemptions for short-term leases and leases of low-value items.

The Group / Company applied simplified approach and did not restate comparative information. Right-of-use assets were measured equal to the lease liabilities at the date of initial application. Cumulative effect of initial application was immaterial therefore it was not recognised as an adjustment to the opening balance of retained earnings.

Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether the contract is a lease or contains a lease, the Group / Company assesses whether:

- the contract provides for the use of an identified asset: the asset may be designated, directly or indirectly, and must be physically separable or represent practically full capacity of the asset from the physically separable asset. If the supplier has a significant right to replace the asset, the asset is not identifiable;
- the Group / Company has the right to obtain all economic benefits from the use of the identifiable asset over its useful life;
- the Group / Company has the right to determine the use of the identifiable asset. The Group / Company has the right to determine the manner in which the asset will be used, when it can decide how and for what purpose the asset will be used. Where the relevant decisions about how and for what purpose an asset is used are predetermined, the Group / Company should assess whether it uses the asset, or the Group / Company has developed an asset in a manner that predetermines how and for what purpose the asset will be used.

Upon adopting IFRS 16, the Group / Company used a single recognition and measurement approach for all leases with similar characteristics (with certain exemptions) and made an assessment on the identified right-of-use assets non-cancellable lease terms (including the extension and termination options) and lease payments (including fixed and variable payments etc.).

Leases are recognised as right-of-use assets and the corresponding lease liabilities at the date when leased assets are available for use of the Group / Company. The cost of the right-of-use an asset consists of:

- the amount of the initial measurement of the lease liability;
- any lease payments made before the commencement date less any lease incentives received;
- any initial direct costs.

Replacement costs associated with the dismantling and restoration of property, plant and equipment are classified separately as provisions.

The right-of-use assets are classified and recognised according to groups of property, plant and equipment. The Group / Company accounts right-of-use assets of land, buildings, vehicles and household improvements.

The right-of-use asset is amortised on a straight-line basis from the commencement date to the end of the useful life of the underlying asset or from the commencement date of the lease to the end of the lease term, unless an asset is scheduled to be redeemed. The right-of-use asset is periodically reduced for impairment losses, if any, and adjusted for any revaluation of the lease liabilities.

Assets and liabilities arising from leases at commencement date are measured at the amount equal to the present value of the remaining lease payments, discounted by the Group's / Company's incremental interest rate. Lease liabilities include the present value of the following lease payments:

- fixed lease payments (including in-substance fixed lease payments), less any lease incentives receivable;
- variable leases payments that are based on an index or a rate;
- amounts expected to be payable by the Group / Company under residual value guarantees;
- the exercise price of a purchase option if the Group / Company is reasonably certain to exercise that option;
- payments of penalties for terminating the lease, if the lease term reflects the Group / Company exercising that option.

2 Accounting Policies (cont'd)

(10) Leases (cont'd)

Lease liabilities are subsequently measured when there is a change in future lease payments due to changes of an index or a rate, when the Group's / Company's estimate of expected payments changes, or when the Group / Company changes its estimate of the purchase option, lease term modification due to extension or termination. When a lease liability is subsequently measured, the corresponding adjustment is made to the carrying amount of the right-of-use asset or recognised in the statement of comprehensive income if the carrying amount of the right-of-use asset decreases to zero.

Each lease payment is divided between the lease liability and the interest expense on the lease. Interest expense on lease is recognised in the statement of comprehensive income over the lease term to form a constant periodic interest rate for the remaining lease liability for each period.

Lease payments related to short-term leases are recognised as an expense in the statement of comprehensive income on a straight-line basis. Short-term leases are leases with a lease term of 12 months or less at the commencement date.

The following accounting policy on leases was applied on and before 31 December 2018:

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.

(11) Corporate income tax

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

Corporate income tax is calculated on the basis of distributed profit which is subject to the tax rate of 20 % of their gross amount, or 20/80 of net expense. Corporate tax on distributed profit will be recognized when the shareholders of the Company make a decision about profit distribution.

Corporate income tax for the distributed profit is included in the profit and loss statement line item "Corporate income tax" and disclosed by the components in the notes to the financial statements.

According to the Article 15, paragraph 2, point 5 of the Law on Development Finance Institution, profit for the reporting period is distributed including it in the Group's / Company's reserve capital.

(12) Provisions

The Group / Company utilises off-balance sheet financial instruments that include loan commitments, grant commitments and financial guarantees (Note 30). Such financial transactions are recognized in the financial statements as of the respective agreement dates. Principles of establishment of provisions for loan commitments, grant commitments and financial guarantees are presented in Note 2 (5) item (vi).

(13) Vacation reserve

Accruals for employee leaves are recognised on an accrual basis. The volume of accrued liabilities 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:

- accruals are created 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 accruals are recognised in the profit or loss.

2 Accounting Policies (cont'd)

(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.

(15) Support programme funding

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.

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 of additional payments / to reduction of additional 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 the Group / Company.

When calculating the fair value of the liabilities or Programmes' funding as at 1 January 2018, 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. The fair value and impairment loss are presented in gross amounts, i.e. taking into account the amount of the risk coverage.

Support programme funding includes the Risk Coverage reserve that can be used for covering the Group's/Company's credit risk losses. See detailed information on Risk Coverage reserve in Note 2 (6) (i), (ii), Note 2 (16) (xi) and Note 29.

Detailed information is provided in Note 29.

(16) 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 / Company bases 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 and judgements are disclosed below.

(i) 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).

(ii) Fair value of investments in the VCF

The Group's / Company's management checks regularly that the value of the underlying investments of the VCFs 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 the VCFs.

2 Accounting Policies (cont'd)

(16) Critical accounting estimates and judgements (cont'd)

(iii) 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.

(iv) 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 2019 and 31 December 2018 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 (iv) and Note 19.

(v) Classification of the 1st, 2nd and 3rd generation VCFs

The Group / Company considers that it does not control the VCFs even though it owns more than 50% in majority of the VCF. Instead, it has been concluded that the Group / Company has significant influence over the VCFs and therefore investments in VCFs are classified as Associates and are measured at using the equity method.

The Group / Company has invested in several VCFs having ownerships of 20% and 33% in two of the VCFs and 64% - 100% in rest of them (for more details, please see Note 17). The main reason for the Group / Company to invest in these VCFs is to implement a public funding function imposed by the government. Despite the high direct investments and ownership above 50% in the most of the VCFs, the Group's / Company's ability to exercise its power over the VCFs is limited by the terms of the agreements signed between the Group / Company and the VCFs managers. The Group / Company has assessed that it doesn't control the VCFs, but can exercise significant influence over them. The Group / Company is forbidden to take part in the management of the VCFs' businesses. However, the Group's / Company's representatives are present in different bodies of the VCFs (e.g. Advisory Board, Investment Committee, etc.) granting it a right to approve or reject certain limited transactions and advising the VCFs managers. The Group / Company is obliged to implement the Investment Fund in line with the business plan and agreement signed with the State.

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 VCFs managers only in cases when the VCFs managers cease their operations or illegal actions would be discovered. Under these circumstances, the VCFs 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 VCFs.

2 Accounting Policies (cont'd)

(16) Critical accounting estimates and judgements (cont'd)

(vi) Classification of the 4th generation VCFs.

In year 2018 active co-operation with Stage 4 VCFs 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 VCFs over which the Group / Company exercises the sole right of dismissing the VCFs' managers 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 these VCFs 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.

(vii) Monitoring value of investments in VCFs

In accordance with the Limited Partnership Agreement the General Partner, professionals of the venture capital industry, is fully responsible for all aspects of VCF'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 the VCFs on the funds' financial statement are recorded at fair value complying with the Group's / Company'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 revaluation 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 and Asset-Liability 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 the VCFs' NAV and recognises the loss in the profit or loss.

The Group / Company applies risk coverage reserve to compensate changes in the VCFs' NAV.

The risk cover mechanism is valid also the 4th generation VCFs.

2 Accounting Policies (cont'd)

(16) Critical accounting estimates and judgements (cont'd)

(viii) 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.

(ix) 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.

(x) Loans below market rate

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 the Group / Company may include the funds from the Group's / Company's shareholders and state budget funds, 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.

Further details on guarantees are disclosed in Notes 13 and 36.

The funding received from the state can be classified into three categories – equity financing (about guarantees see Notes 2 (5) item (xviii), 13, 36), loans (see Notes 18, 29) and support programmes funding (see Note 29).

(xi) Expected losses on credit risk

State support programmes implemented by the 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.

2 Accounting Policies (cont'd)

(16) Critical accounting estimates and judgements (cont'd)

(xi) Expected losses on credit risk (cont'd)

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.

(17) Application of new and/or amended IFRS and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC)

Several new standards and interpretations have been published which become effective for the financial reporting periods beginning on or after 1 January 2020 (not yet adopted by the European Union):

▪ Amendments to the Conceptual Framework for Financial Reporting

Effective for the 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 / Company makes assessment on the impact of these amendments on its financial statements and disclosures, but does not consider them to have a significant impact on its financial results.

▪ Amendments to IFRS 3 – Definition of a business

Effective from 1 January 2020, not yet adopted by the EU. The amendments revise definition of a business. A business must have inputs and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present, including for early stage companies that have not generated outputs. An organised workforce should be present as a condition for classification as a business if are no outputs. The definition of the term 'outputs' is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. It is also no longer necessary to assess whether market participants are capable of replacing missing elements or integrating the acquired activities and assets. An entity can apply a 'concentration test'. The assets acquired would not represent a business if substantially all of the fair value of gross assets acquired were concentrated in a single asset (or a group of similar assets). The Group / Company makes further assessment on the impact of these amendments. The amendments may result in changes in accounting policies but will not have a material effect on the Group's / Company's financial statements.

▪ Amendments to IAS 1 and IAS 8 – Definition of materiality

Effective from 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 / Company makes assessment on the impact of these amendments on its financial statements, but does not expect them to have a material impact on the Group's / Company's financial position, by reviewing estimates and judgements used in preparation of financial statements.

2 Accounting Policies (cont'd)

(17) Application of new and/or amended IFRS and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) (cont'd)

▪ **Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**

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 / Company makes assessment on the impact of these amendments on its financial statements, but does not expect them to have a material impact on the Group's / Company's financial position, by reviewing estimates and judgements used in preparation of 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.

(1) 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.

(i) 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.

(ii) 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.

3 Risk Management (cont'd)

(1) Credit Risk (cont'd)

(ii) Credit Risk Assessment and Monitoring (cont'd)

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.

(iii) Credit Risk Mitigation

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.

Breakdown of the Group's loans by internal rating categories, in thousands of euro:

Internal rating categories	A	B	C	D	E	F	G	H	Withdrawn rating	Total
Total gross loans	661	18 818	25 805	63 853	43 576	26 064	13 240	3 728	21 386	217 131
Impairment allowances	(3)	(94)	(520)	(4 505)	(3 086)	(4 256)	(3 411)	(631)	(2 870)	(19 376)
Total net loans as at 31 December 2018	658	18 724	25 285	59 348	40 490	21 808	9 829	3 097	18 516	197 755
Total gross loans	166	25 773	32 949	55 825	48 562	32 890	13 785	2 905	27 557	240 412
Impairment allowances	(1)	(213)	(1 077)	(1 912)	(3 458)	(4 907)	(3 680)	(850)	(4 185)	(20 283)
Total net loans as at 31 December 2019	165	25 560	31 872	53 913	45 104	27 983	10 105	2 055	23 372	220 129

Breakdown of the Company's loans by internal rating categories, in thousands of euro:

Internal rating categories	A	B	C	D	E	F	G	H	Withdrawn rating	Total
Total gross loans	661	18 818	25 805	63 853	43 576	26 064	13 240	3 728	21 104	216 849
Impairment allowances	(3)	(94)	(520)	(4 505)	(3 086)	(4 256)	(3 411)	(631)	(2 870)	(19 376)
Total net loans as at 31 December 2018	658	18 724	25 285	59 348	40 490	21 808	9 829	3 097	18 234	197 473
Total gross loans	166	25 773	32 949	55 825	48 562	32 890	13 785	2 905	27 557	240 412
Impairment allowances	(1)	(213)	(1 077)	(1 912)	(3 458)	(4 907)	(3 680)	(850)	(4 185)	(20 283)
Total net loans as at 31 December 2019	165	25 560	31 872	53 913	45 104	27 983	10 105	2 055	23 372	220 129

Breakdown of the Group's / Company's issued guarantees by internal rating categories, in thousands of euro:

Internal rating categories	A	B	C	D	E	F	G	H	Withdrawn rating	Total
Total gross outstanding guarantees	697	16 508	43 457	39 123	28 123	11 504	1 701	52	95 730	236 895
Impairment allowances *	(23)	(1 431)	(4 328)	(3 344)	(2 185)	(1 265)	(251)	(2)	(11 315)	(24 144)
Total net outstanding guarantees as at 31 December 2018	674	15 077	39 129	35 779	25 938	10 239	1 450	50	84 415	212 751
Total gross outstanding guarantees	913	17 025	37 806	35 370	26 933	12 157	8 580	1 617	143 831	284 232
Impairment allowances *	(10)	(1 405)	(3 422)	(3 231)	(2 213)	(2 902)	(1 220)	(729)	(15 475)	(30 607)
Total net outstanding guarantees as at 31 December 2019	903	15 620	34 384	32 139	24 720	9 255	7 360	888	128 356	253 625

3 Risk Management (cont'd)

(1) Credit Risk (cont'd)

* The Group / Company uses internal rating for assessment of credit risk to decide on issuing of financial guarantee and for further monitoring of credit risk. Internal rating assigned to a guarantee is one of several factors that has been considered when the ECL is measured. Impairment allowance for guarantees is recognised as the largest of the ECL and fair value of liabilities.

Breakdown of the Group's financial assets, off-balance sheet items and contingent liabilities by their qualitative assessment, in thousands of euro:

	Stage 1		Stage 2		Stage 3		Total	
	31.12.2019.	31.12.2018.	31.12.2019.	31.12.2018.	31.12.2019.	31.12.2018.	31.12.2019.	31.12.2018.
Financial assets at AC								
Due from credit institutions and the Treasury	181 201	137 031	-	-	-	-	181 201	137 031
Impairment allowances	(2)	(5)	-	-	-	-	(2)	(5)
Total net due from credit institutions and the Treasury	181 199	137 026	-	-	-	-	181 199	137 026
Investment securities	439	427	-	-	3 926	3 878	4 365	4 305
Impairment allowances	-	-	-	-	(3 887)	(3 838)	(3 887)	(3 838)
Total net investment securities	439	427	-	-	39	40	478	467
Loans and receivables	186 175	163 133	18 239	16 597	35 998	37 401	240 412	217 131
Impairment allowances	(2 548)	(1 998)	(2 646)	(2 765)	(15 089)	(14 613)	(20 283)	(19 376)
Total net loans and receivables	183 627	161 135	15 593	13 832	20 909	22 788	220 129	197 755
Grants	17 186	22 575	-	-	-	-	17 186	22 575
Impairment allowances	-	(14)	-	-	-	-	-	(14)
Total net grants	17 186	22 561	-	-	-	-	17 186	22 561
Other financial assets	1 830	121	-	-	3 341	7 653	5 171	7 774
Impairment allowances	(113)	(20)	-	-	(2 769)	(6 015)	(2 882)	(6 035)
Total net other financial assets	1 717	101	-	-	572	1 638	2 289	1 739
Total financial assets at AC	386 831	323 287	18 239	16 597	43 265	48 932	448 335	388 816
Impairment allowances	(2 663)	(2 037)	(2 646)	(2 765)	(21 745)	(24 466)	(27 054)	(29 268)
Total net financial assets at AC	384 168	321 250	15 593	13 832	21 520	24 466	421 281	359 548
Financial assets at FVOCI								
Investment securities	47 941	50 389	-	-	-	-	47 941	50 389
Impairment allowances	-	-	-	-	-	-	-	-
Total net investment securities	47 941	50 389	-	-	-	-	47 941	50 389
Total financial assets at FVOCI	47 941	50 389	-	-	-	-	47 941	50 389
Impairment allowances	-	-	-	-	-	-	-	-
Total net financial assets at FVOCI	47 941	50 389	-	-	-	-	47 941	50 389
Off-balance sheet items and contingent liabilities								
Outstanding guarantees	274 989	228 081	2 098	2 496	7 145	6 318	284 232	236 895
Impairment allowances	(24 711)	(19 018)	(356)	(472)	(5 540)	(4 654)	(30 607)	(24 144)
Total net outstanding guarantees	250 278	209 063	1 742	2 024	1 605	1 664	253 625	212 751
Loan commitments	18 867	18 201	84	1 408	-	2	18 951	19 611
Impairment allowances	(455)	(712)	(3)	(508)	-	-	(458)	(1 220)
Total net loan commitments	18 412	17 489	81	900	-	2	18 493	18 391
Grant commitments	7 726	7 320	-	-	-	-	7 726	7 320
Impairment allowances	(11)	(9)	-	-	-	-	(11)	(9)
Total net grant commitments	7 715	7 311	-	-	-	-	7 715	7 311
Total off-balance items and contingent liabilities	301 582	253 602	2 182	3 904	7 145	6 320	310 909	263 826
Impairment allowances	(25 177)	(19 739)	(359)	(980)	(5 540)	(4 654)	(31 076)	(25 373)
Total net off-balance items and contingent liabilities	276 405	233 863	1 823	2 924	1 605	1 666	279 833	238 453

3 Risk Management (cont'd)

(1) Credit Risk (cont'd)

Breakdown of the Company's financial assets, off-balance sheet items and contingent liabilities by their qualitative assessment, in thousands of euro:

	Stage 1		Stage 2		Stage 3		Total	
	31.12.2019.	31.12.2018.	31.12.2019.	31.12.2018.	31.12.2019.	31.12.2018.	31.12.2019.	31.12.2018.
Financial assets at AC								
Due from credit institutions and the Treasury	181 049	136 651	-	-	-	-	181 049	136 651
Impairment allowances	(2)	(5)	-	-	-	-	(2)	(5)
Total net due from credit institutions and the Treasury	181 047	136 646	-	-	-	-	181 047	136 646
Investment securities	439	427	-	-	3 926	3 878	4 365	4 305
Impairment allowances	-	-	-	-	(3 887)	(3 838)	(3 887)	(3 838)
Total net investment securities	439	427	-	-	39	40	478	467
Loans and receivables	186 175	162 851	18 239	16 597	35 998	37 401	240 412	216 849
Impairment allowances	(2 548)	(1 998)	(2 646)	(2 765)	(15 089)	(14 613)	(20 283)	(19 376)
Total net loans and receivables	183 627	160 853	15 593	13 832	20 909	22 788	220 129	197 473
Grants	17 186	22 575	-	-	-	-	17 186	22 575
Impairment allowances	-	(14)	-	-	-	-	-	(14)
Total net grants	17 186	22 561	-	-	-	-	17 186	22 561
Other financial assets	1 830	121	-	-	3 341	7 653	5 171	7 774
Impairment allowances	(113)	(20)	-	-	(2 769)	(6 015)	(2 882)	(6 035)
Total net other financial assets	1 717	101	-	-	572	1 638	2 289	1 739
Total financial assets at AC	386 679	322 625	18 239	16 597	43 265	48 932	448 183	388 154
Impairment allowances	(2 663)	(2 037)	(2 646)	(2 765)	(21 745)	(24 466)	(27 054)	(29 268)
Total net financial assets at AC	384 016	320 588	15 593	13 832	21 520	24 466	421 129	358 886
Financial assets at FVOCI								
Investment securities	47 941	50 389	-	-	-	-	47 941	50 389
Impairment allowances	-	-	-	-	-	-	-	-
Total net investment securities	47 941	50 389	-	-	-	-	47 941	50 389
Total financial assets at FVOCI	47 941	50 389	-	-	-	-	47 941	50 389
Impairment allowances	-	-	-	-	-	-	-	-
Total net financial assets at FVOCI	47 941	50 389	-	-	-	-	47 941	50 389
Off-balance sheet items and contingent liabilities								
Outstanding guarantees	274 989	228 081	2 098	2 496	7 145	6 318	284 232	236 895
Impairment allowances	(24 711)	(19 018)	(356)	(472)	(5 540)	(4 654)	(30 607)	(24 144)
Total net outstanding guarantees	250 278	209 063	1 742	2 024	1 605	1 664	253 625	212 751
Loan commitments	18 867	18 201	84	1 408	-	2	18 951	19 611
Impairment allowances	(455)	(712)	(3)	(508)	-	-	(458)	(1 220)
Total net loan commitments	18 412	17 489	81	900	-	2	18 493	18 391
Grant commitments	7 726	7 320	-	-	-	-	7 726	7 320
Impairment allowances	(11)	(9)	-	-	-	-	(11)	(9)
Total net grant commitments	7 715	7 311	-	-	-	-	7 715	7 311
Total off-balance items and contingent liabilities	301 582	253 602	2 182	3 904	7 145	6 320	310 909	263 826
Impairment allowances	(25 177)	(19 739)	(359)	(980)	(5 540)	(4 654)	(31 076)	(25 373)
Total net off-balance items and contingent liabilities	276 405	233 863	1 823	2 924	1 605	1 666	279 833	238 453

3 Risk Management (cont'd)

(1) Credit Risk (cont'd)

Changes in the Group's credit loss allowance and gross carrying amount for loans, in thousands of euro:

	Credit loss allowance				Gross carrying amount			
	Stage 1 (12- months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total	Stage 1 (12- months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
As at 31 December 2018	1 998	2 765	14 613	19 376	163 133	16 597	37 401	217 131
Movements with impact on credit loss allowance charge for the period:								
Transfers between stages:								
to lifetime (from Stage 1 to Stage 2)	(82)	295	-	213	(7 991)	6 790	-	(1 201)
to credit impaired (from Stage 1 and Stage 2 to Stage 3)	(567)	(239)	2 264	1 458	(7 024)	(2 683)	8 035	(1 672)
to lifetime (from Stage 3 to Stage 2)	-	228	(1 109)	(881)	-	2 679	(3 225)	(546)
to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	271	(771)	(25)	(525)	5 454	(6 289)	(95)	(930)
New originated or purchased	661	27	1 371	2 059	57 508	886	2 486	60 880
Derecognised during the period	(41)	(7)	(1 843)	(1 891)	(7 612)	(391)	(4 669)	(12 672)
Changes to ECL measurement model assumptions	266	90	48	404	-	-	-	-
Other movements	-	-	-	-	945	89	218	1 252
Total movements with impact on credit loss allowance charge for the period:	508	(377)	706	837	41 280	1 081	2 750	45 111
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	(1 989)	(1 989)	-	-	(1 989)	(1 989)
Foreign exchange gains and losses and other movements	-	-	1	1	-	-	-	-
Modification of contractual cash flows	42	258	1 758	2 058	(18 238)	561	(2 164)	(19 841)
Total movements without impact on credit loss allowance charge for the period:	42	258	(230)	70	(18 238)	561	(4 153)	(21 830)
As at 31 December 2019	2 548	2 646	15 089	20 283	186 175	18 239	35 998	240 412

Changes in the Company's credit loss allowance and gross carrying amount for loans, in thousands of euro:

	Credit loss allowance				Gross carrying amount			
	Stage 1 (12- months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total	Stage 1 (12- months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
As at 31 December 2018	1 998	2 765	14 613	19 376	162 851	16 597	37 401	216 849
Movements with impact on credit loss allowance charge for the period:								
Transfers between stages:								
to lifetime (from Stage 1 to Stage 2)	(82)	295	-	213	(7 991)	6 790	-	(1 201)
to credit impaired (from Stage 1 and Stage 2 to Stage 3)	(567)	(239)	2 264	1 458	(7 024)	(2 683)	8 035	(1 672)
to lifetime (from Stage 3 to Stage 2)	-	228	(1 109)	(881)	-	2 679	(3 225)	(546)
to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	271	(771)	(25)	(525)	5 454	(6 289)	(95)	(930)
New originated or purchased	661	27	1 371	2 059	57 508	886	2 486	60 880
Derecognised during the period	(41)	(7)	(1 843)	(1 891)	(7 612)	(391)	(4 669)	(12 672)
Changes to ECL measurement model assumptions	266	90	48	404	-	-	-	-
Other movements	-	-	-	-	942	98	213	1 253
Total movements with impact on credit loss allowance charge for the period:	508	(377)	706	837	41 277	1 090	2 745	45 112
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	(1 989)	(1 989)	-	-	(1 989)	(1 989)
Foreign exchange gains and losses and other movements	-	-	1	1	-	-	-	-
Modification of contractual cash flows	42	258	1 758	2 058	(17 953)	552	(2 159)	(19 560)
Total movements without impact on credit loss allowance charge for the period:	42	258	(230)	70	(17 953)	552	(4 148)	(21 549)
As at 31 December 2019	2 548	2 646	15 089	20 283	186 175	18 239	35 998	240 412

3 Risk Management (cont'd)

(1) Credit Risk (cont'd)

Changes in the Group's / Company's credit loss allowance and gross carrying amount for outstanding guarantees, in thousands of euro:

	Credit loss allowance				Gross carrying amount			
	Stage 1 (12- months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total	Stage 1 (12- months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
As at 31 December 2018	19 018	472	4 654	24 144	228 081	2 496	6 318	236 895
Movements with impact on credit loss allowance charge for the period:								
Transfers between stages:								
to lifetime (from Stage 1 to Stage 2)	(79)	72	-	(7)	(1 728)	1 692	-	(36)
to credit impaired (from Stage 1 and Stage 2 to Stage 3)	(52)	(375)	2 497	2 070	(1 688)	(1 250)	3 738	800
to lifetime (from Stage 3 to Stage 2)	-	254	(293)	(39)	-	318	(318)	-
to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	82	(61)	-	21	721	(914)	-	(193)
New originated or purchased	7 161	-	275	7 436	86 852	-	414	87 266
Derecognised during the period	(938)	(2)	(529)	(1 469)	(25 354)	(24)	(880)	(26 258)
Changes to ECL measurement model assumptions	1 902	12	281	2 195	-	-	-	-
Other movements	(12)	-	(1 426)	(1 438)	(1 336)	-	(2 092)	(3 428)
Total movements with impact on credit loss allowance charge for the period:	8 064	(100)	805	8 769	57 467	(178)	862	58 151
Movements without impact on credit loss allowance charge for the period:								
Foreign exchange gains and losses and other movements	-	-	(2)	(2)	-	-	-	-
Modification of contractual cash flows	(2 371)	(16)	83	(2 304)	(10 559)	(220)	(35)	(10 814)
Total movements without impact on credit loss allowance charge for the period:	(2 371)	(16)	81	(2 306)	(10 559)	(220)	(35)	(10 814)
As at 31 December 2019	24 711	356	5 540	30 607	274 989	2 098	7 145	284 232

Aging analysis of the loans issued by the Group / Company, without accrued interest, in thousands of euro:

	Group 31.12.2019.	Group 31.12.2018.	Company 31.12.2019.	Company 31.12.2018.
Performing	208 666	178 557	208 666	178 275
Past due up to 30 days	14 193	17 565	14 193	17 565
Past due from 31 to 60 days	2 278	3 012	2 278	3 012
Past due from 61 to 90 days	230	618	230	618
Past due over 90 days	15 045	17 379	15 045	17 379
Total gross loans, without interest accrued on the loans	240 412	217 131	240 412	216 849
Impairment allowances	(20 283)	(19 376)	(20 283)	(19 376)
Total net loans	220 129	197 755	220 129	197 473

The Group / Company has performed sensitivity analysis of the Group's / Company's credit loss allowance for loans and outstanding guarantees using 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 Group / 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.

3 Risk Management (cont'd)

(1) Credit Risk (cont'd)

Results of the Group's / Company's sensitivity analysis of the Group's / Company's credit loss allowance for loans as at 31 December 2019, thousands of euro:

		Change in GDP		Change in real estate prices	
	Gross carrying amount	+ 1%	- 1%	+ 5%	- 5%
Credit loss allowance for loans	20 283	(334)	346	(415)	341
Total credit loss allowance for loans	20 283	(334)	346	(415)	341

Results of the Group's / Company's sensitivity analysis of the Group's / Company's credit loss allowance for loans as at 31 December 2018, thousands of euro:

		Change in GDP		Change in real estate prices	
	Gross carrying amount	+ 1%	- 1%	+ 5%	- 5%
Credit loss allowance for loans	14 426	(132)	142	(258)	343
Total credit loss allowance for loans	14 426	(132)	142	(258)	343

Results of the Group's / Company's sensitivity analysis of the Group's / Company's credit loss allowance for outstanding guarantees as at 31 December 2019, thousands of euro:

		Change in GDP		Change in real estate prices	
	Gross carrying amount	+ 1%	- 1%	+ 5%	- 5%
Credit loss allowance for outstanding guarantees	30 607	(4)	5	(214)	215
Total credit loss allowance for loans	30 607	(4)	5	(214)	215

Results of the Group's / Company's sensitivity analysis of the Group's / Company's credit loss allowance for outstanding guarantees as at 31 December 2018, thousands of euro:

		Change in GDP		Change in real estate prices	
	Gross carrying amount	+ 1%	- 1%	+ 5%	- 5%
Credit loss allowance for outstanding guarantees	10 982	(9)	9	(96)	96
Total credit loss allowance for loans	10 982	(9)	9	(96)	96

In calculating the ECL 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 assessed at fair value and position against net loan portfolio, in thousands of euro :

	Group 31.12.2019.	Group 31.12.2018.	Company 31.12.2019.	Company 31.12.2018.
Real estate (loans)	155 057	155 299	155 057	155 299
Real estate (leaseback)	14 774	6 923	14 774	6 923
Movable property	25 659	22 273	25 659	22 273
Guarantees	1 672	305	1 672	305
Total collateral	197 162	184 800	197 162	184 800
Loan portfolio, gross	240 412	217 131	240 412	216 849
Impairment allowances	(20 283)	(19 376)	(20 283)	(19 376)
Loan portfolio, net	220 129	197 755	220 129	197 473
Exposed	10.43%	6.55%	10.43%	6.42%

3 Risk Management (cont'd)

(1) Credit Risk (cont'd)

The Group's / Company's maximum credit risk exposures of the balance and off-balance sheet items (not including collateral held or other security), in thousands of euro:

	Group 31.12.2019.	Group 31.12.2018.	Company 31.12.2019.	Company 31.12.2018.
Assets exposed to credit risk				
Due from credit institutions and the Treasury	181 199	137 026	181 047	136 646
Financial assets at fair value through other comprehensive income - investment securities	47 941	50 389	47 941	50 389
Financial assets at amortised cost:				
Investment securities	478	467	478	467
Loans and receivables	220 129	197 755	220 129	197 473
Grants	17 186	22 561	17 186	22 561
Investments in venture capital funds	52 543	50 239	52 543	50 239
Other assets	3 067	1 739	3 067	1 739
Total	522 543	460 176	522 391	459 514
Off-balance sheet items exposed to credit risk				
Contingent liabilities (Note 16)	284 232	236 895	284 232	236 895
Financial commitments (Note 16)	97 174	87 189	110 645	87 189
Total	381 406	324 084	394 877	324 084

As at 31 December 2019, part of the Group's / Company's assets in amount of EUR 117,222 thsd (31 December 2018: EUR 76,402 thousand) were pledged. Detailed information on the Group's / Company's outstanding loan agreement as at 31 December 2019 is provided in Note 27 and Note 28.

Loans are secured mostly by real estate, to a lesser extent – by other types of assets or commercial pledges. Some loans, granted 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.

State Budget 2019 Law article 49 provides that guarantees issued by Altum in amount of EUR 270 000 thousand is backed by the state according to Agriculture and Rural Development Law and Development Finance Institution Law (2018: cap – EUR 270 000 thousand, actual issued EUR 250 144 thousand).

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 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.

On 31 December 2017, total impairment due to credit losses applied to the Group / Company of EUR 39,007 consisted of credit losses EUR 30,463 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.

(2) 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 without considerable losses and in a short period of time to ensure the necessary liquidity.

The objective of liquidity risk management is to maintain liquid assets of sufficient size and quality, as well as to attract financing with appropriate maturity structure, which ensures timely fulfilment of liabilities as well as planned increase of assets.

3 Risk Management (cont'd)

(2) Liquidity Risk (cont'd)

The Group / Company implements a prudent liquidity risk management policy. Consequently, the focus of liquidity management is on balancing of existing and planned portfolio under each support programmes and the amount and timing of funding available for their implementation.

Given that the repayment term for funding under the support programmes can be extended in accordance with the Cabinet of Ministers regulations, this means in practice that this funding remains on the Group's / Company's balance sheet and that funding is reallocated to new programmes.

The Risk and Asset-Liabilities Management Committee is responsible for the monitoring and management of liquidity risk in accordance with the Group's / Company's Resource Management Strategy and the Group's / Company's Risk Management Strategy.

In 2Q 2019 the Company's management decided in more detail reflect the maturity profile of expected undiscounted future cash flow of the Group's / Company's financial liabilities, off-balance liabilities and liquid assets, splitting the maturity profile into smaller maturity bands. Thereby ensuring a better overview and transparency of the expected undiscounted future cash flow of the Group's / Company's financial liabilities, off-balance liabilities and liquid assets especially in further time periods.

Comparative information for 2018 was not restated, as no such split was available at that point in time and no reliable data can be obtained.

Maturity profile of the Group's expected undiscounted future cash flows of financial liabilities, off-balance liabilities and liquid assets as at 31 December 2019, in thousands of euro:

	Up to 1 year	1 to 5 years	5 to 10 years	10 to 15 years	Over 15 years and w/o maturity	Total
Due to credit institutions	8 761	20 828	-	-	-	29 589
Due to general governments	32	2 138	6 756	-	77 396	86 322
Issued debt securities	667	21 820	25 195	-	-	47 682
Support programme funding	-	18 878	22 822	55 420	31 610	128 730
Other liabilities	2 079	707	-	-	-	2 786
Total financial liabilities	11 539	64 371	54 773	55 420	109 006	295 109
Off-balance sheet items and contingent liabilities *	322 869	43 003	15 509	-	-	381 381
Total financial liabilities, off-balance items and contingent liabilities	334 408	107 374	70 282	55 420	109 006	676 490
Due from credit institutions and the Treasury	181 199	-	-	-	-	181 199
Investment securities	10 904	26 739	10 776	-	-	48 419
Liquid assets	192 103	26 739	10 776	-	-	229 618

* 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.

3 Risk Management (cont'd)

(2) Liquidity Risk (cont'd)

Maturity profile of the Group's expected undiscounted future cash flows of financial liabilities, off-balance liabilities and liquid assets as at 31 December 2018, in thousands of euro:

	Up to 1 year	1 to 5 years	Over 5 years and w/o maturity	Total
Due to 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	-	-	2 706	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 credit institutions and the 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.

Maturity profile of the Company's expected undiscounted future cash flows of financial liabilities, off-balance liabilities and liquid assets as at 31 December 2019, in thousands of euro:

	Up to 1 year	1 to 5 years	5 to 10 years	10 to 15 years	Over 15 years and w/o maturity	Total
Due to credit institutions	8 761	20 828	-	-	-	29 589
Due to general governments	32	2 138	6 756	-	77 396	86 322
Issued debt securities	667	21 820	25 195	-	-	47 682
Support programme funding	-	18 878	22 822	55 420	31 610	128 730
Other liabilities	2 079	694	-	-	-	2 773
Total financial liabilities	11 539	64 358	54 773	55 420	109 006	295 096
Off-balance sheet items and contingent liabilities *	325 159	51 220	18 473	-	-	394 852
Total financial liabilities, off-balance items and contingent liabilities	336 698	115 578	73 246	55 420	109 006	689 948
Due from credit institutions and the Treasury	181 047	-	-	-	-	181 047
Investment securities	10 904	26 739	10 776	-	-	48 419
Liquid assets	191 951	26 739	10 776	-	-	229 466

* 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.

3 Risk Management (cont'd)

(2) Liquidity Risk (cont'd)

Maturity profile of the Company's expected undiscounted future cash flows of financial liabilities, off-balance liabilities and liquid assets as at 31 December 2018, in thousands of euro:

	Up to 1 year	1 to 5 years	Over 5 years and w/o maturity	Total
Due to 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 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	199 239	577 191
Due from credit institutions and the 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 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.

Breakdown of the Group's assets and liabilities by maturity profile as at 31 December 2019 based on the time remaining from the reporting date to their contractual maturity, in thousands of euro:

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years and w/o maturity	Total
Assets							
Due from credit institutions and the Treasury	176 197	-	2 001	3 001	-	-	181 199
Financial assets at fair value through profit or loss	-	-	-	-	-	4 217	4 217
Investment securities	90	1 149	1	9 664	26 739	10 776	48 419
Loans	11 296	9 812	8 897	20 732	94 055	75 337	220 129
Grants	-	-	-	-	13 792	3 394	17 186
Deferred expense and accrued income	2 343	-	-	-	-	-	2 343
Investments in venture capital funds	1 508	-	7 051	-	27 236	16 748	52 543
Investment property	-	-	-	-	22 582	1 784	24 366
Property, plant and equipment	-	-	-	-	-	4 694	4 694
Intangible assets	-	-	-	-	-	1 395	1 395
Other assets	1 746	-	-	560	1 264	-	3 570
Total assets	193 180	10 961	17 950	33 957	185 668	118 345	560 061
Liabilities							
Due to credit institutions	-	4 375	-	4 339	20 828	-	29 542
Financial assets at fair value through profit or loss – derivatives	-	-	-	-	-	-	-
Due to general governments	-	-	-	-	2 118	84 154	86 272
Issued debt securities	-	269	-	58	20 013	25 008	45 348
Deferred income and accrued expense	361	259	303	582	1 379	685	3 569
Provisions	31 076	-	-	-	-	-	31 076
Support programme funding	-	-	-	-	18 878	109 852	128 730
Other liabilities	2 060	-	-	19	707	-	2 786
Total liabilities	33 497	4 903	303	4 998	63 923	219 699	327 323
Net liquidity	159 683	6 058	17 647	28 959	121 745	(101 354)	232 738

* 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

3 Risk Management (cont'd)

(2) Liquidity Risk (cont'd)

Breakdown of the Group's assets and liabilities by maturity profile as at 31 December 2018 based on the time remaining from the reporting date to their contractual maturity, in thousands of euro:

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years and w/o maturity	Total
Assets							
Due from credit institutions and the 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
Grants	2	-	-	-	974	21 585	22 561
Deferred expense and accrued income	158	-	-	1 703	211	-	2 072
Assets held for sale	11 343	-	-	-	-	-	11 343
Investments in venture capital funds	746	-	-	-	38 505	10 988	50 239
Investment property	-	-	-	-	12 747	2 047	14 794
Property, plant and equipment	-	-	-	-	-	4 228	4 228
Intangible assets	-	-	-	-	-	1 347	1 347
Other assets	265	-	-	652	1 641	-	2 558
Total assets	146 658	17 859	7 850	26 501	178 608	118 463	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
Provisions	25 103	-	-	270	-	-	25 373
Support programme funding	34 052	-	206	-	11 883	80 818	126 959
Other liabilities	2 706	-	-	-	-	-	2 706
Total liabilities	62 942	4 584	434	4 856	39 061	162 472	274 349
Net liquidity	83 716	13 275	7 416	21 645	139 547	(44 009)	221 590

* 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

3 Risk Management (cont'd)

(2) Liquidity Risk (cont'd)

Breakdown of the Company's assets and liabilities by maturity profile as at 31 December 2019 based on the time remaining from the reporting date to their contractual maturity, in thousands of euro:

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years and w/o maturity	Total
Assets							
Due from credit institutions and the Treasury	176 045	-	2 001	3 001	-	-	181 047
Financial assets at fair value through profit or loss	-	-	-	-	-	-	-
Investment securities	90	1 149	1	9 664	26 739	10 776	48 419
Loans	11 296	9 812	8 897	20 732	94 055	75 337	220 129
Grants	-	-	-	-	13 792	3 394	17 186
Deferred expense and accrued income	2 343	-	-	-	-	-	2 343
Investments in venture capital funds	1 508	-	7 051	-	27 236	16 748	52 543
Investments in subsidiaries	-	-	-	-	832	2 980	3 812
Investment property	-	-	-	-	22 582	1 784	24 366
Property, plant and equipment	-	-	-	-	-	4 694	4 694
Intangible assets	-	-	-	-	-	1 395	1 395
Other assets	1 746	-	-	560	1 264	-	3 570
Total assets	193 028	10 961	17 950	33 957	186 500	117 108	559 504
Liabilities							
Due to credit institutions	-	4 375	-	4 339	20 828	-	29 542
Financial assets at fair value through profit or loss – derivatives	-	-	-	-	-	-	-
Due to general governments	-	-	-	-	2 118	84 154	86 272
Issued debt securities	-	269	-	58	20 013	25 008	45 348
Deferred income and accrued expense	361	259	303	582	1 379	685	3 569
Provisions	31 076	-	-	-	-	-	31 076
Support programme funding	-	-	-	-	18 878	109 852	128 730
Other liabilities	2 060	-	-	19	694	-	2 773
Total liabilities	33 497	4 903	303	4 998	63 910	219 699	327 310
Net liquidity	159 531	6 058	17 647	28 959	122 590	(102 591)	232 194

* 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

3 Risk Management (cont'd)

(2) Liquidity Risk (cont'd)

Breakdown of the Company's assets and liabilities by maturity profile as at 31 December 2018 based on the time remaining from the reporting date to their contractual maturity, in thousands of euro:

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years and w/o maturity	Total
Assets							
Due from credit institutions and the Treasury	123 444	8 202	-	5 000	-	-	136 646
Financial assets at fair value through profit or loss	-	-	-	-	-	-	-
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
Grants	2	-	-	-	974	21 585	22 561
Deferred expense and accrued income	158	-	-	1 703	211	-	2 072
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
Investment property	-	-	-	-	12 747	2 047	14 794
Property, plant and equipment	-	-	-	-	-	4 228	4 228
Intangible assets	-	-	-	-	-	1 347	1 347
Other assets	265	-	-	652	1 641	-	2 558
Total assets	146 278	17 859	7 850	26 501	178 608	118 513	495 609
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
Provisions	25 103	-	-	270	-	-	25 373
Support programme funding	34 052	-	206	-	11 883	80 818	126 959
Other liabilities	2 643	-	-	-	-	-	2 643
Total liabilities	62 879	4 584	434	4 856	39 061	162 472	274 286
Net liquidity	83 399	13 275	7 416	21 645	139 547	(43 959)	221 323

* 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

(3) 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 the Risk Management Policy. Interest rate risk governance is performed by the Risk and Asset-Liability Management Committee, while daily interest rate analysis and management is performed by Planning and Financial Analysis 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 is 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.

3 Risk Management (cont'd)

(3) Interest Rate Risk (cont'd)

The following table represents the impact of change in interest rates by 100 bps on the Group's / Company's interest income and expenses over 12-month period, with all other variables held constant:

All amounts in thousands of euro

	Group 31.12.2019.	Group 31.12.2018.	Company 31.12.2019.	Company 31.12.2018.
Change in interest rates by +100 bps	754	1 081	754	1 081
Change in interest rates by -100 bps	(281)	(335)	(281)	(335)

(4) 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 Group's / Company's exposure to foreign currency risk is insignificant as the transactions are denominated in Euro. The Group / Company controls foreign currency risk by raising financing and issuing financial instruments in euro.

Based on the current positions of the Group / Company as at 31.12.2019 and 31.12.2018, if the exchange rate for the US dollar changes according to the scenario presented, the possible changes in the Group's / Company's total capital (excluding tax effects) would be as follows:

All amounts in thousands of euro

	Group 31.12.2019.	Group 31.12.2018.	Company 31.12.2019.	Company 31.12.2018.
Change in USD/EUR exchange rates by +5%	(34)	(111)	(34)	(111)
Change in USD/EUR exchange rates by -5%	34	111	34	111

(5) 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 / Company'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.

(6) AML / CTF / sanctions risk

The Group / Company is subject to the Law on the Prevention of Money Laundering and Terrorism and Proliferation 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 proliferation 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.

3 Risk Management (cont'd)

(7) 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 / 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.

4 Interest income

All amounts in thousands of euro

	Group 01.01.2019.- 31.12.2019.	Group 01.01.2018.- 31.12.2018. *	Company 01.01.2019.- 31.12.2019.	Company 01.01.2018.- 31.12.2018. *
Interest on loans and guarantees	11 786	10 450 *	11 786	10 450 *
Interest on securities at fair value	12	25	12	25
Interest on securities at amortised cost	1 529	1 966	1 529	1 966
Interest on balances due from credit institutions	17	9	17	9
Total interest income	13 344	12 450	13 344	12 450

* comparatives reclassified as stated in Section (1) of Note 2.

The Group's / Company's sub-item *Interest income on loans and guarantees* is reduced by EUR 1 167 thousand (2018: EUR 870 thousand) according to respective programmes' agreements concluded with the Ministry of Economics stipulating that the financing given by the Ministry of Economics (recognised as Support programme funding in the Balance sheet) must be increased by the income of those programmes - income from the placement of free funds, interest income from loans, premium income on issued guarantees, commissions, contractual penalties and other income. Subsequently such kind of income is not recognised in Interest income.

5 Interest expense

All amounts in thousands of euro

	Group 01.01.2019.- 31.12.2019.	Group 01.01.2018.- 31.12.2018. *	Company 01.01.2019.- 31.12.2019.	Company 01.01.2018.- 31.12.2018. *
Interest on balances due to credit institutions	446	376 *	446	376 *
Interest on issued debt securities	495	387 *	495	387 *
Allocation of state support programmes' profit to support programme funding **	804	346 *	804	346 *
Other interest expense	-	24 *	-	24 *
Other commission expense	30	15 *	30	15 *
Total interest expense	1 775	1 148	1 775	1 148

* comparatives reclassified as stated in Section (1) of Note 2.

** For particular state support programmes according to respective agreements concluded with the Ministry of Economics the net profit of the programme should be split between the Group / Company and the Ministry of Economics by increasing public funding given by the Ministry of Economics (recognised as Support programme funding in the Balance sheet).

6 Income for implementation of state support programmes

All amounts in thousands of euro

	Group 01.01.2019.- 31.12.2019.	Group 01.01.2018.- 31.12.2018. *	Company 01.01.2019.- 31.12.2019.	Company 01.01.2018.- 31.12.2018. *
Compensation of expenses for management of state support programmes	2 335	1 877 *	2 335	1 877 *
Compensation of the venture capital funds' management fees	3 247	1 460 *	3 247	1 460 *
Compensation of expenses of capital congestion	309	-	309	-
Compensation of 2018 year expenses for management of state support programmes	274	-	274	-
Total income from implementation of state support programmes	6 165	3 337	6 165	3 337

* comparatives reclassified as stated in Section (1) of Note 2.

7 Expenses to be compensated for implementation of state support programmes

All amounts in thousands of euro

	Group 01.01.2019.- 31.12.2019.	Group 01.01.2018.- 31.12.2018. *	Company 01.01.2019.- 31.12.2019.	Company 01.01.2018.- 31.12.2018. *
Compensated staff costs (Note 11)	1 883	1 507 *	1 883	1 507 *
Compensated administrative expense (Note 12)	452	370 *	452	370 *
Compensated venture capital fund management fees	3 249	1 514 *	3 249	1 514 *
Total compensated expense for implementation of state support programmes	5 584	3 391	5 584	3 391

* comparatives reclassified as stated in Section (1) of Note 2

8 Gains from debt securities and foreign exchange transactions

All amounts in thousands of euro

	Group 01.01.2019.- 31.12.2019.	Group 01.01.2018.- 31.12.2018.	Company 01.01.2019.- 31.12.2019.	Company 01.01.2018.- 31.12.2018.
Gain from measured at FVOCI securities	92	405	92	405
Loss on currency exchange and trade and revaluation of other financial instruments, net	(2)	(283)	(2)	(283)
Total gain from debt securities and foreign exchange transactions	90	122	90	122

9 Other income

All amounts in thousands of euro

	Group 01.01.2019.- 31.12.2019.	Group 01.01.2018.- 31.12.2018. *	Company 01.01.2019.- 31.12.2019.	Company 01.01.2018.- 31.12.2018. *
Income from lease payments for operational leases	579	385 *	579	385 *
Income from lease payments for financial leases	112	29	112	29
Income from investment property revaluation	535	234	535	234
Income from sale of investment property	76	11 *	76	11 *
Income from sale of repossessed collateral	15	292 *	15	292 *
Other commission income	3	15 *	3	15 *
Other operating income	848	413 *	848	413 *
Total other income	2 168	1 379	2 168	1 379

* comparatives reclassified as stated in Section (1) of Note 2.

10 Other expense

All amounts in thousands of euro

	Group 01.01.2019.- 31.12.2019.	Group 01.01.2018.- 31.12.2018. *	Company 01.01.2019.- 31.12.2019.	Company 01.01.2018.- 31.12.2018. *
Maintenance and service costs of Land Fund	208	105 *	208	105 *
Debt collection costs	153	286 *	153	286 *
Maintenance costs of repossessed collateral	19	38 *	19	38 *
Revaluation of repossessed collateral	45	116 *	45	116 *
Depreciation of right-of-use assets	124	-	124	-
Commission expense on investments in securities	83	89 *	83	89 *
Other commission expense	2	5 *	2	5 *
Total other expense	634	639	634	639

* comparatives reclassified as stated in Section (1) of Note 2.

11 Staff Costs

All amounts in thousands of euro

	Group 01.01.2019.- 31.12.2019.	Group 01.01.2018.- 31.12.2018.	Company 01.01.2019.- 31.12.2019.	Company 01.01.2018.- 31.12.2018.
Remuneration to the Supervisory Council and the Management Board	568	503	568	503
<i>to the Supervisory Council</i>	81	72	81	72
<i>to the Management Board</i>	487	431	487	431
Remuneration to staff	4 674	5 434	4 674	5 434
Social security contributions	1 281	1 431	1 281	1 431
Total staff costs	6 523	7 368	6 523	7 368
Compensated staff costs (Note 7)	(1 883)	(1 507)	(1 883)	(1 507)
Net staff costs	4 640	5 861	4 640	5 861

In 2019, the Group / Company employed 208 employees on average (2018: 227). Number of employees engaged in implementation of support programmes as at 31 December 2019 was 196 (31 December 2018: 196).

12 Administrative expenses

All amounts in thousands of euro

	Group 01.01.2019.- 31.12.2019.	Group 01.01.2018.- 31.12.2018. *	Company 01.01.2019.- 31.12.2019.	Company 01.01.2018.- 31.12.2018. *
Information system and communication expense	452	677	452	677
Premises and equipment maintenance expense	733	890	733	890
Advertising and public relations	298	291	298	291
Training and other staff expense	300	166	300	166
Professional services **	285	398	285	398
Other expense	73	74 *	73	74 *
Real estate tax	132	353 *	132	353 *
Total administrative expenses	2 273	2 849	2 273	2 849
Compensated administrative expense (Note 7)	(452)	(370)	(452)	(370)
Net administrative expenses	1 821	2 479	1 821	2 479

* comparatives reclassified as stated in Section (1) of Note 2.

** The Group's / Company's sub-item *Professional services* includes audit, tax and accounting consulting services in amount of 29.8 thsd euros, which were received during 2019 (2018: 12 thsd euros) from the Group's / Company's sworn auditor PricewaterhouseCoopers, Ltd.

13 Impairment losses, net

All amounts in thousands of euro

	Group 01.01.2019.- 31.12.2019.	Group 01.01.2018.- 31.12.2018.	Company 01.01.2019.- 31.12.2019.	Company 01.01.2018.- 31.12.2018.
Impairment losses on:	9 998	9 540	9 998	9 540
Loans, net	6 667	4 710	6 667	4 710
<i>impairment losses</i>	8 793	5 917	8 793	5 917
<i>impairment losses covered by risk coverage reserve</i>	(2 126)	(1 207)	(2 126)	(1 207)
Disbursed guarantee compensations	-	-	-	-
<i>impairment losses</i>	-	23	-	23
<i>impairment losses covered by risk coverage reserve</i>	-	(23)	-	(23)
Grants	11	-	11	-
Other assets	247	52	247	52
Due from credit institutions and the Treasury	2	-	2	-
Financial assets related to loan agreements	161	1 751	161	1 751
Debt securities	7	-	7	-
Guarantees, net	2 641	2 939	2 641	2 939
<i>impairment losses</i>	15 752	8 174	15 752	8 174
<i>impairment losses covered by risk coverage reserve</i>	(13 111)	(5 235)	(13 111)	(5 235)
Loan commitments, net	253	88	253	88
<i>impairment losses</i>	608	1 220	608	1 220
<i>impairment losses covered by risk coverage reserve</i>	(355)	(1 132)	(355)	(1 132)
Grant commitments	9	-	9	-
Reversal of impairment on:	(9 952)	(8 764)	(9 952)	(8 764)
Loans, net	(4 718)	(2 685)	(4 718)	(2 685)
<i>reversal of impairment</i>	(5 897)	(3 408)	(5 897)	(3 408)
<i>reversal of impairment covered by risk coverage reserve</i>	1 179	723	1 179	723
Disbursed guarantee compensations	(1 788)	-	(1 788)	-
<i>reversal of impairment</i>	(1 902)	(805)	(1 902)	(805)
<i>reversal of impairment covered by risk coverage reserve</i>	114	805	114	805
Grants	(13)	-	(13)	-
Other assets	-	(23)	-	(23)
Due from credit institutions and the Treasury	(5)	-	(5)	-
Financial assets related to loan agreements	(44)	(401)	(44)	(401)
Debt securities	(43)	(211)	(43)	(211)
Guarantees, net	(3 126)	(5 444)	(3 126)	(5 444)
<i>reversal of impairment</i>	(6 692)	(6 876)	(6 692)	(6 876)
<i>reversal of impairment covered by risk coverage reserve</i>	3 566	1 432	3 566	1 432
Loan commitments, net	(208)	-	(208)	-
<i>reversal of impairment</i>	(1 369)	-	(1 369)	-
<i>reversal of impairment covered by risk coverage reserve</i>	1 161	-	1 161	-
Grant commitments	(7)	-	(7)	-
Total impairment losses / (reversal), net	46	776	46	776
Recovery of loans written off in previous periods	(1 745)	(1 448)	(1 745)	(1 448)
Total impairment losses and (income) from recovery of loans written-off	(1 699)	(672)	(1 699)	(672)

14 Due from credit institutions and the Treasury

All amounts in thousands of euro

	Group 31.12.2019.	Group 31.12.2018.	Company 31.12.2019.	Company 31.12.2018.
Due from credit institutions and the Treasury	181 201	137 031	181 049	136 651
<i>of which, cash and cash equivalent</i>	176 199	128 916	176 047	128 536
Impairment allowances	(2)	(5)	(2)	(5)
Net due from credit institutions and the Treasury	181 199	137 026	181 047	136 646

14 Due from credit institutions and the Treasury (cont'd)

Placing the funds within 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 the ECL calculation purposes. There were no changes in staging during the reporting period as there were no changes in the calculated ECL during the reporting period..

Breakdown of the Group's balances due from credit institutions and the Treasury by credit rating categories based on Moody's ratings or their equivalent, in thousands of euro:

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 as at 31 December 2018	-	12 595	96 875	22 159	5 402	-	-	-	137 031
Due from credit institutions registered in the Republic of Latvia and the Treasury	-	12 435	138 364	23 973	6 427	-	-	-	181 199
Total gross as at 31 December 2019	-	12 435	138 364	23 973	6 427	-	-	-	181 199

Breakdown of the Company's balances due from credit institutions and the Treasury by credit rating categories based on Moody's ratings or their equivalent, in thousands of euro:

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 as at 31 December 2018	-	12 411	96 875	21 963	5 402	-	-	-	136 651
Due from credit institutions registered in the Republic of Latvia and the Treasury	-	12 435	138 364	23 821	6 427	-	-	-	181 047
Total gross as at 31 December 2019	-	12 435	138 364	23 821	6 427	-	-	-	181 047

As at 31 December 2019, the Group / Company held accounts with 4 banks and the Treasury of the Republic of Latvia.

As at 31 December 2019, the average interest rate on balances due from credit institutions was 0.02% (31 December 2018: - 0.012%).

15 Investment Securities

All amounts in thousands of euro

	Group 31.12.2019.	Group 31.12.2018.	Company 31.12.2019.	Company 31.12.2018.
Investment securities valued at amortised cost				
Latvian Treasury bills and government bonds	439	427	439	427
OECD corporate bonds	3 926	3 878	3 926	3 878
Total investment securities valued at amortised cost	4 365	4 305	4 365	4 305
Impairment allowances	(3 887)	(3 838)	(3 887)	(3 838)
Net investment securities valued at amortised cost	478	467	478	467
Investment securities valued at fair value through other comprehensive income				
Latvian Treasury bills and government bonds	47 941	50 389	47 941	50 389
Total investment securities valued at fair value through other comprehensive income	47 941	50 389	47 941	50 389
Total gross investment securities	52 306	54 694	52 306	54 694
Total net investment securities	48 419	50 856	48 419	50 856

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. There were no movements among Stages during the year.

15 Investment Securities (cont'd)

Breakdown of the Group's / Company's investment securities by credit rating categories based on Moody's ratings or their equivalent, in thousands of euro:

Ratings	Aaa	Aa1-Aa3	A1-A3	Baa1-Baa3	Ba1-Ba3	B1-B3	Caa-C	Withdrawn rating (WR)	Total
Investment securities valued at fair value through other comprehensive income	-	-	50 389	-	-	-	-	-	50 389
Investment securities valued at amortised cost	-	-	427	-	-	-	-	3 878	4 305
Total gross as at 31 December 2018	-	-	50 816	-	-	-	-	3 878	54 694
Investment securities valued at fair value through other comprehensive income	-	-	47 941	-	-	-	-	-	47 941
Investment securities valued at amortised cost	-	-	439	-	-	-	-	3 926	4 365
Total gross as at 31 December 2019	-	-	48 380	-	-	-	-	3 926	52 306

The information about classification of investment securities is available in Note 2 (5) item (iv). All securities are quoted. The average yield on debt securities was 2.09% as at 31 December 2019 (2018: 3.16%)

16 Financial assets at fair value through profit or loss

All amounts in thousands of euro

	Group 31.12.2019.	Group 31.12.2018.
Investments by subsidiaries in the shares of companies	4 217	1 160
Total financial assets at fair value through profit or loss - investments by subsidiaries in the shares of companies	4 217	1 160

In 2019 disbursements were made to the 4th generation venture capital funds, part of which are classified as investments in subsidiaries. At the Group level the participation in the share capital of subsidiaries is consolidated. For more information on the classification see Note 20, for accounting policy Note 2 (6).

The Group's / Company's notional contract values and fair values of derivative instruments, in thousands of euro:

	Notional contract value		Fair value			
			Assets		Liabilities	
	31.12.2019.	31.12.2018.	31.12.2019.	31.12.2018.	31.12.2019.	31.12.2018.
Currency swaps	-	1 507	-	-	-	2
Total financial assets at fair value through profit or loss – derivatives	-	1 507	-	-	-	2

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.

17 Investments in venture capital funds

The Group's / Company's investments in associates based on information provided by venture capital fund managers, in thousands of euro:

Company or VCF generation	Country of incorporation	VCF's equity		Carrying Amount	
		31.12.2019.	31.12.2018.	31.12.2019.	31.12.2018.
The 1st generation VCFs	LV	2 387	2 387	1 508	746
The 2nd generation VCFs	LV	18 227	20 399	12 990	14 623
The 3rd generation VCFs	LV	21 493	24 950	21 308	23 763
The 4th generation VCFs	LV	8 622	186	2 636	119
Baltic Innovation fund	LU	72 190	54 942	13 851	10 988
Baltic Innovation fund II	LU	710	-	250	-
Total investments in venture capital funds		123 629	102 864	52 543	50 239

17 Investments in venture capital funds (cont'd)

As at 31 December 2019 the total VCF portfolio value at cost value was 67,198 thsd. euros (as at 31 December 2018: 59,698 thsd. euros).

Movement in the Group's / Company's investments in associates, in thousands of euro:

	Investments in associates		BIF investments		Total	
	01.01.2019.- 31.12.2019.	01.01.2018.- 31.12.2018.	01.01.2019.- 31.12.2019.	01.01.2018.- 31.12.2018.	01.01.2019.- 31.12.2019.	01.01.2018.- 31.12.2018.
Carrying amount at the beginning of period	39 252	44 897	10 988	8 394	50 240	53 291
Invested	2 616	255	3 708	2 825	6 324	3 080
Refunded	(3 290)	(4 553)	(778)	(488)	(4 068)	(5 041)
Mezzanine interest received and realised gain on exit	-	-	165	-	165	-
Share of net loss of investment in joint venture and associate	(136)	(1 348)	-	-	(136)	(1 348)
Share of gain of investment in joint venture and associate at fair value through profit or loss	-	-	18	257	18	257
Carrying amount at the end of the period ended at 31 December	38 442	39 251	14 101	10 988	52 543	50 239
Impairment	-	-	-	-	-	-
Net carrying amount at the period ended at 31 December	38 442	39 251	14 101	10 988	52 543	50 239

* include repayments in 2019 of mezzanine interest for the amount of EUR 776 thsd, dividends - EUR 58 thsd. and realised gain on exits of EUR 299 thsd.

In 2019, the Group's / Company's expenses included:

- EUR 825 thousand (2018: EUR 1,339 thousand) from the risk coverage reserve used to cover management fees for the 2nd and 3rd generation venture capital funds;
- EUR 481 thousand (2018: EUR 469 thousand) from the risk coverage reserve used to cover management fees for the 4th generation venture capital funds;
- Management fees for the Baltic Innovation Fund amounting to EUR 94 thousand (2018: EUR 175 thousand), of which EUR 94 thousand (2018: EUR 121 thousand) was compensated from the risk coverage reserve;
- Management fees for the Baltic Innovation Fund II amounting to EUR 49 thousand (2018: 0), of which EUR 49 thousand (2018: 0) was compensated from the risk coverage reserve.

Part of disbursements made into the 4th generation VCFs are classified as Investments in subsidiaries (detailed information is available in Note 20) and management fees of such funds amounted EUR 1,219 thousand (2018: 0) were covered by the risk coverage reserve.

18 Loans

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

The Group's / Company's loans by the borrower profile, in thousands of euro:

	Group 31.12.2019.	Group 31.12.2018.	Company 31.12.2019.	Company 31.12.2018.
SME and Midcaps	104 396	93 574	104 396	93 292
Agriculture	120 534	106 884	120 534	106 884
Individuals	12 909	13 612	12 909	13 612
Financial Intermediaries	2 573	3 061	2 573	3 061
Total gross loans	240 412	217 131	240 412	216 849
Impairment allowances	(20 283)	(19 376)	(20 283)	(19 376)
Total net loans	220 129	197 755	220 129	197 473

Analysis of the loan amount, equalling to or exceeding EUR 1,000 thousand, issued to one customer:

	Group 31.12.2019.	Group 31.12.2018.	Company 31.12.2019.	Company 31.12.2018.
Number of customers	29	26	29	26
Total credit exposure of customers (EUR '000)	42 623	35 652	42 623	35 652
Percentage of total gross portfolio of loans	17.73%	16.42%	17.73%	16.44%

18 Loans (cont'd)

Breakdown of the Group's / Company's loans by industries, in thousands of euro:

	Group 31.12.2019.	Group 31.12.2018.	Company 31.12.2019.	Company 31.12.2018.
Agriculture and forestry	117 065	94 954	117 065	94 954
Manufacturing	50 035	46 192	50 035	46 192
Private individuals	12 909	23 481	12 909	23 481
Other industries	25 073	21 508	25 073	21 226
Retail and wholesale	10 208	11 371	10 208	11 371
Hotels and restaurants	4 375	4 256	4 375	4 256
Electricity, gas and water utilities	7 196	3 958	7 196	3 958
Transport, warehousing and communications	1 045	1 166	1 045	1 166
Real estate	7 543	4 219	7 543	4 219
Construction	2 309	2 586	2 309	2 586
Financial intermediation	681	867	681	867
Fishing	1 786	2 334	1 786	2 334
Municipal authorities	187	239	187	239
Total gross loans	240 412	217 131	240 412	216 849
Impairment allowances	(20 283)	(19 376)	(20 283)	(19 376)
Total net loans	220 129	197 755	220 129	197 473

Movement in the Group's / Company's impairment allowances, in thousands of euro:

	Group 01.01.2019.- 31.12.2019.	Group 01.01.2018.- 31.12.2018.	Company 01.01.2019.- 31.12.2019.	Company 01.01.2018.- 31.12.2018.
Allowances at the beginning of the period	19 376	15 438	19 376	15 438
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 as at 1 January	19 376	24 064	19 376	24 064
Increase in impairment allowances (Note 13)	8 793	5 917	8 793	5 917
Decrease in impairment allowances (Note 13)	(5 897)	(3 408)	(5 897)	(3 408)
Write-off of loans	(1 989)	(7 200)	(1 989)	(7 200)
Currency change	-	3	-	3
Allowances at the end of the period ended 31 December	20 283	19 376	20 283	19 376
Group's / Company's share of provisions	14 916	14 426	14 916	14 426
Provisions covered by risk coverage*	5 367	4 950	5 367	4 950

As at 31 December 2019 the average annual interest rate for the loan portfolio of the Group / Company was 4.19% (31 December 2018: 4.15%).

19 Investment Properties

All amounts in thousands of euro

	Group 31.12.2019.	Group 31.12.2018.	Company 31.12.2019.	Company 31.12.2018.
Carrying amount at the beginning of period	14 794	10 808	14 794	10 808
Acquired during the reporting period *	9 145	3 988	9 145	3 988
Disposals during the reporting period	(98)	(234)	(98)	(234)
Net gain from fair value adjustment	525	232	525	232
Carrying amount at the end of the period	24 366	14 794	24 366	14 794

* All acquisitions of investment properties made in 2019 were related to the activities of the Land Fund programme.

19 Investment Properties (cont'd)

The Land Fund was established on 1 July 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 accounting policy for investment properties is described in Note 2 (9) item (vi).

20 Investments in Subsidiaries

In 2019 disbursements were made to the 4th 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. The Company has the right to appoint fund manager and fund manager is governing each particular venture capital fund. The Company 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.

Breakdown of the Company's investments in the share capital of subsidiaries, in thousands of euro:

	Company 31.12.2019.	Company 31.12.2018.
KS Overkill Ventures Fund I	550	231
KS Buildit Latvia Pre-Seed Fund	608	300
KS Commercialization Reactor Pre-seed Fund	510	141
KS INEC 1	1 312	787
KS INEC 2	832	33
Total investments in the share capital of subsidiaries	3 812	1 492

For more information on the structure of the Group see Note 1.

Accounting policies of investments in subsidiaries are described in Note 2 (2) and Note 2 (6).

Breakdown of subsidiaries' net assets value and profit or loss volume in 2019, which is based on audited venture capital funds' financial statements for the year ended 31 December 2019:

	Net assets value		Profit or loss	
	31.12.2019.	31.12.2018.	01.01.2019.- 31.12.2019.	01.01.2018.- 31.12.2018.
KS Overkill Ventures Fund I	569	231	(331)	(186)
KS Buildit Latvia Pre-Seed Fund	723	299	(315)	(204)
KS Commercialization Reactor Pre-seed Fund	622	141	(303)	(126)
KS INEC 1	1 772	1 050	(219)	(22)
KS INEC 2	925	36	(163)	(16)
Total	4 611	1 757	(1 331)	(554)

21 Intangible Assets

Breakdown of the Group's / Company's net book value of intangible assets, in thousands of euro:

	Group 31.12.2019.	Group 31.12.2018.	Company 31.12.2019.	Company 31.12.2018.
Computer software	1 395	1 347	1 395	1 347
Total intangible assets	1 395	1 347	1 395	1 347

21 Intangible Assets (cont'd)

Movement in the Group's / Company's net book value of intangible assets, in thousands of euro:

	Group 31.12.2019.	Group 31.12.2018.	Company 31.12.2019.	Company 31.12.2018.
Original cost				
At the beginning of period	5 111	6 470	5 111	6 470
Additions	323	765	323	765
Disposals	(1 041)	(2 124)	(1 041)	(2 124)
At the end of period ended at December 31	4 393	5 111	4 393	5 111
Accumulated depreciation				
At the beginning of period	3 764	5 699	3 764	5 699
Depreciation charge	275	189	275	189
Disposals	(1 041)	(2 124)	(1 041)	(2 124)
At the end of period ended at December 31	2 998	3 764	2 998	3 764
Net book value at the beginning of period	1 347	771	1 347	771
Net book value as at 31 December	1 395	1 347	1 395	1 347

22 Property, Plant and Equipment

The Group / Company uses assets that have been fully depreciated.

Breakdown of the Group's / Company's property, plant and equipment, in thousands of euros:

	Group 31.12.2019.	Group 31.12.2018.	Company 31.12.2019.	Company 31.12.2018.
Property, plant and equipment	4 191	4 228	4 191	4 228
Right-of-use assets	503	-	503	-
Total property, plant and equipment	4 694	4 228	4 694	4 228

Movement in the Group's / Company's carrying amount of property, plant and equipment, in thousands of euro:

	Land and buildings	Vehicles	Office equipment *	Leasehold improvements	Other	Total
Cost at 1 January 2018	4 358	450	6 307	380	-	11 495
Accumulated depreciation	(1 205)	(448)	(5 644)	(324)	-	(7 621)
Impairment provisions	-	-	-	(46)	-	(46)
Carrying amount at 1 January 2018	3 153	2	663	10	-	3 828
Additions	251	-	579	-	-	830
Disposals	-	(40)	(1 392)	-	-	(1 432)
Depreciation charge	(135)	(2)	(281)	(12)	-	(430)
Change in depreciation from disposals	-	23	1 387	5	-	1 415
Reclassified (Note 23)	-	17	-	-	-	17
Carrying amount at 31 December 2018	3 269	-	956	3	-	4 228
Cost at 31 December 2018	4 609	427	5 494	380	-	10 910
Accumulated depreciation	(1 340)	(427)	(4 538)	(331)	-	(6 636)
Impairment provisions	-	-	-	(46)	-	(46)
Carrying amount at 31 December 2018	3 269	-	956	3	-	4 228
Transfers upon adoption of IFRS 16	-	-	-	(380)	-	(380)
Additions	180	-	298	-	-	478
Disposals	-	(295)	(344)	-	-	(639)
Depreciation charge	(170)	-	(329)	-	-	(499)
Change in depreciation from disposals	-	295	331	331	-	957
Impairment charge	-	-	-	46	-	46
Carrying amount at 31 December 2019	3 279	-	912	-	-	4 191
Cost at 31 December 2019	4 789	132	5 448	-	-	10 369
Accumulated depreciation	(1 510)	(132)	(4 536)	-	-	(6 178)
Impairment provisions	-	-	-	-	-	-
Carrying amount at 31 December 2019	3 279	-	912	-	-	4 191

22 Property, Plant and Equipment (cont'd)

Movement in the Group's / Company's carrying amount of right-of-use assets, in thousands of euro:

	Land and buildings	Vehicles	Office equipment *	Leasehold improvements	Other	Total
Cost transferred upon adoption of IFRS 16	-	-	-	380	-	380
Accumulated depreciation	-	-	-	(331)	-	(331)
Impairment provisions	-	-	-	(46)	-	(46)
Carrying amount at 31 December 2018	-	-	-	3	-	3
Impact from IFRS 16	555	183	-	-	-	738
Disposals	(121)	-	-	-	-	(121)
Depreciation charge	(81)	(33)	-	(3)	-	(117)
Carrying amount at 31 December 2019	353	150	-	-	-	503
Cost at 31 December 2019	434	183	-	380	-	997
Accumulated depreciation	(81)	(33)	-	(334)	-	(448)
Impairment provisions	-	-	-	(46)	-	(46)
Carrying amount at 31 December 2019	353	150	-	-	-	503

* Office equipment includes such fixed assets categories as furniture and fittings and computers and equipment, Note 2 (9) item (ii).

23 Other Assets

All amounts in thousands of euro

	Group 31.12.2019.	Group 31.12.2018. *	Company 31.12.2019.	Company 31.12.2018. *
Financial assets	6 095	7 774	6 095	7 774
Other assets (repossessed collateral)	503	819	503	819
Total other assets, gross	6 598	8 593	6 598	8 593
Impairment allowances for financial assets	(3 028)	(6 035)	(3 028)	(6 035)
Group's / Company's share of provisions	(2 204)	(3 814)	(2 204)	(3 814)
Provisions covered by risk coverage*	(824)	(23)	(824)	(23)
Provisions compensated by risk coverage		(2 198)		(2 198)
Total financial assets, net	3 067	1 739	3 067	1 739
Total other assets, net	3 570	2 558	3 570	2 558

* comparatives reclassified as stated in Section (1) of Note 2.

The Group's / Company's sub-item *Other assets (repossessed collateral)* includes assets that have been taken over in the debt collection process and are held to be sold in the ordinary course of business.

Movement in the Group's / Company's net book value of financial assets in 2019, in thousands of euro:

	Disbursed guarantee compensations	Grants	Financial assets related to loan agreements	Other financial assets	Total
Financial assets					
At the beginning of period	5 694	-	1 142	938	7 774
Changes	(3 333)	-	(978)	2 633	(1 678)
As at 31 December 2019	2 361	-	164	3 571	6 096
Impairment provision					
At the beginning of period	5 694	-	76	265	6 035
Changes in impairment allowances	(3 333)	-	66	260	(3 007)
As at 31 December 2019	2 361	-	142	525	3 028
Net book value at the beginning of period	-	-	1 066	673	1 739
Net book value as at 31 December 2019	-	-	22	3 046	3 068

23 Other Assets (cont'd)

Movement in the Group's / Company's net book value of financial assets in 2018, in thousands of euro:

	Disbursed guarantee 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
Reclassification	-	(22 575)	-	(17)	-	(22 592)
As at 31 December 2018	5 694	-	1 142	938	-	7 774
Impairment provision						
At the beginning of period	5 073	-	6	122	7 648	12 849
Impact from IFRS 9	-	2	-	-	-	2
Changes in impairment allowances	621	12	70	143	(7 648)	(6 802)
Reclassification	-	(14)	-	-	-	(14)
As at 31 December 2018	5 694	-	76	265	-	6 035
Net book value at the beginning of period	-	2 772	1 039	75	-	3 886
Net book value as at 31 December 2018	-	-	1 066	673	-	1 739

The Group's / Company's sub-item *Grants* represent Stage 1 for the ECL calculation purposes and there were no changes in staging in 2019 and there were no major changes in calculated ECL in 2019.

Movement in the Group's / Company's book value of repossessed collateral, in thousands of euro:

	Group 31.12.2019.	Group 31.12.2018.	Company 31.12.2019.	Company 31.12.2018.
At the beginning of period	819	1 946	819	1 946
Additions	1 502	264	1 502	264
Disposals	(1 138)	(1 118)	(1 138)	(1 118)
Reclassified	(636)	(157)	(636)	(157)
Revaluation	(44)	(116)	(44)	(116)
Total other assets at the end of period ended 31 December	503	819	503	819

24 Deferred Expense

All amounts in thousands of euro

	Group 31.12.2019.	Group 31.12.2018.	Company 31.12.2019.	Company 31.12.2018.
Management fees paid in advance	490	122	490	122
Other deferred expense	204	227	204	227
Total deferred expense	694	349	694	349

25 Accrued Income

All amounts in thousands of euro

	Group 31.12.2019.	Group 31.12.2018.	Company 31.12.2019.	Company 31.12.2018.
Compensation for management expenses of state support programs	1 649	1 717	1 649	1 717
Other accrued income	-	6	-	6
Total accrued income	1 649	1 723	1 649	1 723

26 Assets Held for Sale

All amounts in thousands of euro

	Group 31.12.2019.	Group 31.12.2018.	Company 31.12.2019.	Company 31.12.2018.
Hipo Latvia Real Estate Fund I	-	10 550	-	10 550
Hipo Latvia Real Estate Fund II	-	793	-	793
Total assets held for sale	-	11 343	-	11 343

The Group's / Company's gain / (loss) on the revaluation of assets held for sale, in thousands of euro:

	Group 01.01.2019.- 31.12.2019.	Group 01.01.2018.- 31.12.2018.	Company 01.01.2019.- 31.12.2019.	Company 01.01.2018.- 31.12.2018.
Gain / (loss) on the revaluation of assets held for sale	(105)	408	(105)	778
Total gain / (loss) on the revaluation of assets held for sale	(105)	408	(105)	778

More information is available in Note 2 (9) item (vi).

Breakdown of assets and liabilities of Alternative investment fund Hipo Latvia Real Estate Fund I and Alternative investment fund Hipo Latvia Real Estate Fund II, in thousands of euro:

	Group 31.12.2019.	Group 31.12.2018.
Assets		
Due from other credit institutions and Treasury	-	3 539
Investment property	-	7 804
Other assets	-	-
Assets held for sale	-	11 343
Liabilities		
Other liabilities	-	-
Liabilities directly associated with assets held for sale	-	-

27 Due to Credit Institutions

All amounts in thousands of euro

	Group 31.12.2019.	Group 31.12.2018.	Company 31.12.2019.	Company 31.12.2018.
Due to credit institutions registered in OECD countries	29 542	38 245	29 542	38 245
Total due to credit institutions	29 542	38 245	29 542	38 245

Balances due to credit institutions registered in the OECD countries include loan received by the Group / Company from the EIB of EUR 29,542 thousand (31 December 2018: EUR 38,245 thousand), of which EUR 29 thousand constitutes accrued interest expenses (31 December 2018: EUR 58 thousand). In 2019, the Group / Company repaid EUR 8,680 thousand, of which accrued interest was EUR 157 thousand. The Ministry of Finance of the Republic of Latvia has issued a guarantee for the loan of EUR 29,542 thousand ((31 December 2018: EUR 38,187 thousand)), to strengthen the collateral for the loan received by the Group / Company from the EIB. This guarantee is considered a parent guarantee on behalf of the Group / Company. In turn the guarantee of the Ministry of Finance is provided by pledge of the Group's / Company's assets in favour of the Ministry of Finance in amount of EUR 29,542 thousand (31 December 2018: EUR 38,205 thousand).

In December 2019, the Company entered into a new loan agreement with the EIB for the amount of EUR 18,000 thousand to fund loans for sustainable and climate change mitigation projects. In addition to financing of green bonds, this funding will allow loans to entrepreneurs and ESCOs to be offered with a significantly longer repayment period of up to 15 years, in line with the repayment period of the investment project. The loan disbursement has not been started yet.

As at 31 December 2019, the average interest rate for the balances Due to credit institutions was 0.31% (2018: 0.41%).

28 Due to General Governments

All amounts in thousands of euro

	Group 31.12.2019.	Group 31.12.2018.	Company 31.12.2019.	Company 31.12.2018.
Due to government entities	-	2 724	-	2 724
Loans received from Rural Support Service	5 565	7 171	5 565	7 171
Loans received from the Treasury	80 707	38 215	80 707	38 215
Total due to general governments	86 272	48 110	86 272	48 110

Item Loans received from Rural Support Service includes financing for the Credit Fund, which was set up in 2010 to provide loans to agricultural and fisheries enterprises through financial intermediaries. As at 31 December 2019, the Group / Company has liabilities consisting of a principal amount of EUR 5,337 thousand (31 December 2018: EUR 6,903 thousand) and accrued interest in amount of EUR 228 thousand (31 December 2018: EUR 269 thousand). The maturity is 30 January 2027. The loan from the Rural Support Service is unsecured.

Item Loans received from the Treasury includes borrowings received by the Group / Company for the purpose of implementing such loan programs:

- Agricultural Land Purchase Program: principal outstanding as at 31 December 2019 amounts to EUR 67,399 thousand (31 December 2018: EUR 38,215 thousand), the maturity of the loan is 31 December 2050. The commercial pledge on the Group's / Company's claims on loans under the program serves as collateral. As at 31 December 2019, the undrawn facility is in the amount of EUR 8,979 thousand, the size and pace of its withdrawal depends on the further volume of new loan transactions. As at 31 December 2019, the amount of the secured claim was EUR 67,400 thousand (31 December 2018: EUR 38,215 thousand).
- SME Growth Loan Program: principal outstanding as at 31 December 2019 amounts to EUR 9,997 thousand (31 December 2018: EUR 0), the maturity of the loan is 31 December 2040. The commercial pledge on the Group's / Company's claims on loans under the program serves as collateral. It is planned to increase the amount of the loan, and the amount and pace of its withdrawal depends on the further volume of new loan transactions. As at 31 December 2019 the amount of the secured claim was EUR 11,996 thousand (31 December 2018: EUR 0).
- Latvian Land Fund (used to fund Fund's transactions): principal outstanding as at 31 December 2019 amounts to EUR 3,309 thousand (31 December 2018: EUR 0), the maturity of the loan is 29 December 2028. Mortgage on real estate purchased from funds received serves as a collateral on this loan. As at 31 December 2019, the undrawn facility is in the amount of EUR 6,617 thousand, the amount and pace of its withdrawal depends on the further volume of new business. As at 31 December 2019, the amount of registered mortgage was EUR 8,284 thousand.

The Company has also concluded the following loan agreements with the Treasury under which the disbursement of funding has not been started so far:

- Micro-loan and Start-up Loan Program: amount of loan agreement is EUR 23,000 thousand, the maturity is 31 December 2028, a commercial pledge is on the Company's claims for loans under the Program to secure the fulfilment of its obligations. The size and pace of its drawdown depends on the volume of new loan transactions. The maximum amount of the secured claim is EUR 27,600 thousand.
- Parallel Loan Program: amount of loan agreement is EUR 20,000 thousand, maturity is 31 January 2036, a commercial pledge is on the Company's claims for loans under the Program. The size and pace of its drawdown depends on the volume of new loan transactions. The maximum secured claim is EUR 24,000 thousand.

Accrued interest on loans received from the Treasury as at 31 December 2019 is EUR 1 thousand (31 December 2018: EUR 0.5 thousand).

More information is available in Note 3 (1) on Maximum exposure to credit risk.

29 Support programme funding

The Group's / Company's information on the risk coverage reserve included in the support programme funding and state aid, which can be used for covering the Group's / Company's credit risk losses, in thousands of euro:

31.12.2019.						
Financial Instrument / Programme	Programme funding	Credit risk coverage	Provisions covered by risk coverage	Accrued liabilities on state aid	Fair value correction	Net programme funding
Loans						
ERDF II	13 324	4 318	(902)	3 093	(8 489)	7 026
ESF II	1 523	478	(132)	771	(1 320)	842
Microcredits of Swiss programme	5 610	718	(24)	331	(483)	5 434
ERDF I	886	138	(17)	27	(327)	569
ESF I	317	58	(37)	-	-	280
Microcredits	-	-	-	-	-	-
ERDF II (second round)	6 366	745	(124)	566	(1 223)	5 585
Incubators (from ESF II)	80	11	-	-	-	80
ERAF II 2 Public fund	285	129	(15)	-	-	270
Fund of Funds programme – Start-up loans	2 623	2 623	(355)	-	-	2 268
Fund of Funds programme – Microcredits	309	309	(29)	-	-	280
Fund of Funds programme – Parallel loans	3 425	3 425	(1 907)	-	-	1 518
Energy Efficiency Programme for Multi-apartment Buildings Loans	3 751	3 751	(14)	-	-	3 737
Start-up State Aid Cumulation Lending Programme	1 994	1 994	(277)	-	(16)	1 701
Other loans to start-ups	1 583	487	(91)	89	(254)	1 327
Mezzanine Programme – Loans	3 148	2 518	(1 626)	-	-	1 522
Guarantees and interest grants programme	4 184	4 184	-	-	-	4 184
SME energy efficiency loans	1 723	1 723	-	-	-	1 723
Parallel loans	2 000	2 000	(114)	-	-	1 886
Loans for enterprises in rural territories	6 304	599	(29)	-	-	6 275
Parallel loans to large entrepreneurs	-	-	-	-	-	-
Total loans	59 435 *	30 208	(5 693)	4 877	(12 112)	46 507
Guarantees						
Fund of Funds programme - Guarantees	21 566	21 566	(8 591)	-	-	12 975
Energy Efficiency Programme for Multi-apartment Buildings Guarantees	6 163	4 917	(1 007)	-	-	5 156
Housing Guarantee Programme	14 005	14 005	(8 093)	-	-	5 912
Guarantee Programme for Clients of State Aid Accumulation, Grace Period and Large Economic Operators	7 753	7 753	(1 225)	-	-	6 528
Mezzanine Programme - Guarantees	1 363	1 090	(1 341)	-	-	22
Portfolio Guarantee Fund	4 069	4 069	(1 235)	-	-	2 834
Export guarantees	2 007	2 007	(292)	-	-	1 715
Agricultural Guarantees	1 058	1 058	(352)	-	-	706
Total guarantees	57 984	56 465	(22 136)	-	-	35 848
Grants						
Energy Efficiency Programme for Multi-apartment Buildings Grants	25 567	-	-	-	-	25 567
Social Entrepreneurship Programme	1 084	-	-	-	-	1 084
Grants for development of energy efficiency projects	341	-	-	-	-	341
Total grants	26 992	-	-	-	-	26 992
Venture Capital Funds						
Fund of Funds and venture capital funds	13 412	10 730	-	-	-	13 412
Investment Fund Activity	2 812	2 375	-	-	(166)	2 646
Baltic Innovation Fund	2 000	-	-	-	-	2 000
Baltic Innovation Fund II	833	-	-	-	-	833
Total venture capital funds	19 057	13 105	-	-	(166)	18 891
Other Activities						
Energy Efficiency Fund	492	-	-	-	-	492
Regional Creative Industries Alliance	-	-	-	-	-	-
Total other activities	492	-	-	-	-	492
Total support programme funding	163 960 **	99 778	(27 829)	4 877	(12 278)	128 730

* Support programme funding includes funding that is planned to be reallocated to other support programmes. Funding is planned to be reallocated in 2020.

** Support programme funding contains EUR 7,934 thousand allocated for management costs of the Group / Company to be compensated from support programme funding.

29 Support programme funding (cont'd)

The Group's / Company's information on the risk coverage reserve included in the support programme funding and state aid, which can be used for covering the Group's / Company's credit risk losses, in thousands of euro:

Financial Instrument / Programme	31.12.2018.			
	Programme funding	Credit risk coverage	Provisions covered by risk coverage	Net programme funding
Loans				
ERDF II	11 888	5 208	(984)	10 904
ESF II	1 422	1 225	(363)	1 059
Microcredits of Swiss programme	5 435	1 366	(43)	5 392
ERDF I	606	197	(28)	578
ESF I	380	157	(77)	303
Microcredits	15	-	-	15
ERDF II (second round)	5 733	1 662	(186)	5 547
Incubators (from ESF II)	78	20	(2)	76
ERAF II 2 Public fund	2 396	317	(16)	2 380
Fund of Funds programme – Start-up loans	2 283	2 282	(354)	1 929
Fund of Funds programme – Microcredits	297	297	(42)	255
Fund of Funds programme – Parallel loans	2 143	2 143	(2 044)	99
Energy Efficiency Programme for Multi-apartment Buildings Loans	2 388	2 388	-	2 388
Start-up State Aid Cumulation Lending Programme	1 000	1 000	(342)	658
Other loans to start-ups	2 407	898	(94)	2 313
Mezzanine Programme – Loans	2 656	2 125	(2 028)	628
Guarantees and interest grants programme	4 278	4 278	-	4 278
SME energy efficiency loans	-	-	-	-
Parallel loans	2 000	2 000	(21)	1 979
Loans for enterprises in rural territories	2 499	175	(2)	2 497
Parallel loans to large entrepreneurs	580	580	-	580
Total loans	50 484	28 318	(6 626)	43 858
Guarantees				
Fund of Funds programme - Guarantees	14 981	14 981	(4 254)	10 727
Energy Efficiency Programme for Multi-apartment Buildings Guarantees	3 008	2 400	(530)	2 478
Housing Guarantee Programme	6 849	6 849	(5 769)	1 080
Guarantee Programme for Clients of State Aid Accumulation, Grace Period and Large Economic Operators	6 158	6 158	(1 090)	5 068
Mezzanine Programme – Guarantees	1 150	920	(878)	272
Portfolio Guarantee Fund	1 923	1 923	(42)	1 881
Export guarantees	2 030	2 030	(79)	1 951
Agricultural Guarantees	-	-	-	-
Total guarantees	36 099	35 261	(12 642)	23 457
Grants				
Energy Efficiency Programme for Multi-apartment Buildings Grants	31 305	-	-	31 305
Social Entrepreneurship Programme	302	-	-	302
Grants for development of energy efficiency projects	-	-	-	-
Total grants	31 607	-	-	31 607
Venture Capital Funds				
Fund of Funds and venture capital funds	24 914	19 931	-	24 914
Investment Fund Activity	1 130	836	-	1 130
Baltic Innovation Fund	1 860	930	-	1 860
Baltic Innovation Fund II	-	-	-	-
Total venture capital funds	27 904	21 697	-	27 904
Other Activities				
Energy Efficiency Fund	133	-	-	133
Regional Creative Industries Alliance	-	-	-	-
Total other activities	133	-	-	133
Total support programme funding	146 227	85 276	(19 268)	126 959

29 Support programme funding (cont'd)

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.

Movement in the Group's / Company's support programme funding in 2019, in thousands of euro:

Financial Instrument / Programme	Financing	Financing received	Reallocated funding between programmes	Compensated grants	Compensated income and expense	Revaluation of liabilities	Profit distribution	Other changes	Financing, gross	Provisions covered by risk coverage	Financing, net
	31.12.2018.								31.12.2019.		31.12.2019.
Loans											
ERDF II	11 888	-	(3 990)	-	(57)	-	87	-	7 928	(902)	7 026
ESF II	1 422	-	(247)	-	(272)	-	48	24	975	(132)	843
Microcredits of Swiss programme	5 435	-	(52)	-	(5)	-	80	-	5 458	(24)	5 434
ERDF I	606	-	(9)	-	(11)	-	-	-	586	(17)	569
ESF I	380	-	-	-	(65)	-	1	-	316	(37)	279
Microcredits	15	-	(15)	-	-	-	-	-	-	-	-
ERDF II (second round)	5 733	-	(181)	-	(41)	-	144	56	5 711	(124)	5 587
Incubators (from ESF II)	78	-	-	-	-	-	2	-	80	-	80
ERAF II 2 Public fund	2 396	-	(2 111)	-	-	-	-	-	285	(15)	270
Fund of Funds programme – Start-up loans	2 283	-	300	-	(5)	46	-	-	2 624	(355)	2 269
Fund of Funds programme – Microcredits	297	-	-	-	-	11	-	-	308	(29)	279
Fund of Funds programme – Parallel loans	2 143	-	1 273	-	-	9	-	-	3 425	(1 907)	1 518
Energy Efficiency Programme for Multi-apartment Buildings – Loan Fund	2 388	4 437	(3 071)	-	(17)	-	14	-	3 751	(14)	3 737
Start-up State Aid Cumulation Lending Programme	1 000	1 000	-	-	(22)	-	-	-	1 978	(277)	1 701
Other loans to start-ups	2 407	-	(1 028)	-	(87)	-	117	9	1 418	(91)	1 327
Mezzanine Programme – Loans	2 656	-	184	-	308	-	-	-	3 148	(1 626)	1 522
Guarantees and interest grants programme	4 278	-	-	-	-	-	-	(95)	4 183	-	4 183
SME energy efficiency loans	-	1 723	-	-	-	-	-	-	1 723	-	1 723
Parallel loans	2 000	-	-	-	-	-	-	-	2 000	(114)	1 886
Loans for enterprises in rural territories	2 499	3 804	-	-	-	-	-	-	6 303	(29)	6 274
Parallel loans to large entrepreneurs	580	-	(580)	-	-	-	-	-	-	-	-
Total loans	50 484	10 964	(9 527)	-	(274)	66	493	(6)	52 200	(5 693)	46 507
Guarantees											
Fund of Funds programme - Guarantees	14 981	-	7 000	-	(416)	-	-	-	21 565	(8 591)	12 974
Energy Efficiency Programme for Multi-apartment Buildings - Guarantees	3 008	-	3 200	-	(167)	-	122	-	6 163	(1 007)	5 156
Housing Guarantee Programme	6 849	7 156	-	-	-	-	-	-	14 005	(8 093)	5 912
Guarantee Programme for Clients of State Aid Accumulation, Grace Period and Large Economic Operators	6 158	-	1 595	-	-	-	-	-	7 753	(1 225)	6 528
Mezzanine Programme - Guarantees	1 150	-	80	-	133	-	-	-	1 363	(1 341)	22
Portfolio Guarantee Fund	1 923	-	2 200	-	(54)	-	-	-	4 069	(1 235)	2 834
Export guarantees	2 030	-	-	-	(23)	-	-	-	2 007	(292)	1 715
Agricultural Guarantees	-	1 100	-	-	(42)	-	-	-	1 058	(352)	706
Total guarantees	36 099	8 256	14 075	-	(569)	-	122	-	57 983	(22 136)	35 847
Grants											
Energy Efficiency Programme for Multi-apartment Buildings – Grants	31 305	22 000	-	(27 156)	(582)	-	-	-	25 567	-	25 567
Social Entrepreneurship Programme	302	2 140	-	(1 166)	(192)	-	-	-	1 084	-	1 084
Grants for development of energy efficiency projects	-	389	-	(16)	(32)	-	-	-	341	-	341
Total grants	31 607	24 529	-	(28 338)	(806)	-	-	-	26 992	-	26 992

29 Support programme funding (cont'd)

Movement in the Group's / Company's support programme funding in 2019, in thousands of euro: (cont'd)

Financial Instrument / Programme	Financing	Financing received	Reallocated funding between programmes	Compensated grants	Compensated income and expense	Revaluation of liabilities	Profit distribution	Other changes	Financing, gross	Provisions covered by risk coverage	Financing, net
	31.12.2018.								31.12.2019.		31.12.2019.
Venture Capital Funds											
Fund of Funds and venture capital funds	24 914	-	(8 365)	-	(3 343)	(100)	306	-	13 412	-	13 412
Investment Fund Activity	1 130	-	2 817	-	(1 268)	(35) **	-	-	2 644	-	2 644
Baltic Innovation Fund	1 860	-	-	-	(71)	-	-	212 *	2 001	-	2 001
Baltic Innovation Fund II	-	-	1 000	-	(167)	-	-	-	833	-	833
Total venture capital funds	27 904	-	(4 548)	-	(4 849)	(135)	306	212	18 890	-	18 890
Other Activities											
Energy Efficiency Fund	133	413	-	-	(52)	-	-	-	494	-	494
Regional Creative Industries Alliance	-	14	-	-	(14)	-	-	-	-	-	-
Total other activities	133	427	-	-	(66)	-	-	-	494	-	494
Total support programme funding	146 227	44 176	-	(28 338)	(6 564)	(69)	921	206	156 559	(27 829)	128 730

* include mezzanine interest received from Baltic Innovation Fund in 2019 in amount of EUR 92 thsd.

** include EUR 1 133 thsd realised gain on investments in venture capital funds.

30 Provisions

Breakdown of the Group's / Company's impairment allowances for financial guarantees and off-balance sheet items, in thousands of euro:

	Group 31.12.2019.	Group 31.12.2018.	Company 31.12.2019.	Company 31.12.2018.
Provisions for financial guarantees	30 606	24 144	30 606	24 144
Group's / Company's share of provisions	9 294	10 982	9 294	10 982
Provisions covered by risk coverage	21 312	13 162	21 312	13 162
Provisions for loan commitments	458	1 220	458	1 220
Group's / Company's share of provisions	132	88	132	88
Provisions covered by risk coverage	326	1 132	326	1 132
Provisions for grant commitments	12	9	12	9
Group's / Company's share of provisions	12	9	12	9
Provisions covered by risk coverage	-	-	-	-
Total provisions	31 076	25 373	31 076	25 373
Group's / Company's share of provisions	9 438	11 079	9 438	11 079
Provisions covered by risk coverage	21 638	14 294	21 638	14 294

Movement in the Group's / Company's provisions for financial guarantees, in thousands of euro:

	Group 01.01.2019.- 31.12.2019.	Group 01.01.2018.- 31.12.2018.	Company 01.01.2019.- 31.12.2019.	Company 01.01.2018.- 31.12.2018.
Provisions at the beginning of the period	24 144	5 986	24 144	5 986
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	24 144	22 849	24 144	22 849
Increase in provisions (Note 13)	15 752	8 174	15 752	8 174
Decrease in provisions (Note 13)	(6 692)	(6 876)	(6 692)	(6 876)
Reclassification (Disbursed guarantee)	(2 597)	-	(2 597)	-
Currency change	(1)	(3)	(1)	(3)
Provisions at the end of the period	30 606	24 144	30 606	24 144
Group's / Company's share of provisions	9 294	10 982	9 294	10 982
Provisions covered by risk coverage	21 312	13 162	21 312	13 162

31 Other Liabilities

All amounts in thousands of euro

	Group 31.12.2019.	Group 31.12.2018.	Company 31.12.2019.	Company 31.12.2018.
Due to customers	1 465	1 895	1 465	1 895
Other liabilities	1 321	811	1 308	748
Total other liabilities	2 786	2 706	2 773	2 643

The Group's / Company's sub-item *Due to customers* include funds received from clients of the Group / Company to be used for repayment of the loans at a later stage.

The Group's / Company's sub-item *Other liabilities* include short-term funds, which are connected with other liabilities.

32 Accrued Expense

All amounts in thousands of euro

	Group 31.12.2019.	Group 31.12.2018.	Company 31.12.2019.	Company 31.12.2018.
Other accrued expense	459	461	459	461
Audit services	18	15	18	15
Bonuses of the employees and the Management Board	1	354	1	354
Total accrued expense	478	830	478	830

33 Issued Debt Securities

In June 2019, the Company's third bond issue took place totalling EUR 15 million. All bonds are listed on the Nasdaq Baltic Bond List.

All amounts in thousands of euro

	Currency	Number of initially issued securities	Par Value	Date of issuance	Maturity Date	Discount / Coupon Rate	Group 31.12.2019.	Group 31.12.2018.	Company 31.12.2019.	Company 31.12.2018.
LV0000802353	EUR	20 000	1 000	17.10.2017	17.10.2024	1.37%	19 912	19 883	19 912	19 883
LV0000880037	EUR	10 000	1 000	07.03.2018	07.03.2025	1.30%	10 229	10 060	10 229	10 060
LV0000880037	EUR	15 000	1 000	05.06.2019	07.03.2025	1.30%	15 207	-	15 207	-
Total issued debt securities at the end of period ended 31 December							45 348	29 943	45 348	29 943

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 (xix).

Movements in the Company's issued debt securities, in thousands of euro:

	Group 31.12.2019.	Group 31.12.2018.	Company 31.12.2019.	Company 31.12.2018.
At the beginning of period	29 943	19 852	29 943	19 852
Bond issue	15 000	10 000	15 000	10 000
Accrued coupon	550	370	550	370
Coupon pay-out	(390)	(260)	(390)	(260)
Discount amortisation	264	-	264	-
Commission amortisation	(19)	(19)	(19)	(19)
Total issued debt securities at the end of period ended 31 December	45 348	29 943	45 348	29 943

34 Share capital

All amounts in thousands of euro

	Quantity		Carrying amount	
	31.12.2019.	31.12.2018.	31.12.2019.	31.12.2018.
Fully paid share capital				
Ordinary shares	204 862 333	204 862 333	204 862	204 862
Total fully paid share capital	204 862 333	204 862 333	204 862	204 862

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

Analysis of the Group's reserves movements, in thousands of euro:

	Specific reserves		General reserve capital	Revaluation reserve of financial assets measured at fair value through other comprehensive income	Reserves
	Difference recognised in Group's reorganisation reserve	Reserve capital for Housing Guarantee Programme			
Reserves as at 31 December 2017	(14 827)	9 695	5 854	7 931	8 653
Impact of IFRS 9 adoption	-	-	-	(1 839)	(1 839)
Reserves as at 1 January 2018	(14 827)	9 695	5 854	6 092	6 814
Changes of reserves	(753)	-	-	-	(753)
Increase of reserve capital	-	2 112	-	-	2 112
Distribution of 2017 profit of the Company	-	-	5 884	-	5 884
(Decrease) in revaluation reserve of financial assets measured at fair value through other comprehensive income (Note 37)	-	-	-	(2 495)	(2 495)
Reserves as at 31 December 2018	(15 580)	11 807	11 738	3 597	11 562
Increase of reserve capital	-	3 700	-	-	3 700
Distribution of previous years' profit	-	-	808	-	808
Distribution of 2018 profit of the Company	-	-	4 092	-	4 092
(Decrease) in revaluation reserve of financial assets measured at fair value through other comprehensive income (Note 37)	-	-	-	(959)	(959)
Reserves as at 31 December 2019	(15 580)	15 507	16 638	2 638	19 203

35 Reserves (cont'd)

Analysis of the Company's reserves movements, in thousands of euro:

	Specific reserves		General reserve capital	Revaluation reserve of financial assets measured at fair value through other comprehensive income	Reserves
	Difference recognised in Group's reorganisation reserve	Reserve capital for Housing Guarantee Programme			
Reserves as at 31 December 2017	(15 935)	9 695	5 854	7 931	7 545
Impact of IFRS 9 adoption	-	-	-	(1 839)	(1 839)
Reserves as at 1 January 2018	(15 935)	9 695	5 854	6 092	5 706
Distribution of 2017 profit of the Company	-	-	5 884	-	5 884
Increase of reserve capital	-	2 112	-	-	2 112
(Decrease) in revaluation reserves of financial assets measured at fair value through other comprehensive income (Note 37)	-	-	-	(2 495)	(2 495)
Reserves as at 31 December 2018	(15 935)	11 807	11 738	3 597	11 207
Distribution of 2018 profit of the Company	-	-	4 462	-	4 462
Distribution of previous years' profit	-	-	791	-	791
Increase of reserve capital	-	3 700	-	-	3 700
(Decrease) in revaluation reserves of financial assets measured at fair value through other comprehensive income (Note 37)	-	-	-	(959)	(959)
Reserves as at 31 December 2019	(15 935)	15 507	16 991	2 638	19 201

36 Off-balance sheet items and contingent liabilities

All amounts in thousands of euro

	Group 31.12.2019.	Group 31.12.2018.	Company 31.12.2019.	Company 31.12.2018.
Contingent liabilities:				
Outstanding guarantees	284 232	236 895	284 232	236 895
Financial commitments:				
Loan commitments	18 951	19 611	18 951	19 611
Grant commitments	7 726	7 320	7 726	7 320
Commitments to venture capital funds	70 497	60 258	83 968	60 258
Total contingent liabilities	381 406	324 084	394 877	324 084

Group's / Company's provisions for loan commitments, in thousands of euro:

	Group 31.12.2019.	Group 31.12.2018.	Company 31.12.2019.	Company 31.12.2018.
Unutilised loan facilities	18 951	19 611	18 951	19 611
Impairment allowances	(458)	(1 220)	(458)	(1 220)
Total unutilized loan facilities, net	18 493	18 391	18 493	18 391

Group's / Company's provisions for grant commitments, in thousands of euro:

	Group 31.12.2019.	Group 31.12.2018.	Company 31.12.2019.	Company 31.12.2018.
Grant commitments	7 726	7 320	7 726	7 320
Impairment allowances	(11)	(9)	(11)	(9)
Total grant commitments, net	7 715	7 311	7 715	7 311

36 Off-balance sheet items and contingent liabilities (cont'd)

Breakdown of the Group's off-balance sheet assets and contingent liabilities by remaining contractual maturities as at 31 December 2019, in thousands of euro:

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years and w/o maturity	Total
Contingent liabilities							
Outstanding guarantees	284 232	-	-	-	-	-	284 232
Financial commitments							
Loan commitments	18 951	-	-	-	-	-	18 951
Grant commitments	7 726	-	-	-	-	-	7 726
Commitments to venture capital funds	600	1 798	2 397	7 190	43 003	15 509	70 497
Total financial commitments	27 277	1 798	2 397	7 190	43 003	15 509	97 174
Total contingent liabilities and financial commitments	311 509	1 798	2 397	7 190	43 003	15 509	381 406

Breakdown of the Company's off-balance sheet assets and contingent liabilities by remaining contractual maturities as at 31 December 2019, in thousands of euro:

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years and w/o maturity	Total
Contingent liabilities							
Outstanding guarantees	284 232	-	-	-	-	-	284 232
Financial commitments							
Loan commitments	18 951	-	-	-	-	-	18 951
Grant commitments	7 726	-	-	-	-	-	7 726
Commitments to venture capital funds	714	2 141	2 855	8 565	51 220	18 473	83 968
Total financial commitments	27 391	2 141	2 855	8 565	51 220	18 473	110 645
Total contingent liabilities and financial commitments	311 623	2 141	2 855	8 565	51 220	18 473	394 877

Breakdown of the Group's / Company's off-balance sheet assets and contingent liabilities by remaining contractual maturities as at 31 December 2018, in thousands of euro:

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years and w/o maturity	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 contingent liabilities and financial commitments	264 426	2 100	4 600	10 000	38 000	4 958	324 084

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.

For more information on the classification of the new VCFs see Note 1.

36 Off-balance sheet items and contingent liabilities (cont'd)

Approved funding for the VCFs, in thousands of euro:

	Contract period	Committed funding		Approved funding not invested	
		31.12.2019.	31.12.2018.	31.12.2019.	31.12.2018.
Venture capital funds classified as Subsidiaries		2 387	2 387	1 508	746
KS Overkill Ventures Fund I	09.05.2026	3 200	3 200	2 114	2 783
KS Buildit Latvia Pre-Seed Fund	20.06.2026	3 200	3 200	1 914	2 697
KS Commercialization Reactor Pre-seed Fund	24.07.2026	3 200	3 200	2 149	2 933
KS INEC 1	29.11.2028	5 250	5 250	3 770	4 449
KS INEC 2	29.11.2028	4 500	4 500	3 523	4 456
Venture capital funds classified as Associates					
KS Overkill Ventures Fund II	09.08.2026	1 800	1 800	1 630	1 771
KS Buildit Latvia Seed Fund	30.06.2026	1 800	1 800	1 600	1 765
KS Commercialization Reactor Seed Fund	22.08.2026	1 800	1 800	1 739	1 773
KS ZGI-4	24.08.2028	15 000	15 000	12 028	14 778
KS Baltcap Latvia Venture Capital Fund	22.01.2021	20 000	20 000	3 841	3 994
KS Imprimatur Capital Technology Venture Fund	11.06.2020	4 966	4 966	332	419
KS Imprimatur Capital Seed Fund	11.06.2020	10 000	10 000	646	755
KS ZGI-3	31.12.2020	11 800	11 800	1 048	1 236
KS FlyCap investment Fund	31.12.2020	15 000	15 000	1 292	1 484
KS Expansion Capital fund	31.12.2020	15 000	15 000	299	299
Baltic Innovation Fund I	01.01.2029	26 000	26 000	11 067	14 667
Baltic Innovation Fund II		26 500	-	25 583	-
Total funding		169 016	142 516	74 575	60 259

37 Revaluation reserve of financial assets measured at fair value through other comprehensive income

All amounts in thousands of euro

	Group 31.12.2019.	Group 31.12.2018.	Company 31.12.2019.	Company 31.12.2018.
At the beginning of period	3 597	6 092	3 597	6 092
(Loss) from changes in fair value	(851)	(2 472)	(851)	(2 472)
(Loss) from sales	(94)	(55)	(94)	(55)
Impairment loss*	(14)	32	(14)	32
Other comprehensive income (Note 35)	(959)	(2 495)	(959)	(2 495)
Revaluation reserve of financial assets measured at fair value through other comprehensive income at the end of period ended December 31	2 638	3 597	2 638	3 597

* For more information see Note 2 (5) item (xiv).

38 Grants

All amounts in thousands of euro

	Group 31.12.2019.	Group 31.12.2018.	Company 31.12.2019.	Company 31.12.2018.
Energy Efficiency Programme for Multi-apartment Buildings	16 826	22 575	16 826	22 575
Social Entrepreneurship Programme	371	-	371	-
Grants for development of energy efficiency projects	1	-	1	-
Total grants, gross	17 198	22 575	17 198	22 575
Impairment allowances	(12)	(14)	(12)	(14)
Total grants, net	17 186	22 561	17 186	22 561

38 Grants (cont'd)

Movement in the Group's / Company's net book value of grants, in thousands of euro:

	Group 01.01.2019.- 31.12.2019.	Group 01.01.2018.- 31.12.2018.	Company 01.01.2019.- 31.12.2019.	Company 01.01.2018.- 31.12.2018.
Grants				
At the beginning of period	22 575	-	22 575	-
Changes	(5 377)	-	(5 377)	-
Reclassification	-	22 575	-	22 575
At the end of period ended 31 December	17 198	22 575	17 198	22 575
Impairment provision				
At the beginning of period	14	-	14	-
Changes	(2)	-	(2)	-
Reclassification	-	14	-	14
At the end of period ended 31 December	12	14	12	14
Grants net book at the beginning of the period	22 561	-	22 561	-
Grants net book value at the end of the period ended 31 December	17 186	22 561	17 186	22 561

39 Related party transactions

Related parties are defined as members of the Supervisory Council and the Management Board of the Group/Company, their close family members, as well as companies under their control.

In accordance with International Accounting Standard (IAS) 24 "Related Party Disclosures", the key management 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 structural units of the Group / Company do not entitle 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 Group's balances from transactions with related parties, including off-balance sheet financial liabilities, in thousands of euro:

	People with significant control (PSC)		Transactions with shareholders		Associates		Other companies owned by the Group's shareholders	
	31.12.2019.	31.12.2018.	31.12.2019.	31.12.2018.	31.12.2019.	31.12.2018.	31.12.2019.	31.12.2018.
Investments in venture capital funds – associates	-	-	-	-	51 410	50 239	-	-
Assets held for sale	-	11 343	-	-	-	-	-	-
Due to general governments	-	-	-	-	-	-	5 565	7 171
Support programme funding	-	-	119 945	102 045	-	-	35 480	23 422
Off-balance sheet financial liabilities for venture capital funds	-	-	-	-	70 497	43 952	-	-

The Company's balances from transactions with related parties, including off-balance sheet financial liabilities, in thousands of euro:

	Transactions with shareholders		Associates		Other companies owned by the Group's shareholders		Investments in subsidiaries	
	31.12.2019.	31.12.2018.	31.12.2019.	31.12.2018.	31.12.2019.	31.12.2018.	31.12.2019.	31.12.2018.
Investments in venture capital funds – associates	-	-	51 410	50 239	-	-	-	-
Investments in subsidiaries	-	-	-	-	-	-	3 812	1 492
Due to general governments	-	-	-	-	5 565	7 171	-	-
Support programme funding	119 945	103 537	-	-	35 480	23 422	-	-
Off-balance sheet financial liabilities for venture capital funds	-	-	70 497	43 952	-	-	-	-

The Company has entered into a number of transactions with other public authorities. The most significant were obtaining financing from the Investment and Development Agency of Latvia, Ministry of Finance, Ministry of Economics, Rural Support Service and Central Finance and Contracting Agency, which co-finance the development programmes of the Company.

39 Related party transactions (cont'd)

The Group's / Company's transactions with related parties, in thousands of euro:

	Received State aid funding		Issued State aid funding or funding paid back	
	01.01.2019.- 31.12.2019.	01.01.2018.- 31.12.2018.	01.01.2019.- 31.12.2019.	01.01.2018.- 31.12.2018.
Transactions with shareholders				
Ministry of Finance of the Republic of Latvia	42 491	-	-	-
Ministry of Economy of the Republic of Latvia	7 156	6 244	(732)	-
Ministry of Wealth Fair of the Republic of Latvia	2 140	1 209	-	(1 027)
Associates				
Venture capital funds	6 324	4 553	(5 303)	(6 821)
Other companies owned by the Group's shareholders				
Rural Support Service	-	-	-	-
Central Finance and Contracting Agency of the Republic of Latvia	4 437	46 180	(27)	(1 109)

In the reporting period, the remuneration of the members of the Supervisory Council, Audit Committee and the Management Board of the Company amounted to EUR 766 thousand (12 months of 2018: EUR 503 thousand), incl. social insurance contributions..

40 Fair values of assets and liabilities

The fair values of the Group's financial assets and financial liabilities and their differences to their carrying amount are presented below, in thousands of euro:

	Carrying Amount		Fair Value	
	31.12.2019.	31.12.2018. *	31.12.2019.	31.12.2018. *
Assets				
Due from credit institutions and the Treasury	181 199	137 026	181 198	137 007
Financial assets at fair value through profit or loss	4 217	1 160	4 217	1 160
Financial assets at fair value through other comprehensive income - investment securities	47 941	50 389	47 941	50 389
Financial assets at amortised cost:				
Investment securities	478	467	1 140	1 148
Individuals	220 129	197 755	216 113	196 401
Companies	11 820	23 485	8 417	23 387
Loans	208 309	174 270	207 696	173 014
Grants	17 186	22 561	17 186	22 561
Assets held for sale	-	11 343	-	11 343
Investments in venture capital funds – associates (investments in BIF)	13 851	10 988	13 851	10 988
Investment properties	24 366	14 794	24 366	14 794
Other assets	3 067	1 739	3 067	1 739
Total assets	512 434	448 222	509 079	447 530
Liabilities				
Due to credit institutions	29 542	38 245	29 542	38 245
Financial liabilities at fair value through profit or loss – derivatives	-	2	-	2
Due to general governments	86 272	48 110	86 272	47 370
Financial liabilities at amortised cost - Issued debt securities	45 348	29 943	45 348	29 943
Support programme funding	128 730	126 959	128 730	126 959
Total liabilities	289 892	243 259	289 892	242 519

* comparatives reclassified as stated in Section (1) of Note 2.

40 Fair values of assets and liabilities (cont'd)

The fair values of the Company's financial assets and financial liabilities and their differences to their carrying amount are presented below, in thousands of euro:

	Carrying Amount		Fair Value	
	31.12.2019.	31.12.2018. *	31.12.2019.	31.12.2018. *
Assets				
Due from credit institutions and the Treasury	181 047	136 646	181 046	136 627
Financial assets at fair value through profit or loss	-	-	-	-
Financial assets at fair value through other comprehensive income - investment securities	47 941	50 389	47 941	50 389
Financial assets at amortised cost:				
Investment securities	478	467	1 140	1 148
Individuals	220 129	197 473	216 113	196 119
Companies	11 820	23 451	8 416.90	23 353
Loans	208 309	174 022	207 696.10	172 766
Grants	17 186	22 561	17 186	22 561
Assets held for sale	-	11 343	-	11 343
Investments in venture capital funds – associates (investments in BIF)	13 851	10 988	13 851	10 988
Investments in subsidiaries	3 812	1 492	3 812	1 492
Investment properties	24 366	14 794	24 366	14 794
Other assets	3 067	1 739	3 067	1 739
Total assets	511 877	447 892	508 522	447 200
Liabilities				
Due to credit institutions	29 542	38 245	29 542	38 245
Financial liabilities at fair value through profit or loss – derivatives	-	2	-	2
Due to general governments	86 272	48 110	86 272	47 370
Financial liabilities at amortised cost - Issued debt securities	45 348	29 943	45 348	29 943
Support programme funding	128 730	126 959	128 730	126 959
Total liabilities	289 892	243 259	289 892	242 519

* comparatives reclassified as stated in Section (1) of Note 2.

40 Fair values of assets and liabilities (cont'd)

The hierarchy of the Group's financial assets and liabilities measured and disclosed at fair value, in thousands of euro:

	Level 1		Level 2		Level 3		Total	
	31.12.2019.	31.12.2018.	31.12.2019.	31.12.2018.	31.12.2019.	31.12.2018.*	31.12.2019.	31.12.2018.*
Assets measured at fair value								
Financial assets at fair value through profit or loss	-	-	-	-	4 217	1 160	4 217	1 160
Financial assets at fair value through other comprehensive income - investment securities	35 021	36 344	12 920	14 045	-	-	47 941	50 389
Assets held for sale	-	-	-	-	-	11 343	-	11 343
Investments in venture capital funds – associates (investments in BIF)	-	-	-	-	13 851	10 988	13 851	10 988
Investment properties	-	-	-	-	24 366	14 794	24 366	14 794
Assets with fair values disclosed								
Due from credit institutions and the Treasury	-	-	181 198	132 026	-	4 981	181 198	137 007
Financial assets at amortised cost:								
Investment securities	-	-	1 140	1 148	-	-	1 140	1 148
Loans	-	-	-	-	216 113	196 401	216 113	196 401
Grants	-	-	-	-	17 186	22 561	17 186	22 561
Other assets	-	-	-	-	3 067	1 739	3 067	1 739
Total assets	35 021	36 344	195 258	147 219	278 800	263 967	509 079	447 530
Liabilities measured at fair value								
Financial liabilities at fair value through profit or loss – derivatives	-	-	-	2	-	-	-	2
Support programme funding	-	-	-	-	128 730	126 959	128 730	126 959
Liabilities with fair value disclosed								
Due to credit institutions	-	-	-	-	29 542	38 245	29 542	38 245
Due to general governments	-	-	-	-	86 272	47 370	86 272	47 370
Financial liabilities at amortised cost - Issued debt securities	-	-	-	-	45 348	29 943	45 348	29 943
Total liabilities	-	-	-	2	289 892	242 517	289 892	242 519

* comparatives reclassified as stated in Section (1) of Note 2.

40 Fair values of assets and liabilities (cont'd)

The hierarchy of the Company's financial assets and liabilities measured and disclosed at fair value, in thousands of euro:

	Level 1		Level 2		Level 3		Total	
	31.12.2019.	31.12.2018.	31.12.2019.	31.12.2018.	31.12.2019.	31.12.2018.*	31.12.2019.	31.12.2018.*
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	35 021	36 344	12 920	14 045	-	-	47 941	50 389
Investments in subsidiaries	-	-	-	-	3 812	1 492	3 812	1 492
Assets held for sale	-	-	-	-	-	11 343	-	11 343
Investments in venture capital funds – associates (investments in BIF)	-	-	-	-	13 851	10 988	13 851	10 988
Investment properties	-	-	-	-	24 366	14 794	24 366	14 794
Assets with fair values disclosed								
Due from credit institutions and the Treasury	-	-	181 046	131 646	-	4 981	181 046	136 627
Financial assets at amortised cost:								
Investment securities	-	-	1 140	1 148	-	-	1 140	1 148
Loans	-	-	-	-	216 113	196 119	216 113	196 119
Grants	-	-	-	-	17 186	22 561	17 186	22 561
Other assets	-	-	-	-	3 067	1 739	3 067	1 739
Total assets	35 021	36 344	195 106	146 839	278 395	264 017	508 522	447 200
Liabilities measured at fair value								
Financial liabilities at fair value through profit or loss – derivatives	-	-	-	2	-	-	-	2
Support programme funding	-	-	-	-	128 730	126 959	128 730	126 959
Liabilities with fair value disclosed								
Due to credit institutions	-	-	-	-	29 542	38 245	29 542	38 245
Due to general governments	-	-	-	-	86 272	47 370	86 272	47 370
Financial liabilities at amortised cost - Issued debt securities	-	-	-	-	45 348	29 943	45 348	29 943
Total liabilities	-	-	-	2	289 892	242 517	289 892	242 519

* comparatives reclassified as stated in Section (1) of Note 2.

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.

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 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 balances due from other credit institutions and the Treasury as well as 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.);

40 Fair values of assets and liabilities (cont'd)

- 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 depending on existence of significant influence or control.

Investments in venture capital funds, except for investment in Baltic Innovation Funds, are measured using the equity method both at the Group and the Company level. Investments in Baltic Innovation Funds are measured at fair value through profit or loss statement.

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 and (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 underlying investment properties.

41 Segment Information

Following the increase in non-financial instrument – grants, the Group's management considers that the Group's operations are performed in 5 operational segments starting with 1 January 2019:

- Loan service
- Guarantee service,
- Venture capital fund service,
- Grant service,
- Other services.

Other services include Land Fund's transactions, transaction, which are connected to collateral taken over in the debt collection process and new state aid development, as well as transactions, which cannot be attributed to state aid programmes.

Segment information is prepared in a manner consistent with the internal management information 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 1 January 2019 till 31 December 2019, in thousands of euro:

	Loan service	Guarantee service	Venture capital fund service	Grant service	Other services	Total
Interest income	10 954	2 263	125	2	-	13 344
Interest expense	(1 613)	(22)	-	-	(140)	(1 775)
Net interest income	9 341	2 241	125	2	(140)	11 569
Income for implementation of state aid programmes	467	786	3 611	1 200	101	6 165
Expenses to be compensated for implementation of state aid programmes	(270)	(484)	(3 641)	(1 074)	(115)	(5 584)
Net income for implementation of state aid programmes	197	302	(30)	126	(14)	581
Gains from debt securities and foreign exchange translation	4	82	4	-	-	90
Share of (losses) of investment in joint venture and associate	-	-	(136)	-	-	(136)
Share of gain of investment in joint venture and associate at fair value through profit or loss	-	-	18	-	-	18
Gains less losses from liabilities at fair value through profit or loss	-	-	129	-	-	129
Other income	-	1	762	2	1 403	2 168
Other expense	(263)	(45)	(8)	(30)	(288)	(634)
Operating income / (loss) before operating expenses	9 279	2 581	864	100	961	13 785
Staff costs	(3 000)	(655)	(72)	(606)	(307)	(4 640)
Administrative expense	(1 011)	(281)	(84)	(334)	(111)	(1 821)
Amortisation of intangible assets and depreciation of property, plant and equipment	(406)	(153)	(29)	(164)	(35)	(787)
(Impairment) gain, net	(1 062)	3 002	6	-	(247)	1 699
Profit or (loss) from assets held for sale revaluation	-	-	-	-	(105)	(105)
Total segment profit/(loss)	3 800	4 494	685	(1 004)	156	8 131
Financial assets at fair value through profit or loss	-	-	-	-	(959)	(959)
Investments in venture capital funds - associates	-	-	2 616	-	-	2 616
Additions of property and equipment, intangible assets and investment property	420	124	26	190	9 187	9 947
Total segment assets	358 142	49 316	69 820	40 183	42 600	560 061
Total segment liabilities	187 164	67 475	18 936	28 507	25 241	327 323

41 Segment Information (cont'd)

Analysis of the operating segments of the Group for the period from 1 January 2018 till 31 December 2018, in thousands of euro::

	Loan service	Guarantee service	Venture capital fund service	Other services	Total
Net interest income	9 715	1 167	46	243	11 171
Net income from fees and commissions	73	182	43	85	383
Net trading loss	36	73	4	9	122
Share of (loss) of investment in joint venture and associate at fair value through profit or loss	-	-	(1 091)	-	(1 091)
Other income	828	191	(259)	3 580	4 340
Operating income / (loss) 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	25 391	264 349

42 Events after the reporting date

The existence of novel coronavirus (Covid-19) was confirmed in early 2020 and by now it has spread across the world, including Latvia, causing disruptions to businesses and economic activity. The management of the Group / Company considers this outbreak to be a non-adjusting post balance sheet event. As the situation is uncertain and rapidly evolving, we do not consider it practicable to provide a quantitative estimate of the potential impact of this outbreak on the Company or the Group.

As delegated by the government the Group / Company has engaged actively on an ad hoc basis in mitigation of the adverse impact that Covid-19 exerts on the businesses in Latvia by drafting, in co-operation with the Ministry of Economics, two new state aid financial instruments to be implemented by the Company/Group for SME and Midcap in Latvia. On 19 March 2020, having convened for an extraordinary meeting, with follow-up on 24 March 2020, the Cabinet of Ministers approved the regulations of the new financial instruments. Both financial instruments became effective as of 25 March 2020 being already co-ordinated with the European Commission.

Entrepreneurs encountering situation-based difficulties with execution of the obligations undertaken at the credit institutions will be offered credit guarantees, both long-term and short-term, up to 50% of the outstanding loan balance. These credit guarantees will allow SME and Midcap (i) to defer repayment of principal for up to two years for investment loans, financial lease and working capital loans, (ii) to prolong the repayment term of overdrafts as well as working capital loans, (iii) to raise new working capital loans and increase overdraft limits with banks as well as to (iv) have additional security for financial liabilities. The national budget funding of 50 million euro is available for implementation of the financial instrument that will make it possible for the Group / Company to issue 240 million euro guarantees and for banks to restructure loans for the sum up to total of 715 million euro. The credit guarantees are structured in both formats – individual guarantees and portfolio guarantees ensuring fast and efficient solution irrespective the size of the company.

Meanwhile the companies struggling with substantial decrease in operations and therefore in need of liquidity support will be offered working capital loans by the Group / Company in amount of EUR 200 million. The national budget contributing 50 million euro and loans from the Treasury and international financial institutions - 150 million euro form the total funding of this programme.

At the same time, acting responsibly to the health of employees and customers and following the recommendations of the responsible authorities for actions to help reduce the risk of spreading the virus, the Group's / Company's Customer Service Centres have been closed for face-to-face visits as of 13 March. The Group / Company continues to provide all services remotely through the client portal mans.altum.lv, as well as telephone and video consultations.

42 Events after the reporting date (cont'd)

In light of recommendation by the Latvia Finance Association, currently there is expected centralised guidance from ECB regarding ready-made macroeconomic scenarios, that the Group / Company would apply in assessment of expected credit loss calculations as well as whether there have been significant increases in credit risk since initial recognition and according to IFRS 9 to be reclassified to Stage 2 from Stage 1, considering whether temporary economic shock would have long-term impact upon debt service capacity.

The Group / Company expects that its borrowers affected by the COVID-19 outbreak would ask for temporary relief in form of payment deferral, fee waivers, extensions of repayment term. There is expected no substantial negative effect upon liquidity of the Group / Company and there is no risk on the Group's / Company's abilities to serve its liabilities on timely basis. Although crisis credit guarantees and working capital loans instruments are available in the market as of the previous week the Group / Company expects that there might be banks' borrowers, not in a position to revise the loans' terms with their banks on timely basis leading to significant increase of credit risk of underlying borrower or even guarantee claim received from the bank leading to higher expected credit loss calculation adequately covered by available Risk coverage reserve.

In respect of investments in venture capital funds there might be some delay in timing where original exits were planned in 2020-2021. However that does not negatively effect on the Group's / Company's liquidity position.



Independent auditor's report

To the Shareholder of JSC Finance Development Institution ALTUM

Report on the audit of the consolidated and separate financial statements

Our opinion

In our opinion, the consolidated and separate financial statements give a true and fair view of the consolidated and separate financial position of JSC Finance Development Institution ALTUM ("the Company") and its subsidiaries (together "the Group") as at 31 December 2019, and of their consolidated and separate financial performance and their consolidated and separate 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 31 March 2020.

What we have audited

The Group's consolidated and Company's separate financial statements (together "the financial statements") comprise:

- Statement of Financial Position as at 31 December 2019;
- Statement of Comprehensive Income for the year then ended;
- Consolidated Statement of Changes in Equity for the year then ended;
- Company's Statement of Changes in Equity for the year then ended;
- Statement of Cash Flows; and
- the Notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing adopted in the Republic of Latvia (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the 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 Group and the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and 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 responsibilities in accordance with 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 Group and the Company are in accordance with the applicable law and regulations in the Republic of 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.

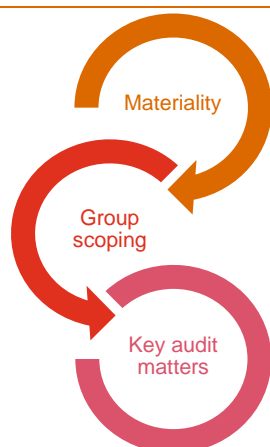
The non-audit services that we have provided to the Group and the Company, in the period from 1 January 2019 to 31 December 2019 are disclosed in note 12 to the financial statements.

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Our audit approach

Overview



- Overall Group and Company materiality: EUR 5,500 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 substantially all of the Group's revenues and substantially all of the Group's total assets.
- Impairment of loans and financial guarantees.
- Accounting for liabilities received at fair value.
- Valuation and impairment of investments in Venture Capital Funds.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the 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.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group and Company materiality for the 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, if any, both individually and in aggregate on the financial statements as a whole.

Overall Group and Company materiality	EUR 5,500 thousand (2018: EUR 5,000 thousand).
How we determined it	1% of total assets
Rationale for the materiality benchmark applied	<p>We chose total assets as the base benchmark because, in our view, it is the benchmark against which the performance of the Group and the Company is most commonly measured by users, and it is a generally accepted benchmark.</p> <p>We chose the threshold of 1%, which is within the range of acceptable quantitative materiality thresholds for this benchmark.</p>

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We agreed with the Audit Committee that we would report to them misstatements identified during our audit above EUR 275 thousand for the Group and the Company, as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the 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
<p>Expected credit losses on loans to the public</p> <p><i>Refer to Notes 2 (16), 13 and 30 to the financial statements on pages 35, 60 and 74 respectively.</i></p> <p>We focused on this area because application of IFRS 9 “Financial instruments” expected credit loss (ECL) model for loans and financial guarantees impairment losses requires complex and subjective judgements over both timing of recognition of impairment and the size of any such impairment.</p> <p>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 Group’s and the Company’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 by 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.</p> <p>As at 31 December 2019 expected credit losses for Loans amounted to EUR 6,667 thousand and for Guarantees to EUR 2,641 for the Group and the Company (refer to note 13).</p>	<p>We assessed whether the Group’s and the Company’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 in credit risk, use of macroeconomic scenarios.</p> <p>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 2019 and 31 December 2019.</p> <p>We also performed detailed testing over macroeconomic factors used as inputs to ECL calculation tools.</p> <p>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.</p> <p>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.</p> <p>We have reviewed the disclosures to the financial statements.</p>

Reversals of expected credit losses for the year ended 31 December 2019 amounted to EUR 4,718 thousand (Loans) and 3,126 thousand (Guarantees) for the Group and the Company (refer to note 13).

Accounting for liabilities measured at fair value through profit or loss

Refer to Notes 2 (16) and 29 to the financial statements on pages 39 and 71-74 respectively.

The Group and the Company receive financing in the form of long term liabilities to ensure issuance of loans, guarantees and investments into venture capital funds.

Due to the fact that these liabilities contain embedded derivatives they are measured at fair value through profit and loss.

The calculation of fair value resulted in amount of outstanding liability as at 31 December 2019 being EUR 128,730 thousand.

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 accounting policies and assessed whether they were applied in accordance with IFRS requirements.

We obtained and verified the calculations of fair value of liabilities performed by the Group and the Company. We challenged the underlying assumptions for a sample of selected programmes. We investigated any significant identified differences with the Management.

We have reviewed the disclosures to the financial statements.

Valuation of investments in Venture Capital Funds

Refer to Notes 2 (16), 17 and 20 to the financial statements on pages 37, 62-63 and 65 respectively.

The Group and the Company 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.

We assessed accounting policies used by the Group and the Company 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 Group and the Company, 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.

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 met with the representatives of the Group and the Company 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.

We have reviewed the disclosures to the financial statements.

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. Our audit work addressed substantially all of the Group's revenues and the Group's total assets.

Reporting on other information including the management report and the statement of management's responsibilities

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

- the Management report, as set out on pages 3 to 10 of the accompanying Annual report,
- the Statement of Management's Responsibilities, as set out on page 12 of the accompanying Annual report, and
- the Statement of Corporate Governance, as set out on pages, as set out on pages 100 - 105 of the accompanying Annual report

Our opinion on the financial statements does not cover the other information, including the Management report, the Statement of Management's Responsibilities and the Statement of Corporate Governance.

In connection with our audit of the 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 financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the Management report, we also performed the procedures required by Law on Audit Services. Those procedures include considering whether the Management 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 Statement of Corporate Governance, our responsibility is to consider whether the Statement of Corporate Governance 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.

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

- the information given in the Management Report and the Statement of Management Responsibility for the financial year for which the financial statements are prepared is consistent with the financial statements;
- 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; and
- the Statement of Corporate Governance, 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 of the Financial Instruments Market Law.

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 and the Statement of Management 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 financial statements

Management is responsible for the preparation of the financial statements that give 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 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 scepticism 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.

Translation note: This version of our report is a translation from the original, which was prepared in Latvian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

- 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 Bank and the Group 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.

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 have communicated 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 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 first appointed as auditors of the Group and the Company on 25 April 2018. This is the second year of our appointment as auditors.

PricewaterhouseCoopers SIA
Certified audit company
License No. 5



Ilandra Lejiņa
Member of the Board

Rīga, Latvia
31 March 2020



Terēze Labzova-Ceicāne
Certified auditor in charge
Certificate No.184

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OTHER NOTES TO THE ANNUAL REPORT

Key financial and performance indicators	97
Definitions of indicators	98 - 99
Corporate Governance Report 2019	100 - 105

OTHER NOTES TO THE ANNUAL REPORT

KEY FINANCIAL AND PERFORMANCE INDICATORS

	2019 (audited)	2018 (audited)	2017 (restated*)	2016 (restated*)	2015 (audited)
Key financial data					
Net interest income (EUR '000) **	11 569	11 302	11 602 *	11 024	16 419
Profit for the period (EUR '000)	8 131	4 092	8 709 *	2 170	4 924
Cost to income ratio (CIR) ***	52.6%	74.8%	50.3% *	88.4%	55.8%
Employees	203	222	230	242	282
Total assets (EUR '000)	560 061	495 939	453 668 *	443 400 *	406 918
Tangible common equity (TCE)/total tangible managed assets (TMA) ****	29.4%	31.7%	35.1% *	36.5% *	37.3%
Equity and reserves (EUR '000)	232 738	221 590	222 848 *	210 406 *	199 610
Total risk coverage: (EUR '000)	87 456	77 815	67 593 *	66 508 *	41 021
Risk coverage reserve	99 778	85 276	62 651 *	63 636 *	40 662
Risk coverage reserve used for provisions	(27 829)	(19 268)	(4 753)	(4 323)	(1 276)
Portfolio loss reserve (specific reserve capital)	15 507	11 807	9 695	7 195	1 635
Liquidity ratio for 180 days *****	582%	227%	482% *	449%	352%
Financial instruments (gross value)					
Outstanding (EUR '000) (by financial instrument)					
Loans	240 412	217 131	207 585	217 429	218 562
Guarantees	284 232	236 895	182 376	147 175	131 120
Venture capital funds	68 331	59 698	62 299	64 785	44 378
Total	592 975	513 724	452 260	429 389	394 060
Number of contracts	22 022	18 280	14 402	11 449	8 901
Volumes issued (EUR '000) (by financial instrument)					
Loans	71 559	66 443	51 869	59 465	52 329
Guarantees	98 240	88 765	68 615	56 109	50 065
Venture capital funds	9 022	4 149	2 638	21 356	18 798
Total	178 821	159 357	123 122	136 930	121 192
Number of contracts	5 466	5 464	4 697	4 461	2 819
Total contribution to the economy, including the contribution of the final recipients, by volumes issued in the period (tEUR)	531 661	460 045	370 560	359 706	248 665
Leverage for raised private funding	142%	162%	185%	162%	104%
Volume of support programmes funding per employee (tEUR)	2 915	2 314	1 966	1 749	1 382
Long-term rating assigned by Moody's Investors Service	Baa1	Baa1	Baa1	-	-

* Due to change of accounting policy on 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.

** Due to reclassification of fees and commission related to lending activities following the industry practise, excludes fees and commission not related to lending activities, the comparatives for 2018 have been reclassified with subsequent ratio recalculation.

*** Due to reclassification of staff and administrative costs to be compensated as well as respective income on compensation, the comparatives for 2018 have been reclassified with subsequent ratio recalculation.

**** TMA includes off-balance sheet item outstanding guarantees.

***** Liquidity ratio calculation takes into account the previous experience and management estimate of expected amount and timing of guarantees claims.

Definitions of ratios

<i>Net income from interest, fees and commission</i>	<p>"Net income from interest, fees and commission" is equal to the item "Net interest income" in the Statement of Comprehensive Income. Until 2018 this ratio included the following items of the Statement of Comprehensive Income: "Net interest income" and "Net income from fees and commissions". In 2019 following the industry practise Fee and commission income from lending activities is reclassified to Interest income from "Net income from fees and commissions". Subsequently the fee and commission income not related to lending activities is reclassified within Other income and as such is not included in this ratio. The item "Net income from fees and commissions" is not applicable in The Statement of Comprehensive Income any more. The comparatives have been reclassified accordingly.. 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.</p>
<i>Cost to income ratio (CIR)</i>	<p>"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.</p>
<i>Tangible common equity (TCE) / Tangible managed assets (TMA)</i>	<p>"Tangible Common Equity" (TCE) is calculated by subtracting the revaluation reserve of available for sale investments from total equity.</p> <p>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 "Assets held for sale".</p> <p>Data for the calculation of both indicators (TCE, TMA) are obtained from ALTUM Group's Financial statements: Statement of Financial Position and Consolidated 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.</p>
<i>Total risk coverage</i>	<p>"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 "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 part of the public funding received under respective State aid programme for coverage of expected losses on credit risk is transferred either to "Portfolio Loss Reserve" as ALTUM Group's specific capital reserve or accounted separately as provisions for risk coverage under liabilities item "Risk Coverage Reserve". "Portfolio Loss Reserve" (specific capital reserve) is disclosed in the Note on Reserves to the Financial statements of the ALTUM Group. "Risk Coverage Reserve" is disclosed in the Note on Support Programme Funding to the Financial statements of ALTUM Group. "Risk Coverage Reserve Used for Provisions" is the amount of "Risk Coverage Reserve" allocated to and used for provisioning for impairment loss on 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.</p> <p>"Total Risk Coverage" is key indicator to be used for assessment of ALTUM's risk coverage on implemented programmes and long-term financial stability.</p>
<i>180-day liquidity ratio</i>	<p>"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 – Maturity profile of assets and liabilities under the section of Risk Management, Off-balance sheet items and contingent 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.</p>
<i>Total contribution to the economy, including the participation of the final recipients, by volumes issued in the period</i>	<p>The 'total contribution to the economy, including the participation of the final recipients, by volumes issued in the period' is calculated by adding to the volumes issued by ALTUM the financing provided by the private co-financier and the project promoter.</p>

Definition of ratios (cont'd)

<i>Leverage for raised private funding</i>	"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.
<i>Employees</i>	Average number of employees in the period excluding members of the Council and the Audit Committee.
<i>Volume of support programmes funding per employee</i>	"Support programmes funding per employee" is calculated by dividing the gross value of the Financial Instruments Portfolio by the average number of employees during the period, excluding members of the Supervisory Council and the Audit Committee.
<i>Venture capital</i>	The Venture Capital Funds presented at their gross value.

Corporate Governance Report 2019

The statement of joint-stock company Attīstības Finanšu Institūcija Altum (Development Finance Institution Altum, hereinafter – Altum), unified registration No. 50103744891, on corporate governance in 2019 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.

Strategy 2019 - 2021

Following strategic development directions and long-term objectives are set in the approved JSC Development Finance Institution Altum Strategy for the period 2019 – 2021:

<ul style="list-style-type: none"> Major financial objective in implementation of the state aid programmes – positive return on Altum's capital. 	<ul style="list-style-type: none"> Priority directions of Altum are: issuing of guarantees and their servicing, venture capital investments, implementation of energy efficiency programmes with regard to both – heat insulation of multi-apartment buildings and corporate segment, development of the Latvian Land Fund as well as initiation of new projects by expanding the range of the financial instruments offered.
<ul style="list-style-type: none"> Major non-financial objective is to support and promote availability of finances to the business and development of the national economy. 	<ul style="list-style-type: none"> Main target segments: support to entrepreneurs; energy efficiency; support to farmers; support to specific categories of persons; management of the Latvian Land Fund.

Detailed information on financial objectives is disclosed in the Consolidated and Separate Annual Report for the year ended 31 December 2019 (hereinafter - the Annual Report) Management Report and in the Annual Report Other Notes. On achievement of non-financial objectives set in the Strategy for 2019 see below.

- Contribution to economy by Altum volumes issued** in 2019 reaches **EUR 532 million** (-EUR 44 million / -8% vs projected, +EUR 72 million vs 2018). However **contribution to economy by Altum portfolio** in 2019 (annual) reaches **EUR 642 million**, +EUR 18 million vs 2018.
- Volume of support programmes funding (excl. grants) per employee** (*) is **EUR 3.1 million** (-EUR 0.1 million / -3% vs projected, + EUR 0.4 million vs 2018).
- Employee turnover** is **7%** that is in line with projections (<10%), +0.9% vs 2018.
- Annual **number of trained employees** reaches **84%** that is in line with projections (>60%), -2% vs 2018.
- Volumes issued (excl. grants)** (*) in 2019 reaches **EUR 188 million** with minor deviation of -EUR 6 million / -3% vs projected (+EUR 29 million vs 2018).
- Gross portfolio** (*) as at end of 2019 is **EUR 617 million** (+EUR 6 million / +1% vs projected, +EUR 89 million vs 2018).
- Credit rating assigned by Moody's** projected – not more than two niches below the sovereign rating of Latvia (A3 by Moody's), actual for 2019 (same for 2018) is **Baa1** better than projected.

* In Strategy particular objectives are set, including investment properties of Latvia Land Fund, that are classified out of scope of financial instruments.

Deviations of individual indicators from the projections are insignificant, and they have not adversely affected implementation of the key objectives and strategy of Altum.

Corporate Governance Report 2019 (cont'd)

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 Policy on 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 Policy on 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.

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 Annual Report.

Corporate Governance Report 2019 (cont'd)

Annual Report 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 – loans, guarantees and investments in venture capital funds - 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.

Altum focuses on sustainable development and innovative solutions for ensuring financial stability.

Altum has identified and developed close cooperation with its stakeholders, being aware of Altum's special role in the national economy and the needs of its stakeholders. Altum is aware of and assesses the social, environmental and economic impact of its operations, and engages stakeholders in tackling matters important to both sides. In developing relations with the parties relevant, Altum organizes and is involved in consultations, establishes partnerships, organises informational and educational events.

Already In 2017 Altum issued bonds as series of notes 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 raised by green bonds will be used by ALTUM to invest in environment-friendly projects and help to reach specific environmental objectives, CICERO (Centre for International Climate and Environmental Research, Oslo) prepared an independent opinion on 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 sustainable transportation, including energy service companies (ESCO) that provide services to the companies in these fields. In 2019 the loan volume issued to those projects was EUR 6.7 million, which by EUR 5 million exceeded that of 2018. The largest volume of loans in 2019 is in the energy efficiency segment, which dominates strongly in terms of number of projects and funding volume for transactions in renewable energy, sustainable transport and green building segments, where first loans were granted in 2019 and a number of project applications were received. Energy efficiency investment projects are being implemented not only by companies but also in the municipal sector, where solutions for heating systems are mainly implemented. Several ESCO projects in the field of lighting and technology should also be highlighted as well. It should be noted that the good results are due to the

Corporate Governance Report 2019 (cont'd)

explanatory work carried out, yielding a changing attitude of Latvian companies in favour of green and sustainable investments, considering not only gains these investments bring to the mitigation of climate change but also to immediate financial benefits of the company by decreased consumption of energy resources and maintenance costs.

By engaging in community support activities and supporting organizations, projects and programmes, Altum focuses on initiatives that encourage entrepreneurial activity. Altum does not make donations, but supports projects, financially and with the help of volunteers, that help promote and foster entrepreneurship, innovation, education, meaningful use of the available state aid instruments, and other activities that improve public well-being, foster environmental protection and promote Latvia's economic growth.

When considering engaging in specific community support activities, Altum's decisions are based on the objectives, policies and values it has defined as a state-owned company, while involved in the implementation of support activities are Altum employees and the general public. The way of involvement and the amount of funding that Altum mobilizes for community support projects are determined by Altum's operating strategy and budget, which is decided by the company's Management Board and shareholders.

Initiatives supported in 2019:

Innovation, infrastructure	<i>5G Techritory</i>	Promoting the Baltic Sea Region countries' cooperation in digital infrastructure
	<i>Three Seas Initiative Investment Fund (3SIIF)</i>	Promoting a new financing initiative to support transport, energy and digital infrastructure projects in Central and Eastern Europe, contributing to the region's economic development and quality infrastructure
	<i>Investor of the Year</i>	Popularization of venture capital investments and their positive effect on the national economy of Latvia, highlighting the most successful private and corporate investment deals
	<i>Techcill</i>	Fostering the development of the Baltic start-up ecosystem
Development of business environment	<i>Business think tanks</i>	Promoting an exchange of views on matters important to the business environment by joining forces with partners - Latvian Employers' Confederation and the European Commission
	<i>Business experience days</i>	Promoting sharing of knowledge among entrepreneurs for successful business development in cooperation with partners - LCCI and Swedbank
	<i>Countryside Will Be! competition (Laukiem būs!)</i>	Promotion of entrepreneurial activity in rural areas by involving young people, fostering the development of their competencies and involvement in rural entrepreneurship in cooperation with the Latvian Rural Advisory and Training Centre, while promoting a more balanced regional development in Latvia
Effect upon environment, green thinking	<i>Living Warmer campaign and Most Energy Efficient Building in Latvia project</i>	Promoting energy-efficient practices in households and business environment, emphasizing both financial and environmental benefits thereof
	<i>Forum Can Business Today Afford not to Be Energy Efficient?</i>	In cooperation with partners - Ministry of Economics and European Commission

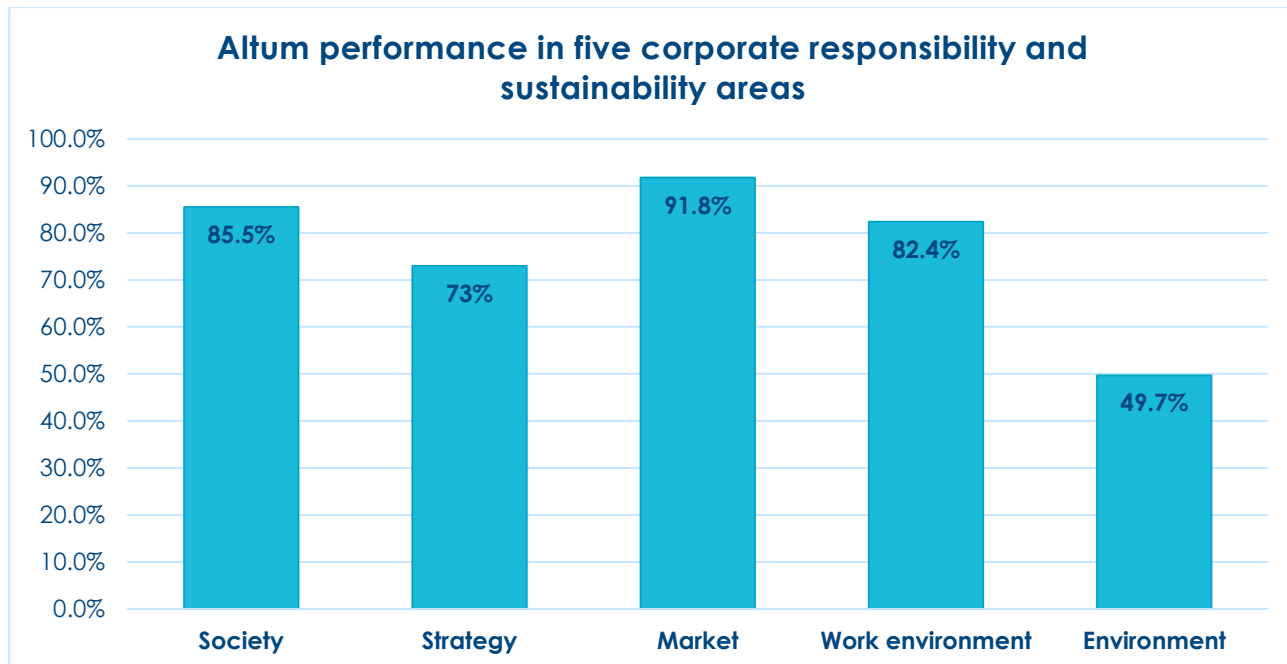
Corporate Governance Report 2019 (cont'd)

Education	<i>Higher education (Latvia University of Life Sciences and Technologies, BA School of Business and Finance)</i>	Promoting cooperation between science and business, youth involvement in research, commercialization of research quality and innovative ideas
	<i>Latvian student companies' events #CitsBazārs</i>	Educating a new generation of entrepreneurs and industry experts by linking, in the learning process, theoretical knowledge with practice, through participation in the Junior Achievement Latvia programme Student Company (Skolēnu mācību uzņēmums - SMU)
Public welfare, demography	<i>Social Entrepreneurship Association</i>	Promotion of the idea of social entrepreneurship so that Latvia would have increasingly more enterprises with a clear social purpose and positive social impact
	<i>Support for starting a business</i>	Improving remigrants' access to information on state aid for starting a business to help their business endeavours upon returning in Latvia
Financial sector development	<i>Finance Latvia association</i>	Promotion of sustainable development of the financial sector by focusing, in cooperation with commercial banks, on the development of lending, personnel, communication, legal and other matters, and encouraging exchange of opinions and decision making in Latvia's public interest;
Export	<i>The Red Jackets</i>	Popularization of export-viable companies' experience and excellence in promoting export culture and positive economic impact;
	<i>Competition Export and Innovation Award</i>	Promotion of the production of new products with high export potential by popularizing the performance of Latvian companies and commending the manufacture of quality domestic products for the market, introduction of innovations and development of industrial design

More information about Altum principles for implementation of public support activities and support projects is available on website www.altum.lv.

In 2019 for the first time Altum applied for the Sustainability Index maintained by the Institute for Corporate Sustainability and Responsibility and scored Silver Category. The Sustainability Index is a strategic management tool that helps companies assess their performance in five key areas: strategic planning, market relations, work environment, environment and local community. The assessment methodology has been developed by experts from the Institute for Corporate Sustainability and Responsibility, and the criteria are based on international experience and principles so as to provide an objective view of companies' approach to risk and process management. Further information about the leading experts in each assessment category is available on the website of the Institute for Corporate Sustainability and Responsibility, www.incsr.eu/par-mums/eksperti.

Corporate Governance Report 2019 (cont'd)



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 2019 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

31 March 2020