JSC DEVELOPMENT FINANCE INSTITUTION ALTUM

Consolidated and Separate Annual Report
for the year ended 31 December 2017

(the 4th reporting period)

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JSC Development Finance Institution Altum
Doma laukums 4, Riga, LV-1050, Latvia
telephone: + 371 67774010
fax: + 371 67820143
Registration No: 50103744891
www.altum.lv

Altum group

MISSION We help Latvia grow!

VISION Cooperation partner and expert in finance promoting the growth of national economy

VALUES Excellence / Team / Responsibility

JSC Development Finance Institution Altum as Altum Group parent company is a Latvia state-owned company ensuring access of enterprises and households to the financing resources by means of support financial instruments - loans, guarantees, investments in venture capital funds - in areas defined as important and to be supported by the state, thus developing national economy and by such way enhancing mobilization of private capital and financial resources.

Long-term financial objectives until 2018

The Management Board and Supervisory Council of JSC Development Finance Institution Altum have approved the Company's strategic development directions and long-term financial objectives for the period 2016 – 2018, which are:

Effective management of State funds, preserving the capital and achieving positive return on equity in the long-term

Considerably increase the scope of activities
- Steep growth of guarantee portfolio
- Moderate growth of loan and investments in venture capital funds portfolios

Implement new state aid programmes, including, multi-apartment buildings energy efficiency programmes, several new guarantee and agricultural land sales and leaseback products

Increase operational efficiency

Report of the board of directors

Activity during reporting period

During 12 months of year 2017 the joint-stock company Development Finance Institution Altum group (Group) made a profit of EUR 6.945 mln. The Group parent company the joint-stock company Development Finance Institution Altum (Company) made a profit of EUR 5.884 mln.

Key financial and performance indicators of the Group

	2017	2016
Key financial data		
Net income from interest, fees and commission (tEUR)	11,374	11,024
Profit for the period (tEUR)	6,945	2,170
Cost to income ratio (CIR)	54.7%	88.4%
Employees	230	242
Total assets (tEUR)	451,686	443,126
Tangible common equity (TCE)/total tangible managed assets (TMA)	**35.6%**	**35.2%**
Equity and reserves (tEUR)	222,486	210,094
Total risk coverage: (tEUR)	**65,002**	**67,705**
Risk coverage reserve	60,060	64,833
Risk coverage reserve used for provisions	-4,753	-4,323
Portfolio loss reserve (specific reserve capital)	9,695	7,195
Liquidity ratio for 180 days	507%	449%
Financial instruments (gross value)		
Outstanding (tEUR) (by financial instrument)		
Loans	207,585	217,429
Guarantees	182,376	147,175
Venture capital funds	51,310	58,541
Total	**441,271**	**423,145**
Number of contracts	14,402	11,449
Volumes granted (tEUR) (by financial instrument)		
Loans	51,869	59,465
Guarantees	68,615	56,109
Venture capital funds	2,638	21,356
Total	**123,122**	**136,929**
Number of contracts	4,697	4,461
Leverage for raised private funding	185%	162%

The data are explained in Other notes to the annual report on Group's Key Financial Data and Operational Volumes for Years 2015-2017.

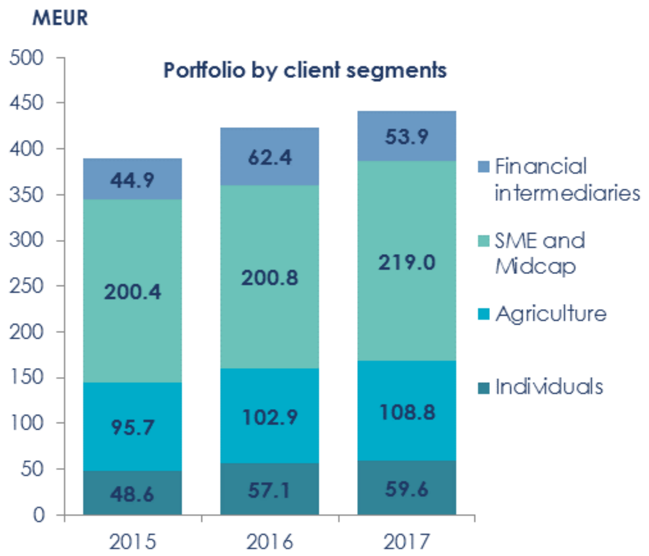
Financial Instruments Portfolio

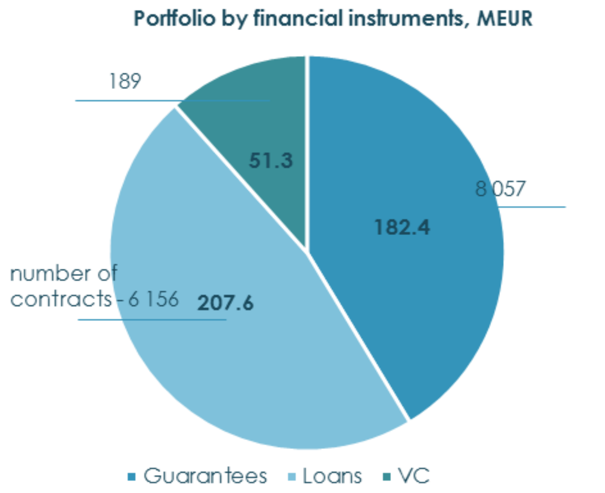
As at 31 December 2017 the Group's (gross) books and records held a portfolio of the financial instruments granted within the state aid programmes for the total value of 441.3 mln euro made up of 14,402 projects, the Company's (gross) books and records held a portfolio 453,5 mln euro, 14,402 projects.

In year 2017 the portfolio of the Group's financial instruments increased by 4.3% (EUR 18.1 mln) in terms of volume and by 25.8% in terms of the number of projects (by 2,953 projects). Among the financial instruments the guarantee portfolio had the most rapid growth by 23.9% in terms of volume (EUR 35.2 mln) and by 63% in terms of the number of transactions. The rapid increase of the guarantee financial instruments in the Group's portfolio of transactions complies with the development strategy of the Group for years 2016-2018.

Report of the board of directors (continued)

In terms of segments the projects of the Small and Medium Enterprises (SME) and Midcap's have the largest volume demonstrating also the largest portfolio increase of +9% in year 2017. Also the portfolios of the Agriculture and Individuals segments increased in the reporting period.



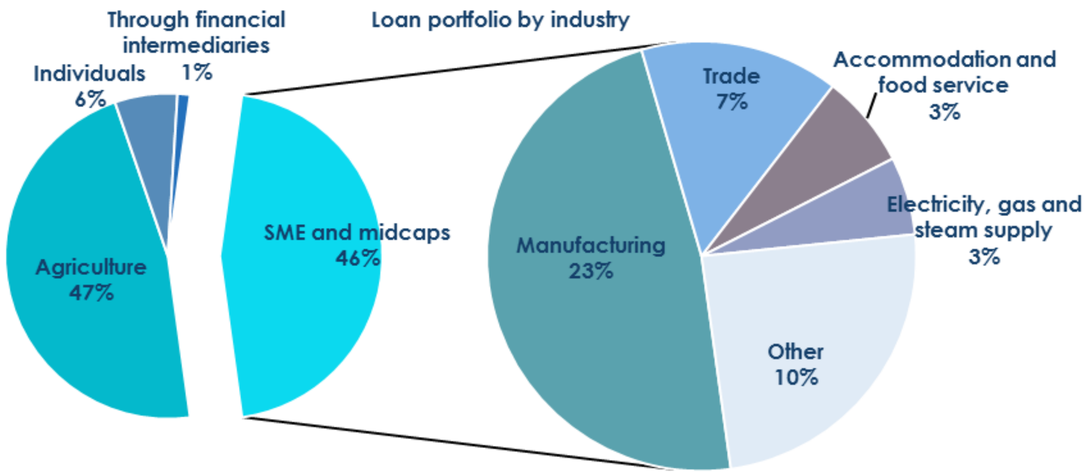


In terms of the number of transactions the largest increase was observed in the segment of individuals. Implementation of the Housing Guarantee Programme has contributed significantly to the rise of the number of transactions.

The portfolio structures of the loan and guarantee financial instruments echo the state aid implementation priorities of the Latvian government.

The state aid programmes implemented by the Group embrace a vast variety of the industries of the national economy and client segments resulting in broadly diversified financial instruments' portfolios of the Group. It has evolved over the course of time that the Group implements a range of lending programmes for farmers that is reflected in the structure of the loan portfolio where the Agriculture segment accounts for 47%. Considerable investments were made also in manufacturing 23% and trading companies 7% and companies of other industries.

Promotion of entrepreneurship is a significant business segment of the Group. As at 31 December 2017 the business commencement projects were issued EUR 42.1 mln within the framework of "The loan to start a business" programme that funded 2,305 projects.

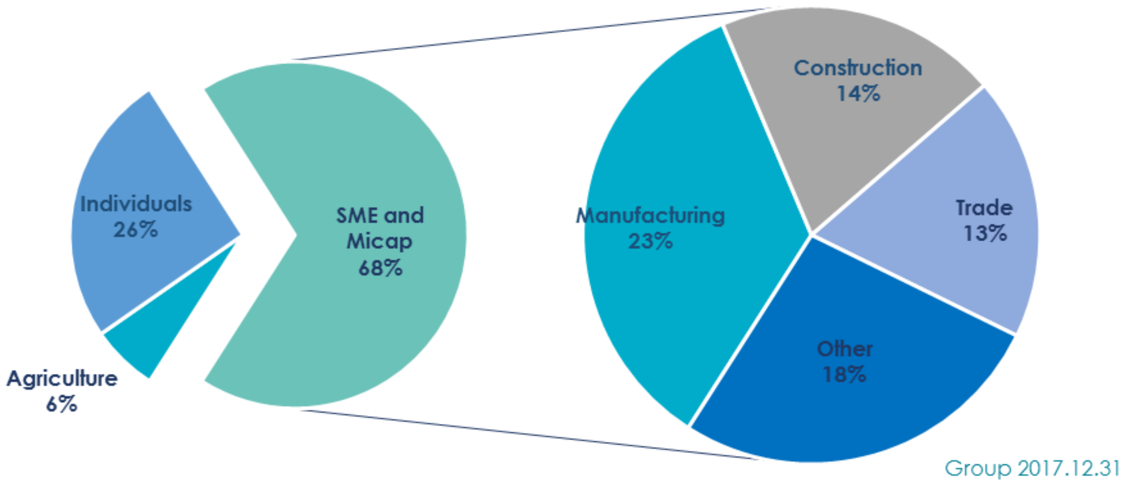


Group 2017.12.31

With the approved state aid programmes closing the market gaps, the Small and Medium Enterprises and Midcap's account for most of the Group's guarantees - 68%, while individuals account for 26% of the guarantees comprised of the housing acquisition guarantees issued to the families with children.

In terms of industries, the manufacturing guarantees account for 23% of the portfolio with considerable guarantee amounts of 14% and 13% respectively being issued also in the construction and trade segments.

Report of the board of directors (continued)



By 31 December 2017, as part of the housing acquisition state aid for the families with children, the Housing Guarantee Programme had granted 7,227 guarantees worth EUR 49.5 mln. The families throughout Latvia use the programme's guarantees that help to save for the first instalment required to obtain a mortgage loan: of the total number of the issued guarantees 67% were granted in Rīga and adjacent territories, 14% - in Vidzeme, 9% - in Kurzeme, 7% - in Zemgale and 3% - in Latgale. The average amount of one guarantee is EUR 6,9 thsd .

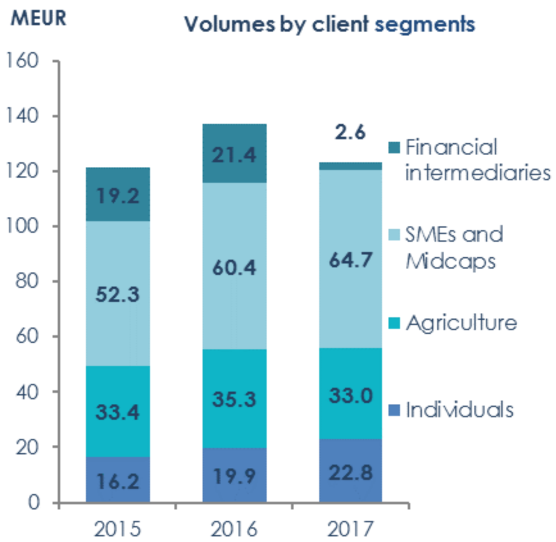
As at 31 December 2017, the balance sheet of the Land Fund administered by the Group enlisted 245 investment properties with the total land area of 4,055 ha worth EUR 10.5 mln.

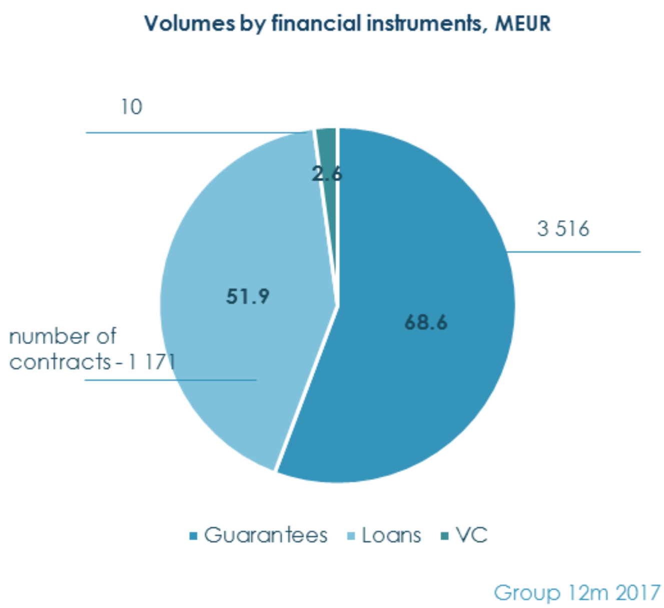
Volumes granted

The funding granted implementing the state aid programmes amounted to EUR 123,122 mln (56% - guarantees, 42% - loans and 2% - investments of venture capital funds) in the reporting period. In total, 4,697 projects were supported.

Although in 12 months of year 2017, compared to an identical period a year earlier, the state aid programmes had 10% less new transactions (EUR 13,8 mln), there were by 5% more supported projects (by 236 projects).

In year 2017, compared to year 2016, the volume of the granted guarantees increased considerably – by 22%. Guarantees for promotion of entrepreneurship were enhanced specifically – in 12 months there were new guarantees worth EUR 43,8 mln issued to the entrepreneurship projects.





Report of the board of directors (continued)

The new transactions in the SME and Midcap segment and Individuals segment proceeded with their yearly increase with the volumes going up both for the issued loans and guarantees. In year 2017, compared to year 2016, the volume of new transactions for the Farmers' segment decreased slightly due to a drop in demand for working capital loans. Over the years the volume of these loans has fluctuated considerably due to various factors (including weather and sales prices).

In the reporting year the volumes of new transactions in the Financial intermediaries segment, dominated by venture capital investments, have decreased. The reduction was due to the fact that the investment period of the venture capital programmes (the 2nd and 3rd stage funds) of the previous programming period of the structural funds was closed, but the new venture capital funds (the 4th stage) were expected to commence their operations in year 2018.

New Products and Increasing Operational efficiency

In order to foster development of the national economy through an influx of additional funds, the Group, following its Strategy for Years 2016–2018, expanded its business of loan guarantees for promotion of entrepreneurship by offering both – new guarantee products, such as delegated guarantees and export guarantees to EU member states, and enhancing of the existing products by increasing of the guarantee limits and speeding up of reviewing of the guarantee applications.

In year 2017, in order to promote availability of funding for prospective projects, the maximum single guarantee amount was increased from the previous EUR 1.5 mln to EUR 3 mln.

In the reporting period a new solution for granting of guarantees was introduced – delegated guarantees. It is a way to promote availability of funding for small and medium-sized enterprises even more. In order to implement the delegated guarantees, a special co-operation agreement has been concluded with SEB Banka and Swedbank. It is planned to initiate similar co-operation also with other banks. The service enables the banks to speed up considerably reviewing of the loan applications of the small and medium-sized enterprises. According to the standard procedure, reviewing of the guarantee application would take from 3-7 days, but with the delegated guarantee it would be only 1-2 days.

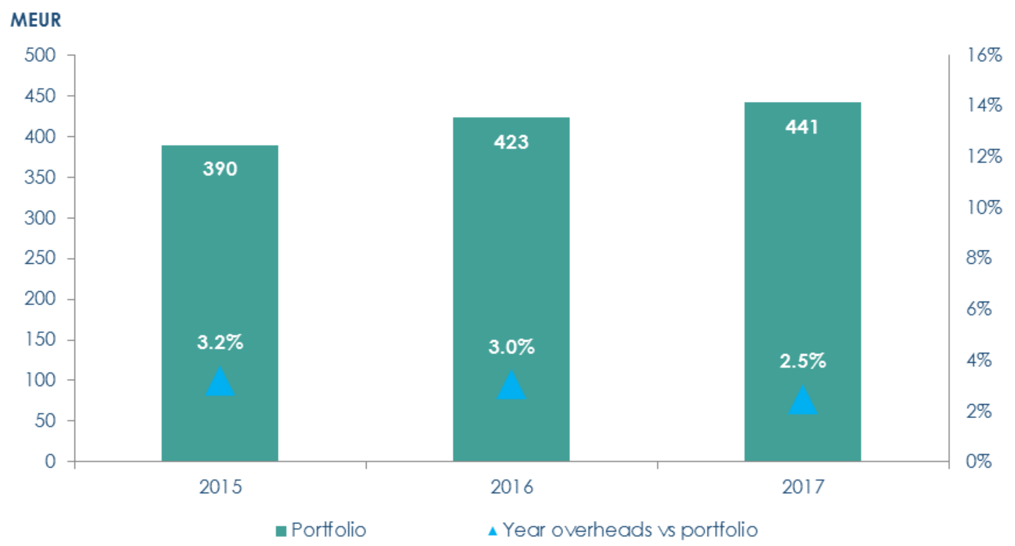
In April 2017 Company started to offer the export credit guarantees for small-scale exporters (with an export turnover below EUR 2 mln) effecting transactions with EU and some OECD member states or for larger export turnovers provided the maturity of the deferred payment was above 180 days. This enables our exporters to obtain a risk coverage for markets very important to Latvia, such as Scandinavia, Finland, Germany, a.o. Already 33 exporting companies have made use of this opportunity. Also, in year 2017 the origin criterion of the local goods has been inactivated which allows other exporters performing re-exporting to qualify for the guarantee coverage.

In year 2017, in order to amplify support to the business ideas of the SMEs, there was an agreement concluded with the European Investment Fund (EIF) on the counter-guarantees of InnovFIN Facility for the guarantee portfolio worth EUR 30 mln. The risk coverage provided by counter-guarantees allows Group to issue guarantees to innovative projects at lower rates, thus reducing the clients' costs for attracting funding for these projects. As at 31 December, 2017, there were 7 guarantees for EUR 1.2 mln issued under InnovFIN Facility.

The Land Fund has implemented with success a new type of service – reverse rent (sales and leaseback) whereby a farmer can sell its property to the Land Fund and continue using it for production purposes by subsequently renting the property from the fund with buy-back rights. It allows the farms to attract additional funds of sizeable amount without increasing the burden of collateral.

In the reporting period there were 260 project applications received within the Energy Efficiency Programme of Multi-apartment Buildings. As at year-end 200 applications were approved.

Increasing Operational Efficiency



Report of the board of directors (continued)

In the reporting period the Group's financial instruments portfolio has been augmented without increasing the management costs. In year 2017 optimisation of the management costs was conducted in the Group resulting in increasing of the financial portfolios by 4.3 %, reduction of the management costs from 3.0% at the end of year 2016 to 2.5% at the end of year 2017.

Long-term Funding

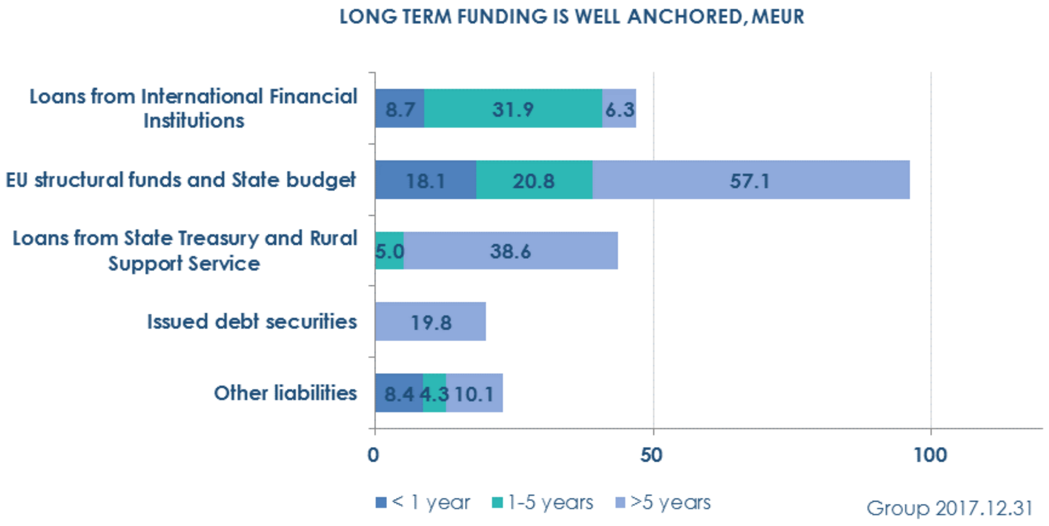
In October 2017 the Company issued transferable debt securities as series of notes, registered them with the Latvian Central Depository and quoted on Nasdaq Riga for the total face value of EUR 20 mln becoming the first national development institution of the Central and Eastern European countries that has issued the green bonds. The investors of Latvia, Lithuania and Estonia have shown a substantial interest and the subscribed volume exceeded the issued volume 6.5 times. 24 investors purchased the bonds: asset management funds, insurance companies and banks in Latvia (43.5%), Lithuania (31%), Estonia (19%), Sweden and Germany (6.5%). Having issued these notes the Group entered the capital markets with a long-term perspective in mind aiming to proceed with diversification of the structure of the attracted funding.

The Centre for International Climate and Environmental Research (CICERO) that is an independent Norwegian institute for interdisciplinary climate research situated in Oslo has prepared an impartial opinion about the Green Bond Framework of the Company. CICERO recognised that the system of financial management and reporting of the funds acquired as a result of the issue of the notes complied with high standards.

The funding attracted from the issue of the Green Bonds will be used to fund sustainable business projects in the fields of energy efficiency, energy generation from renewable energy resources, 'green' buildings and transport, including energy service companies (ESCO) that provide services to the companies in these fields.

Structure of Attracted Funding

The financial instruments portfolios established by Group are secured by funding of appropriate maturity structure. Since the long and medium-term investment projects are the major components of the Group's portfolios, resources of adequate maturities have been attracted to the funding of the programmes: the resources maturing after 5 years account for 58% of the total liabilities, the resources maturing between 1 and 5 years - 27%, but liabilities maturing earlier than 1 year – only 15%. Moreover, once the respective programmes have come to a close, a part of the current liabilities towards the EU structural funds and national budget will be transferred to Group for implementation of new state aid programmes.



Risk Management

In order to have an adequate risk management, the Group has developed the Risk Management System that provides both preventive risk management and timely implementation of risk mitigation or prevention measures. While assuming the risks, the Group remains capable of implementing the established operational targets and assignments in the long run. In its risk management the Group makes use of various risk management methods and instruments as well as establishes risk limits and restrictions. The risk management methods are chosen based on materiality of the particular risk and its impact on the Group's operations.

In view of the Group's activities in the increased risk areas when implementing the state aid programmes, the Group has amassed the risk coverage of EUR 62.1 mln (as at 31.12.2017) that is available for coverage of expected credit loss of the state aid programmes. The expected loss is assessed before implementation of the respective aid programme and a portion of the public funding received within respective state aid programme for coverage of the expected credit loss is transferred to the Risk Coverage. The Risk Coverage consists of the sum total of the Risk Coverage Reserve and Portfolio Loss Reserve (special reserve capital) less the Risk Coverage Reserve used for provisions.

Report of the board of directors (continued)

Rating

On 15 June 2017 international credit rating agency Moody's Investors Service assigned to Altum (the parent company of the Group) an investment grade rating Baa1 with a stable outlook. The assigned rating is among the highest ratings ever assigned to a Latvian capital company. The assigned rating makes it possible for the Group to implement the Group's long-term strategy for raising funding through becoming a member of the capital market and issuing the notes with more success.

Future Outlook

In year 2018 the rapid growth of the guarantee portfolio will continue. It is expected that at the end of year 2018 the volume of the guarantee portfolio will exceed the loan portfolio, thus meeting the target identified by the development strategy of the Group for years 2016-2018, i.e., augment the operational volumes considerably by laying emphasis on the indirect financial instruments (guarantees).

The agreement concluded in year 2017 with the European Investment Fund on guarantees of the COSME programme will allow the Group to issue loans to the companies eligible to the said guarantees' requirements with less collateral from the clients' side.

In year 2018 the venture capital acceleration investments for very early stage companies will be available in Latvia which is a novelty in the start-ups environment of Latvia. Since the selection process of the managers of the accelerator funds announced on the scale of the Baltic countries was finished in year 2017, 3 accelerator funds will start working. It is expected that around 120 perspective ideas will receive accelerator investments with the total public funding for the Group's investments in these funds amounting to EUR 15 mln.

In year 2017 the selection of the managers of two seed and start-up venture capital funds and one growth venture capital fund was finalised. Both seed and start-up venture capital funds will commence activities in Q2 of year 2018. The total public funding for the Group's investments in these seed and start-up venture capital funds is expected to reach EUR 30 mln. Meanwhile, the growth venture capital fund will commence activities as from 3Q of year 2018 with the total public funding for the Group's investments in this fund amounting to EUR 15 mln. It is planned to select a manager of one more growth venture capital fund in 2018.

On 1 January 2018 the Law on Assistance in Solving Apartment Matters came into effect making also the persons having acquired secondary vocational or higher education and being below 35 years of age (young professionals) eligible for assistance of the state in purchase or construction of residential space. Making the young professionals eligible for the support of the Housing Guarantee Programme will improve the business environment of Latvia. In year 2018 it is planned to grant housing guarantees to 1,000 young professionals for the amount of EUR 6.7 mln. Assistance to the young professionals available as of 1 March 2018.

Continuing to work on optimisation of the management costs the Group transitions to a new information system for transactions accounting in year 2018 that would ensure gradual reduction of the management costs over the coming years.

Reinis Bērziņš
Chairman of the Board

29 March 2018

Supervisory Council and Board of Directors

The Supervisory Council

Name, surname	Position	Date appointed
Līga Kļaviņa	Chairperson of the Council	29/12/2016 – present
Jānis Šnore	Council Member	29/12/2016 - present
Kristaps Soms	Council Member	29/12/2016 - present

There have been no changes in the Supervisory Council of the Company during the reporting period.

The Board of directors

Name, surname	Position	Date appointed – removed
Reinis Bērziņš	Chairman of the Board	12/10/2015 – present
Jēkabs Krieviņš	Board Member	12/10/2015 – present
Juris Vaskāns	Board Member	12/10/2015 – present
Inese Zīle	Board Member	12/10/2015 – present
Aleksandrs Bimbirulis	Board Member	07/07/2017 – present
Rolands Paņko	Board Member	12/10/2015 – 14/04/2017

Statement of the management's responsibility

Riga 29 March 2018

The supervisory council and the board of directors (hereinafter – Management) of joint stock company Development Finance Institution Altum (hereinafter - Company) are responsible for preparation of the financial statements of the Company as well as for preparation of the consolidated financial statements of the Company and its subsidiaries (hereinafter – Group) and information disclosed in the Other notes to Annual Report.

The financial statements and notes thereto set out on pages 11 to 99 are prepared in accordance with the source documents and present truly and fairly the financial position of the Company and the Group as at 31 December 2017 and 2016, and the results of their operations, changes in the shareholders' equity and cash flows for the years then ended.

The aforementioned financial statements are prepared on a going concern basis in conformity with International Financial Reporting Standards as adopted by the European Union. Prudent and reasonable judgements and estimates have been made by the Management in the preparation of the financial statements.

The Management are responsible for the maintenance of proper accounting records, the safeguarding of the Group's assets, and the prevention and detection of fraud and other irregularities in the Group. The Management are also responsible for operating the Group and the Company in compliance with the Law of the Republic of Latvia on Development Finance Institution and other laws of the Republic of Latvia as well as European Union Regulations applicable to Company.

Reinis Bērziņš
Chairman of the Board

Statement of comprehensive income

all amounts in thousands of euro

	Notes	Group 01/01/2017-31/12/2017	Group 01/01/2016-31/12/2016	Company 01/01/2017-31/12/2017	Company 01/01/2016-31/12/2016
Interest income	4	12,194	12,584	11,950	12,584
Interest expense	5	(820)	(1,707)	(819)	(1,604)
Net interest income		11,374	10,877	11,131	10,980
Fee and commission income	6	484	446	484	446
Fee and commission expense	7	(256)	(299)	(256)	(299)
Net income from fees and commissions		228	147	228	147
Net trading income	8	(191)	(203)	(191)	(203)
Share of profit / (loss) of investment in joint venture and associate	18	818	(1,758)	-	-
Other income	9	7,791	5,528	7,791	5,528
Operating income before operating expenses		20,020	14,591	18,959	16,452
Staff costs	10	(6,522)	(6,782)	(6,522)	(6,782)
Administrative expense	11	(4,010)	(5,581)	(4,010)	(5,580)
Amortisation of intangible assets and depreciation of property, plant and equipment	21, 22	(417)	(529)	(417)	(529)
Net impairment provisions	12	(2,001)	471	(2,001)	464
Profit / (loss) before corporate income tax		7,070	2,170	6,009	4,025
Corporate income tax	13	(125)	-	(125)	-
Profit for the period		**6,945**	**2,170**	**5,884**	**4,025**
Other comprehensive income to be reclassified to profit or loss in subsequent periods: Net profit / (loss) on available for sale investments	35	(1,161)	467	(1,161)	425
Total comprehensive income for the period		**5,784**	**2,637**	**4,723**	**4,450**

The Notes on pages 16 to 99 are an integral part of these financial statements.

Reinis Bērziņš
Chairman of the Board

Marina Baranovska
Chief accountant

29 March 2018

Statement of financial position

all amounts in thousands of euro

	Notes	Group	Group Restated	Company	Company Restated
		31/12/2017	31/12/2016	31/12/2017	31/12/2016
Assets					
Due from other credit institutions and Treasury	16	109,594	89,553	109,594	89,408
Derivatives	17	142	-	142	-
Investment securities - available for sale	14	61,760	64,294	61,760	64,294
Investment securities – held to maturity	14	443	1,531	443	1,531
Loans and receivables	19	192,147	201,250	192,147	201,250
Deferred expense	24	176	413	176	413
Accrued income	25	2,080	1,646	2,080	1,647
Assets held for sale	26	12,935	1,367	10,565	1,367
Investments in venture capital funds – associates	18	51,170	58,296	49,108	56,722
Investments in subsidiaries	20	-	-	-	10,376
Investment property	15	10,808	17,087	10,808	4,869
Property, plant and equipment	22	3,828	3,507	3,828	3,507
Intangible assets	21	771	168	771	168
Other assets	23	5,832	4,014	5,832	3,875
Total assets		**451,686**	**443,126**	**447,254**	**439,427**
Liabilities					
Due to credit institutions	27	46,933	56,195	46,933	56,195
Derivatives	17	-	854	-	855
Due to general governments	28	43,609	46,914	43,609	46,914
Issued debt securities	33	19,852	-	19,852	-
Deferred income		1,395	777	1,395	777
Accrued expense	32	982	1,198	982	1,198
Provisions	30	14,531	16,864	14,531	16,864
Support programme funding	29	92,041	98,096	94,080	95,699
State aid	29	3,968	5,575	3,968	5,575
Other liabilities	31	3,764	6,559	3,488	4,282
Corporate Income tax liabilities	13	125	-	125	-
Liabilities directly associated with assets held for sale	26	2,000	-	-	-
Total liabilities		229,200	233,032	228,963	228,359
Capital and reserves					
Share capital	34	204,862	204,862	204,862	204,862
Reserves	35	2,398	(8,235)	(386)	(6,911)
Reserve of disposal group classified as held for sale	26, 38	1,839	-	1,839	-
Available for sale reserve	38	6,092	9,092	6,092	9,092
Retained earnings		7,295	4,375	5,884	4,025
Total capital and reserves		222,486	210,094	218,291	211,068
Total liabilities, capital and reserves		**451,686**	**443,126**	**447,254**	**439,427**

The Notes on pages 16 to 99 are an integral part of these financial statements.

Reinis Bērziņš
Chairman of the Board

Marina Baranovska
Chief accountant

29 March 2018

Consolidated statement of changes in equity

all amounts in thousands of euro

	Share capital	Reserves	Available for sale reserve	Reserve of disposal group classified as held for sale	Retained earnings	Total capital
As at 31 December 2015	**204,862**	**(16,082)**	**8,625**	**-**	**2,205**	**199,610**
Profit for the period	-	-	-	-	2,170	2,170
Other comprehensive income	-	-	467	-	-	467
Total comprehensive income	-	-	467	-	2,170	2,637
Changes of reserves (see Note 35)	-	458	-	-	-	458
Increase of reserve capital (see Note 35)	-	5,560	-	-	-	5,560
Distribution of 2015 year profit of Company (Note 35)	-	1,829	-	-	-	1,829
As at 31 December 2016	**204,862**	**(8,235)**	**9,092**	**-**	**4,375**	**210,094**
Profit for the period	-	-	-	-	6,945	6,945
Other comprehensive loss	-	-	(1,161)	-	-	(1,161)
Other comprehensive income associated with assets held for sale			(1,839)	1,839		-
Total comprehensive income	-	-	(3,000)	1,839	6,945	5,784
Changes of reserves (see Note 35)	-	4,108	-	-	-	4,108
Increase of reserve capital (see Note 35)	-	2,500	-	-	-	2,500
Distribution of 2016 year profit of Company (Note 35)	-	4,025	-	-	(4,025)	-
As at 31 December 2017	**204,862**	**2,398**	**6,092**	**1,839**	**7,295**	**222,486**

The Notes on pages 16 to 99 are an integral part of these financial statements.

Statement of changes in equity for the company

all amounts in thousands of euro

	Share capital	Reserves	Available for sale reserve	Retained earnings	Total capital
as at 31 December 2015	**204,862**	**(14,300)**	**8,667**	**1,829**	**201,058**
Profit for the year	-	-	-	4,025	4,025
Other comprehensive income	-	-	425	-	425
Total comprehensive income	**-**	**-**	**425**	**4,025**	**4,450**
Increase of reserve capital (see Note 35)	-	5,560	-	-	5,560
Distribution of 2015 year profit (Note 35)	-	1,829	-	(1,829)	-
as at 31 December 2016	**204,862**	**(6,911)**	**9,092**	**4,025**	**211,068**
Profit for the year	-	-	-	5,884	5,884
Other comprehensive income	-	-	(1,161)	-	(1,161)
Total comprehensive income	**-**	**-**	**(1,161)**	**5,884**	**4,723**
Increase of reserve capital	-	2,500	-	-	2,500
Distribution of 2016 year profit (Note 35)	-	4,025	-	(4,025)	-
as at 31 December 2017	**204,862**	**(386)**	**7,931**	**5,884**	**218,291**

The notes on pages 16 to 99 are an integral part of these financial statements.

Cash flow statement

all amounts in thousands of euro

	Notes	Group 01/01/2017-31/12/2017	Group 01/01/2016-31/12/2016	Company 01/01/2017-31/12/2017	Company 01/01/2016-31/12/2016
Profit before taxes		**6,945**	**2,170**	**5,884**	**4,025**
Amortisation of intangible assets and depreciation of property, plant and equipment	22 ,21	417	529	417	529
Interest income	4	(12,192)	(12,584)	(11,948)	(12,584)
Interest received		10,444	10,713	10,200	10,713
Interest expenses	5	807	1,707	807	1,607
Interests paid		(191)	(720)	(191)	(620)
(Decrease) / increase in provisions for impairment	12	2,001	(471)	2,001	(717)
Increase in provisions for impairment of investments in venture capital funds		-	-	-	253
(Decrease) / increase in share of profit / (loss) in joint venture and associate capital funds		(818)	1,758	-	-
Increase in deferred income and accrued expense		401	311	402	312
(Decrease) in deferred expense and accrued income		(196)	(497)	(196)	(499)
Increase of cash and cash equivalents used before changes in assets and liabilities		**7,618**	**2,916**	**7,376**	**3,019**
Decrease / (increase) of other assets		(8,727)	7,736	(8,149)	9,579
Increase / (decrease) in other liabilities		(7,167)	20,386	(6,281)	20,648
Due from credit institutions (increase)		(3,998)	(1,832)	(3,998)	(2,568)
(Increase) / decrease of loans		7,148	(2,042)	7,148	(2,042)
Due to credit institutions increase / (decrease)		(3,306)	7,354	(4,663)	7,355
Corporate income tax		-	-	-	-
Net cash flow from operating activities		**(8,432)**	**34,518**	**(8,567)**	**35,991**
Cash flows from investment activities					
Sale of investment securities, net		5,066	25,521	4,876	24,420
Sale of assets held for sale		5,239	-	5,239	-
Acquisition of property, plant and equipment and intangible assets		(1,342)	(777)	(1,342)	(777)
Purchase of investment properties	15	(5,818)	(3,615)	(5,818)	(3,615)
Investments in venture capital funds, net	18	(968)	(20,370)	(498)	(20,887)
Net cash flow of investment activities		**2,177**	**759**	**2,457**	**(859)**
Cash flows from financing activities					
Issued debt securities		19,799	-	19,799	-
Increase in share capital	35	2,500	5,560	2,500	5,560
Net cash flow from financing activities		**22,299**	**5,560**	**22,299**	**5,560**
Increase in cash and cash equivalents		**16,044**	**40, 837**	**16,189**	**40,692**
Cash and cash equivalents at the beginning of period		84,553	43,716	84,408	43,716
Cash and cash equivalents at the end of period	37	**100,597**	**84,553**	**100,597**	**84,408**

The Notes on pages 16 to 99 are an integral part of these financial statements

Approval of consolidated financial statements

The management of the Group/Company has approved these financial statements on 29 March 2018. The Commercial Law of the Republic of Latvia as well as Development Finance Institution Law stipulates that the shareholders' meeting is entitled to pass a decision on approval of the financial statements.

1 General information

(1) Background information

These financial statements contain the financial information about joint-stock company Development Finance Institution Altum (Company) and its subsidiaries (hereinafter — the Group). The separate financial statements of the Company are included alongside these consolidated financial statements to comply with legal requirements. The Company is the parent entity of the Group (Note 39).

The Group ensures access of enterprises and households to the financing resources by means of support financial instruments – loans, guarantees, investments in venture capital funds – in areas defined as important and to be supported by the state, thus developing national economy and by such way enhancing mobilisation of private capital and financial resources.

Company is a Latvia state owned company, established on 27 December 2013 based on the decision of the Cabinet of Ministers.

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

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

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

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

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

2 Accounting policies

(1) Basis of preparation

These Group's and the Company's financial statements are financial statements prepared in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union, on a going concern basis. In preparation of these financial statements on a going concern basis the management considered the Group's/Company's financial position, access to financial resources and analysed the impact of the external factors on future operations of the Group/Company.

The Group's and the Company's financial statements are prepared under the historical cost convention as modified by the fair valuation of financial assets held as available-for-sale, derivative financial instruments and investment properties and non-current assets held for sale measured at fair value les costs to sell.

The preparation of financial statements in accordance with International Financial Reporting Standards as adopted by European Union requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on the Management's best knowledge of current events and actions, actual results ultimately may differ from those estimates (Note 2 (24)).

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

(2) Consolidation and investments in subsidiaries

Consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2017.

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

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Subsidiaries are consolidated from the date on which control is transferred to the parent and are no longer consolidated from the date that control ceases. The entities of the Group are listed in Note 39.

Investments in associates

Associates are all entities over which the Group has significant influence but no control. The investments in associates are accounted for using the equity method in Group financial statements (Note 2(6)). In Company's financial statements these investments are accounted at cost minus impairment.

(3) Foreign currency translation

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

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

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

as on 31 December 2017	as on 31 December 2016
1 USD = EUR 1.19930	1 USD = EUR 1.05410
1 GBP = EUR 0.88723	1 GBP = EUR 0.85618
1 CHF = EUR 1.17020	1 CHF = EUR 1.07390
1 NOK = E UR 9.84030	1 NOK = E UR 9.08630

2 Accounting policies (continued)

(4) Income and expense recognition

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

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

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

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

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

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

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

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

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

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

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

- loan processing and disbursement commissions (including loan application fee) together with related direct costs – using effective interest rate method;
- other commissions (loan account management, amendment of terms, reservation fee, a.o.) – are recognised on an accrual basis.

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

- commissions from granted financial guarantees – according to principles described in Note 2 (22);
- other commissions – are recognised on an accrual basis.

Interest accrued on loans and commissions from financial guarantees exclude pricing for credit risk if such is covered by allocated support programme funding. See Note 29.

Other commission income and expense, which are not related to financial guarantees, are recognized as they occur.

Income and expense in foreign currencies are calculated and presented in euro by the official exchange rate as set by the European Central Bank on the respective day.

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

(5) Financial instruments - initial recognition and subsequent measurement

(i) Date of recognition

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

2 Accounting policies (continued)

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

(ii) Initial measurement of financial instruments

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

(iii) Trading and investment securities

Trading and investment securities are comprised of the following categories:

- Trading securities comprise fixed income securities held by the Group/Company for trading purposes. They are accounted for at fair value and all gains and losses arising from changes in the fair value are included in the profit or loss as part of net trading income. As at 31 December 2017 there are no any fixed income securities, which are classified as Trading securities.
- Investment securities available-for-sale comprise treasury bills, investments in equity shares and other fixed income securities held by the Group/Company for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. They are stated at fair value with all gains and losses from revaluation recognised in the other comprehensive income, which is reclassified to profit/loss in subsequent periods, except for impairment losses, which are recognized in the profit or loss until derecognition. The cumulative change recognised as other comprehensive income is presented as Available for sale reserve under equity. The Group/Company reviews its debt securities classified as available-for-sale investments at each statement of financial position date to assess whether they are impaired. This requires estimates similar to those applied to the individual assessment of loans and advances. The Group/Company also records impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Group/Company evaluates, among other factors, historical share price fluctuations and duration and extent to which the fair value of an investment is less than its cost.
- Investment securities held-to-maturity comprise debt securities with fixed or determinable payments and fixed maturities that the Group's/Company's management has a positive intention and ability to hold to maturity. They are carried at amortised cost, that is calculated based on the purchase price of the securities adjusted by discount or premium amortised over the term of the securities, using the effective interest rate method. If the Group/Company was to sell or reclassify more than an insignificant amount of held-to-maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the Group/Company would be prohibited from classifying any financial asset as held to maturity during the following two years.

(iv) Loans and receivables

For purposes of this section, loans are:

- direct lending products, i.e., the Group/Company grants a loan to a borrower, who is the end beneficiary of funds. Direct lending products include Reverse rent transaction. Reverse rent – agricultural land purchase transaction with rent and repurchase rights for the seller of the property established by agreement;
- indirect lending products without assuming risk, i.e., the Group/Company grants a loan to a borrower, who is an intermediary. The intermediary then grants the received loan further to borrowers, who are the end beneficiaries of funds. The Group / Company recognizes loan impairment loss only when resulting from solvency problems of the borrower;
- indirect lending products with risk assumption, i.e., the Group/Company grants a loan to a borrower, who is an intermediary. The intermediary then grants the received loan further to borrowers, who are the end beneficiaries of funds. The Group / Company recognizes loan impairment loss both when resulting from solvency problems of the intermediary, as well as when resulting from solvency problems of the end beneficiary, proportionate to the share of risk.

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

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

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

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

2 Accounting policies (continued)

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

(iv) Loans and receivables (continued)

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

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

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

Reverse rent

Reverse rent – agricultural land purchase transaction with rent and repurchase rights for the seller of the property established by agreement.

It was concluded that the reverse rent transactions embraced the repurchase option for the lessee that could be exercised nearly always. From IFRS viewpoint it means that such a rent falls outside the definition of rent as, in essence, the use rights of the asset are not transferred and remain with the lessee.

The nature of reverse rent transaction corresponds to the definition of financial asset where the purchase price is a long-term loan issued to the lessee (right to get the money in near future), whereas land functions as a collateral.

Following the same practice applied to the other loans the management assesses value impairment and provisioning for value impairment at each reporting date. A part of the value impairment assessment and calculation is linked to evaluation of the collateral.

(v) Due from other credit institutions and Treasury

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

(vi) Derivative financial instruments

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

(vii) Financial liabilities carried at amortised cost

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

(viii) Issued debt securities

The Group and the Company recognise issued debt securities at the date when the respective funds are received. After initial recognition when these financial liabilities are initially recognised at fair value including direct transaction costs, those are subsequently carried at amortised cost using the effective interest method.

When issued debt securities are sold at a discount, the difference is amortised applying the effective interest method until the debt matures and charged to the statement of comprehensive income as interest expense.

(6) Investment in venture capital funds

The Group/Company has a number of investments in the capital of venture capital funds.

The Group's and the Company's investments in venture capital funds are treated as *Associates*. An *Associate* is a company in which the Group or the Company has significant influence, but not control. Significant influence is defined as the power to affect the financial and operating policy decisions of the investee. Significance of influence is classified based on the same parameters that are applied to the branches.

For the purpose of evaluating investments in venture capital funds, the equity method is used at the level of the Group, but at the level of the Company these investments are recognized at cost less any impairment in value.

2 Accounting policies (continued)

(6) Investment in venture capital funds *(continued)*

Evaluation method for venture capital funds used by the Group

The Group's investments in an associate are initially recognised at acquisition cost. The carrying value of the investment is adjusted to recognise changes in the Group's net assets in the associate since acquisition date. Goodwill relating to the associate is subsequently is included in the carrying value of investment and is not tested for impairment separately. The profit or loss shows the Group's share in the operational results of the associate.

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

Impairment in venture capital funds' value

Once one of the methods has been applied, the Group/Company decides on recognition of impairment of the investments in the associate. On the reporting dates the Group/Company establishes whether there is an impartial evidence of impairment of the investments in the associate (Note 2 (24)).

Other accounting issues

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

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

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

The above risk cover mechanism is valid for the second and third generation venture capital funds, such as BaltCap LatviaVenture Capital Fund, Imprimatur Capital Technology Venture Fund, Imprimatur Capital Seed Fund, ZGI-3 fund, FlyCap Investment Fund I and Expansion Capital Fund (Note 18) as well as for Baltic Innovation fund from the December 2017.

(7) Derecognition of financial assets

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

(8) Fair values of assets and liabilities

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

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

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

▪ Disclosures for valuation methods, significant estimates and assumptions	Note 2 (5), 2 (6),2 (13), 2 (19), 2 (23), 2 (24), 2 (25)
▪ Quantitative disclosures of fair value measurement hierarchy	Note 42
▪ Investment property	Note 2 (14)
▪ Financial instruments (including those carried at amortised cost)	Note 2 (5), 2 (11), 2 (22)

2 Accounting policies (continued)

(9) Off-setting financial instruments

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

(10) Impairment of financial assets

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

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

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

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

(i) Restructured loans

Where possible, the Group/Company seeks to restructure loans rather than take possession of collateral. This mostly involves adjusting payment made by a borrower in a manner matching such a borrower's financial capacity (temporarily reducing principal repayments, extending payment terms) and agreement of new loan conditions. Once the terms have been renegotiated and executed a loan is no longer considered non-performing as long as a borrower complies with the renegotiated terms and conditions. Such loans are continuously reviewed to ensure that all criteria are met and that future payments are likely to occur and interest and fee income is accrued and recognised as for other performing loans. If the terms of the financial assets have been renegotiated, each restructured loan is assessed quarterly to identify possible impairment that otherwise would be treated as overdue or impaired. When a loan is restructured, it is also assessed for derecognition (See Note 2 (7) on derecognition policy of assets).

(ii) Available for sale financial instruments

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

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

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

2 Accounting policies (continued)

(11) Intangible assets

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

(12) Property, plant and equipment and depreciation

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

The annual depreciation rates are as follows:

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

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

(13) Impairment of non-financial assets

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

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

(14) Investment property

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

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

Gains and losses on sale of investment properties is recognised at sale as the difference between the proceeds from the sale and the carrying amount (fair value) of investment properties.

2 Accounting policies (continued)

(15) Inventory (included in *Other assets*)

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

Realised gains and losses on sale of the properties taken over are recognised at sale as the difference between sale price of inventory and carrying amount as at the moment of sale.

(16) Leases - when the Group/Company is a lessor

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

(17) Corporate income tax

Corporate income tax for the reporting period is included in the financial statements based on the management's calculations prepared in accordance with tax legislation of the Republic of Latvia. The tax rate of corporate income tax in the end of reporting period is 15%.

Legal entities will not be required to pay income tax on earned profits starting from 1 January 2018 in accordance with amendments made to the Corporate Income Tax Law of the Republic of Latvia. Corporate income tax will be paid on distributed profits and deemed profit distributions. Consequently, in Latvia there will be no difference between the value of assets for taxation and accounting purposes, which would give rise to deferred income tax assets or liabilities. Starting from 1 January 2018, both distributed profits and deemed profit distributions will be subject to the tax rate of 20% of their gross amount, or 20/80 of net expense. Corporate income tax on dividends is recognized in the statement of profit or loss as expense in the reporting period when respective dividends are declared, while, as regards other deemed profit items, at the time when expense is incurred in the reporting year.

Deferred tax assets and liabilities were derecognised as of 31.12.2017 in accordance with amendments to the legislation of the Republic of Latvia, which enacted on 28 July 2017 and entered into force on 1 January 2018. The existing temporary differences are eliminated, and there will be no new temporary differences recognized in the future. Accordingly, deferred tax liabilities or assets which have been calculated and recognized in previous reporting periods are taken to the current statement of profit or loss in the financial statements for the year ended 31 December 2017, as it is laid down in the International Accounting Standard, changes in the tax legislation must be presented in financial statements in the period when they are adopted.

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

Item *Due from other credit institutions and the State Treasury* comprises cash and demand deposits with credit institutions with original maturity of 3 months or less (See Note 37) and demand deposits with the State Treasury and other credit institutions with original maturity of more than 3 months.

(19) Provisions

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

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

(20) Vacation reserve

Provisions for employee leaves are recognised on an accrual basis.

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

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

2 Accounting policies (continued)

(21) Employee benefits

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

(22) Financial guarantees

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

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

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

(23) State aid

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

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

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

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

2 Accounting policies (continued)

(24) Critical accounting estimates and judgements

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

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

- ***Impairment losses of loans and advances***. In order to assess impairment allowance, the management needs to make assumptions regarding the estimated cash flows and their timing related to loans. Significant estimates need to be made in relation to value of the collateral of the loans and advances. The assessment of the collateral includes the amounts of such impairment losses covered by support programme funding provided by state, see Note 29. The management has not significantly changed the estimates made during the prior period. Further details disclosed in Note 19;
- ***Impairment losses of investments in venture capital funds.*** The Group's/Company's management checks regularly that the value of the underlying investments of the venture capital funds is properly reflected. If the information about investments' evaluation is not sufficient or does not confirm the value, the management needs to make assumptions about the recoverable amount of venture capital funds. The management has not significantly changed the estimates made during the prior period. Further details disclosed in Note 18.
- ***Impairment of non-financial assets***. The Group/Company has evaluated its non-financial assets, such as property, plant and equipment and other assets (hereinafter referred to as the Group of assets), for impairment. The management has assessed the need for impairment by comparing the fair value less cost to sell to the carrying value of the group of assets, except for certain Property, plant and equipment which will not be used in the Group's/Company's operations and have been fully impaired as disclosed in Notes 2 (13), (22), (23). More information on the value of property, plant and equipment and intangible assets is disclosed in Note 21 and 22.
- ***Impairment allowance for securities held to maturity and available for sale***. The Group/Company performs credit risk evaluation of the issuer of securities on a regular basis for a timely identification of eventual loss events, which might occur due to issuer's default. The Group/Company uses the following criteria for evaluation of quality of securities and building of provisions:
- changes in credit risk of the issuer of securities since the moment of financial asset procurement, upon evaluation of changes in internal or external international credit ratings;
- changes in the fair value of the respective security and potential losses, if the respective security would be sold at a market price on a regulated market;
- changes in estimated future cash flow and date of maturity due to late payments (except for cases when delays were caused by payment system errors) or due to negative changes in creditworthiness of the issuer, bankruptcy, liquidation or reorganization of the issuer.
- ***Revaluation of investment properties***. The Group/Company carries its investment properties at fair value, with changes in fair value being recognised in the statement of profit or loss. The Group/Company engaged an independent valuation specialist to assess fair value as at 31 December 2017 for investment properties. For investment properties, a valuation methodology based on a discounted cash flow (DCF) model was used, as there is a lack of comparable market data because of the nature of the properties. In addition, it measures the office property at revalued amounts, with changes in fair value being recognised in the statement of profit or loss. The office property was valued by reference to transactions involving properties of a similar nature, location and condition. More information is provided in Notes 2 (14) and 15.

Such judgments are outlined below:

- ***Classification of venture capital funds***. The Group/Company considers that it does not control the venture capital funds even though it owns more than 50% in majority of the funds. Instead, it has been concluded that the Group/Company has significant influence over venture capital funds and therefore investments in venture capital funds are classified as *Associates* and are measured at cost, less impairment, in the separate financial statements of the Company and using the equity method in the consolidated financial statements of the Group.

  The Group/Company has invested in several venture capital funds having ownerships of 20% and 33% in two of the funds and 64%- 100% in rest of them (for more details, please see Note18). The main reason for the Group/Company to invest in these funds is to implement a public funding function imposed by the government. Despite the high direct investments and ownership above 50% in most of the funds, Group's/Company's ability to exercise its power over the venture capital funds is limited by the terms of the agreements signed between Group/Company and the fund managers. The Group/Company has assessed that it doesn't control the funds, but can exercise significant influence over them. The Group/Company is forbidden to take part in the management of the Funds' businesses. However, Group's/Company's representatives are present in different bodies of the funds (e.g. Advisory Board, Investment Committee, etc.) granting it a right to approve or reject certain limited transactions and advising the fund manager. The Group/Company is obliged to implement the Investment Fund in line with the business plan and agreement signed with the State.

2 Accounting policies (continued)

(24) Critical accounting estimates and judgements (continued)

The Group/Company has to monitor the implementation of financing instruments, select financial intermediaries according to legal acts and aim to increase the amount of Investment Fund. The Group/Company could stop the cooperation with the fund managers only in cases when the fund managers cease their operations or illegal actions would be discovered. Under these circumstances, the funds in question would either be closed - the liquidation process would be initiated, no new investments would be made or a search for a new fund manager would be initiated through public tender. The selection of a fund manager for implementation of the state aid programmes requires following the legislation on public tenders, as would the change of fund managers. According to the law, the replacement of the fund manager can occur only as a result of reorganization and selection procedure is costly and time-consuming. The disruption of the cooperation with the fund manager would put under threat the implementation of State and EU support programs which is the main goal of the Group/Company given it is a finance development institution. The Group's/Company's management considers that the monetary amounts required to change the fund manager are material and substantial (the estimated expenses and penalties for fund manager removal would range from 2.6% to 5.9% of the net investment in the fund) and along with the abovementioned circumstances constitute an obstacle to exercising its power over the venture capital funds.

Monitoring of investment in Venture Capital Funds value and its impairment. In accordance with the Limited Partnership Agreement the General Partner, professionals of the venture capital industry, is fully responsible for all aspects of investment fund`s operation, including investment assessment, revaluation and determination of impairment if carrying value of investment exceeds recoverable amount. Carrying value and impairment is recorded and reported on the fund`s financial statement (audited on an annual basis).

Carrying value of investments made by venture capital funds on the funds` financial statement are recorded at a value of cost less impairment complying with the Group`s accounting policy. However, other aspect is determination of fair value used by funds management for making different management decisions, including decisions regarding exit strategy, timing etc. Fair value is reported on Funds` Quarterly Investment Reports. The value of the investment is established based on the most appropriate technique from the International Private Equity and Venture Capital Valuation Guidelines. The employed methods include Third party assessments, Industry Valuation Benchmarks, Discounted cash-flow method and other.

In accordance with the Group`s/Company's principles, the Group/Company considers valuations presented by the fund management as a reliable source as only professionals with respective experience and proven track record are selected as fund managers. However, in order to ensure a sound and transparent finance management, the Group/Company conducts a regular monitoring procedure (typically on a quarterly basis) for evolution of portfolio value of the investments funds. The assessment is carried out based on the information presented by funds management. The process is divided into several stages:

- Financial Intermediary unit, business owner of venture capital segment, is responsible for initial analysis of Fund`s recorded and recognised investment value based on supporting information prepared and sent by fund management. The following information is presented by the investment funds for every investment exposure: the current development and dynamic of investment, the current financial performance and financial forecasts. It should be noted that the funds specialised in early-stage investments (mostly, pre-revenue projects) are not able to provide information about financial performance of projects. In this case investment scoring approach is used as a base;
- Financial Intermediary unit conducts Q&A sessions with venture capital fund management during which the fund management reports about every investment of the portfolio. If supporting information indicates about insufficiency in impairment amount, adjustment in impairment is made.
- adjusted (if any) information is provided to the Risk Management Department for revision of carrying value and impairment, then presented on Risk Management Committee for final approving before recognized in the Group`s/Company's accounting system.

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

The Group/ Company applies Risk coverage reserve for venture capital funds' impairment compensation. The risk cover mechanism is valid for the second and third generation venture capital funds, such as BaltCap LatviaVenture Capital Fund, Imprimatur Capital Technology Venture Fund, Imprimatur Capital Seed Fund, ZGI-3 fund, FlyCap Investment Fund I and Expansion Capital Fund (Note 18) as well as for Baltic Innovation fund from the December 2017. The Risk Coverage reserve is used as a compensation of the share of loss (including impairment) attributed to the Group/Company and hence reduces the amount of share of loss recognised in Statement of Comprehensive income in the consolidated financial statements and the amount of impairment recognised in Statement of Comprehensive income in the separate financial statements.

In 2017, the Company has assessed additional provision for impairment of investments in associates in amount of 8,112 thsd euros, which is compensated to the Company in full amount of 8,112 thsd euros (Note 12).

In 2017, the amount of venture capital funds' value impairment, which compensated to the Group, amounts to 9,016 thsd euros (Note 12).

- ***Reverse rent.*** Exploring the options for recording of reverse rent transactions and IFRS compliance, the management based its opinion on the subject matter of the transaction and its economic justification rather than the legal form. As part of assessment of these transactions, the management paid much attention to exercising of the reverse repurchase right of the lessee.

2 Accounting policies (continued)

(24) Critical accounting estimates and judgements (continued)

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

  The Group/Company believes that the Group/Company is a *Principal* also for state aid programs, which are based on guarantee products, since the Group/Company is exposed to the risk of such guarantee agreements concluded with the clients.

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

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

  The interest income received on the loans issued from *above mentioned activities and programs* includes the amounts collected on behalf of and for the benefit of other entities that do not increase the equity capital of the Group/Company and therefore cannot be considered as the Group's/Company's income. For this reason, the Group/Company carries as income only that part of the financial resources of the Loan Fund that is used to cover the management costs of the Loan Fund and this amount is included in the profit or loss calculation.

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

  Although a fraction of the public funding of some of the state aid programmes implemented by Group/Company may include the state budget funds and funds from Group's/Company's shareholders, this type of the government grant is not treated as a shareholder's equity contribution since the amount of the public funding earmarked for implementation of the specific state aid programme is received in the capacity of the implementing body of the specific state aid programme chosen as a result of public selection and not *in the capacity of entity implementing the assignment or instructions of its shareholder.*

  For more details on the accounting policy applied, see Note 2 (22). Further details on guarantees are disclosed in Notes 12, 36.

  The funding received from the state can be classified into three categories – equity financing (guarantees, see Notes 2 (23), 12, 36, loans (Notes 28, 29) and grants (state aid, Note 29).

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

- In year 2016 two guarantee programmes whose funding was attracted through non-current liabilities were included in Group's/Company's portfolio of state aid programmes. As at 31 December 2017 such programmes were: the Guarantee Programme of the *Fund of funds* and sub-activity 2.2.1.4.2. *Mezzanine Loans and Guarantees for Improvement of Competitiveness of Economic Operators.*

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

  As of 31 October 2016, with regard to the sub-activity 2.2.1.4.2. Mezzanine Loans and Guarantees for Improvement of Competitiveness of Economic Operators, Group/Company is entitled to use the funding attracted to implementation of the programme to cover the implementation-related losses once the funding has been absorbed. The funding may be used both for the losses having originated from the issued guarantees and expected losses on the new guarantees (IAS 37). As at 31 December 2017 the available funding amounted to 5,3 mln euros. Since the contract stipulates that the funding earmarked for covering of the losses can be used also for the credit risk, Group/Company holds a view that the co-financing offsets the credit risk component in the calculation of the market rate by reducing it and that the funding may be used to build the required provisions for onerous contracts. The amount of the available funding is reduced at the moment when the credit risk manifests itself i.e. when the guarantee is written off as lost or disbursed.

2 Accounting policies (continued)

(24) Critical accounting estimates and judgements (continued)

- **State aid**. The implementing body of each state aid programme is identified as a result of selection of applicants. The management of each applicant, including also the management of the Group and the Company, decides to participate in the selection by signing and submitting on behalf of the respective company the project application and business plan for the selection of the implementing body of the specific state aid programme.

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

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

  In assessment of expected loss for the programme the Group/Company evaluates incorporated credit risk, operational risk and other risks like market risks. For coverage of the programme's expected loss on credit risk respective portion of public funding available for that programme is allocated at full or partial extent of total expected credit loss depending on the agreed programme's structure. That public funding part allocated for the coverage of programme's expected loss on credit risk is transferred to particular support programme reserve capital within the Group's/Company's Reserve capital, for example Reserve capital for Housing Guarantee Programme (see Note 35), or accounted separately as provisions for risk coverage (Risk coverage reserve) classified within the liabilities (see Note 29).

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

(25) Assets held for sale

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

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

2 Accounting policies (continued)

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

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Group as of 1 January 2017:

- **IAS 12: Recognition of Deferred Tax Assets for Unrealized Losses (Amendments)**
  The objective of the Amendments is to clarify the requirements of deferred tax assets for unrealized losses in order to address diversity in practice in the application of IAS 12 Income Taxes. The specific issues where diversity in practice existed relate to the existence of a deductible temporary difference upon a decrease in fair value, to recovering an asset for more than its carrying amount, to probable future taxable profit and to combined versus separate assessment. The Amendments were not applicable for the Group/Company.

- **IAS 7: Disclosure Initiative (Amendments)**
  The objective of the Amendments is to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The Amendments specify that one way to fulfil the disclosure requirement is by providing a tabular reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities, including changes from financing cash flows, changes arising from obtaining or losing control of subsidiaries or other businesses, the effect of changes in foreign exchange rates, changes in fair values and other changes. The Amendments did not result in material effect in the financial statements for the Group/Company.

- The **IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle**, which is a collection of amendments to IFRSs. The following annual improvement has not yet been endorsed by the EU. This improvement did not have an effect on the Group's/Company's financial statements.

  - ***IFRS 12 Disclosure of Interests in Other Entities:*** The amendments clarify that the disclosure requirements in IFRS 12, other than those of summarized financial information for subsidiaries, joint ventures and associates, apply to an entity's interest in a subsidiary, a joint venture or an associate that is classified as held for sale, as held for distribution, or as discontinued operations in accordance with IFRS 5.

Standards issued but not yet effective and not early adopted

- **IFRS 9 Financial Instruments: Classification and Measurement**
  The standard is effective for annual periods beginning on or after 1 January 2018, with early application permitted. The final version of IFRS 9 Financial Instruments reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. Management has made an assessment of the effect of the standard and considers that is approximately in the range of 0.8 to 1.2 mil euro. See Note 2 (27).

- **IFRS 15 Revenue from Contracts with Customers**
  The standard is effective for annual periods beginning on or after 1 January 2018. IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles). Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. Management has assessed that the total estimated adjustment of the effect of the standard is not material. See Note 2 (28).

- **IFRS 15: Revenue from Contracts with Customers (Clarifications)**
  The Clarifications apply for annual periods beginning on or after 1 January 2018 with earlier application permitted. The objective of the Clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15 *Revenue from Contracts with Customers*, particularly the accounting of identifying performance obligations amending the wording of the "separately identifiable" principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The Clarifications also provide additional practical expedients for entities that either apply IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach. Management has assessed that the total estimated adjustment of the effect of the standard is not material.

2 Accounting policies (continued)

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

- **IFRS 16: Leases**
  The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. According to estimates made by management, the assets will increase in range from EUR 450 thsd to EUR 550 thsd euro, non-current liabilities in range from EUR 300 thsd to EUR 400 thsd euro and current liabilities in range from EUR 120 thsd to EUR 170 thsd. See Note 2 (28).

- **Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**
  The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU. The Group/Company has not yet evaluated the impact of the implementation of this standard.

- **IFRS 2: Classification and Measurement of Share based Payment Transactions (Amendments)**
  The Amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. These Amendments have not yet been endorsed by the EU. The Group/Company has not yet evaluated the impact of the implementation of this standard.

- **IAS 40: Transfers to Investment Property (Amendments)**
  The Amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The Amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. These Amendments have not yet been endorsed by the EU The Group/Company has not yet evaluated the impact of the implementation of this standard.

- **IFRS 9: Prepayment features with negative compensation (Amendment)**
  The Amendment is effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortized cost or at fair value through other comprehensive income. These Amendments have not yet been endorsed by the EU. The Group/Company has not yet evaluated the impact of the implementation of this standard.

- **IAS 28: Long-term Interests in Associates and Joint Ventures (Amendments)**
  The Amendments are effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendments relate to whether the measurement, in particular impairment requirements, of long term interests in associates and joint ventures that, in substance, form part of the 'net investment' in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. The Amendments clarify that an entity applies IFRS 9 Financial Instruments, before it applies IAS 28, to such long-term interests for which the equity method is not applied. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long- term interests that arise from applying IAS 28. These Amendments have not yet been endorsed by the EU. The Group/Company has not yet evaluated the impact of the implementation of this standard.

2 Accounting policies (continued)

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

- **IFRIC INTERPETATION 22: Foreign Currency Transactions and Advance Consideration**
  The Interpretation is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. This Interpretation has not yet been endorsed by the EU. The Group/Company has not yet evaluated the impact of the implementation of this standard.

- The **IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2018 for IFRS 1 First-time Adoption of International Financial Reporting Standards and for IAS 28 Investments in Associates and Joint Ventures. Earlier application is permitted for IAS 28 Investments in Associates and Joint Ventures. These annual improvements have not yet been endorsed by the EU. The Group/Company has not yet evaluated the impact of the implementation of this standard.

  - ***IFRS 1 First-time Adoption of International Financial Reporting Standards:*** This improvement deletes the short-term exemptions regarding disclosures about financial instruments, employee benefits and investment entities, applicable for first time adopters.
  - ***IAS 28 Investments in Associates and Joint Ventures:*** The amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

- **IFRIC INTERPETATION 23: Uncertainty over Income Tax Treatments**
  The Interpretation is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. This Interpretation has not yet been endorsed by the EU. The Group/Company has not yet evaluated the impact of the implementation of this standard.

- The **IASB has issued the Annual Improvements to IFRSs 2015 – 2017 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. These annual improvements have not yet been endorsed by the EU. The Group/Company has not yet evaluated the impact of the implementation of this standard.

  - ***IFRS 3 Business Combinations and IFRS 11 Joint Arrangements*:** The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
  - ***IAS 12 Income Taxes*:** The amendments clarify that the income tax consequences of payments on financial instruments classified as equity should be recognized according to where the past transactions or events that generated distributable profits has been recognized.
  - ***IAS 23 Borrowing Costs*:** The amendments clarify paragraph 14 of the standard that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally.

2 Accounting policies (continued)

(27) Implementation of IFRS 9

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. It replaces IAS 39 *Financial Instruments: Recognition and Measurement*.

The Group/Company will apply IFRS 9 as issued in July 2014 initially on 1 January 2018. Based on assessments undertaken to date, the total estimated adjustment of the adoption of IFRS 9 on the opening balance of the Group's/Company's equity at 1 January 2018 is approximately in the range of 0.8 to 1.2 mil euro , representing:

- a reduction of approximately in the range of 0.8 to 1.2 mil euro related to impairment requirements (see Note 2 (27) (ii));
- and no impact related to classification and measurement requirements, other than impairment (see Note 2 (27) (i) and (iii)).

The impact is subject to change due to final parameter calibrations.

The actual impact of adopting IFRS 9 on 1 January 2018 may change. IFRS 9 will require the Group/Company to revise its accounting processes and internal controls and these changes are not yet complete, the Group/Company is refining and finalising its models for Expected Credit Losses (hereafter – ECL) calculations, and the new assumptions, judgements and estimation techniques employed are subject to change until the Group/Company finalises its first financial statements.

(i) Classification - Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. IFRS 9 includes three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (hereafter- FVOCI) and fair value though profit or loss (hereafter – FVTPL). It eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model w hose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest (hereafter SPPI) on the principal amount outstanding.

A financial asset is measured at FVOCI only if it meets bot h of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. In addition, on initial recognition the Group/Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

A financial asset is classified into one of these categories on initial recognition. See Note 2 (27) (v) for the transition requirements relating to classification of financial assets.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of IFRS 9 are not separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

2 Accounting policies (continued)

(27) Implementation of IFRS 9 (continued)

a. Business model assessment

The Group/Company has made an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information that was considered included:

- the stated policies and objectives for the portfolio and the operation of those policies in practice, including whether management 'sstrategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of assets;
- how the performance of the portfolio is evaluated and reported to the Group's/Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's/Company's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading will be measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

b. Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group/Company will consider the contractual terms of the instrument. This will include assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group/Company will consider:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's/Company's claim to cash flows from specified assets - e.g. non-recourse asset arrangements; and
- features that modify consideration for the time value of money - e.g. periodic reset of interest rates.

Interest rates on certain loans made by the Group/Company are based on Standard Variable Rates (hereafter - SVRs) that are set at the discretion of the Group/Company. SVRs are generally based on a EURIBOR rate and also include a discretionary spread. In these cases, the Group/Company will assess whether the discretionary feature is consistent with the SPPI criterion by considering a number of factors, including whether:

- the borrowers are able to prepay the loans without significant penalties;
- the market competition ensures that interest rates are consistent between banks; and
- any regulatory or customer protection framework is in place that requires banks to treat customers fairly.

All of the Group's/ Company's retail loans and certain fixed-rate corporate loans contain prepayment features.

A prepayment feature is consistent with the SPPI criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable compensation for early termination of the contract.

2 Accounting policies (continued)

(27) Implementation of IFRS 9 (continued)

c. Impact assessment

The standard affects the classification and measurement of financial assets held as at 1 January 2018 as follows.

- Derivative assets held for risk management, which are classified as held-for-trading and measured at FVTPL under IAS 39, also are measured at FVTPL under IFRS 9.
- Due from credit institutions and Treasury, Loans and receivables that are classified as loans and receivables and measured at amortised cost under IAS 39 in general also are measured at amortised cost under IFRS 9.
- Certain convertible loans that are held within venture capital funds have features that do not meet the criteria for solely payment of principal and interest and measured at FVTPL under IFRS 9. The Group/Company is currently in process of evaluating the impact of fair value measurement of these exposures.
- Held-to-maturity investment securities measured at amortised cost under IAS 39 in general also are measured at amortised cost under IFRS 9.
- Debt investment securities that are classified as available-for-sale under IAS 39 in general under IFRS 9 are measured at FVOCI, depending on the particular circumstances.
- Grant assets that are currently classified as loans and receivables under other assets caption also are measured at amortised cost under IFRS 9.

The Group/Company has estimated that, on the adoption of IFRS 9 at 1 January 2018, the impact of these changes have no any effect on the Group's/Company's equity, except for the continued evaluation of fair value measurement of certain convertible loans, which is ongoing.

(ii) Impairment - Financial assets, loan commitments and financial guarantee contracts

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' model (hereafter – ECL). This will require considerable judgement over how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model applies to the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments (bank deposits, loans, debt securities and trade receivables); and;
- loan commitments and financial guarantee contracts issued (previously, impairment was measured under IAS 37 Provisions, Contingent Liabilities and Contingent Assets).

IFRS 9 requires a loss allowance to be recognised at an amount equal to either 12-month ECLs or lifetime ECLs. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date.

The Group/Company will recognise loss allowances at an amount equal to lifetime ECLs, except in the following cases, for which the amount recognised will be 12-month EC Ls:

- debt investment securities that are determined to have low credit risk at the reporting date. The Group/Company considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment-grade'; and
- other financial instruments for which credit risk has not increased significantly since initial recognition.

The impairment requirements of IFRS 9 are complex and require management judgements, estimates and assumptions, particularly in the following areas, which are discussed in detail below:

- assessing whether the credit risk of an instrument has increased significantly since initial recognition; and
- incorporating forward-looking information into the measurement of ECLs.

2 Accounting policies (continued)

(27) Implementation of IFRS 9 (continued)

a. Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses and will be measured as follows:

- financial assets that are not credit-impaired at the reporting date: the present value of all cash shortfalls - i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group/Company expects to receive;
- financial assets that are credit-impaired at the reporting date: the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: the present value of the difference between the contractual cash flows that are due to the Group/Company if the commitment is drawn down and the cash flows that the Group/Company expects to receive; and
- financial guarantee contracts: the present value of the expected payments to reimburse the holder less any amounts that the Group/Company expects to recover.

Financial assets that are credit-impaired are defined by IFRS 9 in a similar way to financial assets that are impaired under IAS 39 (see Note 12 , 19, 36 , 23).

b. Definition of default

Under IFRS 9, the Group/Company will consider a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group/Company in full, without recourse by the Group/Company to actions such as realising security (if any is held); or
- the borrower is more than 90 days past due on any material credit obligation to the Group/Company.

In assessing whether a borrower is in default, the Group/Company will consider indicators that are:

- modification of the previous terms and conditions of a contract linked to the financial difficulties of the borrower to allow for sufficient debt service ability;
- bankruptcy, insolvency proceedings or financial reorganisation of the borrower;
- qualitative: e.g. breaches of covenant (forbearance proceedings, decrease in operational cash flows, worsening of borrowers financial position, etc);
- quantitative: e.g. overdue status and non-payment of another obligation of the same issuer to the Group/Company.

For guarantee contracts default in addition to 90 days overdue status notification is to include also guarantees for which a request for compensation has been received and guarantees for which a loss event has been reported.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

c. Significant increase in credit risk

Under IFRS 9, when determining whether the credit risk (i. e. risk of default) on a financial instrument has increased significantly since initial recognition, the Group/Company will consider reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on the Group's/Company's historical experience, expert credit assessment and forward-looking information.

The criteria for determining whether credit risk has increased significantly will vary by portfolio and will include a backstop based on delinquency. The Group/Company will primarily identify whether a significant increase in credit risk has occurred for an exposure by reference to past due status and changes in qualitative credit risk indicators (e.g., financial performance of the borrower, breaches of covenants, industry specific information, etc), restructuring, and inclusion in internal watch list.

2 Accounting policies (continued)

(27) Implementation of IFRS 9 (continued)

The Group/Company will monitor the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit-impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month ECL and lifetime ECL measurements.

d. The measurement of ECLs and the main inputs

According to IFRS 9, exposures which are individually significant will be subject to individual assessment of impairment focused on discounted cash flows analysis. In case no impairment allowances are determined at individual level through the discounted cash flows analysis, then an assessment of whether there has been a significant increase in credit risk since initial recognition will be carried out to determine what stage the exposure falls under for the collective assessment will be used (i.e. probability of default (hereafter - PD and LGD of financial asset group with similar credit risk characteristics).

Non-significant exposers will be grouped in homogeneous risk groups, mainly based on loan/ guarantee programme, product and collateral type, and will be subject to collective assessment impairment model using the following variables:

- PD;
- loss given default (LGD); and
- exposure at default (EAD).

These parameters will be derived from internally developed statistical models and other historical data. They will be adjusted to reflect forward-looking information as described below.

PD estimates are estimates at a certain date, which will be calculated based on past due days and default events. The Group/Company will employ statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time. This analysis will include the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors on the risk of default. For most portfolios, key macro- economic indicators are likely to include GDP growth, average salary levels and unemployment.

LGD is the magnitude of the likely loss if there is a default. The Group/Company will estimate LGD parameters based on the history of recovery rates of claims against defaulted counterparties using estimated cash flows resulting from the workout and/or collections process, properly discounted and taking account current and expected economic conditions (such as real estate market prospects). The LGD models will consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset.

PD and LGD will be estimated on observed internal or external data reflective to appropriate group with shared risk characteristics. EAD represents the expected exposure in the event of a default. The Group/Company will derive the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract, including amortisation, and prepayments. The EAD of a financial asset will be the gross carrying amount at default. For lending commitments and financial guarantees, the EAD will consider the amount drawn, as well as potential future amounts that may be drawn or repaid under the contract.

2 Accounting policies (continued)

(27) Implementation of IFRS 9 (continued)

The Group/Company is planning to use an approximation to the effective interest rate for the purposes of discounting ECLs. Current impact assessments have been performed based on nominal interest rates and this remains to still be resolved.

For portfolios in respect of which the Group/Company has limited historical data, external benchmark information will be used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECLs are as follows.

		External benchmarks used	
	Exposure	**PD**	**LGD**
Portfolio of Due from credit institutions and Treasury	109,594	Moody's default study	Moody's default study
Portfolio of investment securities measured at amortised cost	443	Moody's default study	Moody's default study
Portfolio of Debt investment securities measured at FVOCI	61,760	Moody's default study	Moody's default study

e. Forward-looking information

Under IFRS 9, the Group/Company will incorporate forward-looking information into its measurement of ECLs. The Group/Company will formulate a 'base case' view of the future direction using external actual and forecast information. External information will include economic data and forecasts published by governmental bodies, and selected private sector forecasters.

The Group/Company has performed initial identification of key drivers of credit risk and credit losses for loan portfolios and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. These key drivers include average salary levels, unemployment rates and GDP forecasts.

f. Impact assessment

The most significant impact on the Group's/Company's financial statements from the implementation of IFRS 9 is expected to result from the new impairment requirements. Impairment losses will increase and become more volatile for financial instruments in the scope of the IFRS 9 impairment model.

The Group/Company has estimated that, on the adoption of IFRS 9 at 1 January 2018, the impact of the increase in loss allowances will be preliminary in the range of 0.8 to 1.2 mil euro . This impact is after the effect of credit risk cover by public funding. The pre-credit risk cover by public funding effect is the increase in loss allowances by 6 million euro. The estimated increase in impairment allowances is driven by increases loss allowance for loan portfolio whilst provisions guarantees might see a decline.

(iii) Classification - Financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities and the Group/Company does not expect any impact from IFRS 9 adoption in this area.

(iv) Derecognition and contract modification

IFRS 9 incorporates the requirements of IAS 39 for the derecognition of financial assets and financial liabilities without substantive amendments.

2 Accounting policies (continued)

(27) Implementation of IFRS 9 (continued)

However, it contains specific guidance for the accounting when the modification of a financial instrument not measured at FVTPL does not result in derecognition. Under IFRS 9, the Group/Company will recalculate the gross carrying amount of the financial asset (or the amortised cost of the financial liability) by discounting the modified contractual cash flows at the original effective interest rate and recognise any resulting adjustment as a modification gain or loss in profit or loss.

(v) Transition

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

- The Group/Company will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes.
- Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will be recognised in retained earnings and reserves as at 1 January 2018.
- The following assessments have been made on the basis of the facts and circumstances that exist at the date of initial application.
    - The determination of the business model within which a financial asset is held.
    - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
- If a debt investment security has low credit risk at 1 January 2018, then the Group and the Company will assumes that the cred it risk on the asset has not increased significantly since initial recognition.

(28) Implementation of IFRS 15 and IFRS 16

IFRS 15 — Revenue from Contracts with Customers is effective for annual periods beginning on or after 1 January 2018. IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. The Group and the Company has completed assessments of the potential impact of the adoption of IFRS 15 on its consolidated and separate financial statements. This was focused on a review of fees and commission income.

Major types of the fee and commission income falling under the scope of IFRS 15:

- Guarantee commissions;
- Fee and commission income from lending activities and Other fee and commission income (for preparation of the account statement, other statements))
- Realised gains and losses on sale of the properties taken over;
- Other income from renting of premises.

The Group/Company has no bundled packages falling under the scope of IFRS 15.

Based on assessments undertaken to date, the total estimated adjustment of the adoption of IFRS 15 on the opening balance of the Group's/Company's equity at 1 January 2018 is not material.

Since the Group and Company have no bundled revenue that would require material adjustment of the accounting systems, the Group and Company have opted for retrospective application of IFRS 15, thus securing against the need for double entry of revenue according to both – the old and new standard in year 2018.

2 Accounting policies (continued)

(28) Implementation of IFRS 15 and IFRS 16 (continued)

IFRS 16 Leases — (Effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted if the entity also applies IFRS 15) IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use (ROU) asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard- i.e. lessors continue to classify leases as finance or operating leases. IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 valuating the Substance of Transactions Involving the Legal Form of a Lease.

The Group and Company have established that implementation of IFRS 16 will impact their financial statements.

Major lease types of the Group and Company falling under the scope of IFRS 16:

- Lease of vehicles to board members
- Rentals for premises of customer service centres throughout the territory of Latvia
- Lease of vehicles to Altum employees

IFRS 16 will expand the financial statements of the Group and Company by increasing the sum total of the on-balance sheet assets and liabilities and depreciation and interest expenses in the profit or loss. According to management's current estimates, the assets will increase in range from EUR 450 thsd to EUR 550 thsd, non-current liabilities in range from EUR 300 thsd to EUR 400 thsd and current liabilities in range from EUR 120 thsd to EUR 170 thsd. Moreover, IFRS 16 will see extensive disclosures with regard to the transactions where the Group and Company are lessees.

Due to the number of lease transactions of the Group and Company and their manual accounting, the Group and Company will apply modified retrospective approach on transition.

(29) Restatement for errors in comparative indicators

An error was identified in the recurrent analysis of the Fund of funds program financing, which, in accordance with IAS 20, the Group /Company divides into liabilities and state aid components.

Impact from incorrect calculation was corrected retrospectively resulting in changes to the figures of balances in the report of the previous reporting period. There is no impact on the equity of the Group / Company. There are no effects on periods before 2016 year, as Fund of funds program financing was received in December 2016.

Details about the adjustments made are available below:

	Notes	Balance 31/12/2016 before restatement (EUR, thsd)	Restatement (EUR, thsd)	Restated balance as at 31/12/2016 (EUR, thsd)
Items restated in Group's Financial Position Statement:				
Support programme funding	Note 29 – the scope of the Fund's Fund program, which requires calculations after IAS 20, was specified	96,821	1,275	98,096
State aid service	Note 29 – taking into account changes in the financing of the Fund of Funds program, which should be calculated in accordance with IAS 20, the amount of the state aid component has been adjusted	6,850	(1,275)	5,575

2 Accounting policies (continued)

(29) Restatement for errors in comparative indicators (continued)

	Notes	Balance 31/12/2016 before restatement (EUR, thsd)	Restatement (EUR, thsd)	Restated balance as at 31/12/2016 (EUR, thsd)
Items restated in Company's Financial Position Statement:				
Support programme funding	Note 29 – the scope of the Fund's Fund program, which requires calculations after IAS 20, was specified	96,821	1,275	98,096
State aid service	Note 29 – taking into account changes in the financing of the Fund of Funds program, which should be calculated in accordance with IAS 20, the amount of the state aid component has been adjusted	6,850	(1,275)	5,575

3 Risk management

For risk management, the Group/Company has developed a risk management system that takes into account its size, structure and operational characteristics as well as restricted options for management of certain risks. The Group/Company manages the risks affecting its operations in compliance with the risk management internal regulatory documents approved by the Group/Company that detail and establish the aggregate of measures used in management of the risks inherent to its operations.

The following major risk management principles are followed:

- risk management is a component of every-day functions;
- the Group/Company identifies and assesses the probable risks before launching of new products or services;
- while assuming the risks the companies forming the Group/Company are capable of long-term pursuit of the delegated aims and assignments;
- the Group/Company does not enter into transactions, operations, etc. entailing risks that endanger its operational stability or may result in substantial damage to its reputation.

In its risk management the Group/Company makes use of various risk analysis methods and instruments as well as establishes risk limits and restrictions.

The major risks that the Group/Company is exposed to are: credit, liquidity and operational risks.

Credit Risk

The credit risk is a risk that a customer or cooperation partner of the Group/Company is unable or unwilling to meet its liabilities towards the Group/Company in full and within the established term. Since the Group/Company is delegated implementation of the state aid programmes, it is mainly exposed to credit risk through its lending, guarantees to the third parties and other off-balance liabilities towards the third parties. The Group/Company is also subject to the credit risk due to its investment activities.

The key principle of credit risk management in the Group/Company is the ability of the customers or cooperation partners to meet their liabilities towards the Group/Company, which is achieved by assessment of the customer and co-operation partner prior to transaction, as well as further continuous monitoring and evaluation. The Group/Company reduces its exposure to credit risk by securing a pledge or other collateral adequate to the risk transaction and provisions of the target programme.

Within the framework of credit risk management, the Group/Company has set risk limits for transactions, which includes decision-making limits; in the event of significant risks being involved the decisions are made by credit committees or boards of directors of the companies.

The analysis of the assets and off-balance sheet liabilities subject to the credit risk is outlined in Note 41 to the financial statements.

Liquidity Risk

The liquidity risk entails the risk that the Group/Company might fail to meet legally valid claims of its customers and other creditors in due time and that, in case of necessity, the resources might not be available to it on the market, and/or it might be unable to dispose of positions (for example, sell the assets) without considerable losses and in a short period of time.

The goal of liquidity risk management is to provide adequate liquidity in normal operating environment as well as stress situations without material expenses or losses. The Group/Company maintains liquid assets sufficient for meeting its liabilities at all times.

The Group/Company performs the term structure assessment of its assets and liabilities to evaluate the liquidity risk, as well as cash flow analysis whereby the volume of minimum required liquid assets is established.

Note 44 to the financial statements provides data on the Group's/Company's assets and liabilities by maturity profile.

Operational Risk

The operational risk results from intentional or unintentional deviations from the standards adopted in daily operation of the Group/Company, for example human mistake or fraud, malfunction of information systems, insufficient control procedures or their ignorance altogether, etc.

The goal of the operational risk management is timely identification of the potential operational risks and implementation of countermeasures to minimize the effect of operational risk on the Group's/Company's financials as much as possible and maintain the Group's operational continuity. The Group/Company achieves the established goal via identification of operational risk causes and taking preventive and corrective measures to eliminate them.

3 Risk management (continued)

Interest Risk

The interest rate risk is related to unfavourable impact of the changes of the market interest rates on the Group's/Company's interest income and economic value.

The management of the interest rate risk aims to measure and manage the interest rate risk ensuring that its impact on the Group's/Company's income and economic value is curbed as much as possible.

In order to measure the interest rate risk, the Group/Company analyses regularly the interest rate risk-sensitive assets, liabilities and off-balance sheet items, their maturity structures and sensitivity to probable interest rate changes.

Interest rate sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on deposits, loans and investment securities. With all other variables held constant, the Group's / Company's profit before tax is affected through the impact on floating rate borrowings, as follows:

	Group		Company	
	Increase/decrease in interest rate	Effect on profit before tax, thsd EUR	Increase/decrease in interest rate	Effect on profit before tax, thsd EUR
2017				
EURO	**+1%**	**17**	**+1%**	**17**
	-1%	**(17)**	**-1%**	**(17)**
2016				
EURO	**+1%**	**19**	**+1%**	**19**
	-1%	**(19)**	**-1%**	**(19)**

The assumed movement in basis points for the interest rate sensitivity analysis is based on the currently observable market environment.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The management believes that the Group's/Company's exposure to foreign currency risk is not significant as the major part of transactions are made in euro. The Group/Company manages its foreign currency risk by attracting financing and issuing financial instruments in euros.

In the event of exchange rates for the following currencies in which the Group and the Company has open positions adversely change as per scenario below, the potential total decrease in the Group's and Company's total equity (ignoring any tax effect) would amount approximately to the following:

	Group	Company
Scenario:	USD, thsd EUR	USD, thsd EUR
2017		
+5%	(576)	(576)
-5%	576	576
2016		
+5%	(686)	(686)
-5%	868	868

The carrying amount of assets and liabilities by currency profile is available in Note 45.

4 Interest income

	Group	Group	Company	Company
	01/01/2017-31/12/2017	01/01/2016-31/12/2016	01/01/2017-31/12/2017	01/01/2016-31/12/2016
Interest on balances due from credit institutions	19	47	19	47
Interest on loans and guarantees*	9,791	10,286	9,791	10,286
including on impaired loans (see Note 19)	793	*1,005*	793	*1,005*
Interest on investments of venture capital funds **	-	-	-	-
Interest on securities at amortised cost	46	78	46	78
Interest on securities at fair value *	2,094	2,173	2,094	2,173
Other interest income***	244	-	-	-
Total interest income	**12,194**	**12,584**	**11,950**	**12,584**

* Based on the Mezzanine and Guarantee Fund Activity Agreement concluded with the Ministry of Economics (agreement No 2011/16) in year 2016, the financing given by the Ministry of Economics must be increased by income of the Mezzanine and Guarantee Fund on placement of the free funds, interest income on the loans, premium income on the issued guarantees, commissions, contractual penalties, etc. As a result, the Group's/Company's sub-item Interest income on loans and guarantees is reduced by 645 thsd euros (2016: 646 thsd euros) and sub-item Interest income on securities at fair value is reduced by 0 thsd euros (2016: 531 thsd euros).

**Based on the Investment Fund Activity Agreement (agreement No Līg.2011/15) concluded with the Ministry of Economics, the financing given by the Ministry of Economics must be increased by net interest and other income as stipulated by contracts with financial intermediaries, including from the venture capital funds. As a result, the Company's sub-item Interest on investments of venture capital funds is reduced by 1,012 thsd euros. Hence the item Interest on investments of venture capital funds equals zero (Note 39).

*** Group Item *Other interest income* includes interest income from *Alternative investment Funds'* investments in amount of 244 thsd euros.

At the Group level, in line with application of equity accounting, all interest income received from venture capital funds reduces the value of investments made by venture capital funds. More information about applied equity methodology see 2 (6).

5 Interest expense

	Group	Group	Company	Company
	01/01/2017-31/12/2017	01/01/2016-31/12/2016	01/01/2017-31/12/2017	01/01/2016-31/12/2016
Interest on balances due to credit institutions	218	314	218	314
Other interest expense*	602	1,393	601	1,290
Total interest expense	**820**	**1,707**	**819**	**1,604**

* Item Other interest expense includes the state aid interest of 341 thsd euros (2016: 1,060 thsd euros).

6 Fee and commission income

	Group	Group	Company	Company
	01/01/2017-31/12/2017	01/01/2016-31/12/2016	01/01/2017-31/12/2017	01/01/2016-31/12/2016
From lending activities	472	433	472	433
Other fee and commision income	12	13	12	13
Total fee and commission income	**484**	**446**	**484**	**446**

7 Fee and commission expense

	Group	Group	Company	Company
	01/01/2017-31/12/2017	01/01/2016-31/12/2016	01/01/2017-31/12/2017	01/01/2016-31/12/2016
On venture capital fund management fee*	193	226	193	226
On securities portfolio maintenance	50	59	50	59
On asset management **	7	-	7	13
Other fee and commission expense**	6	14	6	1
Total fee and commission expense	**256**	**299**	**256**	**299**

*As regards the Holding Fund Programme the expenses of the Group/Company for the reporting period include management fees of the venture capital funds amounting to 1,715 thsd euros (2016: 2,066 thsd euros) of which 1,522 thsd euros (2016: 1,840 thsd euros) were reimbursed (Note 18). The reimbursement scheme is stipulated by the new wording of the agreement No 2011/15 On Implementation of the Holding Fund dated December 23, 2015.

The management fee of 193 thsd euros includes the management fees of the Baltic Innovation Fund.

** Item *Other fee and commission expense* includes asset management fee of the financial intermediaries JSC SEB and JSC Swedbank. As regards the Holding Fund Programme the expenses of the Group / Company for the reporting period include the management fees of 15 thsd euros (2016: 43 thsd euros) of the financial intermediaries JSC SEB and JSC Swedbank that, according to the agreement No 2011/15 On Implementation of the Holding Fund, were reimbursed for 8 thsd euros (2016: 30 thsd euros).

The management fee of the financial intermediaries amounting to 7 thsd euros is considered as non-eligible and non-reimbursable expense and recognised in the Group's/Company's profit or loss. See Note 2 (6).

8 Net trading income

	Group	Group	Company	Company
	01/01/2017-31/12/2017	01/01/2016-31/12/2016	01/01/2017-31/12/2017	01/01/2016-31/12/2016
Gain from trading securities	-	-	-	4
Loss on currency exchange and trade and revaluation of other financial instruments, net	(191)	(203)	(191)	(207)
Total net trading income	**(191)**	**(203)**	**(191)**	**(203)**

9 Other income

	Group	Group	Company	Company
	01/01/2017-31/12/2017	01/01/2016-31/12/2016	01/01/2017-31/12/2017	01/01/2016-31/12/2016
Other operating income *	4,542	2,559	4,542	2,559
Compensations**	2,992	2,324	2,992	2,324
Income from property privatisation services	-	254	-	254
Income from investment property revaluation	121	29	121	29
Income from lease payments for operational leases ***	136	195	136	195
Income from compensation for loan provisions	-	167	-	167
Total other income	**7,791**	**5,528**	**7,791**	**5,528**

* Item Other operating income includes income from the sale of the office building situated at Elizabetes street 41/43, Riga. As a result of the sale the Group/Company earned 3,872 thsd euros (Note 26).

** Compensations include the compensation for management expenses of state aid programs implemented by the Group/Company in amount of 2,992 thsd euros. The compensation for management expenses includes personnel expenses of 2,012 thsd euros (Note 10) and administrative and other operating expenses of 980 thsd euros (Note 11).

Expenses in amount of 2,748 thsd euros (on cash flow basis) are compensated to the Group/Company according to terms and budget of each particular programme.

*** In year 2017 the rental income of the Group/Company decreased considerably due to sale of the Group's/Company's real estate, situated at Elizabetes street 41/43, Riga (Note 26).

Pursuant to the agreement On Implementation of the Holding Fund (No Līg.2011/15) concluded with the Ministry of Economics of the Republic of Latvia, the funding provided by the Ministry of Economics (in balance sheet recognised in item "Support programme funding") must be increased by net interest and other income, as stipulated by agreements with financial intermediaries, including also from venture capital funds. For 12 months of year 2017 the financial intermediaries contributed 236 thsd euros of income generated from investments that were 100% added to the funding provided by Ministry of Economics (Note 39) and as such is not recognised in Statement of comprehensive income.

10 Staff costs

	Group	Group	Company	Company
	01/01/2017-31/12/2017	01/01/2016-31/12/2016	01/01/2017-31/12/2017	01/01/2016-31/12/2016
Remuneration to the Council and the Board	376	268	376	268
To The Council	*66*	*23*	*66*	*23*
To The Board	*310*	*245*	*310*	*245*
Remuneration to staff	4,886	5,235	4,886	5,235
Social security contributions	1,260	1,279	1,260	1,279
Total staff costs	**6,522**	**6,782**	**6,522**	**6,782**

In year 2017, based on the implementation agreements of the state aid programmes concluded with the Responsible Institutions, the Group/Company compensates the personnel expenses of 2,012 thsd euros (2016: 1,733,thsd euros) (Note 9).

During the reporting period the Group/Company employed 234 employees on average (2016: 242).

11 Administrative and other operating expense

	Group	Group	Company	Company
	01/01/2017-31/12/2017	01/01/2016-31/12/2016	01/01/2017-31/12/2017	01/01/2016-31/12/2016
Information system and communication expense	945	1,086	945	1,085
Maintenance costs of assets that have been taken over in the debt collection process	360	991	360	991
Premises and equipment maintenance expense	843	857	843	857
Other expense	258	760	258	760
Revaluation of assets that have been taken over in the debt collection process*	297	612	297	612
Advertising and public relations	495	495	495	495
Professional services**	428	388	428	388
Training and other staff expense	247	243	247	243
Real estate tax	137	149	137	149
Total administrative costs	**4,010**	**5,581**	**4,010**	**5,580**

In year 2017, based on the implementation agreements of the state aid programmes concluded with the Responsible Institutions, the Group/Company compensates the administrative and other operating expenses of 980 thsd euros (2016: 591 thsd euros) (Note 9).

*****The accounting policy of the assets that have been taken over in the debt collection process is described in Note 2 (15).

** Item *Professional services* includes tax and accounting consulting services in amount of 10 thsd euro, which were received during 2017 year from Group's / Company's sworn auditor Ernst & Young Baltic, JSC.

12 Impairment provisions, net

	Group	Group	Company	Company
	01/01/2017-31/12/2017	01/01/2016-31/12/2016	01/01/2017-31/12/2017	01/01/2016-31/12/2016
Provisions for impairment on:				
Loans	5,683	6,474	5,683	6,474
other assets	2,526	635	2,526	630
debt securities	-	24	-	24
Investments in subsidiaries	-	-	-	5
investments in venture capital funds	-	246	-	253
Guarantees	3,258	5,311	3,258	5,311
	11,467	12,690	11,467	12,697
Release of provisions for impairment on:				
Loans	(2,112)	(2,674)	(2,112)	(2,674)
other assets	(467)	(3,168)	(467)	(3,168)
debt securities	(130)	(481)	(130)	(481)
guarantees	(5,102)	(5,987)	(5,102)	(5,987)
	(7,811)	(12,310)	(7,811)	(12,310)
Income/(loss) from release of provisions for onerous contracts (guarantees)	(474)	116	(474)	116
Recovery of loans written off in previous periods	(1,181)	(967)	(1,181)	(967)
Total provisions for impairment, net	**2,001**	**(471)**	**2,001**	**(464)**

In Company's financial statements the value of impairment on 2nd and 3rd generation venture capital funds were increased up to 7,088 thsd euros which were 100% compensated from Risk coverage reserve in accordance with agreement No Līg.2011/15 On Implementation of the Holding Fund concluded with the Ministry of Economics.

On 29 December 2017 an agreement was signed with the Ministry of Economics about use of the public funding repaid within the framework of the activities co-financed by EU structural funds governing use, accounting and reporting of the reflow funding, which foresees Risk Coverage reserve for Baltic Innovation Fund in amount of 2 mln euros. Item Provisions for impairment on other assets includes also 1,024 thsd euros of value impairment on Baltic Innovation fund that were 100% compensated from Risk coverage reserve (Note 29). Hence the total value impairment of the venture capital funds amounting to EUR 8,112 thsd is not to be recorded under item Provisions for impairment.

In Group's financial statements the amount of venture capital funds' impairment, which was compensated to the Group, is amounted to 9,016 thsd euros, were 7,988 thsd euros attributed to the value impairment on 2nd and 3rd generation venture capital funds and 1,028 thsd euros to Baltic Innovation fund value impairment.

13 Corporate income tax

	Group	Group	Company	Company
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Corporate income tax	125	-	125	-
Deferred tax	-	-	-	-
Total corporate income tax (income)	**125**	**-**	**125**	**-**

Effective corporate income tax calculation:

	Group	Group	Company	Company
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Income before tax	6,945	2,170	5,884	4,025
Theoretically calculated tax at a tax rate of 15%	1,042	326	883	604
Net income / (expenses) non-deductible for tax purposes	(1,180)	1,443	(1,180)	1,165
Change in unrecognized deferred tax asset	263	(1,769)	422	(1,769)
Tax (income) / expense for the year ended 31 December	**125**	**-**	**125**	**-**

13 Corporate income tax (continued)

Change in provisions for deferred tax assets:

	Group	Group	Company	Company
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Deferred tax asset at the beginning of the reporting year	-	-	-	-
Change in deferred tax asset	-	-	-	-
Deferred tax asset at the end of the reporting year	-	-	-	-

Calculation of deferred tax:

	Group	Group	Company	Company
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Deferred tax liabilities:	(619)	(493)	(619)	(493)
Temporary difference of depreciation of property, plant and equipment	(619)	(493)	(619)	(493)
Other temporary differences		-	-	-
Deferred tax assets:	42,785	42,396	42,944	42,396
Provision for employee holiday pay	34	56	34	56
Other temporary differences	2,255	1,468	2,414	1,468
Tax loss carried forward	40,496	40,872	40,496	40,872
Net deferred tax asset	42,166	41,903	42,325	41,903
Provisions for unrecognized deferred tax asset	-	-	-	-
Recognized deferred tax asset	**(42,166)**	**(41,903)**	**(42,325)**	**(41,903)**

The Group/Company is not subject to special tax treatment.

On 28 July 2017, Latvian parliament passed amendments to the Latvian tax legislations which will become effective on 1 January 2018. The amendments concern corporate income tax regime and certain other taxes in Latvia. Up to now corporate income tax in Latvia was payable on taxable profits and the taxable profits could be partially offset by tax loss carry forward from previous tax periods. The new regime introduces a concept where corporate income tax is payable only on dividend pay-outs (irrespective of profits in the particular period) and certain expenses which for tax purposes are considered earnings distributions (e.g. non-business expenses and representative expenses that exceed specific threshold). In accordance with the amendments, for profits which are generated within Latvian jurisdiction and is not paid out in dividends, corporate income tax will not be payable.

Due to the amendments to the Latvian legislation, starting from 1 January 2018 the deferred tax will lose its relevance.

As at 31 December 2017 The Group/Company doesn't recognize any deferred tax asset or liability.

The new wording of the Law on Enterprise Income Tax stipulates that the tax losses can be used for decreasing of the corporate income tax only for the dividends calculated over 5 years. The Group's/Company's tax losses to be carried forward amount to 269,978 thsd euro. The Group/Company will not be able to use the tax losses carried forward to decrease the corporate income tax as the Group/Company, being governed by Section 15.2.(5) of Development Finance Institution Law, may not pay dividends.

14 Investment securities

	Group	Group	Company	Company
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Held to maturity				
Latvian Treasury bills and government bonds	404	459	404	459
Non-OECD government bonds	-	1,027	-	1,027
OECD corporate bonds	3,843	4,516	3,843	4,516
Total securities held to maturity	4,247	6,002	4,247	6,002
Impairment allowance	(3,804)	(4,471)	(3,804)	(4,471)
Net securities held to maturity	443	1,531	443	1,531
Available for sale				
Latvian Treasury bills and government bonds	61,760	64,294	61,760	64,294
Total securities available-for-sale	61,760	64,294	61,760	64,294
Total investment securities	**62,203**	**65,825**	**62,203**	**65,825**

When making investments in securities, the Group/Company analyses the external credit ratings assigned to these financial institutions and entities and their financial and operational standing. Once funds are placed, the Group/ Company monitors the monetary financial institutions and follows the compliance of the imposed limits to the credit risk rating.

The following table provides the Group's / Company's debt securities profile by the assigned long-term credit ratings (Moody`s Investors Service) as at 31 December 2017:

	Available-for-sale	Held to maturity	Total net
A1 - A3	61,760	405	62 165
Baa1 - Baa3	-	-	-
Below Baa3	-	-	-
Unrated	-	38	38
Total	**61,760**	**443**	**62,203**

The following table provides the Group's / Company's debt securities profile by the assigned long-term credit ratings (*Moody`s Investors Service*) as at 31 December 2016:

	Available-for-sale	Held to maturity	Total net
A1 - A3	-	-	-
Baa1 - Baa3	64,294	459	64,753
Below Baa3	-	1,027	1,027
Unrated	-	45	45
Total	**64,294**	**1,531**	**65,825**

All securities are quoted. The average yield on debt securities was 3.42% as at 31 December 2017 (2016: 3.59%).

15 Investment property

	Group	Group	Company	Company
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Carrying amount at the beginning of period	**17,087**	**12,247**	**4,869**	**1,225**
Reclassified to Assets held for sale (Note 26)	(12,218)	-	-	-
Acquired during the period*	5,839	3,704	5,839	3,704
Disposals during the financial period	(21)	(89)	(21)	(89)
Net gain from fair value adjustment	121	1,225	121	29
Carrying amount at the end of period	**10,808**	**17,087**	**10,808**	**4,869**

* All investment property during the reporting period was acquired by the Land Fund. The Land Fund was established on July 1, 2015. According to the Cabinet of Ministers decree dated March 11, 2015 the Group/Company is the manager of the Land Fund.

The Law "On Land Privatisation in Rural Areas" stipulated establishment of the Land Fund. The Land Fund of Latvia is one of the tools used to ensure that agricultural land is preserved and used for agricultural purposes.

At the end of year 2017 the Land Fund opened a new service – purchase of land with reverse repurchase rights or reverse rent aimed at the farmers being in need of stabilised cash flow and development of economic activity.
Since IFRS classify the reverse rent transactions as loans, such transactions are recorded in the loan portfolio of the Group / Company (Note 19). The accounting policies applied to the reverse rent transactions are described in Note 2 (5). In year 2017 there were 242 (2016: 74) properties purchased with a total area of 4,021 ha (2016: 1,560 ha) and total amount of the purchases amounted to 5,839 thsd euros (2016: 3,704 thsd euros).
One real estate object of the Land Fund was sold in the reporting period.

The Group/Company provides complete information on the operational results and financial standing of the Land Fund.

The accounting policy for Investment properties is described in Note 2 (14).

16 Due from other credit institutions and treasury

	Group	Group	Company	Company
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Due from credit institutions registered in OECD countries	-	2	-	2
Due from credit institutions registered in Latvia and Treasury	109,594	89,551	109,594	89,406
Total	**109,594**	**89,553**	**109,594**	**89,408**

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

The distribution of Group's / Company's balances due from credit institutions and Treasury of the Republic of Latvia as at 31 December 2017:

Moody`s ratings	Aaa	Aa1-Aa3	A1-A3	Baa1-Baa3	Ba1-Ba3	B1-B3	Caa-C	WR	Total
Due from credit institutions registered in OECD countries	-	-	-	-	-	-	-	-	-
Due from credit institutions registered in Latvia and Treasury	-	21,094	85,297	-	3,203	-	-	-	109,594
Total	**-**	**21,094**	**85,297**	**-**	**3,203**	**-**	**-**	**-**	**109,594**

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

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

16 Due from other credit institutions and treasury (continued)

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

Moody`s ratings	Aaa	Aa1-Aa3	A1-A3	Baa1-Baa3	Ba1-Ba3	B1-B3	Caa-C	WR	Total
Due from credit institutions registered in OECD countries	-	2	-	-	-	-	-	-	**2**
Due from credit institutions registered in Latvia and Treasury	-	23,360	63,367	-	-	2,679	-	-	**89,406**
Total	**-**	**23,362**	**63,367**	**-**	**-**	**2,679**	**-**	**-**	**89,408**

As at 31 December 2017 the Group/Company had accounts with 5 banks and Treasury of the Republic of Latvia.

The average interest rate on balances due from credit institutions was -0.2% as at 31 December 2017 (2016:0.07%).

For amount of cash and cash equivalents, please refer to Note 37.

17 Derivative financial instruments

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

The Group's / Company's notional contract values and fair values of derivative instruments are provided in the table below:

	31/12/2017			31/12/2016		
	Notional contract value	Fair value		Notional contract value	Fair value	
		Assets	Liabilities		Assets	Liabilities
Currency swaps	11,435	142	-	12,330	-	854
Total		**142**	**-**		**-**	**854**

The contract is inforce up to 23 February of 2018. In order to minimize the impact of the currency risk, a new currency forward contract has been concluded after 23 February of 2018.

18 Investments in venture capital funds

The Group/Company has a number of investments in the capital of venture capital funds, which are listed below.

All venture capital funds, except *Baltic Innovation Fund,* are limited partnership that are registered in Latvia. *Baltic Innovation fund* is a Fund-of-Fund initiative launched by the European Investment Fund (EIF) in close co-operation with the Governments of Lithuania, Latvia and Estonia to boost equity investments made into Baltic Small and Medium sized enterprises with high growth potential. *Baltic Innovation Fund* is registered in Luxemburg. None of the fund is listed on any public exchange.

The Group's interest in venture capital funds is accounted for using the equity method as it is mentioned in Note 2 (6).

The Group's carrying value of investment in associates is analysed below:

		31.12.2017			31.12.2017	31.12.2016			31.12.2016
Company	**Country of incorpo-ration**	**Equity per company**	**Group's correction***	**Group's share of total share capital, %**	**Carrying amount under equity method**	**Equity per vompany**	**Group's correction***	**Group's share of total share capital, %**	**Carrying amount under equity method**
KS ZGI Fonds	LV	-	-	65.07	-	5	-	65.07	3
KS Otrais Eko Fonds	LV	2,387	-	33.33	796	2,387	-	33.33	796
KS Baltcap Latvia Venture Capital Fund	LV	10,272		66.67	6,848	14,341	-	66.67	9,561
KS Imprimatur Capital Seed Fund	LV	4,474	(24)	100	4,450	7,429	(1,869)	100	5,560
KS Imprimatur Capital Technology Venture Fund	LV	3,899	(18)	67	2,600	6,173	(2,070)	67	2,749
KS Expansion Capital Fund	LV	13,738	-	95.24	13,084	13,883	-	95.24	13,222
KS ZGI-3	LV	7,474	-	95.24	7,118	11,195	(1,957)	95.24	8,798
KS Flycap Investment Fund	LV	10.502	-	95.24	10,002	12,860	-	95.24	12,248
Baltic Innovation Fund	LU	32.058	-	20	6,412	29,176	(1,158)	20	5,604
Total investments in associates		**84,804**	**(42)**	**x**	**51,310**	**97,449**	**(7,054)**	**x**	**58,541**

* Adjustment to align with Group's accounting policies.

The movement of in the investments in associates in the Group's financial statements is presented below:

	Group	**Group**
	01/01/2017-31/12/2017	01/01/2016-31/12/2016
Carrying amount at the beginning of period	58,541	39,929
Invested	3,998	21,054
Refunded	(3,030)	(684)
Share of (loss) of investment in joint venture and associate *	(8,199)	(1,758)
Carrying amount at the end of period under equity method	51,310	58,541
Impairment	(140)	(245)
Net value at the end of period under equity method	**51,170**	**58,296**

* In 2017 year the Group has used from the Risk coverage reserve an amount of 9,016thsd euros to compensate part from its share of loss from the investments in venture capital funds in accordance with agreement No Līg.2011/15 on Implementation of the Holding Fund concluded with the Ministry of Economics. In 2017 there are aligned principles of use of Risk Coverage Reserve for venture capital funds between the Company and the Group financial statements. Thus leads to considerably higher portion of Risk Coverage Reserve used for compensating "Share of (loss) of investment in joint venture and associates" vs charge to be recognised in Comprehensive statement of income comparing to prior years in the consolidated financial statements. See also Note 29.

18 Investments in venture capital funds (continued)

The table below provides analytical information on the Group's movements of investments in associates as at 31 December 2017:

	Opening balance	Investments/Refunds	Changes in Net Asset Value (NAV) of associate	Closing balance
KS ZGI Fonds	3	-	-	-
KS Otrais Eko Fonds	796	-	-	796
KS Baltcap Latvia Venture Capital Fund	9,561	(329)	(2,384)	6,848
KS Imprimatur Capital Seed Fund	5,560	516	(1,626)	4,450
KS Imprimatur Capital Technology Venture Fund	2,749	114	(263)	2,600
KS Expansion Capital Fund	13,222	82	(220)	13,084
KS ZGI-3	8,798	(1,360)	(320)	7,118
KS Flycap Investment Fund	12,248	144	(2,390)	10,002
Baltic Innovation Fund	5,604	1804	(996)	6,412
Total	**58,541**	**971**	**(8,199)***	**51,310**

* In 2017 year the Group has compensated venture capital funds' share of loss from Risk coverage reserve in amount of 9,016 thsd euros in accordance with agreement No Līg.2011/15 on Implementation of the Holding Fund concluded with the Ministry of Economics. See also Note 29.

The table below provides analytical information on the Group's movements of investments in associates as at 31 December 2016:

	Opening balance	Investments/Refunds	Changes in Net Asset Value (NAV) of associate	Closing balance
KS ZGI Fonds	38	-	(35)	3
KS Otrais Eko Fonds	1,057	(14)	(247)	796
KS Invento	-	-	-	-
KS Baltcap Latvia Venture Capital Fund	10,391	501	(1,331)	9,561
KS Imprimatur Capital Seed Fund	5,129	938	(507)	5,560
KS Imprimatur Capital Technology Venture Fund	2,861	200	(312)	2,749
KS Expansion Capital Fund	7,987	5,289	(54)	13,222
KS ZGI-3	4,025	4,436	337	8,798
KS Flycap Investment Fund	6,004	5,761	483	12,248
Baltic Innovation Fund	2,437	3,259	(92)	5,604
Total	**39,929**	**20,370**	**(1,758)**	**58,541**

The table below provides information on the value impairment of associates of the Group during 2017 year:

	Closing gross value	Provisions for previous reporting period	Decrease of provisions in reporting period	Net value
KS ZGI Fonds	-	-	-	
KS Otrais Eko Fonds	796	-	-	796
KS Baltcap Latvia Venture Capital Fund	6,848	-	-	6,848
KS Imprimatur Capital Seed Fund	4,450	-	-	4,450
KS Imprimatur Capital Technology Venture Fund	2,600	-	-	2,600
KS Expansion Capital Fund	13,084	(245)	105	12,944
KS ZGI-3	7,118	-	-	7,118
KS Flycap Investment Fund	10,002	-	-	10,002
Baltic Innovation Fund	6,412	-	-	6,412
Total	**51,310**	**(245)**	**105**	**51,170**

18 Investments in venture capital funds (continued)

The table below provides information on the value impairment of associates of the Group during 2016 year:

	Closing gross value	Provisions for previous reporting period	Increase of provisions in reporting period	Net value
KS ZGI Fonds	3	-	-	3
KS Otrais Eko Fonds	796	-	-	796
KS Invento	-	-	-	-
KS Baltcap Latvia Venture Capital Fund	9,561	-	-	9,561
KS Imprimatur Capital Seed Fund	5,560	-	-	5,560
KS Imprimatur Capital Technology Venture Fund	2,749	-	-	2,749
KS Expansion Capital Fund	13,222	-	(245)	12,977
KS ZGI-3	8,798	-	-	8,798
KS Flycap Investment Fund	12,248	-	-	12,248
Baltic Innovation Fund	5,604	-	-	5,604
Total	**58,541**	**-**	**(245)**	**58,296**

The following table illustrates the summarised financial information of the venture capital funds' assets, liabilities and equity as at 31 December 2017:

	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Equity
KS ZGI Fonds	-	-	-	-	-
KS Otrais Eko Fonds	N/A	N/A	N/A	N/A	N/A
KS Baltcap Latvia Venture Capital Fund	927	9,356	11	-	10,272
KS Imprimatur Capital Seed Fund	248	4,233	7	-	4,474
KS Imprimatur Capital Technology Venture Fund	109	3,794	4	-	3,899
KS Expansion Capital Fund	1,129	12,610	1	-	13,738
KS ZGI-3	227	7,247	-	-	7,474
KS FlyCap Investment Fund	162	10,345	5	-	10,502
Baltic Innovation Fund	1,224	30,834	-	-	32,058

The following table illustrates the summarised financial information of the venture capital funds' profit or loss of the 2017 year:

	Interest income	Fund administrative expenses	Realized value increase of the investment	Unrealized value decrease of the investment	Profit/ (loss) of the year
KS ZGI Fonds	-	-	-	-	-
KS Otrais Eko Fonds	N/A	N/A	N/A	N/A	N/A
KS Baltcap Latvia Venture Capital Fund	238	(419)	(1,367)	(2,057)	(3,605)
KS Imprimatur Capital Seed Fund	130	(224)	-	(1,522)	(1,616)
KS Imprimatur Capital Technology Venture Fund	17	(101)	-	(300)	(384)
KS Expansion Capital Fund	658	(412)	-	(532)	(286)
KS ZGI-3	671	(261)	59	(804)	(335)
KS Flycap Investment Fund	673	(370)	-	(2,750)	(2,447)
Baltic Innovation Fund	N/A	N/A	N/A	N/A	N/A

18 Investments in venture capital funds (continued)

The following table illustrates the summarised financial information of the venture capital funds' assets, liabilities and equity as at 31 December 2016:

	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Equity
KS ZGI Fonds	5	-	-	-	5
KS Otrais Eko Fonds	2,387	-	-	-	2,387
KS Baltcap Latvia Venture Capital Fund	671	13,686	(16)	-	14,341
KS Imprimatur Capital Seed Fund	425	7,011	(7)	-	7,429
KS Imprimatur Capital Technology Venture Fund	263	5,914	(4)	-	6,173
KS Expansion Capital Fund	234	13,883	(234)	-	13,883
KS ZGI-3	579	10,616	-	-	11,195
KS Flycap Investment Fund	253	12,610	(3)	-	12,860
Baltic Innovation Fund	6,199	22,977	-	-	29,176
Total	**11,016**	**86,697**	**(264)**	**-**	**97,449**

The following table illustrates the summarised financial information of the venture capital funds' profit or loss of the 2016 year:

	Interest income	Fund administrative expenses	Realized value increase of the investment	Unrealized value decrease of the investment	Profit/ (loss) of the year
KS ZGI Fonds	5	-	-	-	5
KS Otrais Eko Fonds	-	(186)	(40)	842	616
KS Baltcap Latvia Venture Capital Fund	169	-	(418)	(2,033)	(2,282)
KS Imprimatur Capital Seed Fund	112	35	(279)	(735)	(867)
KS Imprimatur Capital Technology Venture Fund	12	124	(123)	(600)	(587)
KS Expansion Capital Fund	515	34	(463)	(688)	(602)
KS ZGI-3	571	-	(315)	(312)	(56)
KS Flycap Investment Fund	416	-	(456)	-	(40)
Baltic Innovation Fund	100	-	(1,113)	(970)	(1,983)
Total	**1,900**	**7**	**(3,207)**	**(4,496)**	**(5,796)**

18 Investments in venture capital funds (continued)

The Company's investments in venture capital funds are recognized at cost less any impairment in value.

The following table illustrates the Company's movements in the investments in associates:

	Company	Company
	01/01/2017-31/12/2017	01/01/2016-31/12/2016
Carrying amount at the beginning of period	64,746	44,378
Invested	3,998	23,159
Management fee*	(1,715)	(2,066)
Refunded	(1,785)	(205)
Written-off	(1,740)	(520)
Carrying amount at the end of period under cost less impairment method	63,504	64,746
Impairment	(14,396)	(8,024)
Net value at the end of period under cost less impairment method	**49,108**	**56,722**

* As regards the Holding Fund Programme the expenses of the Company for the reporting period include management fees of the venture capital funds amounting to 1,715 thsd euros (2016: 2,066 thsd euros) of which 1,522 thsd euros (2016: 1,840 thsd euros) were reimbursed (Note 7).

The table below provides analytical information on the Company's movements of investments in associates as at 31 December 2017:

	Carrying amount (gross) at the beginning of period	Invested	Management fee	Refunded	Written off*	Carrying amount (gross) as at 31/12/2017	Allowance for impairment loss	Total
KS ZGI Fonds	1,740	-	-	-	(1,740)	**-**	-	-
KS Otrais Eko Fonds	1,508	-	-	-	-	**1,508**	(644)	864
KS Baltcap Latvia Venture Capital Fund	12,021	267	(257)	(566)	-	**11,465**	(4,983)	6,482
KS Imprimatur Capital Seed Fund	7,117	778	(228)	(133)	-	**7,534**	(3,262)	4,272
KS Imprimatur Capital Technology Venture Fund	3,068	197	(80)	-	-	**3,185**	(597)	2,588
KS Expansion Capital Fund	13,251	392	(392)	-	-	**13,251**	(951)	12,300
KS ZGI-3	8,653	234	(235)	(954)	-	**7,698**	(1,015)	6,683
KS FlyCap Investment Fund	11,625	328	(329)	(132)	-	**11,492**	(1,917)	9,575
Baltic Innovation Fund	5,763	1,802	(194)	-	-	**7,371**	(1,027)	6,344
Total investments in associates	**64,746**	**3,998**	**(1,715)**	**(1,785)**	**(1,740)**	**63,504**	**(14,396)**	**49,108**

* In 2017, during the liquidation process of the KS ZGI Fund, all remaining investments were realized. As a result, the Group / Company had to write-off of these investments.

The table below provides analytical information on the Company's movements of investments in associates and value impairment of associates as at 31 December 2016:

	Carrying amount (gross) at the beginning of period	Invested	Management fee	Refunded	Written off	Carrying amount (gross) as at 31/12/2016	Allowance for impairment loss	Total
KS ZGI Fonds	1,740	-	-	-	-	**1,740**	(1,740)	-
KS Otrais Eko Fonds	1,508	5	(5)	-	-	**1,508**	(644)	864
KS Invento	520	-	-	-	(520)	**-**	-	-
KS Baltcap Latvia Venture Capital Fund	11,520	780	(279)	-	-	**12,021**	(2,731)	9,290
KS Imprimatur Capital Seed Fund	6,105	1,289	(277)	-	-	**7,117**	(1,744)	5,373
KS Imprimatur Capital Technology Venture Fund	2,868	280	(80)	-	-	**3,068**	(396)	2,672
KS Expansion Capital Fund	7,813	6,045	(440)	(167)	-	**13,251**	(464)	12,787
KS ZGI-3	3,944	5,061	(314)	(38)	-	**8,653**	(302)	8,351
KS Flycap Investment Fund	5,856	6,219	(450)	-	-	**11,625**	-	11,625
Baltic Innovation Fund	2,504	3,480	(221)	-	-	**5,763**	(3)	5,760
Total investments in associates	**44,378**	**23,159**	**(2,066)**	**(205)**	**(520)**	**64,746**	**(8,024)**	**56,722**

18 Investments in venture capital funds (continued)

For judgments made in relation to classification of the investments as associates please see Note 2 (24). The information about commitments to venture capital funds is presented in Note 36.

19 Loans

The loan portfolio of the Company consists of the portfolios of the state aid programmes implemented (through loans) by Altum.

These programmes are divided into:

Active lending programmes – the programmes that are being absorbed and that issue new loans:
SME Growth Loans Programme – the gross value of the loan portfolio as at 31 December 2017 – EUR 47,480 thsd (in year 2016 – EUR 39,794 thsd);

- Programme of Working Capital Loans to Farmers – the gross value of the loan portfolio as at 31 December 2017 – EUR 6,179 thsd (in year 2016 – EUR 6,971 thsd);
- Lending Programme for Acquisition of Agricultural Land - the gross value of the loan portfolio as at 31 December 2017 – EUR 51,153 thsd (in year 2016 – EUR 44,168 thsd);
- Energy Efficiency Programme of Multi-apartment Buildings – the gross value of the loan portfolio as at 31 December 2017 – EUR 125 thsd (in year 2016 – EUR 0 thsd);
- Micro loans and start-up loans – the gross value of the loan portfolio as at 31 December 2017 – EUR 7,646 thsd (in year 2016 – EUR 3,963 thsd);
- Parallel loans – the gross value of the loan portfolio as at 31 December 2017 – EUR 1,544 thsd (in year 2016 – EUR 0 thsd)
- Reverse rent of the Land Fund – the gross value of the loan portfolio as at 31 December 2017 – EUR 517 thsd (in year 2016 – EUR 0 thsd);

Inactive lending programmes – the absorption cycle of these programmes has closed and the established portfolios are being serviced:

- Portfolio of direct lending loans – the gross value of the loan portfolio as at 31 December 2017 – EUR 89,979 thsd (in year 2016 – EUR 118,202 thsd);
- Portfolio of indirect lending (funding of the intermediaries) loans – the gross value of the loan portfolio as at 31 December 2017 – EUR 2,526 thsd (in year 2016 – EUR 3,808 thsd).

On 26 September, 2017 the Cabinet of Ministers Regulations No 1065 On Opening of the Lending Programme of Energy Efficiency Loans to Entrepreneurs were approved. On 17 October 2017, in order to fund the programme, the Company issued the Notes for EUR 20 mln under the Altum's Green Bond Framework maturing on 17 October 2024.

Loans by type of borrower:

	Group	Group	Company	Company
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Private companies	180,833	188,245	180,833	188,245
Individuals	23,324	24,490	23,324	24,490
Financial institutions	2,431	3,655	2,431	3,655
Local governments	292	344	292	344
Public and religious institutions	269	172	269	172
Accrued interest	436	523	436	523
Total gross loans	**207,585**	**217,429**	**207,585**	**217,429**
Allowance for impairment loss	(15,438)	(16,179)	(15,438)	(16,179)
Total net loans	**192,147**	**201,250**	**192,147**	**201,250**

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

19 Loans (continued)

Granted loans by branches of economy:

	Group	Group	Company	Company
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Agriculture and forestry	83,948	83,048	83,948	83,048
Manufacturing	44,855	47,104	44,855	47,104
Private individuals	23,324	24,490	23,324	24,490
Retail and wholesale	14,137	16,901	14,137	16,901
Other industries	14,568	14,871	14,568	14,871
Hotels and restaurants	6,564	7,653	6,564	7,653
Electricity, gas and water utilities	5,550	6,734	5,550	6,734
Transport, warehousing and communications	1,885	4,620	1,885	4,620
Real estate	4,332	4,310	4,332	4,310
Construction	3,132	3,818	3,132	3,818
Financial intermediation	1,218	2,443	1,218	2,443
Fishing	3,345	570	3,345	570
Municipal authorities	292	344	292	344
Accrued interest on loans	435	523	435	523
Total gross loans	**207,585**	**217,429**	**207,585**	**217,429**

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

	Group	Group	Company	Company
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Number of customers	23	26	23	26
Total credit exposure of customers (thsd euros)	36,895	43,740	36,895	43,740
Percentage of total gross portfolio of loans	17,7%	20,0%	17,7%	20,0%

Loans issued by the Group and the Company by type of impairment valuation:

	31/12/2017			31/12/2016		
	Individuals	Companies	Total loans	Individuals	Companies	Total loans
Individually assessed loans	5,484	137,889	143,373	6,728	145,964	152,692
Collectively assessed loans	17,885	46,327	64,212	17,821	46,916	64,737
Total gross loans	**23,369**	**184,216**	**207,585**	**24,549**	**192,880**	**217,429**
Allowance for impairment loss - individually assessed	(1,017)	(14,307)	(15,324)	(1,105)	(14,902)	(16,007)
Allowance for impairment loss - collectively assessed	(46)	(68)	(114)	(57)	(115)	(172)
Total net loans	**22,306**	**169,841**	**192,147**	**23,387**	**177,863**	**201,250**

Loans granted by the Group and the Company by their quality assessment:

	31/12/2017			31/12/2016		
	Individuals	Companies	Total loans	Individuals	Companies	Total loans
Neither past due nor impaired	18,744	140,867	159,611	19,839	137,487	157,326
Past due but not impaired	2,417	13,688	16,105	2,376	18,217	20,593
Impaired	2,208	29,661	31,869	2,334	37,176	39,510
Total loans	**23,369**	**184,216**	**207,585**	**24,549**	**192,880**	**217,429**
Allowance for impairment loss	(1,062)	(14,376)	(15,438)	(1,161)	(15,018)	(16,179)
Total net loans	**22,307**	**169,840**	**192,147**	**23,388**	**177,862**	**201,250**

19 Loans (continued)

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

	31/12/2017			31/12/2016		
	Individuals	**Companies**	**Total loans**	**Individuals**	**Companies**	**Total loans**
Past due up to 30 days	1,676	8,843	10,519	1,228	10,935	12,163
Past due 30 – 60 days	200	569	769	337	607	944
Past due 60 – 90 days	34	216	250	121	100	221
Past due over 90 days	507	4,060	4,567	690	6,575	7,265
Total gross loans	**2,417**	**13,688**	**16,105**	**2,376**	**18,217**	**20,593**

Movement in impairment allowance for loans:

	Group	Group	Company	Company
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Provisions at the beginning of period	16,179	17,044	16,179	17,044
Impairment allowance increase	5,683	6,474	5,683	6,474
Impairment allowance decrease	(2,112)	(2,674)	(2,112)	(2,674)
Accrued interest (Note 4)	(793)	(1,005)	(793)	(1,005)
Write-off of loans	(3,519)	(3,660)	(3,519)	(3,660)
Provisions at the end of period	**15,438**	**16,179**	**15,438**	**16,179**

The calculation of loss on asset impairment that has occurred due to default on loan principal or interest payments or other events resulting in losses relies on collateral, including real estates and commercial pledges assessed at market value. The assessment is based on valuations performed by accredited independent valuator.

Information about value of collateral (based on fair value as at December 31, 2017) and position against net loan portfolio as at December 31, 2017 is provided below:

	Group	Group	Company	Company
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Real estate (loans)	151 321	157,796	151 321	157,796
Real estate (reverse rent)	520	-	520	-
Movable property	26,250	25,702	26,250	25,702
Guarantees	238	450	238	450
Risk coverage of loan funds	2,557	3,105	2,557	3,105
Total collateral	**180,886**	**187,053**	**180,886**	**187,053**
Loan portfolio, gross	207,585	217,429	207,585	217,429
Provisions	(15,438)	(16,179)	(15,438)	(16,179)
Loan portfolio, net	192,147	201,250	192,147	201,250
Exposed	**5,86%**	**7,05%**	**5,86%**	**7,05%**

According to the Group's/Company's estimates as at December 31, 2017 the loan loss provisions should amount to 17,836 thsd euros (2016: 19,076 thsd euros). The risk coverage amount available for such loan loss provisions equals to 2,557 thsd euros (2016: 3,105 thsd, euros). Risk coverage is not attributable to compensation of accrued interest income forf loans in amount of 159 thsd euro.

The average annual interest rate for the loan portfolio of the Group/Company is 4,15 % as at 31 December 2017 (2016: 4,15%).

20 Investment in subsidiaries

The Company's investments in subsidiaries can be summarized as follows:

	Company's shareholding (%)	Investments in subsidiaries 31/12/2017	Investments in subsidiaries 31/12/2016
Alternative investment fund Hipo Latvia Real Estate Fund I*	100	-	9,116
Alternative investment fund Hipo Latvia Real Estate Fund II*	100	-	1,260
Risk Investment Company Ltd	100	-	711
Risk Investment Company Ltd impairment provision		-	(69)
Written off		-	(642)
Total		**-**	**10,376**

*In December 2017 the Group/Company decided to reclassify the investments in *Alternative investment fund Hipo Latvia Real Estate Fund I* and *Alternative investment fund Hipo Latvia Real Estate Fund II* from the item *Investments in Subsidiaries* to the item *Assets Held for Sale*. The reclassification was due to the change of the holding purpose of the asset, i.e. the sale process of the asset is started and expected to be completed within one year.
For the purpose of transferring the asset to the item *Assets Held for Sale* the Group/Company relied on the asset's book value effective on 31 December 2017 (Note 26).

Accounting policies of alternative investment funds, which is applied after reclassification, are described in Note 2 (25).

21 Intangible assets

The following is included in the net book value of intangible assets:

	Group	Group	Company	Company
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Computer software	771	168	771	168
Total intangible assets	**771**	**168**	**771**	**168**

The following table presents movements in net book value of intangible assets:

	Group	Group	Company	Company
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Historical cost				
At the beginning of period	5,791	5,766	5,791	5,766
Additions*	679	113	679	113
Disposals	-	(88)	-	(88)
As at 31 December	6,470	5,791	6,470	5,791
Accumulated amortisation				
At the beginning of period	5,623	5,603	5,623	5,603
Amortisation charge for the period	76	108	76	108
Disposals	-	(88)	-	(88)
As at 31 December	5,699	5,623	5,699	5,623
Impairment provision**				
At the beginning of period	-	(40)	-	(40)
Changes in provisions	-	40	-	40
As at 31 December	-	-	-	-
Net book value at the beginning of period	**168**	**123**	**168**	**123**
Net book value as at 31 December	**771**	**168**	**771**	**168**

*Item *Additions* include 547 thsd euro relating to development of software for internal use.
** Impairment provision policy is described in Note 2 (13).

Fully depreciated assets
A number of assets that have been fully depreciated are still in active use by the Group/Company. The total original cost value of these assets as at the end of the year is 10,807 thsd euros (2016: 5,525 thsd euros).

22 Property, plant and equipment

The table below reflects changes in property, plant and equipment of the Group / Company in the reporting period:

	Land and buildings	Vehicles	Office equipment*	Leasehold improvements	Total
Historical cost					
At the beginning of period	4,130	774	7,154	380	12,438
Additions	238	-	425	-	663
Disposals	(10)	(324)	(1,272)	-	(1,606)
Reclassified	-	-	-	-	-
as at 31 December 2017	4,358	450	6,307	380	11,495
Accumulated depreciation					
At the beginning of period	1,107	765	6,692	312	8,876
Depreciation charge for the period	98	7	223	12	340
Disposals	-	(324)	(1,271)	-	(1,595)
as at 31 December 2017	1,205	448	5,644	324	7,621
Impairment provision					
At the beginning of period	-	-	(4)	(51)	(55)
Changes in provisions	-	-	4	5	9
as at 31 December 2017	-	-	-	(46)	(46)
Net book value at the beginning of period	**3,023**	**9**	**458**	**17**	**3,507**
Net book value as at 31 December 2017	**3,153**	**2**	**663**	**10**	**3,828**

The table below reflects changes in property, plant and equipment of the Group / Company in 2016 year:

	Land and buildings	Vehicles	Office equipment*	Leasehold improvements	Total
Historical cost					
At the beginning of period	5,520	994	7,826	380	14,720
Additions	482	2	180	-	664
Disposals	-	(222)	(852)	-	(1,074)
Reclassified**	(1,872)	-	-	-	(1,872)
as at 31 December 2016	4,130	774	7,154	380	12,438
Accumulated depreciation					
At the beginning of period	1,493	976	7,232	296	9,997
Depreciation charge for the period	119	11	275	16	421
Disposals	(505)	(222)	(815)	-	(1,542)
as at 31 December 2016	1,107	765	6,692	312	8,876
Impairment provision					
At the beginning of period	-	-	(34)	(61)	(95)
Changes in provisions	-	-	30	10	40
as at 31 December 2016	-	-	(4)	(51)	(55)
Net book value at the beginning of period	**4,027**	**18**	**560**	**23**	**4,628**
Net book value as at 31 December 2016	**3,023**	**9**	**458**	**17**	**3,507**

*****Office equipment includes such fixed assets categories as *Furniture and fittings* and *Computers and equipment*, Note 2 (12).

**The office building worth 1,367 thsd euros, situated at Elizabetes street 41/43 in Riga, has been excluded from the item *Land and Buildings* due to the change of the holding purpose of the building, On 1 November 2016 the building was reclassified as an asset held for sale, See Notes 2 (25) and 26.

23 Other assets

	Group	Group	Company	Company
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Financial assets	16,735	11,271	16,735	11,132
Other assets (inventory)	1,946	3,113	1,946	3,113
Total other assets (gross)	**18,681**	**14,384**	**18,681**	**14,245**
Impairment provision for financial assets	(12,849)	(10,370)	(12,849)	(10,370)
Total other assets (net)	**5,832**	**4,014**	**5,832**	**3,875**

Group's item *Financial assets* includes the following assets generated by:

- disbursed guaranteed compensations amounting to 5,073 thsd euros (2016: 2,713 thsd euros) for which provisions of 5,073 thsd euros (2016: 2,686 thsd euros) were accumulated;
- term deposits of 7,648 thsd euros of JSC Latvijas Krājbanka (Savings Bank of Latvia) being in liquidation that were 100% provisioned for;
- issued grants under Energy Efficiency programme of Multi-apartment Buildings 2,772 thsd euros (2016: 0)
- financial assets of 197 thsd euros (2016: 191 thsd euros) provisioned for 122 thsd euros (2016: 26 thsd euros). The financial assets include the payments made on behalf of clients, as stipulated by loan agreements.
- other financial assets of 1,045 thsd euros (2016: 719 thsd euros) provisioned for 6 thsd euros (2016: 10 thsd euros).

Company's item *Financial assets* includes the following assets generated by:

- disbursed guaranteed compensations amounting to 5,073 thsd euros (2016: 2,713 thsd euros) for which provisions of 5,073 thsd euros (2016: 2,686 thsd euros) were accumulated.
- term deposits of 7,648 thsd eiros of JSC Latvijas Krājbanka (Savings Bank of Latvia) being in liquidation that were 100% provisioned for;
- issued grants under Energy Efficiency programme of Multi-apartment Buildings 2,772 thsd euros (2016: 0)
- financial assets of 197 thsd euros (2016: 191 thsd euros) provisioned for 122 thsd euros (2016: 26 thsd euros). The financial assets include the payments made on behalf of clients, as stipulated by loan agreements.
- other financial assets of 1,045 thsd euros (2016: 580 thsd euros) provisioned for 6 thsd euros (2016: 10 thsd euros).

Other assets - assets, that have been taken over in the debt collection process for the purpose to hold them and sale in an ordinary course of business. Method of assets accountings described in Note 2 (15).

The following table presents movements in book value of assets, that have been taken over in the debt collection process, thsd. euro:

	Group	Company
At the beginning of period	6,897	6,897
Additions	1,286	1,286
Disposals	(4,428)	(4,428)
Reclassified to Land Fund	(30)	(30)
Revaluation	(612)	(612)
as at 31 December 2016	**3,113**	**3,113**
Additions	271	271
Disposals	(1,141)	(1,141)
Reclassified	-	-
Revaluation	(297)	(297)
as at 31 December 2017	**1,946**	**1,946**

24 Deferred expense

	Group	Group	Company	Company
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Management fees paid in advance	65	168	65	168
Other deferred expense	111	245	111	245
Total deferred expense	**176**	**413**	**176**	**413**

25 Accrued income

	Group	Group	Company	Company
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Compensation for management expenses of state aid programs	2,066	1,634	2,066	1,634
Other accrued income	14	12	14	13
Total accrued income	**2,080**	**1,646**	**2,080**	**1,647**

26 Assets held for sale

As at the reporting date, the carrying amount equals the fair value of the instruments.

	Company	Company
	31/12/2017	31/12/2016
Hipo Latvia Real Estate Fund I	9,013	-
Hipo Latvia Real Estate Fund II	1,552	-
Land and building	-	1,367
Assets held for sale	**10,565**	**1,367**

On 28 December 2017, the Group's/Company's management made a decision to sell the shares of *Alternative investment fund Hipo Latvia Real Estate Fund I* and *Alternative investment fund Hipo Latvia Real Estate Fund II*. On 10 January 2018, the management of the Group/Company approved the sales plan of the shares. The sales plan of *Alternative investment funds* is expected to be completed by 31 December 2018.

At 31 December 2017, investments in *Alternative investment fund Hipo Latvia Real Estate Fund I* and *Alternative investment fund Hipo Latvia Real Estate Fund II* were classified as a disposal group held for sale in the financial statements of the Group. More information about accounting principles is presented in Note 2 (25).

The decision of *Alternative investment fund Hipo Latvia Real Estate Fund I* and *Alternative investment fund Hipo Latvia Real Estate Fund II* investments reclassification also affect the presentation of separate financial statement of the Company. These investments were reclassified from *Investments in subsidiaries* to *Assets held for sale*.

The major classes of assets and liabilities of *Alternative investment fund Hipo Latvia Real Estate Fund I* and *Alternative investment fund Hipo Latvia Real Estate Fund II* classified as held for sale as at 31 December are, as follows:

	Group	Group
	31/12/2017	31/12/2016
Assets		
Due from other credit institutions and Treasury	256	-
Investment property	12,540	-
Other assets	139	-
Assets held for sale	**12,935**	**-**
Liabilities		
Other liabilities	2,000	-
Liabilities directly associated with assets held for sale	**2,000**	**-**
Amounts included in Group's Capital and reserve		
Reserves	1,839	-
Reserve of disposal group classified as held for sale	**1,839**	**-**

There are no gains or losses recognised in profit or loss with respect to these assets in separate financial statements of the Company.

IFRS 5 states that disclosure requirements continue to apply for assets and liabilities that are not within the scope of the measurement requirements of IFRS 5, but within the disposal group. As a result, these assets can be measured using the original standard. This exception applies to Company's investments in Alternative investment fund Hipo Latvia Real Estate Fund I and Alternative investment fund Hipo Latvia Real Estate Fund II. As a result, the Company continues re-measurement of these investments at fair value and changes go to Other comprehensive income in its separate financial statements.
There are no gains or losses recognised in profit or loss with respect to these assets in separate financial statements of the Company.

For details on the recognition, and measurement valuation techniques for these assets, refer Note 2 (25) and Note 38.

26 Assets held for sale (continued)

Write-down Assets held for sale

In November 2016 the Group/Company reclassified the real estate situated at Elizabetes iela 41/43 in Riga, from the item *Property, Plant and Equipment* to the item *Assets Held for Sale*. The reclassification was due to the change of the holding purpose of the asset, i.e. the sale process of the asset was started and expected to be completed within one year. For the purpose of transferring the asset to the item *Assets Held for Sale* the Group/Company relied on the asset's book value effective on 1 November 2016.

In June 2017, the Group/Company successfully sold it with a profit of 3,872 thsd euros (Note 9).

The accounting method used for recording of the asset is outlined in Note 2 (25).

27 Due to credit institutions

	Group	Group	Company	Company
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Due to credit institutions registered in OECD countries	46,933	56,195	46,933	56,195
Total	**46,933**	**56,195**	**46,933**	**56,195**

Credit institutions registered in OECD area include loans received by Group/Company from the European Investment Bank (EIB) of 46,933 thsd euros, where 67 thsd euros are accrued interest expenses. In the reporting period the Group/Company repaid 9,471 thsd euros of which the accrued interest amounted to 235 thsd euros.
The Ministry of Finance of the Republic of Latvia has issued 46,933 thsd euros guarantee (Note 41 for the loan that is a parent guarantee on behalf of the Group/Company.

The average interest rate for *Due to credit institutions* as at 31 December 2017 was 0.41% (2016: 0.33%).

28 Due to general governments

	Group	Group	Company	Company
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Due to government entities	1,723	1,723	1,723	1,723
Loans received from Rural Support Service	9,685	12,990	9,685	12,990
Loans received from the Treasury	32,201	32,201	32,201	32,201
Total due to general governments	**43,609**	**46,914**	**43,609**	**46,914**

Liabilities due to government entities obligations worth 1,723 thsd euros (2016: 1,723 thsd euros), which originate from reduction of capital of ERDFII and ESFII loan funds effected in year 2013 by ALTUM, whereby a share of public financing of ERDFII and ESFII was not repaid to the investors (state companies), although, an agreement was reached with the investors about accounting that amount outside the Statement of financial position of ERDFII and ESFII loan funds, i.e. on the liabilities side of the ALTUM Statement of financial position.

Item *Loans from Rural Support Service* – in accordance with the Cabinet Regulation No 664 dated 20 July 2010 *Procedure for Administering and Supervising the State and European Union Aid for Agriculture, Rural and Fisheries Development through Establishment of the Loan Fund* and Financing Agreement dated 7 September 2010 concluded among the Ministry of Agriculture, Rural Support Service and ALTUM stipulating the provisions for establishment, operation and supervision of the Loan Fund, absorption of the funds and performance of the Business Plan and its purpose, ALTUM was granted 44, 711 thsd euros (7,114 thsd euros from the European Fisheries Fund (EFF); 37,596 thsd euros – European Agricultural Fund for Rural Development (EAFRD)) to transfer these resources of the Loan Fund to the eligible beneficiaries via financial intermediaries.

As at 31 December 2017, based on the requests for funds received from the Ministry of Agriculture, Group/Company has repaid to the Rural Support Service 35,308 thsd euros, of which 11,855 thsd euros (EFF – 2,503 thsd euros; EAFRD – 9,352 thsd euros) are undisbursed funds and 23,453 thsd euros (EFF – 2,449 thsd euros; EAFRD – 21,004 thsd euros) are the principle amounts repaid by financial intermediaries.

In the reporting period the Group /Company repaid 3,304 thsd euros to Rural Support Service.

As at the end of year 2017 Group/Company liabilities towards RSS consist of the principal amount of 9,404 thsd euros and accrued interest – 281 thsd euros.

The granted financing is to be repaid by 31 December 2030.

Loans received from the Treasury of Latvia includes the loan of 32,201 thsd euros received by the Group/Company for implementation of land acquisition programmes. In compliance with Articles 9 and 13 of the Cabinet regulation No 381 "Procedure of granting state aid for procurement of agricultural land for producing agricultural produce" of 29 May 2012, the Republic of Latvia and Group/Company concluded loan agreement *No A1/1/F12/296* and the State Treasury on 25 June 2012.

The Group/Company has issued 1,253 loans (2016: 1,018 loans) of 51,465 thsd euros as at 31 December 2017 (2016: 44,195 thsd euros). These assets are pledged. The claim amount is 32,201 thsd euros. More information see Note 41.

29 Support programme funding and state aid

	Group	Group Restated	Company	Company Restated
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Support programme funding*	**92,041**	**98,096**	**94,080**	**95,699**
State aid Service*	**3,968**	**5,575**	**3,968**	**5,575**

*Item *Support programme funding* and *State aid service* were restated for the previous period (see Note 2 (29)).

Support programme funding is considered a liability of the Group/Company while state aid is a grant. The major state aid programmes benefiting from the received financing are:

- Fund of funds – 28,696 thsd euros;
- Energy Efficiency Programme of Multi-apartment Buildings (EEPMB) – 10,362 thsd euros;
- ERDFII – 25,268 thsd euros;
- ESFII – 6,108 thsd euros;
- Other support programmes finance – 27,907 thsd euros.

The terms for use of the public funding of each state aid programme, including covering of the management expenses and credit risk losses, are stipulated by agreement between the implementing body and line ministry and/or state-owned Central Finance and Contracting Agency. See Note 2 (23).
The support programme funding is provided with zero interest rate.
The repayment terms for the co-financing received by the Group / Company for implementation of largest state aid programs are presented below:

- Fund of funds – till the end of 2029
- Programme for improving energy efficiency in multi-apartment residential buildings – till the end of 2034;
- ERAFII – till the end of 2020;
- ESFII – till the end of 2020.

The table below presents Risk Coverage Reserve included in Support programme funding and State aid which can be used for coverage Group's credit risk losses as at 31 December 2017:

Programme	Programme funding, thsd EUR	Programme's loan portfolio thsd EUR	Credit risk cover by public funding, %	Credit risk cover on 31/12/2017, thsd EUR
ERDFII	25,269	9,775	66%	6,451
ESF II	6,392	3,045	80%	2,436
Microcredits of Swiss programme	5,643	2,071	80%	1,657
ERAF I	1,285	1,239	50%	620
ESF I	1,008	204	90%	184
Microcredits	605	4	80%	3
ERAF II (second round)	5,528	3,974	68%	2,703
Incubators (from ESF II)	546	33	100%	546
ERAF II 2 Public fund	2,485	960	100%	960
Fund of funds and venture capital funds	16,424	-	77%	12,699
Fund of funds programme - Start-up loans	1,316	4,066	82%	1,079
Fund of funds programme – Microcredits	257	867	55%	141
Fund of funds programme - Parallel loans	1,200	1,556	90%	1,080
Fund of funds programme - Guarantees	9,500	-	91%	8645
EEPMB* loan fond	2,512	-	18%	452
EEPMB guarantees	2,994	-	67%	2,006
EEPMB grants	4,856	4,856	0%	-
Housing Guarantee Programme	2,849	1,803	100%	2,849
Social Entrepreneurship Programme	-	-	-	-
Start-up State Aid Cumulation Lending Programme	2,000	2,000	100%	2,000
KBLG **	5,000	-	95%	4,750
Other loans to start-ups	2,239	1,744	0%	1,677
Mezzanine Loan Programme	4,462	-	85%	3,793
Investment Fund Activity***	1,074	-	96%	1,031
Garantees and interest grants programme	1,904	-	100%	1,904
Baltic Innovation Fund	394	-	100%	394
Total	**107,742**			**60,060**

29 Support programme funding and state aid (continued)

* EEPMB – Energy Efficiency Programme for Multi-apartment Buildings

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

*** For more information on use of Risk Coverage Reserve of particular programme see Note 18.

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

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

29 Support programme funding and state aid (continued)

The table below presents Risk Coverage Reserve included in Support programme funding and State aid which can be used for coverage Company's credit risk losses as at 31 December 2017:

Programme	Programme funding, thsd EUR	Programme's loan portfolio thsd EUR	Credit risk cover by public funding, %	Credit risk cover on 31/12/2017, thsd EUR
ERDFII	25,269	9,775	66%	6,451
ESF II	6,392	3,045	80%	2,436
Microcredits of Swiss programme	5,643	2,071	80%	1,657
ERAF I	1,285	1,239	50%	620
ESF I	1,008	204	90%	184
Microcredits	605	4	80%	3
ERAF II (second round)	5,528	3,974	68%	2,703
Incubators (from ESF II)	546	33	100%	546
ERAF II 2 Public fund	2,485	960	100%	960
Fund of funds and venture capital funds	16,424	-	77%	12,699
Fund of funds programme - Start-up loans	1,316	4,066	82%	1,079
Fund of funds programme – Microcredits	257	867	55%	141
Fund of funds programme - Parallel loans	1,200	1,556	90%	1,080
Fund of funds programme - Guarantees	9,500	-	91%	8,645
EEPMB* loan fond	2,512	-	18%	452
EEPMB guarantees	2,994	-	67%	2,006
EEPMB grants	4,856	4,856	0%	-
Housing Guarantee Programme	2,849	1,803	100%	2,849
Social Entrepreneurship Programme	-	-	0%	-
Start-up State Aid Cumulation Lending Programme	2,000	2,000	100%	2,000
KBLG **	5,000	-	95%	4,750
Other loans to start-ups	2,239	1,744	0%	1,677
Mezzanine Loan Programme	4,462	-	85%	3,793
Investment Fund Activity	1,286	-	96%	1,235
Garantees and interest grants programme	1,904	-	100%	1,904
Baltic Innovation Fund	394	-	100%	394
Total	**107,954**			**60,264**

29 Support programme funding and state aid (continued)

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

Programme	Programme funding, thsd EUR	Programme's loan portfolio thsd EUR	Credit risk cover by public funding, %	Credit risk cover on 31/12/2016, thsd EUR
ERDFII	25,746	14,650	66%	9,669
ESF II	9,466	4,921	80%	3,937
Microcredits of Swiss programme	5,711	2,751	80%	2,201
ERAF I	1,470	1,944	50%	972
ESF I	987	234	90%	210
Microcredits	616	6	80%	5
ERAF II (second round)	5,051	5,420	68%	3,685
Incubators (from ESF II)	545	52	100%	545
ERAF II 2 Public fund	2,485	1,691	100%	1,691
Fund of funds and venture capital funds	24,207	-	49%	12,609
Fund of funds prog.- Start-up loans	625	-	82%	513
Fund of funds prog.- Microcredits	80	-	55%	44
Fund of funds prog.- Parallel loans	1,200	-	90%	1,080
Fund of funds prog.- Guarantees	3,522	-	91%	3,205
EEPMB* loan fond	2,512	-	18%	452
EEPMB guarantees	3,051	-	67%	2,044
KBLG **	5,000	-	95%	4,750
Other Start-up loans	2,481	2,365	0%	1,677
Mezzanine loan programme	5,322	-	85%	4,524
Investment Fund Activity	9,083	-	96%	8,719
Risk Coverage Reserve	**109,160**			**62,532**

Based on the concluded programme implementation contracts, the received funding could be reduced for the principal amount of the outstanding obligations of the loans classified as lost and / or disbursements of guarantee compensations. The Group/Company does not have to repay the reductions of funding to the provider of funding. See more information in Note 2 (24).

30 Provisions

	Group	Group	Company	Company
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Provisions for:				
Provision (onerous contracts)	8,545	9,019	8,545	9,019
Other guarantee programmes	3,817	4,022	3,817	4,022
Guarantee activity	941	2,553	941	2,553
Loan guarantees to rural entrepreneurs for agricultural	824	827	824	827
Guarantees *under the Mezzanine loan programme*	391	402	391	402
Housing Guarantee Programme	13	41	13	41
Total provisions	**14,531**	**16,864**	**14,531**	**16,864**

Provision (onerous contracts) includes the loss from the concession which is the discounted difference between total of actual receivable commissions and total of commissions under market rate. Onerous contracts relate to issued guarantees which are measured at fair value based on equivalent market rates at initial recognition. The difference between market rate and spot rate of guarantee commissions under new onerous contracts amounts of 3,940 euros for the current period included in Provision (onerous contracts) above. For accounting treatment see Note 2 (22).

30 Provisions (continued)

Movement in provisions for guarantees:

	Group	Group	Company	Company
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Provisions at the beginning of period	7,845	8,517	7,845	8,517
Impairment allowance increase	3,258	5,310	3,258	5,310
Impairment allowance decrease	(5,101)	(5,987)	(5,101)	(5,987)
Currency change	(16)	5	(16)	5
Provisions at the end of period*	**5,986**	**7,845**	**5,986**	**7,845**

*According to the Group's/Company's estimates as at December 31, 2017 the guarantee provisions should amount to 8,182 thsd euros (2016: 10,557 thsd euros), of which 2,196 thsd euros are covered from the risk coverage amount (2016: 1,218 euros).

The guarantee provisions are measured at the highest of the unamortised amount and impairment amount which amounts to 5,986 thsd euros as at 31 Dec 2017.

Movement in *onerous contracts* provisions for guarantees:

	Group	Group	Company	Company
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Provisions at the beginning of period	9,019	8,810	9,019	8,810
Impairment allowance increase	3 940	7,178	3 940	7,178
Impairment allowance decrease	(4 415)	(6,969)	(4 415)	(6,969)
Provisions at the end of period	**8,544**	**9,019**	**8,544**	**9,019**

Guarantee gross and net amounts

	Group	Group	Company	Company
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Maximum exposure to credit for off balance sheet amount	182,376	147,175	182,376	147,175
Provisions for guarantees	(5,986)	(7,845)	(5,986)	(7,845)
Off-balance sheet amount of guarantee	**176,390**	**139,330**	**176,390**	**139,330**

For information on amounts and categories of guarantees see Note 36. For information on the method for guarantee accounting see Note 2 (22).

31 Other liabilities

	Group	Group	Company	Company
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Due to customers	2,148	2,945	2,148	2,945
Other liabilities	1,616	3,614	1,340	1,337
Total other liabilities	**3,764**	**6,559**	**3,488**	**4,282**

Due to customers include funds received from clients of the Group/Company to be used for repayment of the loans at a later stage.

Other liabilities include short-term funds, which are connected with other liabilities.

32 Accrued expense

	Group	Group	Company	Company
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Other accrued expense	488	743	488	743
Bonuses of the employees and Board	479	444	479	444
Audit services	15	11	15	11
Total accrued expense	**982**	**1,198**	**982**	**1,198**

33 Issued debt securities

On October 17, 2017 the Company issued its first Green bonds in amount of 20 mln euros. The bonds are listed on the Baltic Bond List by Nasdaq Riga as of October 24, 2017.

ISIN	Currency	Number of initially issued securities	Par value	Date of emission	Date of maturity	Discount / Coupon rate, %	Group 31/12/2017	Group 31/12/2016	Company 31/12/2017	Company 31/12/2016
LV0000802353	EUR	20,000	1,000	17.10.2017	17.10.2024	1.37	19,852	-	19,852	-

Green minded financing instruments is used to support sustainability projects in Latvia, while providing the Company with an opportunity to diversify Company's funding base and support development of the Baltic Bond market.

For details on the recognition and measurement valuation techniques for these liabilities, refer Note 2 (5) (*viii*).

34 Share capital

The share capital of the Company was as follows:

	31/12/2017		31/12/2016	
	Quantity	EUR	Quantity	EUR
Fully paid share capital				
Ordinary shares	204,862,332	204,862,332	204,862,332	204,862,332
Total fully paid share capital	**204,862,332**	**204,862,332**	**204,862,332**	**204,862,332**

The decision about establishment of the Company was made by the Latvian Cabinet decision on 17 December 2013. The Company was registered in the Commercial Register on 27 December 2013, having share capital of LVL 400,130, which corresponds to 569,334 euros.

A capital increase was made on 11 September 2014 by investing equity shares of Latvian Guarantee Agency Ltd, the SJSC Latvian Development Finance Institution ALTUM and the SJSC Rural Development Fund. The amount of share capital after its increase was 204,862,333 euros. The face value of each share is 1 euro.

34 Share capital (continued)

All shares of the JSC Development Finance Institution Altum are owned by the Government of Latvia. The Ministry of Finance was appointed to be the shareholder until 28 February 2015. According to the Development Finance Institution Law that came to effect on 1 March 2015, as of its effective day, the holder of 40% of the financial institution's shares is the Ministry of Finance, the holder of 30% of shares – the Ministry of Economy, and the holder of 30% of shares – the Ministry of Agriculture.

For more information see Note 1 (1).

35 Reserves

Information about the Group's reserves movements below:

	Specific reserves				
	Difference recognised in Group's reorganisation reserve, thsd EUR	Reserve capital for Housing Guarantee Programme, thsd EUR	General reserve capital, thsd EUR	Reserve of available for sale investments*, thsd EUR	Reserves, thsd EUR
Reserves as at 01/01/2016	(17,717)	1,635	-	8,625	(7,457)
Changes of reserves **	458	-	-	-	458
Distribution of 2015 year profit of Company***	-	-	1,829	-	1,829
Increase of reserve capital	-	5,560	-	-	5,560
Increase of available for sale reserve (Note 38)	-	-	-	467	467
Reserves as at 31/12/2016	(17,259)	7,195	1,829	9,092	857
Changes of reserves **	4,108	-	-	-	4,108
Distribution of 2016 year profit of Company***	-	-	4,025	-	4,025
Increase of reserve capital	-	2,500	-	-	2,500
(Decrease)/increase of available for sale reserve (Note 38)	-	-	-	(1,161)	(1,161)
Reserves as at 31/12/2017	**(13,151)**	**9,695**	**5,854**	**7,931***	**10,329**

* As at 31 December 2017 Reserve of available for sale investments includes Reserve of disposal group classified as held for sale in amount of 1,839 thsd euro.

** Group consolidation corrections of prior periods that are accounted in Group's reorganisation reserve as at 1 January 2017.

*** The shareholders of the Group/Company take a decision of profit distribution and its transfer to the General reserve capital in full amount.

See information about the Company's reserves movements below:

	Difference recognised in Company's reorganisation reserve, thsd EUR	Reserve of available for sale investments*, thsd EUR	Reserve capital for Housing Guarantee Programme**, thsd EUR	Reserve capital, thsd EUR	Reserve capital, thsd EUR
Reserves as at 01/01/2016	(15,935)	8,667	1,635	-	(5,633)
Increase of available for sale reserve (Note 38)	-	425	-	-	425
Distribution of 2015 year profit	-	-	-	1,829	1,829
Increase of reserve capital	-	-	5,560	-	5,560
Reserves as at 31/12/2016	(15,935)	9,092	7,195	1,829	2,181
Decrease of available for sale reserve (Note 38)	-	(1,161)	-	-	(1,161)
Distribution of 2016 year profit	-	-	-	4,025	4,025
Increase of reserve capital	-	-	2,500	-	2,500
Reserves as at 31/12/2017	**(15,935)**	**7,931**	**9,695**	**5,854**	**7,545**

* As at 31 December 2017 Reserve of available for sale investments includes Reserve of disposal group classified as held for sale in amount of 1,839 thsd euro.

**One of the Group's/Company's reserve capital is related to *Housing Guarantee Programme*. To implement this programme the Group's/Company's reserve capital was increased 2,500 thsd euros in 2017. See more information in Note 2 (24).

36 Off balance sheet items and contingent liabilities

	Group	Group	Company	Company
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Contingent liabilities:				
outstanding guarantees	182,376	147,175	182,376	147,175
Financial commitments:				
unutilised loan facilities	8,788	6,324	8,788	6,324
commitments to venture capital funds	27,020	28,940	27,020	28,940
other liabilities	-	142	-	142
Total contingent liabilities	**218,184**	**182,581**	**218,184**	**182,581**

The guarantees issued by Group/Company account for the largest sum in the Group's/Company's off-balance sheet items as contingent liabilities. The Company's guarantee portfolio consists of the portfolios of the state aid programmes implemented through guarantees.

Active guarantee programmes – the programmes that are being absorbed and that issue new guarantees:

- SME Loan Guarantee Programme, the gross value of the guarantee portfolio as at 31 December 2017: EUR 36,781thsd (in year 2016: EUR 12,802 thsd);
- Guarantee Programme for Clients of State Aid Cumulation, Grace Period and Large Economic Operators, the gross value of the guarantee portfolio as at 31 December 2017: EUR 8,503 thsd (in year 2016: EUR 608 thsd);
- Guarantee Programme for Agricultural Loans, the gross value of the guarantee portfolio as at 31 December 2017: EUR 11,386 thsd (in year 2016: EUR 10,838 thsd);
- SME portfolio guarantees, the gross value of the guarantee portfolio as at 31 December 2017: EUR 0 thsd (in year 2016: EUR 0 thsd);
- Housing Guarantee Programme, the gross value of the guarantee portfolio as at 31 December 2017: EUR 46,696 thsd (in year 2016: EUR 26,614 thsd);
- Guarantee Programme for Increasing of Energy Efficiency of Multi-apartment Buildings (EEPMB programme), the gross value of the guarantee portfolio as at 31 December 2017: EUR 2,012 thsd (in year 2016: EUR 0 thsd);
- Short-term export credit guarantees, the gross value of the guarantee portfolio as at 31 December 2017: EUR 2,012 thsd (in year 2016: EUR 0 thsd);
- Medium and Long-term Export Credit Guarantees, the gross value of the guarantee portfolio as at 31 December 2017: EUR 0 thsd (in year 2016: EUR 0 thsd);
- Other export credit guarantees, the gross value of the guarantee portfolio as at 31 December 2017: EUR 3,704 thsd (in year 2016: EUR 6,607 thsd).

Inactive guarantee programmes - the absorption period of these programmes has closed; no new guarantees are issued; the established portfolios are being serviced:

- as at 31 December 2017 the gross value of the guarantee portfolio of the inactive programmes amounted to EUR 70,915 thsd (in year 2016: EUR 89,706 thsd).

On 5 September 2017 the Cabinet of Ministers approved Regulations No 537 governing implementation of the new Portfolio Guarantee Programme.

For information on the provisions built for the issued guarantees see Note 30 .

36 Off balance sheet items and contingent liabilities (continued)

Commitments to venture capital funds are contingent liabilities, which are based on contractual agreements between the Group/Company and a venture capital fund that obligates the Group/Company to contribute money to the fund.

The table below presents the information about commitments to venture capital funds:

	Contract period	Commitment, thsd EUR	Sum of commitment, which is not contributed to the fund 31.12.2017., thsd EUR	Sum of commitment, which is not contributed to the fund 31.12.2016., thsd EUR
BaltCap LatviaVentureCapital Fund,KS	22.01.2020.	20,000	4,114	4,401
AIF Impr.Cap.Technol.Vent.Fund,KS	11.06.2020.	4,966	638	836
AIF Imprimatur Capital Seed Fund,KS	11.06.2020.	10,000	893	41
ZGI-3,KS	31.12.2020.	11,800	1,502	1,648
FlyCap Investment Fund I AIF,KS	31.12.2020.	15,000	1,875	2,135
Expansion Capital Fund AIF,KS	31.12.2020.	15,000	331	412
Baltic Innovation Fund	01.01.2029.	26,000	17,667	19,467
Total		**102,766**	**27,020**	**28,940**

The table below allocates the Group's / Company's off balance sheet items and contingent liabilities to maturity groupings as at 31 December 2017 based on the time remaining from the balance sheet date to the contractual maturity dates.

	Up to 1 month	1 to 3 months	3 to 6 months	Up to 1 year	1 to 5 years	Over 5 years and undated	**Total**
Contingent liabilities							
outstanding guarantees	-	19	832	13,165	58,688	109,672	182,376
Financial commitments							
unutilised loan facilities	8,788	-	-	-	-	-	8,788
commitments to venture capital funds	436	714	1,676	3,732	16,246	4,216	27,020
other liabilities	-	-	-	-	-	-	-
Total financial commitments	9,224	714	1,676	3,732	16,246	4,216	35,808
Total	**9,224**	**733**	**2,508**	**16,897**	**74,934**	**113,888**	**218,184**

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

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

37 Cash and cash equivalents

	Group	**Group**	**Company**	**Company**
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Demand deposits with other credit institutions	100,597	79,553	100,597	79,408
Deposits with credit institutions with original maturity of less than 3 months	-	5,000	-	5,000
Total	**100,597**	**84,553**	**100,597**	**84,408**

38 Movement in revaluation reserve of investment securities available for sale

	Group	Group	Company	Company
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
As at 1 January	9,092	8,625	9,092	8,667
(Profit) from sales (Note 8)	-	-	-	-
Gain / (loss) from changes in fair value*	(1,161)	467	(1,161)	425
Other comprehensive income	(1,161)	467	(1,161)	425
Total	**7,931**	**9,092**	**7,931**	**9,092**
Reserve of disposal group classified as held for sale	**(1,839)**	**-**	**(1,839)**	**-**
As at 31 December	**6,092**	**9,092**	**6,092**	**9,092**

* The position *Gain from changes in fair value* includes the revaluation of Latvian Treasury bills and government bonds as well as *Alternative investment fund Hipo Latvia Real Estate Fund I* and *Alternative investment fund Hipo Latvia Real Estate Fund II* registered in Latvia.
Information regarding revaluation of investment securities is provided in Note 2 (5).

39 Related party transactions

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

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

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

The remuneration of the members of the Company's Council and Board in the reporting period amounted to 376 thsd euros (2016: 282 thsd euros) (Note 10).

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

The following table provides the total amount of transactions of the Group that have been entered into with related parties for the relevant financial year as at 31 December 2017 and 31 December 2016:

		Received support programme funding, thsd EUR	Granted support programme funding or funding paid back, thsd EUR	Received reserve capital, thsd EUR
Transactions with shareholders: Ministry of Finance	31/12/2017	-	(336)	-
	31/12/2016	-	-	5,559
Ministry of Economics	31/12/2017	5,349	(217)	-
	31/12/2016	29,610	-	-
Entity with significant influence: Alternative investment funds	31/12/2017	-	-	-
	31/12/2016	-	-	-
Associates:				
Venture capital funds	31/12/2017	3,030	(3,998)	-
	31/12/2016	684	(21,054)	-
Other companies owned by Group shareholders:				
Rural Support Service	31/12/2017	-	(3,304)	-
	31/12/2016	-	(9,387)	-
Central Finance and Contracting Agency	31/12/2017	4,946	-	-
	31/12/2016	5,563	-	-

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

39 Related party transactions (continued)

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

		Entity with significant influence, thsd. EUR	Transactions with shareholders, thsd. EUR	Associates, thsd. EUR	Other companies owned by Group shareholders, thsd. EUR
Due from other credit institutions and Treasury	31/12/2017	-	-	-	-
	31/12/2016	34	-	-	-
Investment property	31/12/2017	-	-	-	-
	31/12/2016	11,273	-	-	-
Investments in venture capital funds – associates	31/12/2017	-	-	51,310	-
(Allowance for impairment loss) (Note 12)	31/12/2017	-	-	(140)	-
	31/12/2016	-	-	58,541	-
	31/12/2016	-	-	(245)	-
Other assets	31/12/2017	-	-	-	-
	31/12/2016	140	-	-	-
Assets held for sale	31/12/2017	12,935	-	-	-
	31/12/2016	-	-	-	-
Due to general governments (Note 28)	31/12/2017	-	-	-	9,686
	31/12/2016	-	-	-	12,990
Support programme funding and state aid (Note 29 and 2 (23))*	31/12/2017	-	85,646	-	10,362
	31/12/2016	-	98,108	-	5,563
Liabilities directly associated with assets held for sale	31/12/2017	2,000	-	-	-
	31/12/2016	-	-	-	-
Commitments to venture capital funds	31/12/2017	-	-	27,020	-
(Note 36)	31/12/2016	-	-	28,940	-

*Item *Support programme funding* and *State aid service* were restated for the previous period (see Note 2 (29)).

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

		Received state aid funding, thsd EUR	Granted state aid funding or repayment of the funding, thsd EUR	Received reserve capital, thsd EUR
Transactions with shareholders: Ministry of Finance	31/12/2017	-	(336)	-
	31/12/2016	-	-	5,559
Ministry of Economics	31/12/2017	5,349	(217)	-
	31/12/2016	29,610	-	-
Entity with significant influence: Alternative investment funds	31/12/2017	-	-	-
	31/12/2016	-	-	-
Associates: Venture capital funds	31/12/2017	1,715	(3,998)	-
	31/12/2016	205	(22,932)	-
Other companies owned by Altum shareholders Rural Support Service	31/12/2017	-	(3,304)	-
	31/12/2016	-	(9,387)	-
Central Finance and Contracting Agency	31/12/2017	4,946	-	-
	31/12/2016	5,563	-	-

39 Related party transactions (continued)

Gain and expense on related party transactions within year 2017 and year 2016:

		Interest received, thsd EUR	Interest paid, thsd EUR	Other expenses, thsd EUR
Associates:				
Venture capital funds	2017	1,249	(1,249)	-
	2016	365	(365)	-

During 2017 year the venture capital funds yielded 1,012 thsd euros of interest income and 237 thsd euros of income realised on the investments that were 100% attributed to the funding by Ministry of Economics of the Republic of Latvia (Note 4 and Note 9).

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

		Significant influence entity, thsd EUR	Transactions with shareholders, thsd EUR	Associates, thsd, EUR	Other companies owned by Altum shareholders, thsd EUR
Investments in venture capital funds – associates	31/12/2017	-	-	63,504	-
(Provisions for impairment) (Note 12)	31/12/2017	-	-	(14,396)	-
	31/12/2016	-	-	64,746	-
	31/12/2016	-	-	(8,024)	-
Investments in subsidiaries	31/12/2017	-	-	-	-
	31/12/2016	10,376	-	-	-
Due to general governments	31/12/2017	-	-	-	9,685
(Note 28)	31/12/2016	-	-	-	12,990
Support programme funding and state aid (Note 29 and 2 (23))*	31/12/2017	-	87,686	-	10,362
	31/12/2016	-	95,711	-	5,563
Off-balance sheet financial liabilities for venture capital funds	31/12/2017	-	-	27,020	-
(Note 36)	31/12/2016	-	-	28,940	-

*Item *Support programme funding* and *State aid service* were restated for the previous period (see Note 2 (29)).

The table below provides information about Group:

Name	Legal address	Investment % in capital
Investments in associates		
KS Otrais Eko Fonds	Dārza 2, Riga, LV-1007	33
KS Baltcap Latvia Venture Capital Fund	Jaunmoku street 34, Riga, Latvia, LV-1046	67
KS Imprimatur Capital Technology Venture Fund	Elizabetes street 85a-18, Riga, Latvia, LV-1050	67
KS Imprimatur Capital Seed Fund	Elizabetes street 85a-18, Riga, Latvia, LV-1050	100
KS ZGI-3	Daugavgrivas street 21, Riga, Latvia, LV-1048	95
KS FlyCap investment Fund	Matrožu iela 15A, Riga, Latvia, LV-1048	95
KS Expansion Capital fund	Krišjāņa Barona street 32-7, Riga, Latvia, LV-1011	95
Baltic Innovation Fund	European Investment Fund, 37B, avenue J.F. Kennedy, L-2968 Luxembourg	20
Alternative investment funds over which Company has control		
Hipo Latvia Real Estate Fund I	Elizabetes street 41/43, Riga, Latvia, LV-1010	100
Hipo Latvia Real Estate Fund II	Elizabetes street 41/43, Riga, Latvia, LV-1010	100
Liquidated entities during 2017 year		
KS ZGI Fonds	Auseķļa street 1, Riga, Latvia, LV-1010	65

40 Segment information

The management of the Group believe that the Group's operations can be organised info four segments based on the core business activities as follows: loan service, guarantee service, venture capital funds service and other services.

The Group defines its operating segments based on financial products, which are issued to Group clients.

Operating segment information is prepared on the basis of internal reports.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Management board of the Company is the chief operating decision maker.

The Group doesn't provide detailed information on the type of transaction since all the transactions are external.

Analysis of the operating segments of the Group for the period from January 1, 2017 till December 31, 2017:

	Loan service, thsd EUR	Guarantee service, thsd EUR	Venture capital funds service, thsd EUR	Other services, thsd EUR	Total, thsd EUR
Net interest income	9,671	1,399	96	208	11,374
Net income from fees and commissions	449	(24)	(191)	(6)	228
Net trading income	(97)	(83)	(10)	(1)	(191)
Share of (loss) of investment in joint venture and associate	-	-	818	-	818
Other income	1,623	454	636	5,078	7,791
Operating income before operating expenses	**11,646**	**1,746**	**1,349**	**5,279**	**20,020**
Staff costs	(3,653)	(1,203)	(241)	(1,425)	(6,522)
Administrative expense	(2,849)	(275)	(140)	(746)	(4,010)
Amortisation of intangible assets and depreciation of property, plant and equipment	(344)	(40)	(7)	(26)	(417)
Net impairment provisions	(2,390)	2,318	-	(1,929)	(2,001)
Corporate income tax	(43)	(45)	(17)	(20)	(125)
Total segment profit/(loss)	**2,367**	**2,501**	**944**	**1,133**	**6,945**
Investments in venture capital funds - associates	-	-	51,310	-	51,310
Additions of property and equipment, intangible assets and investment property	786	234	49	273	1,342
Total segment assets	**286,204**	**82,305**	**57,582**	**25,595**	**451,686**
Total segment liabilities	**176,196**	**31,014**	**12,453**	**9,537**	**229,200**

Other services include Land Fund's transactions, service centres for Energy Efficiency Programme for Multi-apartment Buildings, Social Entrepreneurship Programme's grants, transaction, which are connected to the assets that have been taken over in the debt collection process, new state aid development, as well as transactions, which cannot be attributed to state aid programmes.

40 Segment information (continued)

Analysis of the operating segments of the Group for the period from January 1, 2016 till December 31, 2016:

	Loan service, thsd EUR	Guarantee service, thsd EUR	Venture capital funds service, thsd EUR	Other services, thsd EUR	Total, thsd EUR
Net interest income	8,775	1,565	640	-	10,980
Net income from fees and commissions	468	(53)	(277)	9	147
Net trading income	(99)	(113)	9	-	(203)
Share of (loss) of investment in joint venture and associate	-	-	(1,758)	-	(1,758)
Other income	937	505	620	3,466	5,528
Operating income before operating expenses	**10,081**	**1,904**	**(766)**	**3,475**	**14,694**
Staff costs	(4,326)	(981)	(251)	(1,224)	(6,782)
Administrative expense	(2,337)	(804)	(414)	(2,026)	(5,581)
Amortisation of intangible assets and depreciation of property, plant and equipment	(354)	(72)	(13)	(90)	(529)
Net impairment provisions	(2,833)	3,093	(246)	457	471
Corporate income tax	-	-	-	-	-
(Loss) after tax for the year from discontinued operations	-	-	-	(103)	(103)
Total segment profit/(loss)	**231**	**3 140**	**(1 690)**	**489**	**2,170**
Investments in venture capital funds – associates	-	-	58,541	-	58,541
Additions of property and equipment, intangible assets and investment property	198	40	7	4,236	5,012
Total segment assets	286,452	70,705	62,647	23,322	**443,126**
Total segment liabilities	164,593	29,147	35,969	3,323	**233,032**

41 Maximum exposure to credit risk

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

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

	Group	Group	Company	Company
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Statement of financial position assets exposed to credit risk				
Due from other credit institutions and Treasury	109,594	89,553	109,594	89,408
Investment securities - available for sale	61,760	64,294	61,760	64,294
Investment securities – held to maturity	443	1,531	443	1,531
Loans and receivables	192,147	201,250	192,147	201,250
Investments in venture capital funds	51,170	58,296	49,108	56,722
Other assets	3,886	901	3,886	762
Total	**419,000**	**415,825**	**416,938**	**413,967**

41 Maximum exposure to credit risk (continued)

	Group	Group	Company	Company
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Off-balance sheet items exposed to credit risk				
Contingent liabilities (Note 36)	182,376	147,175	182,376	147,175
Financial commitments (Note 36)	35,808	35,406	35,808	35,406
Total	**218,184**	**182,581**	**218,184**	**182,581**

As at December 31, 2017 a part of the Group's/Company's assets amounting to EUR 79,134 thsd has been pledged. Detailed information about the loan agreements concluded by the Group/Company as at 31 December 2017:

On June 16, 2015 the commercial pledge stemming from the loan agreement No A/1/F12/296 and its amendments concluded between the Group/Company and Ministry of Finance of the Republic of Latvia was renewed. The commercial pledge is related to the loans granted by Group/Company in compliance with the Cabinet of Ministers Regulations No 381 dated May 29, 2012 Procedure for Granting State Aid when Acquiring Farmland for Agricultural Production as well as future components of the aggregation of property. The claim amount is 32,201 thsd euros (2016: 32,201 thsd euros) (Note 28).

As at 31 December 2017 the total amount of Group's/Company's entitlements considered as an aggregate property in favour of the Ministry of Finance was 46,933 thsd euros (2016: 56,195 thsd euros). Guarantee of the Ministry of Finance of the Republic of Latvia amounting to EUR 46,933 thsd that has been issued to back the Group's/Company's loan from EIB (2016: 56,111 thsd euros) (Note 27).

Further disclosed information on commercial pledges stemming from the signed loan agreements where, as at 31 December 2017, the available funding has not been disbursed at all:

Based on the loan agreement No A1/1/F16/474 dated 24 November 2016 between the Group/Company and Treasury of the Republic of Latvia a commercial pledge agreement was concluded on the same date. The commercial pledge refers to the loan funds the Group/Company received from the Treasury and used to grant loans according to the Cabinet Regulation No 469 dated 15 July 2016 On Parallel Loans for Improvement of Competitiveness of Businesses. The maximum secured claim amount is 24,000 thsd euros. The composition of the commercial pledge: claim rights and their future components resulting from the aforementioned loans the Group/Company has granted. Within year 2017 the Group/ Company had not started to use the Treasury's loan as yet.

On 29 December 2016 a commercial pledge agreement was concluded based on the following two loan agreements: loan agreement No A1/1/15/698 dated 18 December 2015 and loan agreement No A1/1/16/395 dated 26 September 2016. The loan agreement No A1/1/15/698 dated 18 December 2015 was concluded between the Group/Company and Treasury of the Republic of Latvia. The commercial pledge refers to the loan funds the Group/Company received from the Treasury and used to grant loans according to the Cabinet Regulation No 1065 dated 15 September 2009 On Loans for Promoting the Development of Micro, Small and Medium Sized Merchants and Agricultural Service Co-operative Societies. The loan agreement No A1/1/16/395 dated 26 September 2016 was concluded between the Group/Company and Treasury of the Republic of Latvia. The commercial pledge refers to the loan funds the Group/Company received from the Treasury and used to grant loans according to the Cabinet Regulation No 328 dated 31 May 2016 On Micro Loans and Start-up Loans. The total maximum secured claim amount is 39,600 thsd euros. The composition of the commercial pledge: claim rights and their future components resulting from the aforementioned loans the Group/Company has granted. Within 2017 year the Group/Company had not started to use the Treasury's loan as yet.

On 19 October 2017 a loan agreement with the Council of Europe Development Bank was signed. Within the framework of the loan agreement Group/Company would have the opportunity of borrowing EUR 50 mln for implementation of the energy efficiency improvement measures in multi-apartment buildings. The agreement has been signed to fund Group's/Company's loans within the energy efficiency programme of the multi-apartment buildings. Nevertheless, in year 2017 Group/Company didn't use the funds of the Council of Europe Development Bank as Group's/Company's loan for implementation of the project involving the multi-apartment buildings could only be issued if the commercial banks refused to fund the project, but in view of the current economic circumstances such occurrences were rear (in year 2017 – 4 loans worth EUR 0.6 mln). The funds available through the loan agreement won't be used to grant small loans; these funds will be used only if there is a demand for Group's/Company's loans of at least 12,5 mln which is the minimum amount of the tranche. As stipulated by agreement, the first tranche has to be disbursed within 12 months and there is no payment on the portion of the loan that has not been disbursed. The loan is not secured by a registered collateral, but presents *pari passu* rights against other collaterals.

Transactions with derivatives, in effect on 31 December 2017, had been concluded seeking to cushion the effect of exchange rate fluctuations on the value of balance-sheet assets (see Note 17).

Loans to customers are secured, mostly by real estate, to a lesser extent – by other types of assets or commercial pledge. Some loans, granted during lending campaigns, are partially covered by guarantees of the state aid programmes. Loan impairment estimates take into account the expected cash flows from collateral. Loan quality is described in Note 19.

41 Maximum exposure to credit risk (continued)

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

- under the Funding Covenant concluded with the Central Finance and Contracting Agency (contract dated 08/06/2016) on implementation of the fund of funds the guarantees are available under specific support objective 3.1.1.1 with the earmarked funding of 15 mln euros.
- funding of 6 mln euros is earmarked for the state aid combination guarantees for the small and medium-sized enterprises sourced from repayments made on sub-activity 2.2.1.4.1. Support in the Form of Loan for Improvement of Competitiveness of Businesses; as regards the guarantees for large companies – the funding of 675 thsd euros is available from activity 3.1.3. Training and Consultations for Business and Self-employment Start-ups as well as reflows from activity 1.3.1.2. Support to Self-employment and Business Start-ups under operational programme Human Resources and Employment (482 thsd euros);
- Loan guarantees of 4,3 mln euros are available to the farmers;
- As of 8 June 2016 the loan guarantees are issued under specific support objective 3.1.1.1. As at 31 December 2017, 243 guarantees with the total funding of 39,1 mln euros were issued under specific support objective 3.1.1.1., whereas 19 guarantees with the total funding of 8.8 mln euros were issued to large companies. From 1 January 2017 to 31 December 2017 there were 34 guarantees with the total funding of 4.4 mln euros issued to farmers.
- InnovFIN Facility guarantees are available to the innovative companies complying with the conditions of specific support objective 3.1.1.1. as well as large companies. There is an agreement (dated 13/10/2016) concluded with the European Investment Fund on InnovFIN Facility counter-guarantees for 30 mln euros. As of conclusion of the agreement up to 31 December 2017 there were 7 guarantees issued with InnovFin counter guarantee with the total funding of 1,2 mln euros.
- The guarantees of the Energy Efficiency Programme of Multi-apartment Buildings (EEPMB) are issued within the framework of the specific objective‘s measure 4.2.1.1. To Increase Energy Efficiency in Residential Buildings. The funding of 12,2 mln euros is earmarked for EEPMB guarantees. As at 31 December 2017 there were 18 EEPMB guarantees granted for 2.1 mln euros.
- The housing guarantees to the families with underage children are issued based on the Cabinet of Ministers Regulation No 443 On State Assistance to Acquisition or Construction of Living Accommodation adopted on 5 August 2014. The Housing Guarantee Programme has been running since January, 2015 with 7 co-operating commercial banks involved in its implementation. 3,113 housing guarantees for 22.3 mln euros were granted from 1 January 2017 to 31 December 2017.

42 Fair values of assets and liabilities

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

	31/12/2017		31/12/2016	
	Carrying amount	**Fair value**	**Carrying amount Restated**	**Fair value Restated**
Assets				
Due from other credit institutions and Treasury	109,594	109,594	89,553	89,537
Individuals	21,635	21,597	22,722	22,684
Companies	170,512	169,699	178,528	177,644
Loans and receivables	192,147	191,296	201,250	200,328
Debt securities	443	1,208	1,531	3,315
Investment securities – held to maturity	443	1,208	1,531	3,315
Investments in venture capital funds	51,170	51,170	58,296	58,296
Assets held for sale	12,935	12,935	1,367	3,488
Liabilities				
Due to credit institutions	46,933	46,933	56,195	56,195
Due to general governments	43,609	42,103	46,914	46,914
Support program funding, net of state aid *	92,041	92,041	98,096	98,096

*Item *Support programme funding* and *State aid service* were restated for the previous period (see Note 2 (29)).

42 Fair values of assets and liabilities (continued)

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

	31/12/2017		31/12/2016	
	Carrying amount	**Fair value**	**Carrying amount Restated**	**Fair value Restated**
Assets				
Due from other credit institutions and Treasury	109,594	109,594	89,408	89,392
Individuals	21,635	21,597	22,722	22,684
Companies	170,512	169,699	178,528	177,644
Loans and receivables	192,147	191,296	201,250	200,328
Debt securities	443	1,208	1,531	3,315
Investment securities – held to maturity	443	1,208	1,531	3,315
Investments in subsidiaries	-	-	10,376	10,376
Investments in venture capital funds	49,108	49,108	56,722	56,722
Assets held for sale	10,565	10,565	1,367	3,488
Liabilities				
Due to credit institutions	46,933	46,933	56,195	56,195
Due to general governments	43,609	42,103	46,914	46,914
Support program funding, net of state aid *	94,080	94,080	95,699	95,699

*Item *Support programme funding* and *State aid service* were restated for the previous period (see Note 2 (29)).

Assets

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

Liabilities

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

42 Fair values of assets and liabilities (continued)

The following table shows the hierarchy of the Group's financial assets and liabilities assessed and recognised at fair value or for which fair value is disclosed as at 31 December 2017:

	Level 1	Level 2	Level 3	Total
Assets measured at fair value:				
Investment property (Note 15)	-	-	10,808	10,808
Debt securities - available for sale (Note 14)	37,723	24,037	-	61,760
Derivatives	-	142	-	142
Assets held for sale (Note 26)	-	-	12,935	12,935
Assets for which fair values are disclosed:				
Loans and receivables (Note 19)	-	-	191,296	191,296
Due from other credit institutions and Treasury (Notes 16, 37)	100,594	-	9,000	109,594
Total assets	**138,317**	**24,179**	**224,039**	**386,535**
Liabilities measured at fair value:				
Derivatives (Note 17)	-	-	-	-
Liabilities for which fair values are disclosed:				
Due to credit institutions (Note 27)	-	-	46,933	46,933
Due to general governments (Note 28)	-	-	43,609	43,609
Support program funding (Note 29)	-	-	92,041	92,041
Total liabilities	**-**	**-**	**182,583**	**182,583**

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

	Level 1	Level 2	Level 3	Total Restated
Assets measured at fair value:				
Investment property (Note 15)	-	-	17,087	17,087
Debt securities - available for sale (Note 14)	39,026	25,268	-	64,294
Assets for which fair values are disclosed:				
Loans and receivables (Note 19)	-	-	200,328	200,328
Assets held for sale				
Due from other credit institutions and Treasury (Notes 16, 37)	79,437	-	10,100	89,537
Total assets	**118,463**	**25,268**	**227,515**	**371,246**
Liabilities measured at fair value:				
Derivatives (Note 17)	-	854	-	854
Liabilities for which fair values are disclosed:				
Due to credit institutions (Note 27)	-	-	56,195	56,195
Due to general governments (Note 28)	-	-	46,914	46,914
Support program funding * (Note 29)	-	-	98,096	98,096
Total liabilities	**-**	**854**	**201,205**	**202,059**

*Item *Support programme funding* and *State aid service* were restated for the previous period (see Note 2 (29)).

42 Fair values of assets and liabilities (continued)

The following table shows the hierarchy of the Company's financial assets and liabilities assessed and recognised at fair value or for which fair value is disclosed as at 31 December 2017:

	Level 1	Level 2	Level 3	Total
Assets measured at fair value:				
Investment property (Note 15)	-	-	10,808	10,808
Debt securities - available for sale (Note 14)	37,723	24,037	-	61,760
Investments in subsidiaries	-	-	-	-
Derivatives (Note 17)	-	142	-	142
Assets held for sale (Note 26)	-	-	10,565	10,565
Assets for which fair values are disclosed:				
Loans and receivables (Note 19)	-	-	191,296	191,296
Due from other credit institutions and Treasury (Notes 16, 37)	100,594	-	9,000	109,594
Total assets	**138,317**	**24,179**	**221,669**	**384,165**
Liabilities measured at fair value:				
Derivatives	-	-	-	-
Liabilities for which fair values are disclosed:				
Due to credit institutions (Note 27)	-	-	46,933	46,933
Due to general governments (Note 28)	-	-	43,609	43,609
Support program funding (Note 29)	-	-	94,080	94,080
Total liabilities	**-**	**-**	**184,622**	**184,622**

The following table shows the hierarchy of the Company's financial assets and liabilities assessed and recognised at fair value or for which fair value is disclosed as at 31 December 2016:

	Level 1	Level 2	Level 3	Total Restated
Assets measured at fair value:				
Investment property (Note 15)	-	-	4,869	4,869
Debt securities - available for sale (Note 14)	39,026	25,268	-	64,294
Investments in subsidiaries (Note 20)	-	-	10,376	10,376
Assets for which fair values are disclosed:				
Loans and receivables (Note 19)	-	-	200,328	200,328
Assets held for sale				
Due from other credit institutions and Treasury (Notes 16, 37)	79,292	-	10,100	89,392
Total assets	**118,318**	**25,268**	**225,673**	**369,259**
Liabilities measured at fair value:				
Derivatives (Note 17)	-	855	-	855
Liabilities for which fair values are disclosed:				
Due to credit institutions (Note 27)	-	-	56,195	56,195
Due to general governments (Note 28)	-	-	46,914	46,914
Support program funding (Note 29)*	-	-	95,699	95,699
Total liabilities	**-**	**855**	**198,808**	**199,663**

*Item *Support programme funding* and *State aid service* were restated for the previous period (see Note 2 (29)).

42 Fair values of assets and liabilities (continued)

Fair value hierarchy of financial assets and liabilities

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

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

Debt securities

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

Derivatives

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

Investments in venture capital funds

Measuring of investments in venture capital funds is explained in Note 2 (6).

Investment property

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

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

(a) market data (comparable sales) approach;

(b) income approach;

(c) depreciated replacement cost method.

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

Assets held for sale

Measuring of assets held for sale, which include investments in alternative interments funds, is explained in Note 2 (25).

43 Liquidity risk

The table below provides the maturity structure of expected undiscounted future cash flows of the Group's financial liabilities, off-balance liabilities and liquid assets, which are included balances of due from other credit institutions and the State Treasury and investment securities as at 31 December 2017. The presentation is based on the expected future cash flows based on payment schedules and includes interest while the maturity analysis presented in Note 44 discloses the term structure of actual balances of liabilities and assets.

	Up to 1 year	1 to 5 years	Over 5 years and w/o date	Total
Due to other credit institutions	8,857	32,376	6,309	47,542
Due to general governments	163	612	44,869	45,644
Support programme funding	-	-	92,041	92,041
Other liabilities	-	-	3,764	3,764
Total financial liabilities	**9,020**	**32,988**	**146,983**	**188,991**
Off-balance items and contingent liabilities	29,361	74,935	113,888	218,185
Total financial liabilities, off-balance items and contingent liabilities	**38,381**	**107,923**	**260,871**	**407,176**
Due from other credit institutions and the State Treasury	109,594	-	-	109,594
Investment securities	38	51,426	10,738	62,203
Liquid assets	**109,632**	**51,426**	**10,738**	**171,797**

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

	Up to 1 year	1 to 5 years	Over 5 years and w/o date	Total Restated
Due to other credit institutions	9,483	35,368	12,293	57,144
Due to general governments	163	653	50,017	50,833
Support programme funding*	-	-	98,096	98,096
Other liabilities	-	-	6,559	6,559
Total financial liabilities	**9,646**	**36,021**	**166,965**	**212,632**
Off-balance items and contingent liabilities	63,019	56,967	75,782	195,768
Total financial liabilities, off-balance items and contingent liabilities	**72,665**	**92,988**	**242,747**	**408,400**
Due from other credit institutions and the State Treasury	89,553	-	-	89,553
Investment securities	11,403	39,800	14,622	65,825
Liquid assets	**100,956**	**39,800**	**14,622**	**155,378**

*Item *Support programme funding* and *State aid service* were restated for the previous period (see Note 2 (29)).

43 Liquidity risk (continued)

The table below provides the maturity structure of expected undiscounted future cash flows of the Company's financial liabilities, off-balance liabilities and liquid assets as at 31 December 2017:

	Up to 1 year	1 to 5 years	Over 5 years and w/o date	Total
Due to other credit institutions	8,857	32,376	6,309	47,542
Due to general governments	163	612	44,869	45,644
Support programme funding	-	-	94,080	94,080
Other liabilities	-	-	3,488	3,488
Total financial liabilities	**9,020**	**32,988**	**148,746**	**190,754**
Off-balance items and contingent liabilities	29,361	74,935	113,887	218,184
Total financial liabilities, off-balance items and contingent liabilities	**38,381**	**107,923**	**262,633**	**408,938**
Due from other credit institutions and the State Treasury	109,594	-	-	109,594
Investment securities	38	51,426	10,738	62,202
Liquid assets	**109,632**	**51,426**	**10,738**	**171,796**

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

	Up to 1 year	1 to 5 years	Over 5 years and w/o date	Total Restated
Due to other credit institutions	9,483	35,368	12,293	57,144
Due to general governments	163	653	50,017	50,833
Support programme funding*	-	-	95,699	95,699
Other liabilities	-	-	4,282	4,282
Total financial liabilities	**9,646**	**36,021**	**162,291**	**207,958**
Off-balance items and contingent liabilities	63,019	56,967	75,782	195,768
Total financial liabilities, off-balance items and contingent liabilities	**72,665**	**92,988**	**238,073**	**403,726**
Due from other credit institutions and the State Treasury	89,408	-	-	89,408
Investment securities	1,027	50,176	14,622	65,825
Liquid assets	**90,435**	**50,176**	**14,622**	**155,233**

*Item *Support programme funding* and *State aid service* were restated for the previous period (see Note 2 (29)).

44 Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities analysed according to when they are settled according to contractual maturity. With regard to loans and advances to customers, the Group uses the same basis of expected repayment behaviour as used for estimating the EIR. Issued debt reflect the contractual coupon amortisations.

The table below allocates the Group's assets and liabilities to maturity groupings as at 31 December 2017 based on the time remaining from the balance sheet date to the contractual maturity dates.

	Up to 1 month	1 to 3 months	3 to 6 months	Up to 1 year	1 to 5 years	Over 5 years and undated	**Total**
Assets							
Due from other credit institutions and the State Treasury	100,597	-	-	8,997	-	-	109,594
Investment securities	-	-	-	38	51,426	10,739	62,203
Loans and receivables	9,708	11,789	10,152	19,765	-	140,733	192,147
Derivatives	-	142	-	-	-	-	142
Investments in venture capital funds	-	864	-	-	43,964	6,342	51,170
Deferred expense and accrued income	655	1,581	3	3	9	5	2,256
Investment property	-	-	-	234	8,142	2,432	10,808
Property, plant and equipment	-	-	-	-	-	3,828	3,828
Intangible assets	-	-	-	-	-	771	771
Corporate income tax overpaid	-	-	-	-	-	-	-
Other assets	271	-	139	-	1,966	3,456	5,832
Assets held for sale	-	-	-	12,935	-	-	12,935
Total assets	**111,231**	**14,376**	**10,294**	**41,972**	**105,507**	**168,306**	**451,686**
Liabilities							
Due to credit institutions	-	4,399	-	4,340	31,944	6,250	46,933
Due to general governments	-	-	-	-	5,000	38,609	43,609
Issued debt securities	-	-	-	53	-	19,799	19,852
Deferred income and accrued expense	48	87	451	425	135	1,231	2,377
Support programme funding and state aid	9,795	-	-	8,290	20,798	57,126	96,009
Provisions for off-balance sheet commitments	843	757	66	259	4 199	8,407	14,531
Corporate income tax liabilities	125	-	-	-	-	-	125
Other liabilities	2,962	-	53	319	-	430	3,764
Liabilities directly associated with assets held for sale	-	-	-	2,000	-	-	2,000
Total liabilities	**13,773**	**5,243**	**570**	**15,686**	**62,076**	**131,852**	**229,200**
Net liquidity	**97,458**	**9,133**	**9,724**	**26,286**	**43,431**	**36,454**	**222,486**

44 Maturity analysis of assets and liabilities (continued)

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

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

44 Maturity analysis of assets and liabilities (continued)

The table below allocates the Company's assets and liabilities to maturity groupings as at 31 December 2017 based on the time remaining from the balance sheet date to the contractual maturity dates.

	Up to 1 month	1 to 3 months	3 to 6 months	Up to 1 year	1 to 5 years	Over 5 years and undated	**Total**
Assets							
Due from other credit institutions and the State Treasury	100,597	-	-	8,997	-	-	109,594
Investment securities	-	-	-	38	51,426	10,739	62,203
Loans and receivables	9,708	11,789	10,152	19,765	-	140,733	192,147
Derivatives	-	142	-	-	-	-	142
Investments in venture capital funds	-	1,008	-	-	41,757	6,343	49,108
Deferred expense and accrued income	655	1 581	3	3	9	5	2,256
Investment property	-	-	-	234	8,142	2,432	10,808
Property, plant and equipment	-	-	-	-	-	3,828	3,828
Intangible assets	-	-	-	-	-	771	771
Other assets	271	-	139	-	1,966	3,456	5,832
Assets held for sale	-	-	-	10,565	-	-	10,565
Total assets	**111,231**	**14,520**	**10,294**	**39,602**	**103,300**	**168,307**	**447,254**
Liabilities							
Due to credit institutions	-	4,399	-	4,340	31,944	6,250	46,933
Due to general governments	-	-	-	-	5,000	38,609	43,609
Issued debt securities	-	-	-	53	-	19,799	19,852
Deferred income and accrued expense	48	87	451	425	135	1,231	2,377
Support programme funding and state aid	9,625	-	-	1,904	29,392	57,127	98,048
Provisions for off-balance sheet commitments	843	757	66	259	4 199	8,407	14,531
Corporate income tax liabilities	125	-	-	-	-	-	125
Other liabilities	2,962	-	53	42	-	431	3,488
Total liabilities	**13,603**	**5,243**	**570**	**7,023**	**70,670**	**131,854**	**228,963**
Net liquidity	**97,628**	**9,277**	**9,724**	**32,579**	**32,630**	**36,453**	**218,291**

44 Maturity analysis of assets and liabilities (continued)

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

	Up to 1 month	1 to 3 months	3 to 6 months	Up to 1 year	1 to 5 years	Over 5 years and undated	**Total**
Assets							
Due from other credit institutions and the State Treasury	79,408	5,000	-	5,000	-	-	89,408
Investment securities	-	-	1,027	-	50,176	14,622	65,825
Loans and receivables	14,369	9,473	8,997	19,313	91,132	57,966	201,250
Investments in venture capital funds	-	864	-	-	50,045	5,813	56,722
Deferred expense and accrued income	410	1,640	4	1	5	-	2,060
Investment property	-	-	-	-	-	4,869	4,869
Property, plant and equipment	-	-	-	-	-	3,507	3,507
Intangible assets	-	-	-	-	-	168	168
Investment in subsidiaries	-	-	-	10,376	-	-	10,376
Corporate income tax overpaid	-	-	-	-	-	-	-
Other assets	596	-	-	1	3,113	165	3,875
Assets held for sale	-	-	-	1,367	-	-	1,367
Total assets	**94,783**	**16,977**	**10,028**	**36,058**	**194,471**	**87,110**	**439,427**
Liabilities							
Due to credit institutions	-	4,896	93	4,340	34,717	12,149	56,195
Derivatives	-	855	-	-	-	-	855
Due to general governments	1,723	-	-	-	-	45,191	46,914
Deferred income and accrued expense	160	17	464	427	201	706	1,975
Support programme funding and state aid	3,785	-	-	2,098	36,995	58,396	101,274
Provisions for off-balance sheet commitments	2,509	1,195	970	31	6,591	5,568	16,864
Other liabilities	3,409	-	376	174	292	31	4,282
Total liabilities	**11,586**	**6,963**	**1,903**	**7,070**	**78,796**	**122,041**	**228,359**
Net liquidity	**83,197**	**10,014**	**8,125**	**28,988**	**115,675**	**(34,931)**	**211,068**

45 Assets and liabilities by currency profile

The table below provides data of the Group's assets, liabilities, shareholders' equity and reserves as well as off-balance sheet items outstanding as at 31 December 2017 by currency profile:

	EUR	USD	Other	Total
Assets				
Due from other credit institutions and Treasury	109,329	265	-	109,594
Investment securities	51,443	10,760	-	62,203
Loans and receivables	191,800	347	-	192,147
Derivatives	-	142	-	142
Investments in venture capital funds	51,170	-	-	51,170
Deferred expense and accrued income	2,253	3	-	2,256
Investment property	10,808	-	-	10,808
Property, plant and equipment	3,828	-	-	3,828
Intangible assets	771	-	-	771
Corporate income tax overpaid	-	-	-	-
Other assets	5,832	-	-	5,832
Asset held for sale	12,935	-	-	12,935
Total assets	**440,169**	**11,517**	**-**	**451,686**
Liabilities and shareholders' equity				
Due to credit institutions	46,933	-	-	46,933
Due to general governments	43,609	-	-	43,609
Issued debt securities	19,852	-	-	19,852
Deferred income and accrued expense	2,375	2	-	2,377
Support programme funding	92,041	-	-	92,041
State aid	3,968	-	-	3,968
Provisions for off-balance sheet commitments	14,424	107	-	14,531
Corporate income tax liabilities	125	-	-	125
Other liabilities	3,764	-	-	3,764
Liabilities directly associated with assets held for sale	2,000	-	-	2,000
Capital and reserves	221,495	991	-	221,496
Total liabilities and shareholders' equity	**450,586**	**1 100**	**-**	**451,686**
Forward foreign exchange (payables)	1,089	(947)	-	142
Currency position	**(9,328)**	**9,470**	**-**	**142**

45 Assets and liabilities by currency profile (continued)

The table below provides data of the Group's assets, liabilities, shareholders' equity and reserves as well as off-balance sheet items outstanding as at 31 December 2016 by currency profile:

	EUR	USD	Other	Total Restated
Assets				
Due from other credit institutions and Treasury	89,259	294	-	89,553
Investment securities	52,876	12,949	-	65,825
Loans and receivables	200,775	475	-	201,250
Investments in venture capital funds	58,296	-	-	58,296
Deferred expense and accrued income	2,059	-	-	2,059
Investment property	17,087	-	-	17,087
Property, plant and equipment	3,507	-	-	3,507
Intangible assets	168	-	-	168
Corporate income tax overpaid	-	-	-	-
Other assets	4,014	-	-	4,014
Asset held for sale	1,367	-	-	1,367
Total assets	**429,408**	**13,718**	-	**443,126**
Liabilities and shareholders' equity				
due to credit institutions	56,195	-	-	56,195
Derivatives	854	-	-	854
Due to general governments	46,914	-	-	46,914
Deferred income and accrued expense	1,973	2	-	1,975
Support programme funding*	98,096	-	-	98,096
State aid*	5,575	-	-	5,575
Provisions for off-balance sheet commitments	16,784	80	-	16,864
Other liabilities	6,558	1	-	6,559
Capital and reserves	208,797	1,297	-	210,094
Total liabilities and shareholders' equity	**441,746**	**1,380**	**-**	**443,126**
Forward foreign exchange (payables)	(846)	(8)	-	(854)
Currency position	**(13,184)**	**12,330**	**-**	**(854)**

*Item *Support programme funding* and *State aid service* were restated for the previous period (see Note 2 (29)).

45 Assets and liabilities by currency profile (continued)

The table below provides data of the Company's assets, liabilities and shareholders' equity as well as off-balance sheet items outstanding as at 31 December 2017 by currency profile:

	EUR	USD	Other	Total
Assets				
Due from other credit institutions and the State Treasury	109,329	265	-	109,594
Investment securities	51,443	10,760	-	62,203
Loans and receivables	191,800	347	-	192,147
Derivatives	-	142	-	142
Investments in venture capital funds	49,108	-	-	49,108
Deferred expense and accrued income	2,253	3	-	2,256
Investment property	10,808	-	-	10,808
Property, plant and equipment	3,828	-	-	3,828
Intangible assets	771	-	-	771
Investment in subsidiaries	-	-	-	-
Corporate income tax overpaid	-	-	-	-
Other assets	5,832	-	-	5,832
Asset held for sale	10,565	-	-	10,565
Total assets	**435,737**	**11,517**	**-**	**447,254**
Liabilities and shareholders' equity				
Due to credit institutions	46,933	-	-	46,933
Due to general governments and	43,609	-	-	43,609
Issued debt securities	19,852	-	-	19,852
Deferred income and accrued expense	2,375	2	-	2,377
Support programme funding and state aid	98,048	-	-	98,048
Provisions for off-balance sheet commitments	14,424	107	-	14,531
Corporate income tax liabilities	125	-	-	125
Other liabilities	3,488	-	-	3,488
Capital and reserves	217,300	991	-	218,291
Total liabilities and shareholders' equity	**446,154**	**1,100**	**-**	**447,254**
Forward foreign (payables)	1,089	(947)	-	142
Currency position	**(9,328)**	**9,470**	**-**	**142**

45 Assets and liabilities by currency profile (continued)

The table below provides data of the Company's assets, liabilities and shareholders' equity as well as off-balance sheet items outstanding as at 31 December 2016 by currency profile:

	EUR	USD	Other	Total Restated
Assets				
Due from other credit institutions and the State Treasury	89,114	294	-	89,408
Investment securities	52,876	12,949	-	65,825
Loans and receivables	200,775	475	-	201,250
Investments in venture capital funds	56,722	-	-	56,722
Deferred expense and accrued income	2,060	-	-	2,060
Investment property	4,869	-	-	4,869
Property, plant and equipment	3,507	-	-	3,507
Intangible assets	168	-	-	168
Investment in subsidiaries	10,376	-	-	10,376
Corporate income tax overpaid	-	-	-	-
Other assets	1,367	-	-	1,367
Asset held for sale	3,875	-	-	3,875
Total assets	**425,709**	**13,718**	**-**	**439,427**
Liabilities and shareholders' equity				
Due to credit institutions	56,195	-	-	56,195
Derivatives	855	-	-	855
Due to general governments and	46,914	-	-	46,914
Deferred income and accrued expense	1,973	2	-	1,975
Support programme funding*	95,699	-	-	95,699
State aid*	5,575			5,575
Provisions for off-balance sheet commitments	16,784	80	-	16,864
Other liabilities	4,281	1	-	4,282
Capital and reserves	209,771	1,297	-	211,068
Total liabilities and shareholders' equity	**438,047**	**1,380**	**-**	**439,427**
Forward foreign (payables)	(847)	(8)	-	(855)
Currency position	**(13,185)**	**12,330**	**-**	**(855)**

*Item *Support programme funding* and *State aid service* were restated for the previous period (see Note 2 (29)).

46 Minimum future lease payments

The table below discloses minimum future lease payments for premises (there are other lease payments as well, but those are relatively minor):

	Group	Company
Year 2018	94	94
Year 2019	51	51
Year 2020	47	47
Year 2021	33	33
Year 2022	27	27
Total for 5 years	**252**	**252**
Year 2023 and later	69	69

47 Financial assets and liabilities by classification principles

The assets and liabilities of the Group as at 31 December 2017 by classification principles are as follows:

	Financial assets un liabilities held for trading	Financial assets available for sale	Amortised cost	At equity method	Total book value
Assets					
Investment securities	-	61,760	443	-	62,203
Due from other credit institutions and Treasury	-	-	109,594	-	109,594
Loans and receivables	-	-	192,147	-	192,147
Derivatives	142	-	-	-	142
Investments in venture capital funds	-	-	-	51,170	51,170
Other financial assets	-	12,935	18,896	-	31,831
Total financial assets	**142**	**74,695**	**321,080**	**51,170**	**447,087**
Non-financial assets	-	-	4,599	-	4,599
Total assets	**142**	**74,695**	**325,679**	**51,170**	**451,686**
Liabilities					
Due to credit institutions	-	-	46,933	-	46,933
Due to general governments	-	-	43,609	-	43,609
Issued debt securities	-	-	19,852	-	19,852
Support programme funding	-	-	92,041	-	92,041
State aid	-	-	3,968	-	3,968
Corporate income tax liabilities	-	-	125	-	125
Other financial liabilities	-	-	20,672	-	20,672
Liabilities directly associated with assets held for sale	-	-	2,000	-	2,000
Total financial liabilities	-	-	**229,200**	-	**229,200**
Non-financial liabilities	-	-	222,486	-	222,486
Total liabilities	-	-	**451,686**	**-**	**451,686**

The assets and liabilities of the Group as at 31 December 2016 by classification principles are as follows:

	Financial assets un liabilities held for trading	Financial assets available for sale	Amortised cost	At equity method	Total book value Restated
Assets					
Investment securities	-	64,294	1,541	-	65,835
Due from other credit institutions and Treasury	-	-	89,553	-	89,553
Loans and receivables	-	-	201,250	-	201,250
Investments in venture capital funds	-	-	-	58,296	58,296
Other financial assets	-	-	24,517	-	24,517
Total financial assets	**-**	**64,294**	**316,861**	**58,296**	**439,451**
Non-financial assets	-	**-**	3,675	-	3,675
Total assets	**-**	**64,294**	**320,536**	**58,296**	**443,126**
Liabilities					
Due to credit institutions	-	-	56,195	-	56,195
Due to general governments	-	-	46,914	-	46,914
Support programme funding*	-	-	98,096	-	98,096
State aid*			5,575	-	5,575
Derivatives	854	-	-	-	854
Other financial liabilities	-	-	25,398	-	25,398
Total financial liabilities	**854**	**-**	**232,178**	**-**	**233,032**
Non-financial liabilities	-	-	210,094	-	210,094
Total liabilities	**854**	**-**	**442,272**	**-**	**443,126**

*Item *Support programme funding* and *State aid service* were restated for the previous period (see Note 2 (29)).

47 Financial assets and liabilities by classification principles (continued)

The assets and liabilities of the Company as at 31 December 2017 by classification principles are as follows:

	Financial assets un liabilities held to trading	Financial assets available for sale	Amortised cost	At cost	Total book value
Assets					
Investment securities	-	61 760	443	-	62,203
Due from other credit institutions and the State Treasury	-	-	109,594	-	109,594
Loans and receivables	-	-	192,147	-	192,147
Derivatives	142	-	-	-	142
Investments in venture capital funds	-	-	-	49,108	49,108
Investments in subsidiaries	-	-	-	-	-
Other financial assets	-	10,565	18,896	-	29,461
Total financial assets	**142**	**72,325**	**321,080**	**49,108**	**442,655**
Non-financial assets	-	-	4,599	-	4,599
Total assets	**142**	**72,325**	**325,679**	**49,108**	**447,254**
Liabilities					
Due to credit institutions	-	-	46,933	-	46,933
Due to general governments	-	-	43,609	-	43,609
Issued debt securities	-	-	19,852	-	19,852
Support programme funding and state aid	-	-	94,080	-	94,080
State aid	-	-	3,968		3,968
Corporate income tax liabilities	-	-	125	-	125
Other financial liabilities	-	-	20,396	-	20,396
Total financial liabilities	**-**	**-**	**228,963**	**-**	**228,963**
Non-financial liabilities	-	-	218,291	-	218,291
Total liabilities	**-**	**-**	**447,254**	**-**	**447,254**

The assets and liabilities of the Company as at 31 December 2016 by classification principles are as follows:

	Financial assets un liabilities held to trading	Financial assets available for sale	Amortised cost	At cost	Total book value Restated
Assets					
Investment securities	-	64,294	1,531	-	65,825
Due from other credit institutions and the State Treasury	-	-	89,408	-	89,408
Loans and receivables	-	-	201,250	-	201,250
Investments in venture capital funds	-	-	-	56,722	56,722
Investments in subsidiaries	-	10,376	-	-	10,376
Other financial assets	-	-	12,171	-	12,171
Total financial assets	**-**	**74,670**	**304,360**	**56,722**	**435,752**
Non-financial assets	-	-	3,675	-	3,675
Total assets	**-**	**74,670**	**308,035**	**56,722**	**439,427**
Liabilities					
Due to credit institutions	-	-	56,195	-	56,195
Due to general governments	-	-	46,914	-	46,914
Support programme funding*	-	-	95,699	-	95,699
State aid*			5,575		5,575
Derivatives	855	-	-	-	855
Other financial liabilities	-	-	23,121	-	23,121
Total financial liabilities	**855**	**-**	**227,504**		**228,359**
Non-financial liabilities	-	-	211,068	-	211,068
Total liabilities	**855**	**-**	**438,572**	**-**	**439,427**

*Item *Support programme funding* and *State aid service* were restated for the previous period (see Note 2 (29)).

48 SUBSEQUENT EVENTS

On March 2, 2018, under the bond issue program, the Company has issued bonds totaling EUR 10 million with maturity date of 7 March 2025, a fixed annual interest rate (coupon) of 1.3% and a yield of 1.3805%. The aggregate demand for bonds exceeded the planned amount of issue 6 times. Bonds are listed on the Nasdaq Riga Stock Exchange. Earnings from bond issues will be used to finance the Company's financial instruments.

There are no other subsequent events since the last day of the reporting year, which would have a significant effect on the financial position of the Group /Company.

EY
Building a better working world

SIA "Ernst & Young Baltic"
Muitas iela 1A
Rīga, LV-1010
Latvija
Tālr.: +371 6704 3801
Fakss: +371 6704 3802
riga@lv.ey.com
www.ey.com/lv

Reģ. Nr. 40003593454
PVN maksātāja Nr. LV40003593454

SIA Ernst & Young Baltic
Muitas iela 1A
Riga, LV-1010
Latvia
Tel.: +371 6704 3801
Fax: +371 6704 3802
riga@lv.ey.com
www.ey.com/lv

Reg. No: 40003593454
VAT payer code: LV40003593454

INDEPENDENT AUDITORS' REPORT

To the Shareholders of JSC Finance Development Institution ALTUM

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of JSC Finance Development Institution ALTUM and its subsidiaries (the Group) and the accompanying financial statements of JSC Finance Development Institution ALTUM (the Company) set out on pages 11 to 99 of the accompanying Annual Report, which comprise the statements of financial position as at 31 December 2017, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements of the Group and the Company give a true and fair view of the financial position of the Group and the Company as at 31 December 2017, and of financial performance of the Group and the Company and cash flows of the Group and the Company for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing adopted in the Republic of Latvia (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Group and the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the independence requirements included in the Law on Audit Services of Republic of Latvia that are relevant to our audit of the financial statements in the Republic of Latvia. We have fulfilled our other ethical responsibilities in accordance with the Law on Audit Services of Republic of Latvia and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the Group and the Company of the current period. These matters were addressed in the context of our audit of the financial statements of the Group and the Company as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements of the Group and the Company. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements of the Group and the Company.

Key audit matter	How we addressed the key audit matter
Loan and guarantee provisioning (the Group and the Company)	
As disclosed in Note 19, the carrying amount of loans in separate and consolidated financial statements as at 31	Our audit procedures included, among others, the understanding of the loan and guarantee issuance, booking and monitoring process

December 2017 amounts to 192 147 thousand EUR. The total impairment loss allowance as at 31 December 2017 amounts to 15 438 thousand EUR in the separate and consolidated financial statements. In 2017, the impairment reversal recognised by the Group and the Company amounts 2 112 thousand EUR and the impairment charge to 5 683 thousand EUR. As outlined in Note 36, the amount of issued guarantees in separate and consolidated financial statements as at 31 December 2017 amounts to 182 376 thousand EUR. The total provision amount for guarantees as at 31 December 2017 amounts to 5 986 thousand EUR in the separate financial and the consolidated financial statements as disclosed in Note 30. The provision reversal for guarantees recognized in 2017 by the Group and the Company amounts to 5 101 thousand EUR and the provision charge to 3 258 thousand EUR. Impairment of loans and provision for guarantees is a highly subjective area due to the level of judgement applied by the management in determining the extent of credit losses, which is dependent on the credit risk related to such loans and guarantees. The judgements applied by the management in determining the level of provisioning for loans and guarantees include the identification of events that could possibly result in an impairment, an appropriate valuation of the related collateral, the assessment of customers that are likely to default, and the future cash flows relating to loans and guarantees. Provisioning of loans and guarantees is significant to our audit due to the material balance of loans and guarantees and the related estimation uncertainties involved. The basis of the Group's and Company's impairment provision policy is presented in the accounting policies section in Note 2 (5)(iv), 2 (10) and 2(22) to the financial statements. Critical accounting estimates and judgments, disclosures of loans and guarantees and the credit risk management are set out in Notes 2 (24), 19 and 30 to the financial statements.	and loan and guarantee provisioning process. We tested the controls over the issuance, booking and monitoring processes of loans and guarantees, and the individual and collective provisioning process. In addition to testing the key controls, we selected samples of loans and guarantees outstanding as at the reporting date and critically assessed the criteria for determining whether such events had occurred that would require provision. Specifically, for sample of loans and guarantees, we assessed the existence of any provisioning triggers by reviewing the underlying loan and guarantee files, discussed the respective loans and guarantees with loan officers, for nonperforming loans we reviewed forecasts of future cash flows used in the assessment of loan impairment, evaluating key assumptions made by management such as applied discount rates, collateral values, forecasted business performance as well as were applicable, collateral sales costs and sales periods, and also risk coverage reserve. We involved our valuation specialist for the assessment of collateral valuation methodology. For the samples selected, we have assessed that all impairment events identified by us had also been identified by the Company's management. For the performing loans and guarantees, through the review of underlying credit and guarantee files and discussion with credit analysts, we assessed whether the borrowers exhibited possible default risk that may affect meeting their scheduled repayment obligations. For collective impairment provisions, we obtained an understanding of the methodology used by the Company and the Group to determine the collective provision, assessed the underlying assumptions and key parameters such as the probability of default and loss given default. We also assessed whether the financial statement disclosures in Notes 2(24), 19 and 30 appropriately reflect the requirements of IFRS.
Accounting of state aid related to funds received from the Government (the Group and the Company)	
As disclosed in Notes 2 (23) and 2 (24), the Company receives funding from the Government at zero-interest rate for implementation of various financing programs. As outlined in Note 29, as at 31 December 2017 the amount of received funding amounted to 98 048 thousand EUR in the separate financial statements and 96 009 thousand EUR in the consolidated financial statements. The benefit of the zero-interest rate funding is treated under IAS 20 "Government grants and assistance" as	We obtained the list of received funding and selected a sample of funds flow and traced to supporting documentation, as well as reconciled the outstanding balances with the Ministry of Economics, Central Finance and Contracting Agency, and Rural Support Service. We performed inquiries to ensure that no significant agreements for new funding programs were signed and no significant amendments to the conditions of the existing funding programs were made. We also obtained understanding over the accounting treatment and calculation process of the funds received from the Government. We

additional government assistance (state aid); therefore, the Company's management estimates the amount of state aid upon initial recognition, using significant management assumptions, including the selection of the discount rate and estimated notional profit of the individual funding programs. The calculation of the state aid is significant to our audit given the significance of the funding amount involved and significant management estimates involved in determining the state aid amount.	reviewed calculations performed by the Company on the amount of state aid and financial liability on zero-interest rate funding. We assessed the underlying assumptions for the determination of the discount rate and estimated notional profit for each funding program. We also evaluated the related disclosures included in Notes 2(23) and 29.
Valuation and impairment of investments in Venture Capital Funds (VCFs) (the Group and the Company)	
As disclosed in Note 2 (24) *Classification of venture capital funds*, the Group and the Company concludes that it exercises significant influence over Venture Capital Funds (VCFs), assessed to be associates. In the consolidated financial statements, under the equity method of accounting for associates, these interests are initially stated at cost, and are adjusted thereafter for the post-acquisition change in the Company's share of the net assets of the associate less any impairment provisions. In the separate financial statements, these interests are accounted at cost minus impairment. The Group's and the Company's management performed impairment tests of investments in Venture Capital Funds, which are recognized in the Group's and the Company's statement of the financial position and disclosed in Note 18. The Group's and the Company's management assessment of the recoverable amount of investments in VCFs requires estimation and judgement around the assumptions used, including the recoverable value of underlying investments. These assumptions are outlined in Note 2(24) *Impairment losses of investments in venture capital funds.* Impairment assessment of investments in VCFs was significant to our audit due to materiality of investment amounts in VCFs to the Group's and the Company's financial statements and the fact that changes in the assumptions could lead to material changes in the estimated recoverable amount, impacting potential impairment charges.	We obtained the calculation of impairment prepared by the management of the Company as well as the full list of the investments made by VCFs into the companies and using sampling selection techniques, selected a sample of investments for review and assessment of impairment indications and the impairment amount. We met with the representatives of the Company responsible for monitoring the performance of the underlying investments made by the VCFs to understand current business performance of these investments and expectations and whether they were properly reflected in the Groups and the Company's assessment of impairment and specifically in the methodology used for investment valuation, financial forecast and current situation as well as assumptions underlying the decision for provision. We reviewed the agreements register and inquired the Company whether any new agreements with VCFs have been signed during 2017 and whether any amendments to existing agreements have been made that would result in the change of accounting treatment for VCFs. Furthermore, we considered whether the Group's and the Company's disclosures of the application of judgement in estimating the recoverable amount and the sensitivity of the results of those estimates adequately reflect the risks associated with impairment of interests in associates.
Valuation and accounting of guarantees issued at below market rates (the Group and the Company)	
The Group and the Company issues certain guarantees at interest rate below market rate. As outlined in the Group's and the Company's accounting policy in Note 2 (22), at the day of guarantee issuance, a provision for onerous contracts (which equals the difference between the present value of total commissions receivable for the guarantees and the present value of the market price of	We obtained the calculation of the amount of provision for onerous contracts prepared by the Group's and the Company's management and gained an understanding of how the management evaluates the amount of provisions. We involved a valuation specialist to support us with the assessment of market rates used in the calculation of the provision for onerous contracts.

those commissions) is recorded and it is subsequently recognised in the statement of comprehensive income, using a straight line method, as commissions' income over the lifetime of a guarantee. As disclosed in Note 30, provisions amount to 8 544 thousand EUR in the Group and in the Company as at 31 December 2017. Based on calculation in year 2017, the Group and the Company has recognized additional provisions in the amount of 3 940 thousand EUR and released provisions for onerous guarantee contracts in the amount of 4 415 thousand EUR. The provision for onerous contracts was significant to our audit due to the complexity of the calculations and the significant Company's management's judgement required to determine the amount of the provision for onerous contracts.	Our audit procedures also included, among others, assessment of the methodologies and assumptions used by the Group's and the Company's management, in particular those related to the market rate estimates and length of guarantee contracts. We tested the controls over the application of market rates and calculation of provision for onerous contracts. Finally, we also assessed the adequacy of related disclosures contained in Note 30, as well as the Group's and the Company's accounting policy outlined in Notes 2 (22) and 2(24).

Reporting on Other Information

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

- the Management Report, as set out on pages 3 to 8 of the accompanying Annual Report;
- the Statement on Management Responsibility, as set out on page 10 of the accompanying Annual Report;
- the Statement of Corporate Governance, as set out on pages 109 to 110 of the accompanying Annual Report,

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

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, except as described in the Other reporting responsibilities in accordance with the legislation of the Republic of Latvia section of our report.

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

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

Other reporting responsibilities in accordance with the legislation of the Republic of Latvia

We have other reporting responsibilities in accordance with the Law on Audit Services of the Republic of Latvia with respect to the Management Report and the Statement of Corporate Governance. These additional reporting responsibilities are beyond those required under the ISAs.

Our responsibility is to consider whether the Management Report is prepared in accordance with the requirements of the Law on the Annual Reports and Consolidated Annual Reports of the Republic of Latvia.

Based solely on the work undertaken in the course of our audit, in our opinion:

- the information given in the Management Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Management Report has been prepared in accordance with the requirements of the Law on Annual Reports and Consolidated Annual Reports of the Republic of Latvia.

In accordance with the Law on Audit Services of the Republic of Latvia with respect to the Statement of Corporate Governance, our responsibility is to consider whether the Statement of Corporate Governance includes the information required in Article 56^2, paragraph three of the Financial Instruments Market Law.

In our opinion, the Statement of Corporate Governance includes the information required in Article 56^2 paragraph three of the Financial Instruments Market Law.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with the International Financial Reporting Standards as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Group's and the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Other Reporting Responsibilities and Confirmations Required by the Legislation of the Republic of Latvia and European Union when Providing Audit Services to Public Interest Entities

We were first appointed as auditors of the Group and the Company on 23 September 2014 by shareholders. Our appointment has been renewed annually by shareholder resolution representing a total period of uninterrupted engagement appointment of 4 years.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Company;
- as stipulated in paragraph 37^6 of the Law on Audit Services of the Republic of Latvia we have not provided to the Group and the Company the prohibited non-audit services (NASs) referred to in EU Regulation (EU) No 537/2014. We also remained independent of the audited entity in conducting the audit.

The responsible certified auditor on the audit resulting in this independent auditors' report is Diāna Krišjāne.

ERNST & YOUNG BALTIC SIA
License No. 17

Diāna Krišjāne
Chairperson of the Board
Latvian Certified Auditor
Certificate No. 124

Riga, 29 March 2018

OTHER NOTES TO THE ANNUAL REPORT

OTHER NOTES TO THE ANNUAL REPORT

Group's key financial and performance indicators in 2015 - 2017

	2017	2016	2015
Key financial data			
Net income from interest, fees and commission (tEUR)	11,374	11,024	16,419
Profit for the period (tEUR)	6,945	2,170	4,924
Cost to income ratio (CIR)	54.7%	88.4%	55.8%
Employees	230	242	282
Total assets (tEUR)	451,686	443,126	406,918
Tangible common equity (TCE)/total tangible managed assets (TMA)	35.6%	35.2%	37.3%
Equity and reserves (tEUR)	222,486	210,094	199,610
Total risk coverage: (tEUR)	65,002	67,705	41,021
Risk coverage reserve	60,060	64,833	40,662
Risk coverage reserve used for provisions	-4,753	-4,323	-1,276
Portfolio loss reserve (specific reserve capital)	9,695	7,195	1,635
Liquidity ratio for 180 days	507%	449%	352%
Financial instruments (gross value)			
Outstanding (tEUR) (by financial instrument)			
Loans	207,585	217,429	218,562
Guarantees	182,376	147,175	131,120
Venture capital funds	51,310	58,541	39,929
Total	**441,271**	**423,145**	**389,611**
Number of contracts	14,402	11,449	8,901
Volumes granted (tEUR) (by financial instrument)			
Loans	51,869	59,465	52,329
Guarantees	68,615	56,109	50,065
Venture capital funds	2,638	21,356	18,798
Total	**123,122**	**136,929**	**121,192**
Number of contracts	4,697	4,461	2,819
Leverage for raised private funding	185%	162%	104%

OTHER NOTES TO THE ANNUAL REPORT (continued)

Definitions and ratios

Net Income from Interest, Fees and Commission.	Net Income from Interest, Fees and Commission consists of the following items of the Income statement: Net Interest Income and Net Commission Income. The indicator demonstrates operating income of ALTUM Group.
Cost to Income Ratio (CIR).	Cost to Income Ratio (CIR) is calculated by dividing the sum of the Personnel expenses, Administrative expenses and Depreciation of intangible assets and property, plant and equipment by Operating income before operating expense included in the Income Statement. CIR is the indicator for establishing efficiency of the operating activities.
Tangible Common Equity (TCE) / Tangible Managed Assets (TMA).	Tangible Common Equity (TCE) is calculated by subtracting from Total equity the Revaluation reserve of available for sale investments. The Total Tangible Managed Assets (TMA) include the total assets of ALTUM Group adding the guarantees entered into the off-balance and taking into account the provisions for guarantees from which the following is subtracted: Deferred expense, Accrued income, Property, plant and equipment, Intangible assets, Other assets and Available for sale assets. The items used to calculate both indicators (TCE, TMA) are included in the following financial statements of ALTUM Group: Statement of Financial Position and Statement of Changes in Equity, and in the following notes: Off-balance items and contingent liabilities and Provisions. TCE/TMA are used assess the Group's capital adequacy.
Total Risk Coverage.	Total Risk Coverage is the net funding available for covering of the expected credit losses of the state aid programmes implemented by ALTUM. The Total Risk Coverage is the sum total of Risk Coverage Reserve and Portfolio Loss Reserve (Specific Reserve Capital) less Risk Coverage Reserve Used for Provisions. The expected losses are estimated before implementation of the respective state aid programme and a portion of the public funding intended for coverage of the credit risk losses expected in the respective state aid programme is either transferred to the Portfolio Loss Reserve that is the Group's specific reserve capital or accounted for separately as provisions for risk coverage under liabilities' item Risk Coverage Reserve. The Portfolio Loss Reserve (specific reserve capital) is included in the Note on Reserves to the financial statements of ALTUM Group. While the Risk Coverage Reserve is included in the Note on Support Programme Funding and State Aid to the financial statements of ALTUM Group. The Risk Coverage Reserve Used for Provisions is the amount of the Risk Coverage Reserve allocated to and used for provisioning for impairment of the loan portfolio and guarantees which in its turn is included in the Note on Loans and Note on Provisions to the financial statements of ALTUM Group. Total Risk Coverage is a key indicator for assessment of the risk coverage in the state aid programmes implemented by ALTUM and long-term financial stability of the Group.
The liquidity ratio for 180 days.	The liquidity ratio for 180 days is calculated by dividing the sum of Due from other credit institutions and Treasury with a maturity of up to 1 month and Investment securities – available for sale by sum of Total liabilities maturing within 6 months and Total financial liabilities maturing within 6 months (off-balance item). The data required for calculation of the liquidity ratio for 180 days are included in the following financial statements of ALTUM Group: Financial Position Statement and notes – Off-balance items and contingent liabilities and Maturity analysis of assets and liabilities. The liquidity ratio for 180 days represents ability of ALTUM Group to honour its obligations in due time with currently available liquid assets.
Leverage for raised private funding.	Leverage for raised private funding indicates the amount of additional private funds invested in a project on top of funding provided by ALTUM. Leverage is determined considering the funding invested by a private co-financier and a project's implementer on top of ALTUM's funding, which, on average, makes up to 50 per cent for loans, up to 70 per cent for guarantees and venture capital (except for the first instalment of the Housing Guarantee Programme where the ratio is 795 per cent).
Venture capital.	In accordance with the accounting policies, the part of the losses from investments in associates is included.

Corporate governance report

The statement of joint-stock company Attīstības Finanšu Institūcija Altum (Development Finance Institution Altum, hereinafter – Altum), unified registration No. 50103744891, on corporate governance in 2017 is prepared in accordance with the requirements of Section 56.2 Paragraph three of the Financial Instruments Market Law.

Information on the key elements of the internal control and risk management system of the enterprise that are applied in the preparation of the financial statements

Internal control

The purpose of the internal control system is to provide reasoned assurance that the assets of Altum and the Group (Altum and the total of companies included in the consolidation group) are secured against loss and unauthorised their management and use, the operational risks are identified and managed on an ongoing basis, the amount of capital is adequate to cover the identified risks inherent to the operation of Altum and the Group, the transactions are performed in line with the procedures established by Altum and the Group, Altum and the Group operate reasonably, prudently and efficiently in compliance with the requirements of laws and regulations, and the drawbacks identified in the management of Altum and the Group are fixed.

The management of Altum and the Group bears responsibility for establishing a comprehensive internal control system (ICS) and its effective functioning. With respect to preparing the financial statements and the truthfulness, impartiality, clarity and completeness of the information disclosed therein, this responsibility is materialized by selecting adequate accounting methods that are described in internal regulatory documents.

Independent supervision of the internal control system, assessment of its adequacy and efficiency in Altum and the Group is conducted by the Internal Audit Division, the Council controls, how the Board takes care of establishment of internal control system and its efficient functioning. The reports on internal audit results prepared by the Internal Audit Division are submitted to the Board and the Council. Minimum once a year, the Internal Audit Division prepares a report, submitting it to the Shareholders' meeting, on the conducted audits, main identified problems, providing assessment of the ICS efficiency and providing opinion on activities to be done for improvement of the ICS functionality. The Shareholders' meeting approves the basic principles of the ICS. An Audit Committee has been established in Altum and the Group, which, inter alia, monitors the efficiency of the internal control and risk management system, inasmuch as it pertains to maintaining the credibility and impartiality of annual reports and consolidated annual reports. The Internal Audit Division performs its duties in accordance with the applicable laws and regulations, the international standards for the professional practice in internal auditing and the internal regulations of Altum and the Group.

An Accounting Policy has been developed in Altum and the Group, the purpose of which is to define principles, methods and rules for the accounting, assessment and disclosure of transactions, facts, events and items in financial statements. The management of Altum and the Group has established an accounting policy that ensures that the financial statements provide information that is reliable and useful for the users of such statements in decision-making. The applied accounting policy ensures that the information disclosed in the statements of Altum and the Group is true, comparable, timely, significant, explicit, relevant and complete. Altum and the Group have developed internal regulatory documents defining the procedure of preparing the financial statements. According to the Shareholders decision, an Audit Committee operates in Altum and the Group, which, in line with the requirements of Law on the Financial Instruments Market, monitors the process of the preparation of financial statements of Altum and the Group, and performs other duties assigned to it by laws and regulations. An independent audit of the financial statements of Altum and the Group is performed by independent auditors who provide their opinion stating whether the financial statements of Altum and the Group give a true and fair view of the financial position, financial performance and cash flows of Altum and the Group in accordance with the International Financial Reporting Standards as adopted by the European Union.

Risk management

Information about the key elements of the risk management system of enterprises involved in consolidation, applied in preparation of consolidated financial statements, is provided in the annual report of the Group and Altum for the year ended on 31st December 2017.

Corporate governance report (continued)

The Group's report for 2017 and Altum's report for 2017 are publicly available in the premises of Altum at 4 Dome Square, Riga and in electronic form – on the website www.altum.lv, in INVESTORS section under FINANCIAL INFORMATION tab and in ABOUT ALTUM section under FINANCIAL INFORMATION tab.

This statement is publicly available at Altum's premises at 4 Dome Square, Riga and in electronic form – on the website www.altum.lv, in INVESTORS section under FINANCIAL INFORMATION tab.

Reinis Bērziņš
Chairman of the Board

29 March 2018