JSC DEVELOPMENT FINANCE INSTITUTION ALTUM

Consolidated and Separate Annual Report for the year ended 31 December 2018

(the 5th reporting period)

TABLE OF CONTENTS **Page**

JSC Development Finance Institution Altum
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Altum group

MISSION We help Latvia grow!

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

VALUES Excellence / Team / Responsibility

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

Long-term financial objectives until 2018

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

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

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

Management report

Activity during the reporting period

In 2018, Development Finance Institution Altum group (hereinafter – the Group) earned a profit of EUR 4.092 million. The Group's parent company, the joint-stock company Development Finance Institution Altum (hereinafter – the Company), earned a profit of EUR 4.462 million.

Key financial and performance indicators of the Group

	2018 (audited)	2017 (restated*)	2016 (restated*)
Key financial data			
Net income from interest, fees and commission (tEUR)	11,554	11,602*	11,024
Profit for the period (tEUR)	4,092	8,709*	2,170
Cost to income ratio (CIR)	77.1%	50.3%*	88.4%
Employees	222	230	242
Total assets (tEUR)	495,939	453,668*	443,400*
Tangible common equity (TCE)/total tangible managed assets (TMA)**	**31.7%**	**35.1%***	**36.5%***
Equity and reserves (tEUR)	221,590	222,848*	210,406*
Total risk coverage: (tEUR)	**77,815**	**67,593***	**66,508***
Risk coverage reserve	85,276	62,651*	63,636*
Risk coverage reserve used for provisions	-19,268	-4,753	-4,323
Portfolio loss reserve (specific reserve capital)	11,807	9,695	7,195
Liquidity ratio for 180 days***	227%	482%*	449%
Financial instruments (gross value)			
Outstanding (tEUR) (by financial instrument)			
Loans	217,131	207,585	217,429
Guarantees	236,895	182,376	147,175
Venture capital funds	59,698	62,299*****	64,785*****
Total	513,724	452,260*****	429,389*****
Number of contracts	18,280	14,402	11,449
Volumes issued (tEUR) (by financial instrument)			
Loans	66,443****	51,869	59,465
Guarantees	88,765	68,615	56,109
Venture capital funds	4,149	2,638	21,356
Total	159,357	123,122	136,929
Number of contracts	5,464	4,697	4,461
Leverage for raised private funding	162%	185%	162%

* Due to change of accounting policy regarding investments in venture capital funds and adoption of IFRS 9 requirements that effects the accounting of public funding risk coverage the comparatives for 2017 and 2016 have been restated.
** TMA includes off-balance sheet item outstanding guarantees.
***Liquidity ratio calculation takes into account previous experience and management estimate of expected amount and timing of guarantees claims.
**** Loans issued.
***** The Venture Capital Funds presented at their gross value.

The figures are explained in the section "Key Financial and Performance Indicators" under Other Notes to the Group's Financial Statements.

Financial instrument portfolio

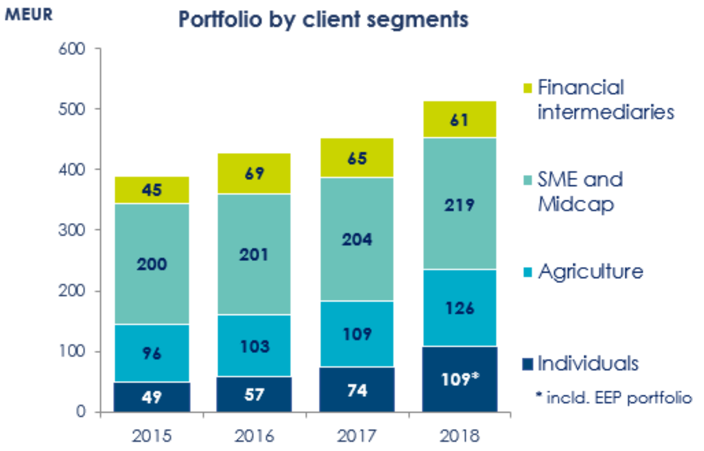
As at 31 December 2018, the Group held a portfolio of financial instruments for the total value of EUR 514 million (gross) issued for 18,280 projects under the support programmes.

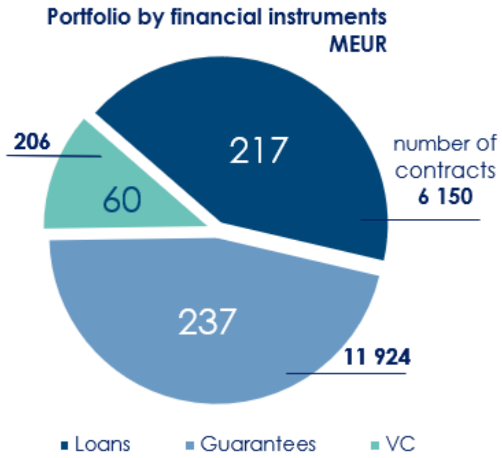
In 2018, the portfolio of the Group's financial instruments increased by 13.6% (EUR 61.5 million) in terms of volume and by 26.9% in terms of the number of projects (by 3,878 projects) vs year-end of 2017. Of the financial instruments, the guarantee portfolio had the most rapid growth by 30% in terms of volume (EUR 54.5 million) and by 48 % in terms of the number of transactions.

Already in 2Q 2018, the volume of the guarantee portfolio exceeded the loan portfolio reaching the target set in the Company's Strategy for 2016-2018 – to achieve a significant augmentation of the operational volumes through the focus on the indirect financial instruments (guarantees).

The segment analysis reveals that the financed projects of the small, medium-sized and intermediate enterprises (SME and Mid-cap companies) account for most of the portfolio. In 2018 the highest growth was in the segment of Individuals +46.8% (+EUR 34.7 million). During the reporting period, the portfolio increased also in the Agriculture segment (+EUR 16.7 million) and SME and Mid-cap segment (+EUR 14.3 million), while decreased in the segment of Financial intermediaries (-EUR 4.3 million).

Management report (cont'd)





Group 31/12/2018

In terms of the number of transactions, the largest increase vs year-end of 2017 was observed in the segment of Individuals. Implementation of the Housing Guarantee Programme has contributed to the rising number of transactions in this segment. The amendments to the programme's framework expanding the programme to young professionals effective as of March 2018 have given a new impetus to implementation of the programme.

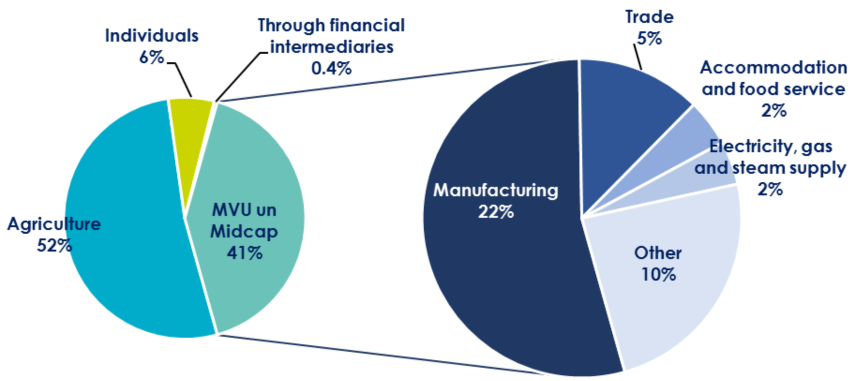
The portfolio structure of the loan and guarantee financial instruments demonstrates the priorities of the Latvian government regarding the implementation of State aid.

The State aid programmes implemented by the Group embrace different industries of the national economy and client segments resulting in a broadly diversified financial instruments portfolio of the Group.

Right from the start of its operation, the Group has implemented a range of lending programmes for farmers which is reflected in the structure of the loan portfolio where the segment of agriculture accounts for 52%. A considerable portion of the loan portfolio goes to manufacturing (22%) and trading companies (5%).

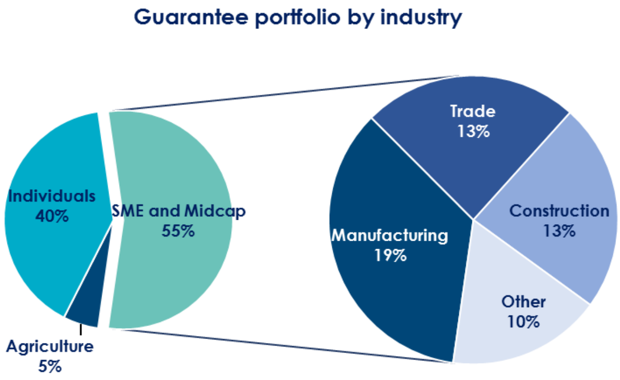
With the approved State aid programmes closing market gaps, the SME and Mid-caps account for most of the Group's guarantees - 55%, while the segment of Individuals accounts for 40% of the guarantees comprised of the housing acquisition guarantees issued to families with children and young professionals as well as guarantees within the Energy Efficiency Programme for Multi-apartment Buildings (EEP).

In terms of industries, the guarantees to manufacturing account for 19% of the guarantee portfolio, whereas both – trade and construction industries account for 13% each which is a substantial amount.



Group 31/12/2018

Management Report (cont'd)



Group 31/12/2018

As at 31 December 2018, as part of the State aid for housing acquisition by families with children, the Housing Guarantee Programme had granted 10,194 guarantees worth EUR 72 million. The programme's guarantees that help saving for the first instalment required to obtain a mortgage loan are used by families throughout Latvia: of the total number of the issued guarantees 67% were granted in Riga and its conurbations, 14% - in Vidzeme, 9% - in Kurzeme, 7% - in Zemgale and 3% - in Latgale. The average amount of one guarantee is EUR 7 thousand. From 1 March 2018, when the programme was expanded to include young professionals, up to 31 December 2018, a total of 849 guarantees worth 6 million euro were issued to young professionals.

As at 31 December 2018, the balance sheet of the Land Fund administered by the Group listed 429properties with a total land area of 7,818 ha worth EUR 21.71 million, including investment properties rented to the farmers with a total land area of 5,633 ha worth EUR 14.79 million and sales and leaseback transactions accounted for in the loan portfolio with a total land area of 2,185 ha worth EUR 6.92 million.

Volume of new transactions

During the reporting period while implementing the State aid programmes, the amount of funding issued was EUR 159.4 million (56% - guarantees, 42% - loans and 2% - investments in venture capital funds). In total, 5,464 projects were supported. Compared to the respective period of the previous year, the volume of new transactions has increased by 29% (EUR 36 million), 29% more guarantees were issued (EUR 20 million), whereas the amount of loans increased by 28% (EUR 15 million).

During the 12 months of 2018, loans for the total amount of EUR 66.4 million were issued. The biggest volume of issued loans accounts for agricultural, forestry and fishery companies – EUR 43.9 million (66% out of total volume issued) as well as manufacturing companies – EUR 13.9 million (21% out of total volume issued). In 2018 the average new loan amount has increased up to EUR 74 thousand (in 1Q and 2Q 2018 it was EUR 44 thousand, in 3Q 2018 – EUR 63 thousand, in 4Q 2018 – EUR 74 thousand).

During 12 months of this year, in order to facilitate entrepreneurship, new guarantees for the total amount of EUR 49.7 million were issued to business projects. In 2018 the commercial banks have taken particular advantage of the loan guarantees when funding manufacturing, trade and construction companies, using the guarantees as the security for issuing bank credit lines. As in the previous periods, the portfolio of newly issued guarantees was well diversified. The decision of 2017 to increase the maximum amount of the guarantee from EUR 1.5 million to EUR 3 million had a positive effect as more and more enterprises that had reached the maximum available guarantee limits asked for new support.

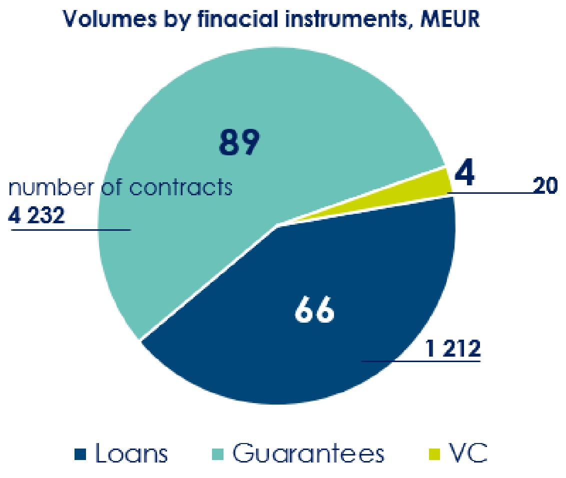
So far a total of 436 project applications for EUR 75 million have been submitted to the Energy Efficiency Programme for Multi-apartment Buildings for reviewing; 336 projects for a total amount of EUR 59 million were approved. The number of projects submitted so far accounts for 39% of the total number of projects planned for the entire EEP implementation period (utilisation of the funds until 2022). Within the programme, a total of 166 grants for EUR 30.9 million were given, 55 guarantees for EUR 10.4 million and 10 Altum loans for EUR 1.6 million.

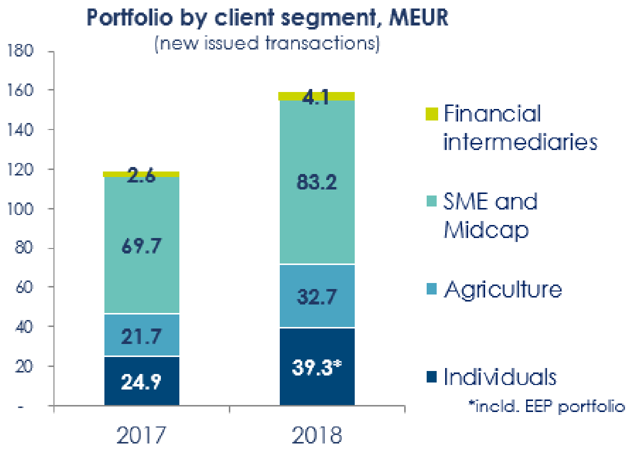
In year 2018 the amount of short-term export guarantees increased significantly reaching EUR 7.1 million (in the respective period of the previous year: EUR 2.9 million). The product sales increase, occurring in the first three quarters, continued into 4Q of this year. The increase was brought about by expanding the programme in the previous year when including transactions to the European Union and some OECD member states effected by small-scale exporters (export turnover less than EUR 2 million) or exporters with a larger export turnover provided the maturity of the deferred payment exceeded 180 days as well as the removal of the condition for the product to be of local origin, thus making it also possible for re-exporters to qualify for the guarantee cover.

During the reporting period, the largest number of new transactions was recorded in the following segments - small, medium-sized and intermediate enterprises Mid-caps - 52%, Individuals - 25% and Agriculture - 21%. Compared to 12 months period of 2017, the segment of Individuals demonstrated a 58% (EUR 14.4 million) increase in new transactions brought about by the expansion of the Housing Guarantee Programme to young professionals from March 2018 as well as improving accessibility to the Energy Efficiency

Management Report (cont'd)

Programme for Multi-apartment Buildings (EEP). Agriculture and SME and Mid-caps segments demonstrated increase in new transactions of 51% (EUR 11 million) and 19% (EUR 13.5 million) respectively.





Group 31/12/2018

In the segment of financial intermediaries dominated by venture capital investments, the volume of new transactions is based on the investments made by the managers of the new (4th generation) accelerator funds and venture capital funds that started to invest in the companies actively in Q4 2018. Three accelerator funds have made 18 pre-seed investments for EUR 440 thousand where Altum provided 100% of the funding, whereas the manager of the seed capital fund has made one investment where Altum's contribution amounted to EUR 750 thousand.

New products and increasing operational efficiency

In order to foster development of the national economy through an influx of additional financial resources, the Group, following its strategy for the years 2016–2018, expanded its business of loan guarantees for promotion of entrepreneurship and access to the funding by offering both – new guarantee products and improving the existing products.

In year of 2018 the range of the eligible recipients of the guarantee products was expanded. Now also the companies renting vehicles, personal goods, domestic hardware and appliances, producing electricity and heat and real estate developers working for the hotel and service operator will be eligible for guarantees. In view of the demand of the financial market, the Group has proposed amending the rules for granting guarantees i.e. to increase the maximum amount of the guarantee from EUR 3 million to EUR 5 million and make acquisition of capital shares eligible for guarantees. The decisions on these issues are expected to be taken in 2Q 2019.

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

In order to simplify implementation of the Agriculture Guarantee Programme, the Group, in co-operation with the Ministry of Agriculture, reviewed and streamlined the rules for granting guarantees to farmers, thus improving access to the funding for farmers significantly: the guarantee coverage was set at up to 80% (formerly from 50% to 80%) and uniform maximum guarantee cap – EUR 1 million (formerly from EUR 43 thousand to EUR 712 thousand) envisaging also guarantees for financial leasing.

In September 2018 Altum launched a new loan product "Loans for enterprises in rural territories" developed together with Ministry of Agriculture to ensure easier access to funding for entrepreneurs performing commercial activities outside big towns and having relatively small annual turnover (up to EUR 70 thousand). This loan product not exceeding EUR 100 thousand is intended for investments and working capital. These loans are attractive for agricultural start-ups, small-scale and bio-farmers as well as service providers in rural territories. The advantages of the said loan product can be used also by fishery companies irrespective of turnover and location.

In year 2018 significant amendments were introduced into the Programme for Acquisition of Agricultural Land - agricultural start-ups were made eligible for the loans of the programme and requirements were alleviated for the farmers whose income plummeted due to unfavourable weather (incessant rain, frost, draught).

By way of ensuring access to the funding for a broader range of clients, significant improvements were made to the SME loans for start-ups that became effective in February 2018 – the maturity of the loan was extended from 8 years to 10 years, but in the event of funding for real estate – up to 15 years, also the companies that had been in the business for less than 5 years (instead of the previous criterion of 3 years) and self-employed persons were included as eligible loan applicants.

Management Report (cont'd)

The amendments that were made to the Cabinet of Ministers Regulation No 160 in year 2018 improved accessibility of EEP significantly and incited greater interest on the part of the implementing bodies of the projects: the amount of the eligible expenditure had been increased for each project, the repayment period of the project had been extended to 40 years.

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

In year 2018 the selection of managers for Stage 4 venture capital funds was finalised.

As of Q3 2018 the venture capital accelerator investments for very early stage companies have been made available in Latvia which is a novelty in the Latvian start-ups eco-system. In Q3 the process of stage one application and assessment of the business projects organized by the managers of all three accelerator funds was completed. Out of 641 applications 20 teams were selected. Approximately 120 feasible and sustainable business ideas will receive the planned accelerator investments within the next 3 years. The total public funding for the Group's investments in these funds would amount to EUR 15 million.

In the 2nd half-year of 2018 the investment period commenced for three Stage 4 funds: one growth venture capital fund, one seed and one start-up venture capital fund. An investment agreement was signed with one growth venture capital fund expecting the investment period for this fund to start in June 2019. The total public funding for the Group's investments in Stage 4 venture capital funds is expected to be EUR 75 million; the investments in the growth funds are expected to reach at least EUR 30 million, in the start-up and seed venture capital funds – EUR 30 million, in accelerator funds, as reported earlier – EUR 15 million. At the beginning of 2019, one of the selected seed venture capital funds and one start-up venture capital fund were unable to attract the necessary financing from private investors by the agreed term, and a decision was made in March 2019 to liquidate these funds. It needs to be said that investors in the Baltic region have a broad range of opportunities in terms of expected return, risk appetite, and investment amounts, which further heightens competition among fund managers. Altum will consider diverting financing meant for the liquidated funds to other venture capital funds.

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

Continuing to work at the optimisation of the management cost of the programmes, in 2018 the Group transitioned to a new transaction accounting information system that would ensure further gradual reduction of management costs over the coming years. Once implemented, the annual maintenance costs of the information system would decrease by more than EUR 0.4 million, apart from the upgrade and maintenance costs of the related infrastructure. The new system will improve the speed of information circulation and client service.

Following implementation of several centralization of operations and automation projects at Altum, including development of new IT solutions and optimization of the operations and support functions for the regional customer service network, the number of employees was reduced by 12% in 2018 (from 231 to 203 employees). The average number of employees in 2018 was 222 (compared to 230 in 2017).

Long-term funding

In October 2017, the Company issued transferable debt securities as a series of notes in the form of a programme, which were registered with the Latvian Central Depository and listed on Nasdaq Riga. Within the framework of this EUR 30 million bonds programme and a view to diversify funding sources, on 2 March 2018 the Company issued 7-year debt securities with a total value of EUR 10 million. The investors in Latvia, Lithuania and Estonia have shown a substantial interest. Similar to the issue of bond securities by the Company in October 2017, also this time the subscribed volume exceeded the issued volume more than 6 times. The bonds were purchased by 14 investors: asset management funds, insurance companies and banks in Latvia (53%), Lithuania (22%) and Estonia (25%). By issuance of these notes the Group continues its long term active participation in the capital markets and also pursuing diversification of the structure of the attracted funding. In January 2019 Altum received Nasdaq Baltic Awards 2019 prize in the nomination "Latvian Stock Exchange event of the Year".

Risk management

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

In view of the Group's activities in high-risk areas when implementing the State aid programmes, the Group has created risk coverage of EUR 78 million (as at 31 December 2018) which is available to cover the expected credit loss of the State aid programmes. The expected loss is assessed before implementing the respective aid programme and a portion of the public funding

Management Report (cont'd)

received within the respective State aid programme for coverage of the expected credit loss is allocated to the risk coverage. The risk coverage consists of the sum total of the risk coverage reserve and portfolio loss reserve (special reserve capital) less the risk coverage reserve used for provisions.

As of September 2018 compliance of customer is being assessed in a centralised manner based on the Law on Prevention of Money Laundering and Terrorism Financing and Law on International Sanctions and National Sanctions of the Republic of Latvia. Also the very process of customer compliance assessment has been automated.

Rating

On 25 March 2019 Moody's Investors Service ("Moody's") confirmed Altum's (the parent company of the Group) Baa1 long-term issuer rating. The baseline credit assessment (BCA) was upgraded to baa3 from ba2. The short-term issuer rating was affirmed at P-2. The outlook on the long-term issuer rating is stable. This action concludes the Moody's review for upgrade initiated on 12 December 2018 following the introduction of an updated Moody's finance companies methodology on 10 December 2018.
Moody's initially assigned to Altum a long-term issuer rating Baa1 in June 2017. The assigned Moody's rating of Altum of Baa1 is one of the highest issuer ratings assigned to corporate entities in Latvia.
Altum baseline credit assessment upgrade from ba2 to investment grade rating baa3 as follows from Moody's assessment, represents:
the strong financial profile of the company with very strong capitalization, large risk coverage reserve incorporated in the public funding as well as the funding reinvestment in implementation of new financial instruments products against moderate profitability and level of problem loans, as stipulated by Altum business specifics; and
the unique standing of Altum in Latvia's financial services industry reflecting its policy mandate to provide a distribution channel for state and EU program funds to both end-customers (business startups, small and medium corporates, farmers, etc.) and other financial institutions.

The assigned rating makes it possible for the Group to implement more successfully the Group's long-term strategy for raising funding by being a regular participant in the capital market and issuing of notes.

Future outlook

In view of what has been achieved and in order to set new long-term financial goals, a medium-term strategy of Altum is being drafted for the years 2019-2021. The strategy is in the approval process.

Reinis Bērziņš
Chairman of the Board

29 March 2019

Supervisory Council and Management Board

Supervisory Council

Name, surname	Position	Appointment date	Date of expiry of the term of the mandate
Līga Kļaviņa	Chairperson of the Council	29/12/2016	28/12/2019
Jānis Šnore	Council Member	29/12/2016	28/12/2019
Kristaps Soms	Council Member	29/12/2016	28/12/2019

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

Management Board

On 11 June 2018, four members of Company's Board were re-elected.

Name, surname	Position	Appointment date	Date of expiry of the term of the mandate
Reinis Bērziņš	Chairman of the Board	11/06/2018	10/06/2021
Jēkabs Krieviņš	Board Member	11/06/2018	10/06/2021
Juris Vaskāns	Board Member	11/06/2018	10/06/2021
Inese Zīle	Board Member	11/06/2018	10/06/2021
Aleksandrs Bimbirulis	Board Member	07/07/2017	06/07/2020

Statement of the management's responsibility

Riga 29 March 2019

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

The financial statements and notes thereto set out on pages 11 to 100 are prepared in accordance with the source documents and present truly and fairly the financial position of the Company and the Group as at 31 December 2018 and 2017, and the results of their operations, changes in the shareholders' equity and cash flows for the years then ended.

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

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

Reinis Bērziņš
Chairman of the Board

altum

Statement of comprehensive income

all amounts in thousands of euro

	Notes	Group 01/01/2018-31/12/2018	Group 01/01/2017-31/12/2017 (restated)	Company 01/01/2018-31/12/2018	Company 01/01/2017-31/12/2017 (restated)
Interest income	4	11,934	12,194	11,934	11,950
out of this income at effective interest rate		*11,934*	*11,950*	*11,934*	*11,950*
Interest expense	5	(763)	(820)	(763)	(819)
Net interest income		11,171	11,374	11,171	11,131
Fee and commission income	6	539	484	539	484
Fee and commission expense	7	(156)	(256)	(156)	(256)
Net income from fees and commissions		383	228	383	228
Gains or (loss) from debt securities and foreign exchange transaction	8	122	(191)	122	(191)
Share of gain or (loss) of investment in joint venture and associate	18	(1,348)	1,672	(1,348)	(3)
Share of gain or (loss) of investment in joint venture and associate at fair value through profit or loss	18	257	910	257	910
Gains less losses from liabilities at fair value through profit or loss	29	953	-	953	-
Other income	9	2,979	7,791	2,979	7,791
Gains on the revaluation of assets held for sale	26	408	-	778	-
Operating income before operating expenses		14,925	21,784	15,295	19,866
Staff costs	10	(7,368)	(6,522)	(7,368)	(6,522)
Administrative expense	11	(3,517)	(4,010)	(3,517)	(4,010)
Amortisation of intangible assets and depreciation of property, plant and equipment	21, 22	(620)	(417)	(620)	(417)
(Impairment) loss, net	12	672	(2,001)	672	(2,001)
Profit before corporate income tax		4,092	8,834	4,462	6,916
Corporate income tax	13	-	(125)	-	(125)
Profit for the year		**4,092**	**8,709**	**4,462**	**6,791**
Other comprehensive income: *Items that can be reclassified to profit or loss* Net loss from financial assets measured at fair value through other comprehensive income	35	(2,495)	(1,161)	(2,495)	(1,161)
Total comprehensive income for the year		**1,597**	**7,548**	**1,967**	**5,630**
Profit is attributable to:					
Owners of the Company		4,092	8,709	-	-
Non-controlling interest		-	-	-	-
Profit for the year		**4,092**	**8,709**	**-**	**-**
Total comprehensive income is attributable to:					
Owners of the Company		(2,495)	(1,161)	-	-
Non-controlling interest		-	-	-	-
Total comprehensive income for the year		**(2,495)**	**(1,161)**	**-**	**-**

The Notes on pages 16 to 100 are an integral part of these financial statements.

Reinis Bērziņš
Chairman of the Board

Marina Baranovska
Chief accountant

29 March 2018

Statement of financial position

all amounts in thousands of euro

	Notes	Group 31/12/2018	Group 31/12/2017 (restated)	Group 31/12/2016 (restated)	Company 31/12/2018	Company 31/12/2017 (restated)	Company 31/12/2016 (restated)
Assets							
Due from other credit institutions and Treasury	16	137,026	109,594	89,553	136,646	109,594	89,408
Financial assets at fair value through profit or loss	17	1,160	142	-	-	142	-
Financial assets at fair value through other comprehensive income - investment securities	14	50,389	61,760	64,294	50,389	61,760	64,294
Financial assets at amortised cost:							
Investment securities	14	467	443	1,531	467	443	1,531
Loans	19	197,755	192,147	201,250	197,473	192,147	201,250
Deferred expense	24	349	176	413	349	176	413
Accrued income	25	1,723	2,080	1,646	1,723	2,080	1,647
Assets held for sale	26	11,343	12,935	1,367	11,343	10,565	1,367
Investments in venture capital funds – associates	18	50,239	53,152	58,570	50,239	53,152	58,570
Investments in subsidiaries	20	-	-	-	1,492	-	10,376
Investment property	15	14,794	10,808	17,087	14,794	10,808	4,869
Property, plant and equipment	22	4,228	3,828	3,507	4,228	3,828	3,507
Intangible assets	21	1,347	771	168	1,347	771	168
Other assets	23	25,119	5,832	4,014	25,119	5,832	3,875
Total assets		**495,939**	**453,668**	**443,400**	**495,609**	**451,298**	**441,275**
Liabilities							
Due to credit institutions	27	38,245	46,933	56,195	38,245	46,933	56,195
Financial liabilities at fair value through profit or loss – derivatives	17	2	-	854	2	-	855
Due to general governments	28	48,110	43,609	46,914	48,110	43,609	46,914
Financial liabilities at amortised cost - Issued debt securities	33	29,943	19,852	-	29,943	19,852	-
Deferred income		2,181	1,395	777	2,181	1,395	777
Accrued expense	32	830	982	1,198	830	982	1,198
Liabilities directly associated with assets held for sale	26	-	2,000	-	-	-	-
Provisions	30	25,373	14,531	16,864	25,373	14,531	16,864
Support programme funding	29	126,959	93,661	98,058	126,959	96,520	96,850
State aid	29	-	3,968	5,575	-	3,968	5,575
Other liabilities	31	2,706	3,764	6,559	2,643	3,488	4,282
Corporate Income tax liabilities	13	-	125	-	-	125	-
Total liabilities		274,349	230,820	232,994	274,286	231,403	229,510
Equity							
Share capital	34	204,862	204,862	204,862	204,862	204,862	204,862
Reserves	35	7,965	722	(8,197)	7,610	(386)	(6,911)
Reserve of disposal group classified as held for sale	26, 38	-	1,839	-	-	1,839	-
Revaluation reserve of financial assets measured at fair value through other comprehensive income	38	3,597	6,092	9,092	3,597	6,092	9,092
Retained earnings		4,900	9,333	4,649	5,254	7,488	4,722
Net assets attributable to the Company's owners		221,324	222,848	210,406	-	-	-
Non-controlling interest		266	-	-	-	-	-
Total equity		221,590	222,848	210,406	221,323	219,895	211,765
Total equity and liabilities		**495,939**	**453,668**	**443,400**	**495,609**	**451,298**	**441,275**

The Notes on pages 16 to 100 are an integral part of these financial statements.

Reinis Bērziņš
Chairman of the Board

Marina Baranovska
Chief accountant

29 March 2019

Consolidated statement of changes in equity

all amounts in thousands of euro

	Attributable to owners of the Company						
	Share capital	**Reserves**	**Revaluation reserve of financial assets measured at fair value through other comprehensive income**	**Reserve of disposal group classified as held for sale**	**Retained earnings**	**Non-controlling interest**	**Total equity**
As at 31 December 2016	**204,862**	**(8,235)**	**9,092**	**-**	**4,375**	**-**	**210,094**
Change in accounting policy (see Note 2 (19) item (iv))	-	38	-	-	274	-	312
As at 31 December 2016 (restated)	**204,862**	**(8,197)**	**9,092**	**-**	**4,649**	**-**	**210,406**
Profit for the period	-	-	-	-	8,709	-	8,709
Other comprehensive income	-	-	(1,161)	-	-	-	(1,161)
Other comprehensive income associated with assets held for sale (Note 38)	-	-	(1,839)	1,839	-	-	-
Total comprehensive income	-	-	(3,000)	1,839	8,709	-	7,548
Changes of reserves (see Note 35, Note 2 (19) item (iv))	-	2,394	-	-	-	-	2,394
Increase of reserve capital (see Note 35)	-	2,500	-	-	-	-	2,500
Distribution of 2016 year profit of Company (Note 35)	-	4,025	-	-	(4,025)	-	-
As at 31 December 2017 (restated)	**204,862**	**722**	**6,092**	**1,839**	**9,333**	**-**	**222,848**
Impact of IFRS 9 adoption (Note 2 (17)	-	-	-	(1,839)	(812)	-	(2,651)
Reclassification of distribution of 2015 year profit of the Company	-	-	-	-	(1,829)	-	(1,829)
As at 1 January 2018	**204,862**	**722**	**6,092**	**-**	**6,692**	**-**	**218,368**
Profit for the period	-	-	-	-	4,092	-	4,092
Other comprehensive income	-	-	(2,495)	-	-	-	(2,495)
Total comprehensive income	-	-	(2,495)	-	4,092	-	1,597
Changes of reserves (see Note 35)	-	(753)	-	-	-	-	(753)
Increase of reserve capital (see Note 35)	-	2,112	-	-	-	-	2,112
Distribution of 2017 year profit of Company (Note 35)	-	5,884	-	-	(5,884)	-	-
Non-controlling interest	-	-	-	-	-	266	266
As at 31 December 2018	**204,862**	**7,965**	**3,597**	**-**	**4,900**	**266**	**221,590**

The Notes on pages 16 to 100 are an integral part of these financial statements.

Statement of changes in equity for the Company

all amounts in thousands of euro

	Share capital	Reserves	Revaluation reserve of financial assets measured at fair value through other comprehensive income	Reserve of disposal group classified as held for sale	Retained earnings	Total capital
As at 31 December 2016	**204,862**	**(6,911)**	**9,092**	**-**	**4,025**	**211,068**
Change in accounting policy (see Note 2 (19) item (iv))	-	-	-	-	697	697
As at 31 December 2016 (restated)	**204,862**	**(6,911)**	**9,092**	**-**	**4,722**	**211,765**
Profit for the year	-	-	-	-	6,791	6,791
Other comprehensive income	-	-	(1,161)	-	-	(1,161)
Other comprehensive income associated with assets held for sale (Note 38)	-	-	(1,839)	1,839	-	-
Total comprehensive income	-	-	(3,000)	1,839	6,791	5,630
Increase of reserve capital (see Note 35)	-	2,500	-	-	-	2,500
Distribution of 2016 year profit (Note 35)	-	4,025	-	-	(4,025)	-
As at 31 December 2017 (restated)	**204,862**	**(386)**	**6,092**	**1,839**	**7,488**	**219,895**
Impact of IFRS 9 adoption (Note 2 (17))	-	-	-	(1,839)	(812)	(2,651)
As at 1 January 2018	**204,862**	**(386)**	**6,092**	**-**	**6,676**	**217,244**
Profit for the year	-	-	-	-	4,462	4,462
Other comprehensive income (Note 35)	-	-	(2,495)	-	-	(2,495)
Total comprehensive income	-	-	(2,495)	-	4,462	1,967
Increase of reserve capital	-	2,112	-	-	-	2,112
Distribution of 2017 year profit (Note 35)	-	5,884	-	-	(5,884)	-
As at 31 December 2018	**204,862**	**7,610**	**3,597**	**-**	**5,254**	**221,323**

The notes on pages 16 to 100 are an integral part of these financial statements.

altum

Cash flow statement

all amounts in thousands of euro

	Notes	Group 01/01/2018-31/12/2018	Group 01/01/2017-31/12/2017 (restated)	Company 01/01/2018-31/12/2018	Company 01/01/2017-31/12/2017 (restated)
Profit before taxes		**4,092**	**8,709**	**4,462**	**6,791**
Amortisation of intangible assets and depreciation of property, plant and equipment	22,21	620	417	620	417
Interest income	4	(11,934)	(12,194)	(11,934)	(11,950)
Interest received		8,687	10,446	8,687	10,200
Interest expenses	5	763	820	763	819
Interests paid		(542)	(207)	(542)	(191)
(Decrease) / increase in provisions for impairment	12	(672)	2,001	(672)	2,001
(Increase) in share of profit / (loss) in joint venture and associate capital funds		(207)	(907)	(207)	(907)
Increase of cash and cash equivalents from operating activities before changes in assets and liabilities		**807**	**9,085**	**1,177**	**7,180**
Increase in deferred income and accrued expense		634	402	634	591
(Decrease) in deferred expense and accrued income		184	(196)	184	(196)
(Increase) of other assets		(19,164)	(8,727)	(21,534)	(8,149)
Increase / (decrease) in other liabilities		33,131	(1,085)	34,803	388
Due from credit institutions (increase)		888	(3,998)	888	(3,998)
(Increase) / decrease of loans		(4,237)	7,149	(3,954)	7,148
Due to credit institutions (decrease)		(4,246)	(12,776)	(4,247)	(12,775)
Corporate income tax		-	-	-	-
Net cash flows to/ from operating activities		**7,997**	**(10,146)**	**7,951**	**(9,811)**
Cash flows from investment activities					
Sale of investment securities		12,856	5,066	12,856	4,876
Acquisition of property, plant and equipment and intangible assets		(1,596)	(5,818)	(1,596)	(5,818)
Purchase of investment properties	15	(3,754)	(1,342)	(3,754)	(1,342)
Sale of assets held for sale		-	5,239	-	5,239
Investments in venture capital funds, net	18	1,961	746	1,961	746
Investments of subsidiaries in share capital		(1,160)	-	-	-
Investments in subsidiaries		-	-	(1,492)	-
Net cash flows to/ from investing activities		**8,307**	**3,891**	**7,975**	**3,701**
Cash flows from financing activities					
Issued debt securities		9,901	19,799	9,901	19,799
Increase in share capital	35	2,112	2,500	2,112	2,500
Net cash flow from financing activities		**12,013**	**22,299**	**12,013**	**22,299**
Increase in cash and cash equivalents		**28,317**	**16,044**	**27,939**	**16,189**
Cash and cash equivalents at the beginning of period		100,597	84,553	100,597	84,408
Cash and cash equivalents at the end of period	37	**128,916**	**100,597**	**128,536**	**100,597**

The Notes on pages 16 to 100 are an integral part of these financial statements

Approval of consolidated financial statements

The management of the Group/Company has approved these financial statements on 29 March 2019. The Commercial Law of the Republic of Latvia as well as Development Finance Institution Law stipulates that the shareholders' meeting is entitled to pass a decision on approval of the financial statements.

1 General information

(1) Background information

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

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

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

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

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

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

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

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

2 Accounting policies

(1) Basis of preparation

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

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

The preparation of financial statements in accordance with International Financial Reporting Standards as adopted by European Union requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on the Management's best knowledge of current events and actions, actual results ultimately may differ from those estimates (Note 2 (16)).

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

(2) Consolidation and investments in subsidiaries

Consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2018.

Subsidiaries are companies, over which the Group has control. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement and has the ability to use its power to affect the amount of the returns. Control is deemed to exist when the parent company (i) has power to direct relevant activities of the investee that significantly affect their returns, (ii) has exposure or rights to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns.

The financial statements of the parent company and the consolidated subsidiaries refer to the same period and have been drawn up according to the accounting policies applicable to the Group. A subsidiary is included in the consolidated financial statements from the time of acquisition, being the date when the parent company gains control over the subsidiary. The subsidiary is included in the consolidated financial statements until the date when control over the company ceases to exist. The entities of the Group are listed in Note 39.

The consolidated financial statements are prepared in accordance with the acquisition method. The acquisition value is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed.

The identifiable assets acquired and the liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values on acquisition date, irrespective of any minority interest. Intra-group transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated.

At the level of the Company, the investments in subsidiaries upon their initial recognition at cost are recorded at fair value with revaluation in the profit or loss calculation. Some of the venture capital funds' investments are classified as investments in subsidiaries. See Note 39 for details.

Investments in associates

Associates are all entities over which the Group has significant influence but no control.

The Group / Company ceases to have a significant influence over a company when it loses power to participate in the company's financial and operating policy decisions. Loss of significant influence may happen with or without changes in the absolute or relative participation.

The Group / Company classifies investments in the associates in two categories using a different accounting method for each. The first category is measured based on the equity capital method (Note 2 (6)), whereas the second category – fair value with revaluation in the profit or loss calculation (Note 2 (6) item (ii) and Note 2 (6) item (iii)). Some of the venture capital funds investments are classified as investments in the *Associate*. See Note 39 for details.

(3) Foreign currency translation

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

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

2 Accounting policies (cont'd)

(3) Foreign currency translation (cont'd)

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

as on 31 December 2018	as on 31 December 2017
1 USD = EUR 1.14500	1 USD = EUR 1.19930
1 GBP = EUR 0.89453	1 GBP = EUR 0.88723
1 CHF = EUR 1.12690	1 CHF = EUR 1.17020
1 NOK = E UR 9.94830	1 NOK = E UR 9.84030

(4) Income and expense recognition

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

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

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

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

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

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

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

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

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

- contractual penalties are calculated for each day and are recorded in the off-balance sheet (recognized at a point in time);
- included in the profit or loss only when being paid by the customer (recognized at a point in time);
- subject to grace days – i.e., if customer pays the entire amount in full within 3 days after the scheduled payment date, contractual penalties are not calculated.

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

- loan processing and disbursement commissions (including loan application fee) together with related direct costs – using effective interest rate method;
- other commissions (loan account management, amendment of terms, reservation fee, a.o.) – are recognised on the day of their receipt (recognized at a point in time).

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

- commissions from granted financial guarantees – according to principles described in Note 2 (5) item (xvi) (recognised over the time);
- other commissions – are recognised on the day of their receipt (recognized at a point in time).

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

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

2 Accounting policies (cont'd)

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

(i) Initial recognition

Financial instruments at fair value through profit or loss (FVTPL) are initially recorded at fair value. All other financial instruments are initially recorded at fair value adjusted for transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets. After the initial recognition, an expected credit loss (ECL) allowance is recognised for financial assets measured at amortised cost (AC) and investments in debt instruments measured at fair value through other comprehensive income (FVOCI), resulting in an immediate accounting loss.

All purchases and sales of financial assets that require delivery within the time frame established by market convention ("regular way" purchases and sales) are recorded at trade date, which is the date on which the Group / Company commits to deliver a financial asset. All other purchases are recognised when the Group/Company becomes a party to the contractual provisions of the instrument.

(ii) Financial assets – classification and subsequent measurement – measurement categories

The Group/Company classifies financial assets in the following measurement categories: FVTPL, FVOCI and AC. The classification and subsequent measurement of debt financial assets depends on:

a) the Group's/Company's business model for managing the related assets portfolio and

b) the cash flow characteristics of the asset.

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

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

a) solely to collect the contractual cash flows from the assets ("hold to collect contractual cash flows",) or

b) to collect both the contractual cash flows and the cash flows arising from the sale of assets ("hold to collect contractual cash flows and sell") or,

c) if neither of (a) and (b) is applicable, the financial assets are classified as part of "other" business model and measured at FVTPL.

Business model is determined for a group of assets (on a portfolio level) based on all relevant evidence about the activities that the Group/Company undertakes to achieve the objective set out for the portfolio available at the date of the assessment. Factors considered by the Group/Company in determining the business model include the purpose and composition of a portfolio, past experience on how the cash flows for the respective assets were collected, how risks are assessed and managed and how the assets' performance is assessed. Refer to Note 2 (15) for critical judgements applied by the Group/Company in determining the business models for its financial assets.

(iv) Financial assets – classification and subsequent measurement – cash flow characteristics

Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Group/Company assesses whether the cash flows represent solely payments of principal and interest ("SPPI"). Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are consistent with the SPPI feature. In making this assessment, the Group/Company considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for credit risk, time value of money, other basic lending risks and profit margin.

Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the financial asset is classified and measured at FVTPL. The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed. Refer to Note 2 (15) for critical judgements applied by the Group/Company in performing the SPPI test for its financial assets.

(v) Financial assets – reclassification.

Financial instruments are reclassified only when the business model for managing the portfolio as a whole changes. The reclassification has a prospective effect and takes place from the beginning of the first reporting period that follows after the change in the business model.

(vi) Financial assets impairment – credit loss allowance for expected credit losses

IFRS 9 introduces an expected credit loss model for the measurement of impairment, where credit loss allowance is recognised on financial assets classified as AC and FVOCI and for the exposures arising from loan commitments and financial guarantee contracts. Expected credit losses ("ECL") are measured based on whether there has been a significant increase in credit risk since initial recognition of an instrument and on unbiased forward-looking information, even if no actual loss events have taken place. The ECL are estimated considering a broad range of information, including past events, current conditions and reasonable and supportable forecasts of future economic conditions that could affect the expected collectability of the future cash flows. Consequently, credit loss allowance is more sensitive to changes in the future economic outlook and are likely to be more volatile as compared to IAS 39.

2 Accounting policies (cont'd)

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

(vi) Financial assets impairment – credit loss allowance for expected credit losses *(cont'd)*
Credit loss allowance is measured according to the ECL model and reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes and considering all reasonable and supportable information available without undue cost or effort at the reporting date. Such allowance is measured according to whether there has been a significant increase in credit risk since initial recognition of an instrument.

Stage 1 includes financial instruments that have not experienced a significant increase in credit risk since initial recognition and those within the Company's policy to assess for low credit risk at the reporting date.

Stage 2 includes financial instruments that have deteriorated significantly in credit quality since the initial recognition but for which there is no objective evidence of credit impairment.

Stage 3 includes financial instruments which are credit-impaired and for which there is objective evidence of impairment.

The 12-month ECL are recognized on instruments in Stage 1 and the lifetime ECL are recognized on instruments in Stage 2 and Stage 3. The lifetime ECL represent losses from all possible default events over the remaining life of the financial instrument. The 12-month ECL are the portion of the lifetime ECL resulting from the default events that are possible within 12 months after the reporting date. Consequently, the 12-month ECL are not the expected cash shortfalls over the next 12 months or the credit losses on financial assets that are forecast to default in the next 12 months.

Measurement of expected credit losses
The ECL are measured for each individual exposure as the discounted product of a probability of default ("PD"), an exposure at default ("EAD"), and a loss given default ("LGD"). The PD represents the likelihood that a borrower will default on its obligation, during the next 12 months or during the remaining lifetime of the obligation. The EAD is an expected exposure at the time of default, taking into account scheduled repayments of principal and interest, and expected further drawdowns from loan commitments. The LGD represents the expected loss on a defaulted exposure, taking into account such factors as counterparty characteristics, collateral and product type.

The ECL are determined by projecting the PD, LGD and EAD for each future month over the expected lifetime of an exposure. The three parameters are multiplied together and adjusted for the probability of survival, or the likelihood that the exposure has not been prepaid. This effectively calculates monthly ECL, which are discounted back to the reporting date using the original effective interest rate and summed. The sum of all months over the remaining expected lifetime results in the lifetime the ECL and the sum of the next 12 months results in the 12-month ECL.

The risk parameters used to estimate ECL incorporate the effects of the macroeconomic forecasts and associated expected probabilities, to measure an unbiased, probability weighted average.

The Group/Company assesses material credit-impaired exposures individually and without the use of modelled inputs. The credit loss allowance for these exposures are established using the discounted expected cash flows.

Definition of default and credit-impaired financial assets
Default is an input to the PD, which affects both the identification of a significant increase in credit risk and the measurement of the ECL. Financial assets classified as credit-impaired are included in Stage 3. Default and credit-impaired are triggered when one of the following occurs: an exposure is more than 90 days past due, an exposure is declared in bankruptcy or similar order, a non-performing forbearance measure is applied towards the borrower or there is an assessment that the borrower is unlikely to pay its obligations as agreed. When assessing whether a borrower is unlikely to pay its obligations, the Group/Company takes into account both qualitative and quantitative factors including, but not limited to the overdue status or non-payment on other obligations of the same borrower, expected bankruptcy and breaches of financial covenants. An instrument is no longer considered to be in default or credit-impaired when all overdue amounts are repaid, there is sufficient evidence to demonstrate that there is a significant reduction in the risk of non-payment of future cash flows and there are no other indicators of credit-impairment.

Determining a significant increase in credit risk since initial recognition
The Group/Company assesses changes in credit risk using a combination of individual and collective information and reflects significant increases in credit risk at the individual financial instrument level. For financial instruments with an initial recognition date of 1 January 2018 or later, the primary indicator used to assess changes in credit risk is changes in the forward-looking lifetime probability of default since initial recognition, which incorporates the effects of past and current forecasted economic conditions. A financial instrument is no longer considered to have experienced a significant increase in credit risk when all indicators are no longer breached.

Stage 2 includes financial instruments that have deteriorated significantly in credit quality since the initial recognition but for which there is no objective evidence of credit impairment. The Group/Company primarily identifies whether a significant increase in credit risk has occurred for an exposure due to "days past due" status and changes in qualitative credit risk indicators, e.g., financial performance of the borrower, breaches of covenants, industry specific information, etc. For loans and financial guarantee agreements, the Group/Company uses 31+ "days past due" status for transfer exposure from Stage 1 to Stage 2. Investments in securities and due from other credit institutions are included in Stage 1 if external rating is A3/A- or higher, while lowering of the external rating by at least two notches (Baa1/BBB+ or lower) results in transfer of exposure from Stage 1 to Stage 2.

2 Accounting policies (cont'd)

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

(vi) Financial assets impairment – credit loss allowance for expected credit losses *(cont'd)*

Expected lifetime
The lifetime of a financial instrument is relevant for both the assessment of significant increase in credit risk, which considers changes in the probability of default over the expected lifetime, and the measurement of the lifetime ECL. The expected lifetime is generally limited the maximum contractual period over which the Group/Company is exposed to credit risk, even if a longer period is consistent with business practice. All contractual terms are considered when determining the expected lifetime, including prepayment options and extension and rollover options that are binding to the Group/Company.

Modifications
Where a loan is modified but is not derecognised, significant increases in credit risk continue to be assessed for impairment purposes as compared to the initial recognition credit risk. Modifications do not automatically lead to a decrease in credit risk and all quantitative and qualitative indicators will continue to be assessed.

Estimates
The Group/Company use both models and expert credit judgement (ECJ) in order to determine ECLs. The degree of judgement that is required to estimate ECL depends on the model outcome, materiality and the availability of detailed information. The model provides guidance and transparency as to how economic events could affect the impairment of financial assets. Expert judgements may be applied to the modelled outcome to incorporate an estimated impact of factors not captured by the model. Such judgemental adjustment to the model-generated ECLs may be applied to significant exposures at a counterparty level. The adjustments are decided by the relevant credit committee using the model ECLs as guidance.

Presentation of credit impairments
For financial assets measured at AC, credit loss allowance is presented in the Group's/Company's statement of financial position as a reduction of the gross carrying amount of the assets.

For loan commitments and financial guarantee contracts, such allowance is presented as a liability in the Group's/Company's statement of financial position.

For debt instruments measured at FVOCI (investment securities), changes in amortised cost reduced by credit loss allowance for ECL are recognised as profit or loss and other changes in gross carrying value are recognised in the OCI as gains less losses on debt instruments measured at FVOCI.

A write-off reduces the gross carrying amount of a financial asset. Credit loss allowance and write-offs are presented as credit impairments in profit or loss. Write-offs are recognised when the amount of loss is ultimately determined and represent the amount before the utilisation of any previous provisions. Any subsequent recoveries of write-offs or credit loss allowance are recognised in profit or loss statement.

(vii) Financial assets – write-off
Financial assets are written-off, in whole or in part, when the Group/Company exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a derecognition event. The Group/ Company may write-off financial assets that are still subject to enforcement activity when the Group/ Company seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery.

(viii) Financial assets – derecognition.
The Group/Company derecognises financial assets when:

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

(ix) Financial assets – modification.
The Group/Company sometimes renegotiates or otherwise modifies the contractual terms of the financial assets.

In a situation where the renegotiation was driven by financial difficulties of the counterparty and inability to make the originally agreed payments, the Group/Company compares the original and revised expected cash flows to assets whether the risks and rewards of the asset are substantially different as a result of the contractual modification. If the risks and rewards do not change, the modified asset is not substantially different from the original asset and the modification does not result in derecognition. The Group/Company recalculates the gross carrying amount by discounting the modified contractual cash flows by the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit impaired (POCI) financial assets), and recognises a modification gain or loss in profit or loss.

2 Accounting policies (cont'd)

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

(x) Financial liabilities – measurement categories.

Financial liabilities are classified as subsequently measured at AC, except for:

- financial liabilities at FVTPL: this classification is applied to derivatives, Support programme funding.

(xi) Financial liabilities – derecognition.

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

(xii) Due from other credit institutions and Treasury

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

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

(xiii) Derivative financial instruments

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

(xiv) Investment securities

Based on the business model and the cash flow characteristics, the Group/Company classifies investments in securities as carried at AC or FVOCI.

Investment securities or debt securities are carried at AC if they are held for collection of contractual cash flows and where those cash flows represent SPPI, and if they are not voluntarily designated at FVTPL in order to significantly reduce an accounting mismatch. Part of fixed income securities held by the Group/Company are included into this category.

Debt securities are carried at FVOCI if they are held for collection of contractual cash flows and for selling, where those cash flows represent SPPI, and if they are not designated at FVTPL. Interest income from these assets is calculated using the effective interest method and recognised in profit or loss. An impairment allowance estimated using the expected credit loss model is recognised in profit or loss for the year. All other changes in the carrying value are recognised in OCI. When the debt security is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from OCI to profit or loss. Treasury bills, fixed income securities are included into this financial assets' measurement category.

(xv) Loans

For purposes of this section, loans are:

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

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

Based on the business model and the cash flow characteristics, the Group/Company classifies loans measured at AC. It means, that loans are held for collection of contractual cash flows.

Reverse rent

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

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

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

2 Accounting policies (cont'd)

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

(xv) Loans *(cont'd)*

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

Repossessed collateral

Repossessed collateral represents financial or non-financial assets acquired by the Group/Company in settlement of overdue loans. The assets are initially recognised at fair value when acquired and included in inventories within other assets depending on their nature and the Group's/Company's intention in respect of recovery of these assets, and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets. See Note 2 (9) item (vii) and Note 2 (9) item (viii) item for details

Loan commitments

The Group/Company issues commitments to provide loans. These commitments are irrevocable or revocable only in response to a material adverse change. Fees received for loan commitments are amortised on a straight-line basis over the life of the commitment. Further on such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at:

- the remaining unamortised balance of the amount at initial recognition, plus
- the amount of the loss allowance determined based on the expected credit loss model, unless the commitment is to provide a loan at a below market interest rate, in which case the measurement is at the higher of these two amounts.

The carrying amount of the loan commitments represents as liability in off-balance sheet.

For contracts that include both a loan and an undrawn commitment and where the Group/Company cannot separately distinguish the ECL on the undrawn loan component from the loan component, the ECL on the undrawn commitment is recognised together with the loss allowance for the loan. To the extent that the combined ECLs exceed the gross carrying amount of the loan, they are recognised as a liability.

(xvi) Financial guarantees

Financial guarantees require the Group/Company to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight-line basis over the life of the guarantee. At the end of each reporting period, the guarantees are measured at the higher of (i) the amount of the loss allowance for the guaranteed exposure determined based on the expected loss model and (ii) the remaining unamortised balance of the amount at initial recognition. In addition, an ECL loss allowance is recognised for fees receivable that are recognised in the statement of financial position as an asset.

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

The carrying amount of the financial guarantees contracts represents as liability in off-balance sheet Note 36.

(xvii) Financial liabilities carried at amortised cost

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

(xviii) Issued debt securities

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

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

(xix) Financial liabilities designated at FVTPL

The Group/Company designates liabilities such as Support *programme funding* at FVTPL at initial recognition. Gains and losses on such liabilities are presented in profit or loss.

In 2018 the Group/Company has changed accounting policy of these liabilities from valued at amortised cost to FVTPL. See Note 2 (19) item (iii) for details.

2 Accounting policies (cont'd)

(6) Investments in venture capital funds

Part of the Group's and the Company's investments in venture capital funds (VCF) are treated as *Associate,* other one – as *Investments in subsidiaries*.

The Group's / Company's investments in the *Associate* are stated under the equity method, except investments in *Baltic Innovation fund.*

Investments in *Associate* initially are recognised at acquisition cost. For subsequent measurement equity method is used, which is based on the following principle: on its balance sheet Group/Company recognizes the value of VCF as its proportionate share of the net asset value (NAV) of the venture capital funds. VCF' NAV is based on fair value measurement, which can be adjusted by the Group/Company to align the accounting policies of the *Associate* with accounting policies of the Group.

The carrying value of the investment includes changes in the Group's/Company's NAV in the associate since acquisition date. The changes in the operational results of the VCF' NAV is included in Group's/Company's profit or loss statement as *Share of gain or (loss) of investment in joint venture and associate*.

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

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

In 2018 the Company management decided to unify the policies for the accounting for investments in venture capital funds between the Company's separate and consolidated financial statements. It means that the accounting for the investments in venture capital funds in the Company's separate financial statements was changed from the cost less impairment method to the equity method. See Note 2 (19) item (i) and 2 (19) item (iii) for details.

(i) Other accounting issues

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

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

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

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

(ii) Investments in the Baltic Innovation Fund

In 2018 Group/Company has changed accounting policy for investments in Baltic Innovation Funds to *assets valued at fair value through profit or loss.*

See Note 2 (19) item (ii) for details.

(iii) Investments by subsidiaries in the shares of companies

Investments in equity securities are measured at FVTPL, except where the Group elects at initial recognition to irrevocably designate equity investments at FVOCI. Dividends continue to be recognised in profit or loss when the Group's right to receive payments is established except when they represent a recovery of an investment rather than a return on such investment. The investments made by risk venture capital funds into equity securities at the level of the Group are included into this financial assets' measurement category.

(7) Fair values of assets and liabilities

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

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

2 Accounting policies (cont'd)

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

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

▪ Disclosures for valuation methods, significant estimates and assumptions	Note 2 (5), 2 (6),2 (8), 2 (9), 2 (15), 2 (17), 2 (19), 2 (20)
▪ Quantitative disclosures of fair value measurement hierarchy	Note 42
▪ Investment property	Note 2 (9) item (viii)
▪ Financial instruments (including those carried at amortised cost)	Note 2 (5)

(8) Off-setting financial instruments

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

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

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

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

The annual depreciation rates are as follows:

Category	Depreciation rate
Land and buildings	2% p.a.
Furniture and fittings	10 - 20% p.a.
Computers and equipment	16.67 – 33.33% p.a.
Vehicles	20% p.a.
Leasehold improvements	over the term of the lease agreements

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

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

2 Accounting policies (cont'd)

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

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

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

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

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

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

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

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

For details of financial information of these investments see Note 26. The impact of the transition to IFRS 9 to these assets is disclosed in Note 17 (iv).

(10) Leases

(i) Finance lease receivables
Where the Group is a lessor in a lease which transfers substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as a finance lease receivable and carried at the present value of the future lease payments. Finance lease receivables are initially recognised at commencement (when the lease term begins) using a discount rate determined at inception (the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease).

The difference between the gross receivable and the present value represents unearned finance income. This income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Incremental costs directly attributable to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term. Finance income from leases is recorded within *Other income* in profit or loss for the year.

Credit loss allowance is recognised using a simplified approach at the lifetime ECL. The ECL is determined in the same way as for loans and advances measured at the AC and recognised through an allowance account to write down the receivables' net carrying amount to the present value of expected cash flows discounted at the interest rates implicit in the finance leases. The estimated future cash flows reflect the cash flows that may result from obtaining and selling the assets subject to the lease.

2 Accounting policies (cont'd)

(10) Leases (cont'd)

(ii) Finance lease liabilities
Where the Group/Company is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group/Company, the assets leased are capitalised in *premises and equipment* at the commencement of the lease at the lower of the fair value of the leased asset, and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are included in other borrowed funds. The interest cost is charged to profit or loss for the year over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life, or the shorter lease term if the Group/Company is not reasonably certain that it will obtain ownership by the end of the lease term.

(iii) Operating lease
Where the Group/Company is a lessor in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group/Company, the total lease payments are charged to profit or loss for the year (rental income) on a straight-line basis over the period of the lease. Operating leases include long-term leases of land, which was acquired by the Land Fund (Note 15).

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

Due to the amendments to the Latvian legislation, starting from 31 December 2017 The Group/Company doesn't recognize any deferred tax asset or liability.

(12) Provisions
The Group/Company utilises off-balance sheet financial instruments that include loan commitments and financial guarantees (Note 36). Such financial transactions are recognized in the financial statements as of the respective agreement dates.

Principles of establishment of provisions for loan commitments and financial guarantees are presented in Note 2 (5) item (vi).

(13) Vacation reserve
Provisions for employee leaves are recognised on an accrual basis.

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

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

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

2 Accounting policies (cont'd)

(15) Critical accounting estimates and judgements

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

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

- ***Impairment losses of loans.*** In order to assess impairment allowance, the management needs to make assumptions regarding the estimated cash flows and their timing related to loans. Significant estimates need to be made in relation to value of the collateral of the loans and advances. The assessment of the collateral includes the amounts of such impairment losses covered by Support programme funding provided by state, see Note 29. Further details disclosed in Note 2 (5) item (vi), Note 19, Note 20 (ii);

- ***Fair value of investments in venture capital funds.*** The Group's/Company's management checks regularly that the value of the underlying investments of the venture capital funds is properly reflected. If the information about investments' evaluation is not sufficient or does not confirm the value, the management needs to make assumptions about the fair value of venture capital funds. The information about changes in accounting policy are represented in Note 2 (19) item (i), (ii) and (iv). Further details disclosed in Note 18.

- ***Impairment allowance for securities valued at amortised cost.*** Similarly as for loans, the Group/Company estimates expected credit losses to reflect changes in credit risk since initial recognition of debt securities. Impairment allowances are recognised based on forward looking information, even if no credit loss event has happened. The assessment considers broad range of information, but as most of these types of exposures are rated, it relies heavily on external credit ratings and rating agencies' reported default rates derived by calculating multi-period rating transition matrices. Credit risk triggers (event of insolvency, any delay of payments, restructuring of debt) and individual credit risk analysis of the issuer are also considered. The Group/Company deems investment grade rated exposures as low credit risk, thus these are assumed no to have experienced a significant increase in credit risk. For non-investment grade exposures decrease in external credit rating by more than 3 notches since acquisition is deemed significant increase in credit risk. Expected credit losses are recognised based on the stage in which the exposure is allocated at the reporting date. 12-month expected credit losses are recognised for Stage 1 exposures, where credit risk since initial recognition has not increased significantly. Lifetime expected credit losses are recognised for Stage 2 exposures whose credit risk has increased significantly since initial recognition and Stage 3 exposures which are credit impaired. Stage 3 exposures, if any were identified, would additionally be subjected to comprehensive evaluation, including comparison to market valuations for similar exposures, analysis of market depth of the respective security, past trading performance and all other available information.

- ***Revaluation of investment properties***. The Group/Company carries its investment properties at fair value, with changes in fair value being recognised in the statement of profit or loss. The Group/Company engaged an independent valuation specialist to assess fair value as at 31 December 2018 and 31 December 2017 for investment properties. Investment property consists of agricultural land. Comparable transaction method is applied mostly for investment property. More information is provided in Notes 2 (9) item (vii) and Note 15.

Such judgments are outlined below:

- ***Classification of the 1st, 2nd and 3rd generation of venture capital funds***. The Group/Company considers that it does not control the venture capital funds even though it owns more than 50% in majority of the funds. Instead, it has been concluded that the Group/Company has significant influence over venture capital funds and therefore investments in venture capital funds are classified as *Associates* and are measured at using the equity method.

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

2 Accounting policies (cont'd)

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

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

Classification of the 4th generation of venture capital funds.
In year 2018 active co-operation with Stage 4 venture capital funds was started. In order to establish existence of control or significant influence, the Group/Company assessed thoroughly the concluded co-operation agreements applying IFRS 10 control criteria and IAS 28 significant influence criteria.

Upon assessment of all the factors, the rights and obligations arising under the agreements demonstrate that those venture capital funds over which Altum exercises the sole right of dismissing the Fund's manager without any additional reasons should be treated as the subsidiaries of the Group/Company as the Group/Company has power over the investment object. While the investments in those venture capital funds over which the Group/Company exercises no such right should be treated as associates over which the Group/Company has no control, but significant influence.

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

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

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

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

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

If there is evidence of value decrease, the Group/Company calculates decrease of venture capital funds' net assets value (NAV) and recognises the loss in the profit or loss.

2 Accounting policies (cont'd)

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

The Group/ Company applies Risk coverage reserve for venture capital funds' NAV value changes compensation. The risk cover mechanism is valid for the 2nd and 3rd generation venture capital funds, such as BaltCap LatviaVenture Capital Fund, Imprimatur Capital Technology Venture Fund, Imprimatur Capital Seed Fund, ZGI-3 fund, FlyCap Investment Fund I and Expansion Capital Fund (Note 18) as well as for Baltic Innovation fund from the December 2017.

The risk cover mechanism is valid also the 4th generation venture capital funds.

- ***Reverse rent.*** Exploring the options for recording of reverse rent transactions and IFRS compliance, the management based its opinion on the subject matter of the transaction and its economic justification rather than the legal form. As part of assessment of these transactions, the management paid much attention to exercising of the reverse repurchase right of the lessee.
- ***Agent vs Principal.*** For majority of state aid programs, the Group/Company considers that it acts as a *Principal*. The management of the Group/Company believes that the Group/Company is a *Principal* since the loan agreements concluded with the clients entail contractual rights to loan repayments from the borrowers or other beneficiaries of the investments. Moreover, the loan agreements are concluded for full amount of the loan and granted loans are carried as assets in the Group's/Company's statement of financial position. The investments made comply with the definition of an asset. The Group/Company is responsible for providing of the service and can affect the interest rate. However, some programmes have been imposed with a limit on the interest rates that cannot be exceeded.

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

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

  The interest income received on the loans issued from *above mentioned activities and programs* includes the amounts collected on behalf of and for the benefit of other entities that do not increase the equity capital of the Group/Company and therefore cannot be considered as the Group's/Company's income. For this reason, the Group/Company carries as income only that part of the financial resources of the Loan Fund that is used to cover the management costs of the Loan Fund and this amount is included in the profit or loss calculation.
- ***Below market rate loans.*** The Group/Company implements the state aid programs by pursuing the government's policy in the national economy and supporting small and medium sized entities (SMEs). The funding of the state aid programs may be comprised of the following public funding sources – (i) European Union funds, other foreign financial aid, funding from the state budget as well as (ii) own funds of the very implementing body. The financing received for implementation of the programs, i.e. for issuing loans to SMEs, is interest free. When the public funding for implementation of the state aid programmes is given with an interest rate below the effective market rate, the effect of such favourable interest rate, i.e. the difference between the fair value of the liability and proceeds received is treated as income-generating government grant.

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

  For more details on the accounting policy applied in 2018, see Note 2 (5) item (xvi), for year 2017 - Note 2 (20) item (vi). Further details on guarantees are disclosed in Notes 12, 36.

  The funding received from the state can be classified into three categories – equity financing (about guarantees see Notes 2 (5) item (xvi), 12, 36), loans (see Notes 19, 29) and state aid (see Note 29).
- **State aid**. The implementing body of each state aid programme is identified as a result of selection of applicants. The management of each applicant, including also the management of the Group and the Company, decides to participate in the selection by signing and submitting on behalf of the respective company the project application and business plan for the selection of the implementing body of the specific state aid programme.

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

2 Accounting policies (cont'd)

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

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

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

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

(16) Application of IFRS 9 "Financial Instruments"

At classification of the financial assets and liabilities according to IFRS 9 – a) measured at amortised cost, b) measured at fair value through other comprehensive income or c) measured at fair value through profit or loss – the classification was changed for items *Assets Held for Sale* and *Support Programme Funding* and *State Aid* that affected the financial result of the Group / Company.

Comparison of classifications of financial instruments according to IAS 39 and IFRS 9:

	Classification according to IAS 39	Classification according to IFRS 9
Financial assets		
Due from other credit institutions and Treasury	Loans and receivables	Measured at amortised cost
Derivatives	Measured at fair value through profit or loss	Measured at fair value through profit or loss
Investment securities - available for sale	Financial assets available for sale	Measured at fair value through other comprehensive income
Investment securities - held to maturity	Financial assets held to maturity	Measured at amortised cost
Assets held for sale	Financial assets available for sale	Measured at fair value through profit or loss
Loans and receivables	Loans and receivables	Measured at amortised cost
Other financial assets	Loans and receivables	Measured at amortised cost
Financial liabilities		
Due to credit institutions	Measured at amortised cost	Measured at amortised cost
Derivatives	Measured at fair value through profit or loss	Measured at fair value through profit or loss
Due to general governments	Measured at amortised cost	Measured at amortised cost
Issued debt securities	Measured at amortised cost	Measured at amortised cost
Support programme funding and state aid	Measured at amortised cost	Measured at fair value through profit or loss
Other financial liabilities	Measured at amortised cost	Measured at amortised cost
Financial guarantees	Loans and receivables	Measured at amortised cost

2 Accounting policies (cont'd)

(16) Application of IFRS 9 "Financial Instruments" (cont'd)

The following table reconciles the gross carrying amounts of each class of financial assets and financial liabilities of the Group as previously measured in accordance with IAS 39 and the new amounts determined upon adoption of IFRS 9 on 1 January 2018.

	Measurement Category		Gross carrying value under IAS 39 - 31 December 2017	Effect of adopting IFRS 9		Gross carrying value under IFRS 9 - 1 January 2018
	IAS 39	IFRS 9		Reclassification		
				Mandatory	Voluntary	
Financial assets						
Due from other credit institutions and State Treasury	L&R	AC	109,594	-	-	109,594
Investment securities - held to maturity	HTM	AC	4,247	-	-	4,247
Loans	L&R	AC	207,585	-	-	207,585
Disbursed compensations under guarantee arrangements	L&R	AC	5,073	-	-	5,073
Financial assets – withdrawn grants	L&R	AC	2,772	-	-	2,772
Other financial assets	L&R	AC	197	-	-	197
Financial assets measured at amortised cost, total			**329,468**	**-**	**-**	**329,468**
Investment securities - available for sale	AFS	FVOCI	61,760	-	-	61,760
Financial assets measured at fair value through other comprehensive income, total			**61,760**	**-**	**-**	**61,760**
Derivatives	Designated at FVTPL	Mandatory at FVTPL	142	-	-	142
Investments by subsidiaries in the shares of companies	Designated at FVTPL	Mandatory at FVTPL	-	-	-	-
Financial assets measured at fair value through profit and loss, total			**142**	**-**	**-**	**142**
Total financial assets			**391,370**	-	**-**	**391,370**
Financial liabilities						
Reserve of disposal group classified as held for sale	FVOCI	P&L	1,839	-	(1,839)	-
Financial assets measured at fair value through other comprehensive income, total			**1,839**	**-**	**(1,839)**	**-**
Support Program Funding and State aid	AC	Mandatory at FVTPL	97,629	-	(8,449)	89,180
Financial assets measured at fair value through profit and loss, total			**97,629**	**-**	**(8,449)**	**89,180**
Total financial liabilities			**99,468**	**-**	**(10,288)**	**89,180**
Financial guarantees	L&R	AC	182,376	-	-	182,376
Off-balance sheet financial assets measured at amortised cost, total			**182,376**	**-**	**-**	**182,376**

2 Accounting policies (cont'd)

(16) Application of IFRS 9 "Financial Instruments" (cont'd)

The following table reconciles the gross carrying amounts of each class of financial assets and financial liabilities of the Company as previously measured in accordance with IAS 39 and the new amounts determined upon adoption of IFRS 9 on 1 January 2018.

	Measurement Category		Gross carrying value under IAS 39 - 31 December 2017	Effect of adopting IFRS 9		Gross carrying value under IFRS 9 - 1 January 2018
	IAS 39	IFRS 9		Reclassification		
				Mandatory	Voluntary	
Financial assets						
Due from other credit institutions and State Treasury	L&R	AC	109,594	-	-	109,594
Investment securities - held to maturity	HTM	AC	4,247	-	-	4,247
Loans	L&R	AC	207,585	-	-	207,585
Disbursed compensations under guarantee arrangements	L&R	AC	5,073	-	-	5,073
Financial assets	L&R	AC	197	-	-	197
Financial assets measured at amortised cost, total			**326,696**	**-**	**-**	**326,696**
Investment securities - available for sale	AFS	FVOCI	61,760	-	-	61,760
Financial assets measured at fair value through other comprehensive income, total			**61,760**	**-**	**-**	**61,760**
Derivatives	Designated at FVTPL	Mandatory at FVTPL	142	-	-	142
Investments by subsidiaries in the shares of companies	Designated at FVTPL	Mandatory at FVTPL	-	-	-	-
Financial assets measured at fair value through profit and loss, total			**142**	**-**	**-**	**142**
Total financial assets			**388,598**	-	**-**	**388,598**
Financial liabilities						
Reserves	FVOCI	P&L	1,839	-	(1,839)	-
Financial assets measured at fair value through other comprehensive income, total			**1,839**	**-**	**(1,839)**	**-**
Support Program Funding and State aid	AC	Mandatory at FVTPL	100,488	-	(8,449)	92,039
Financial assets measured at fair value through profit and loss, total			**100,488**	**-**	**(8,449)**	**92,039**
Total financial liabilities			**102,327**	**-**	**(10,288)**	**92,039**
Financial guarantees	L&R	AC	182,376	-	-	182,376
Off-balance sheet financial assets measured at amortised cost, total			**182,376**	**-**	**-**	**182,376**

2 Accounting policies (cont'd)

(17) Impact of the transition to IFRS 9 "Financial Instruments"

(i) Impact of the transition to IFRS 9 on impairment losses

On 1 January 2018, the Group/Company adopted the requirements of IFRS 9 "Financial Instruments" with respect to the recognition and measurement of financial instruments. As at 1 January 2018, the impact of transition from IAS 39 and IAS 37 to IFRS 9 was a decrease in equity of EUR 1,667 thousand, arising from additional impairment allowances.

The Group's/Company's total impairment due to credit losses as at 1 January 2018 was EUR 56,158 thousand (as of 31 December 2017: EUR 43,760 thousand), which comprised EUR 29,011 thousand (as of 31 December 2017: EUR 4,753 thousand) impairment from Risk Coverage reserve (part of Support programme funding and State aid recognised as liabilities due to the government and the EU funds) and EUR 27,148 thousand (as of 31 December 2017: EUR 39,007 thousand) impairment applied to the Group / Company.

The Group's/Company's financial instruments to which the IFRS 9 impairment requirements are applied:

		31.12.2017.					
	Gross carrying amount	Allowances for credit losses					
		IAS 39			IAS 37		
		Total	Risk Coverage	Altum	Total	Risk Coverage	Altum
Due to credit institutions and the Treasury	109,594	-	-	-	-	-	-
Investment securities held to maturity	4,247	3,804	-	3,804	-	-	-
Loans	207,585	17,995	2,557	15,438	-	-	-
Financial assets – withdrawn grants	2,772	-	-	-	-	-	-
Other financial assets	6,588	5,201	-	5,201	-	-	-
Financial assets measured at amortised cost, total	**330,786**	**27,000**	**2,557**	**24,443**	**-**	**-**	**-**
Investment securities available for sale	61,760	-	-	-	-	-	-
Financial assets measured at fair value through other comprehensive income, total	**61,760**	**-**	**-**	**-**	**-**	**-**	**-**
Off- balance sheet financial guarantees	**182,376**	**8,182**	**2,196**	**5,986**	**8,544**	**-**	**8,544**

Financial instruments to which the IFRS 9 impairment requirements are applied: (cont'd)

		01.01.2018.					
	Gross carrying amount	Allowances for credit losses					
		IFRS 9			IAS 37		
		Total	Risk Coverage	Altum	Total	Risk Coverage	Altum
Due to credit institutions and the Treasury	109,594	5	-	5	-	-	-
Investment securities held to maturity	4,247	3,804	-	3,804	-	-	-
Loans	207,586	24,064	4,412	19,652	-	-	-
Financial assets – withdrawn grants	2,772	2	-	2	-	-	-
Other financial assets	6,588	5,404	-	5,404	-	-	-
Financial assets measured at amortised cost, total	**330,877**	**33,279**	**4,412**	**28,867**	**-**	**-**	**-**
Investment securities available for sale	61,760	33	-	33	-	-	-
Financial assets measured at fair value through other comprehensive income, total	**61,760**	**33**	**-**	**33**	**-**	**-**	**-**
Off- balance sheet financial guarantees	**182,376**	**22,849**	**9,359***	**13,490**	**-**	**-**	**-**

* 7,163 thsd euro, which is part of 9,359 thsd euro, refers to 31/12/2017, which was covered by the Risk Coverage Reserve.

On 31 December 2017, total impairment due to credit losses applied to the Group / Company consisted of credit losses EUR 30,462 thousand measured according to IAS 39 and credit losses EUR 8,544 measured according to IAS 37, while on 1 January 2018, total impairment due to credit losses applied to the Group/Company consisted of credit losses measured only according to IFRS 9.

(ii) Programme Funding

Until 1 January 2018, the Group/Company recognised the Programme Funding as liabilities towards the state and EU funds at amortised cost recognising the difference between the actual rate of the loan and market rate as state aid.

2 Accounting policies (cont'd)

(17) Impact of the transition to IFRS 9 "Financial Instruments" (cont'd)

(ii) Programme Funding (cont'd)
Although these liabilities are interest-free or have an interest rate that differs from the average market rate, they have an additional participation in the profit or loss related to the assets in which the Group/Company has invested using these resources. The management of the Group/Company is of the opinion that these liabilities have a different kind of interest return related to the return on the underlying assets. For the purposes of IFRS the interest return of this kind is considered as embedded derivative. As it follows from IFRS 9 Clause 4.3.5., the embedded derivatives may be recognised without separating them from the contract, together with the whole contract, at its fair value with re-measurement through profit or loss.

Considering the above, the management of the Group/Company decided to measure the liabilities at fair value through profit or loss that would help the user of the financial statements to appraise the actual situation with maximum adequacy. The fair value of the liability established in this manner will consist of the already carried Programmes' funding coupled with the state aid portion adjusted for the part of the future cash flow pertaining to reduction of additional payments due to value appreciation or impairment of the associated assets.

When calculating the fair value of the liabilities or Programmes' funding, an adjustment of EUR (8,449) thsd was made. As a result, EUR (7,465) thousand were attributed to the amount of the liabilities and EUR (984) thsd – to the retained earnings of the previous years.

The measurement of the liabilities at fair value affected the amount of the value impairment provisions of the Group / Company. If until 1 January 2018 the Group / Company recognised in its financial statements the value impairment provisions less the risk coverage amount, then, as of introduction of IFRS 9, the value impairment provisions are presented in gross amounts, i.e. taking into account the amount of the risk coverage. The change in the amount of the provisions affected the financial position statements of the Group / Company as at 31/12/2018, while it had no impact on the profit or loss statement of the Group / Company.

(iii) Investments of the Venture Capital Funds
Before 1 January 2018, IAS 39 Investment Instruments was in force stating, inter alia, that in case of investment funds, the investments in equity instruments should be treated as financial instruments, i.e. recognizing these investments under available-for-sale assets which were allowed to be measured at cost less any accumulated impairment when their fair values could not be reliably measured. Accordingly, Altum could use the costs included in the financial statements of venture capital funds for equity method purposes.

Since 1 January 2018, IFRS 9 Financial Instruments have been in force. According to IFRS 9, the above investments become financial assets held either at fair value through other comprehensive income or at fair value through profit or loss. In neither case, there is an option of stating the said assets at cost, unless the cost is estimated to be close to its fair value. Consequently, in calculating NAV for venture capital funds, fair values of these investments must be taken into account. The Group's / Company's financial statements present NAV taking account of the funds' fair value adjustments, i.e. fair values of investments in equity instruments.

For more on the change of the accounting policy of the venture capital investments and quantitative impact on the financial statements of the Company and Group see Note 2 (19) items (i), (ii) and (iv).

(iv) Classification of assets held for sale
The balance item Assets held for sale includes investments in alternative investment funds 'Hipo Latvia Real Estate Fund I' and 'Hipo Latvia Real Estate Fund II' concerning which sale decision was passed at the end of year 2017. As a result, these investments were classified in the Group's financial statements as Disposal group held for sale, but in the Company's standalone statements - reclassified from Investments in subsidiaries to Assets held for sale.

IFRS 5 provides for continued measurement of the Disposal groups held for sale that were measured earlier through application of IFRS 9 according to IFRS 9 (in year 2017 IAS 39 was used). As of adoption of IFRS 9 on 1 January 2018, the management, having decided to sell these investments and determined to make accounting for the investments more transparent that would, in its turn, give the users of the financial statements a better outlook, decided to measure the investments of the Disposal groups held for sale at fair value with revaluation in the profit or loss calculation. Earlier the investments of the Disposal groups held for sale were measured at fair value with recognition of the revaluation result in other income.

Reclassification from one category to another was done as part of adoption of IFRS 9 on 1 January 2018. The revaluation reserve of EUR 1,839 thsd recognised earlier in other income that was due to measurement at fair value as at 31 December 2017 was transferred to the retained earnings of the previous periods; while the revaluation result of year 2018 measured at fair value as at 31 December 2018, is included in the Group's profit or loss calculation for 408 thsd euro and in the Company's profit or loss calculation – for 778 thsd euro. For more information see Note 2 (9) item (ix), Note 26.

At the beginning of 2018 the sale process of the assets owned by the alternative investment funds 'Hipo Latvia Real Estate Fund I' and 'Hipo Latvia Real Estate Fund II' began following the sale plan prepared by the manager of the Funds. One of the fund-owned assets was sold in August 2018, while sale of the other asset was finalised in January 2019. The said investments are classified as Disposal groups held for sale as at 31 December 2018.

2 Accounting policies (cont'd)

(18) Implementation of IFRS 16

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

The implementation of IFRS 16 will impact Group's / Company's financial statements.

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

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

IFRS 16 expands the financial statements of the Group and Company by increasing the sum total of the on-balance sheet assets and liabilities and depreciation and interest expenses in the profit or loss. According to management's current estimates, the assets are increased in amount of EUR 603 thousand, non-current liabilities in amount of EUR 482 thsd and current liabilities in amount of EUR 118 thsd.

(19) Change in accounting policies

(i) Investments in venture capital funds – associates, except an investment in the Baltic Innovation Fund

Before 1 January 2018, investments in venture capital funds were treated as associates which in the separate financial statements were stated at cost less any impairment in value, while in the consolidated financial statements the risk capital funds were stated under the equity method.

The equity method was based on the following principle: on its balance sheet Altum recognizes the value of venture capital funds as its proportionate share of the net asset value (NAV) of the venture capital funds. The NAV was adjusted to reflect Group's / Company's accounting policies, i.e. IFRS. The NAV of the venture capital funds mainly consisted of the venture capital funds' investments in equity instruments and issued loans as well as of the liabilities undertaken.

Taking into account the Altum Management's readiness to make the financial statements more transparent which would concurrently give the users of the financial statements a better understanding of the Company and Group's financial position and operational performance, the Management decided to unify the policies for the accounting for investments in venture capital funds between the separate and consolidated financial statements. It means that the accounting for the investments in venture capital funds in the separate financial statements was changed from the cost less impairment method to the equity method.

Change of accounting method was applied retrospectively.

(ii) Investments in the Baltic Innovation Fund

Before 1 January 2018, investments in the Baltic Innovation Fund (BIF) in separate financial statements were measured at cost. In the consolidated financial statements these investments were stated and measured under the equity method similarly to other investments in associates.

In 2018, coming into effect of the amendments to IAS 28 regarding the measurement of associates, in carrying out the reassessment of the BIF, it was concluded that:

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

The above conclusions enabled Altum to the exception in relation to the BIF measurement provided in IAS 28 and in its financial statements to measure BIF and its investments applying IFRS 9 and *deciding to state the respective assets at fair value through profit or loss.* Change of accounting method was applied retrospectively

(iii) Support programme funding

The change in the accounting policies described in Sections (i) and (ii) affects the item Support programme funding as well. The Group and the Company use part of the support programme funding as a Risk Coverage Reserve to compensate the change in the values of venture capital funds. The risk coverage mechanism is attributable to the 2nd and 3rd generation venture capital funds, such as *BaltCap LatviaVenture Capital Fund, Imprimatur Capital Technology Venture Fund, Imprimatur Capital Seed Fund, ZGI-3 fund, FlyCap Investment Fund I* un *Expansion Capital Fund*, and since December 2017 – also to the Baltic Innovation Fund.

The effect of the change in accounting policy described in the paragraphs above was reflected retrospectively by changing the balance / turnover in the previous period.

Accounting policies (cont'd)

(19) Change in accounting policies (cont'd)

(iii) Support programme funding (cont'd)

As of 1January 2018 the fair value of the funding of the Support Programmes established in this manner will comprise the carried liability coupled with the state aid portion adjusted for the part of the future cash flow of additional payments / reduction of payments due to value appreciation or impairment of the associated assets, i.e. the liability would be recognised to the extent that corresponds to the liability's repayment amount established for Altum.

Detailed information is provided in Note 29.

(iv) Quantitative impact of change in accounting policy

Detailed information on the amendments made is provided below:

Group, 2016		Reported as at 31/12/2016 (EUR '000)	Restatement (EUR '000)	Restated as at 31/12/2016 (EUR '000)
Restated items of the statement of financial position:	**Note**	**Group**		**Group**
Investments in venture capital funds – associates, of which:		58,296	274	58,570
Investments in VCF, excl. BIF	18	*52,691*	*-*	*52,691*
BIF	18	*5,605*	*274*	*5,879*
Support programme funding	29	(98,096)	(38)	(98,058)
Reserves	35	(8,235)	38	(8,197)
Retained earnings		**4,375**	**274**	**4,649**

Group, 2016		Initial amount in 2016 (EUR '000)	Restatement (EUR '000)	Restated amount in 2016 (EUR '000)
Restated items of statement of comprehensive income:	**Note**	**Group**		**Group**
Share of gain or (loss) of investment in joint venture and associate	*Note 18:* – *Reversal of BIF revaluation - EUR 92 thousand;* – *adjustment of ZGI-3 refund amount – EUR (38) thousand.*	(1,758)	54	(1,704)
Refunded from VCF	Note 18 – adjustment of ZGI-3 refund amount	(684)	38	(646)
Share of loss of investment in joint venture and associate at fair value through profit or loss	Note 18 – BIF revaluation at fair value	-	(134)	(134)
Changes in retained earnings of the reporting year		**-**	**(42)**	**-**
Retained earnings until 2016		**-**	**316**	**-**
Retained earnings for the year	Consolidated statement of changes in equity, Item Changes in accounting policy	**4,375**	**274**	**4,649**

Company, 2016		Reported as at 31/12/2016 (EUR '000)	Restatement (EUR '000)	Restated as at 31/12/2016 (EUR '000)
Restated items of the statement of financial position:	**Note**	**Company**		**Company**
Investments in venture capital funds – associates, of which:		56,722	1,848	58,570
Investments in VCF, excl. BIF	18	*50,962*	*1,729*	*52,691*
BIF	18	*5,760*	*119*	*5,879*
Support programme funding	29	(95,699)	(1,151)	(96,850)
Retained earnings		**4,025**	**697**	**4,722**

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Accounting policies (cont'd)

(19) Change in accounting policies (cont'd)

(iv) Quantitative impact of change in accounting policy (cont'd)

Company, 2016		Initial amount in 2016 (EUR '000)	Restatement (EUR '000)	Restated amount in 2016 (EUR '000)
Restated items of statement of comprehensive income:	**Note**	**Company**		**Company**
Impairment loss	*Note 12 – reversal of BIF impairment loss*	(3)	3	-
Impairment loss	*Note 12 – compensation of BIF impairment loss reversal from Support programme funding*	3	(3)	-
Impairment loss	*Note 12 – reversal of 2nd un 3th generation VCF impairment loss*	(2,630)	2,630	-
Impairment loss	*Note 12 - compensation of 2nd un 3th generation VCF impairment loss from Support programme funding*	2,630	(2,630)	-
Impairment loss	*Note 12 – reversal of 1st generation VCF impairment loss*	(249)	249	-
Impairment loss	*Note 12,18– increase of 2nd un 3th generation VCF impairment loss*	-	(245)	(245)
Impairment loss	*Note 12 – compensation of increase of 2nd un 3th generation VCF impairment loss from Support programme funding*	-	245	245
Share (loss) of investment in joint venture and associate at fair value through profit or loss	*Note18 - BIF revaluation at fair value*	-	(134)	(134)
Share (loss) of investment in joint venture and associate	*Note18 – revaluation of 1st, 2nd and 3rd generation VCF by equity method*	-	(1,704)	(1,704)
Share of gain of investment in joint venture and associate	Revaluation result of 2nd and 3rd generation VCF was covered by Support programme funding	-	1,423	1,423
Interest income	Reversal of interest income received by the 2nd and 3rd generation VCF from Program funding	(465)	465	-
Interest income	According to the equity method, interest income received by the 1st, 2nd and 3rd generations VCF reduces the value of the VCF investment	480	(480)	-
Changes in retained earnings of the reporting year		**-**	**(181)**	**-**
Retained earnings until 2016		**-**	**868**	**-**
Retained earnings for the year	Company's statement of changes in equity, Item Changes in accounting policy	**4,025**	**697**	**4,722**

Group, 2017			Reported as at 31/12/2017 (EUR '000)	Restatement (EUR '000)	Restated as at 31/12/2017 (EUR '000)
Restated items of the statement of financial position:		**Note**	**Group**		**Group**
Investments in venture capital funds – associates, of which:			51,170	1,982	53,152
	Investments in VCF, excl. BIF	*18*	*44,758*	*-*	*44,758*
	BIF	*18*	*6,412*	*1,982*	*8,394*
Support programme funding		29	(92,041)	(1,619)	(93,661)
Reserves (the restatement relates to item Changes in the reserves)		35	2,398	1,676	722
Retained earnings			**-**	**2,039**	**-**
Retained earnings for 2016			**-**	**(274)**	**-**
Retained earnings for 2017			**6,945**	**1,765**	**8,709**

Group, 2017		Initial amount in 2017 (EUR '000)	Restatement (EUR '000)	Restated amount in 2017 (EUR '000)
Restated items of statement of comprehensive income:	**Note**	**Group**		**Group**
Share of gain of investment in joint venture and associate	*Note 18:* – *Reversal of BIF revaluation – EUR 798 thousand;* – *Adjustment of BIF revaluation result – EUR193 thousand;* – *Adjustment of 2nd and 3rd generation VCF revaluation result of 2017– EUR 1,521 thousand;* – *Revaluation result of BIF, 2nd and 3rd generation VCF was covered by Support programme funding – EUR (1,658) thousand.*	818	854	1,672
Share of loss of investment in joint venture and associate at fair value through profit or loss	*Note 18 – BIF revaluation at fair value*	-	910	910
Changes in retained earnings		**-**	**1,765**	**-**

2 Accounting policies (cont'd)

(19) Change in accounting policies (cont'd)

(iv) Quantitative impact of change in accounting policy (cont'd)

Company, 2017		Reported as at 31/12/2017 (EUR '000)	Restatement (EUR '000)	Restated as at 31/12/2017 (EUR '000)
Restated items of the statement of financial position:	**Note**	**Company**		**Company**
Investments in venture capital funds – associates, of which:		49,108	4,044	53,152
Investments in VCF, excl. BIF	*18*	*41,738*	*3,020*	*44,758*
BIF	*18*	*7,370*	*1,024*	*8,394*
Support programme funding	29	(94,080)	(2,440)	(96,520)
Retained earnings		**-**	**1,604**	**-**
Retained earnings for 2016		**-**	**(697)**	**-**
Retained earnings for 2017		**5,884**	**907**	**6,791**

Company, 2017		Initial amount in 2017 (EUR '000)	Restatement (EUR '000)	Restated amount in 2017 (EUR '000)
Restated items of statement of comprehensive income:	**Note**	**Company**		**Company**
Impairment loss	*Note 12 – reversal of BIF impairment loss*	(1,024)	1,024	-
Impairment loss	*Note 12 – compensation of BIF impairment loss reversal from Support programme funding*	1,024	(1,024)	-
Impairment loss	*Note 12 – reversal of 2nd un 3th generation VCF impairment loss*	(7,194)	7,194	-
Impairment loss	*Note 12 - compensation of 2nd un 3th generation VCF impairment loss from Support programme funding*	7,194	(7,194)	-
Impairment loss	*Note 12, 18 – decrease of 2nd un 3th generation VCF impairment loss*	-	105	105
Impairment loss	*Note 12 – compensation of decrease of 2nd un 3th generation VCF impairment loss from Support programme funding*	-	(105)	(105)
Share gain of investment in joint venture and associate at fair value through profit or loss	Note 18 – BIF revaluation at fair value	-	910	910
Share (loss) of investment in joint venture and associate	Note 18 – revaluation of 2nd and 3rd generation VCF by equity method	-	(5,682)	(5,682)
Share gain of investment in joint venture and associate	Revaluation result of 2nd and 3rd generation VCF was covered by Support programme funding	-	5,682	5,682
Share (loss) of investment in joint venture and associate	Note 18 – revaluation of 1st generation VCF by equity method	-	(3)	(3)
Interest income	Reversal of interest income received by the 2nd and 3rd generation VCF from Program funding	(1,245)	1,245	-
Interest income	According to the equity method, interest income received by the 1st, 2nd and 3rd generations VCF reduces the value of the VCF investment	1,245	(1,245)	
Changes in retained earnings of the reporting year			**907**	

2 Accounting policies (cont'd)

(20) Accounting policies used before IFRS 9 adoption

(i) Trading and investment securities

Trading and investment securities are comprised of the following categories:

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

(ii) Loans and receivables

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

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

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

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

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

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

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

(iii) Impairment of financial assets

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

2 Accounting policies (cont'd)

(20) Accounting policies used before IFRS 9 adoption (cont'd)

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

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

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

(iv) Restructured loans

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

(v) Available for sale financial instruments

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

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

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

(vi) Financial guarantees

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

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

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

2 Accounting policies (cont'd)

(20) Accounting policies used before IFRS 9 adoption (cont'd)

(vii) State aid

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

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

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

The Group and the Company recognises the state aid when there is reasonable assurance of receipt of the government grant and compliance with all the related conditions. According to IAS 20.12 the government grants are recognised on a systematic basis as income over the period necessary to match them with the related costs, for which they are intended to compensate. The Group and the Company receives government grants provided it complies with all the grant related conditions and obligations. For this reason the grants are recognised in income and matched with the related expenses for which they are intended to compensate.

Thus the Group and the Company applies the *income method* to the recognition of the government grants. The government grants related to assets are carried as deferred income and recognised in income in equal amounts over the useful life of the asset. The additional government assistance of the favourable interest rate is recognised as income during implementation of the state aid programmes.

(viii) Critical accounting estimates and judgements before IFRS 9 adoption

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

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

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

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

2 Accounting policies (cont'd)

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

The following new or revised standards and interpretations will become effective for the Group/ Company from as of 1 January 2019 and might have an impact on the financial statements if the Group/ Company:

Long-term Interests in Associates and Joint Ventures - Amendments to IAS 28
(effective for annual periods beginning on or after 1 January 2019; not yet adopted by the EU)
The amendments clarify that reporting entities should apply IFRS 9 to long-term loans, preference shares and similar instruments that form part of a net investment in an equity method investee before they can reduce such carrying value by a share of loss of the investee that exceeds the amount of investor's interest in the investee. The Group's/Company's management is evaluating whether these amendments will have significant impact to the financial statements.

Amendments to the Conceptual Framework for Financial Reporting
(effective for annual periods beginning on or after 1 January 2020; not yet adopted by the EU)
The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance - in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Group's/Company's management is evaluating whether these amendments will have significant impact to the financial statements.

Definition of materiality – Amendments to IAS 1 and IAS 8
(effective for annual periods beginning on or after 1 January 2020; not yet adopted by the EU)
The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The Group's/Company's management is evaluating whether these amendments will have significant impact to the financial statements

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28
(effective date to be determined by the IASB; not yet adopted by the EU).
These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary and the shares of the subsidiary are transferred during the transaction. The Group's/Company's management is evaluating whether these amendments will have significant impact to the financial statements.

3 Risk management

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

The following major risk management principles are followed:

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

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

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

Credit Risk

The credit risk is a risk that a customer or cooperation partner of the Group/Company is unable or unwilling to meet its liabilities towards the Group/Company in full and within the established term. Since the Group/Company is delegated implementation of the state aid programmes, it is mainly exposed to credit risk through its lending, guarantees to the third parties and other off-balance liabilities towards the third parties. The Group/Company is also subject to the credit risk due to its investment activities. Credit risk also includes concentration risk, which means large individual exposures as well as significant exposures to groups of customers or cooperation partners whose probability of default is driven by common underlying factors, such as sector, economy or type of instrument.

Credit risk governance

Credit risk governance is set in the Group's/Company's Risk Management Policy and Credit Policy:

- The overall risk appetite, decided by the Supervisory Board, is broken down into detailed risk limits and target levels for different sectors, geographies and products, but also to certain limits of each customer or cooperation partner and group of connected customers or cooperation partners.
- The business units are responsible for the credit operation, including the credit process and the credit risks stemming from all customers or cooperation partners within the unit. The business unit shall ensure that all credit risk exposures are assessed, decided, administrated, and followed-up according to the credit framework, including establishing an integrated internal control of high quality in the credit process. The business unit shall also make sure that the credit risk exposures are in line with the Group's/Company's strategies, policies, and instructions.
- The Risk Management Department is responsible for independent monitoring and control of credit risk management. The primary responsibility of the Risk Management Department is to maintain, develop and monitor the risk limits and the risk classification systems. The risk limit framework identifies areas where restrictions need to be set, in order to make sure that the portfolios exposed to the credit risk will stay within the decided risk appetite. The Risk Management Department is also responsible of controlling compliance to internal credit rules.
- The Internal Audit performs independent periodic reviews of the credit governance and the system of internal control.

Credit risk assessment and monitoring

The key principle of credit risk management in the Group/Company is the ability of the customers or cooperation partners to meet their liabilities towards the Group/Company, which is achieved by assessment of the customer and co-operation partner prior to transaction, as well as further continuous monitoring and evaluation.

To maintain a well-diversified credit portfolio with a low-risk profile and to find a favourable balance between risk and return, the Group/Company works continuously to understand the customers and their market conditions. When the Group/Company considers a credit application, a thorough analysis is performed which includes the customer's or cooperation partner's capacity and willingness to repay the new credit as well as other credits. A customer's or cooperation partner's cash flow and solvency are always key variables when deciding on credit and the Group/Company strives to obtain adequate collateral.

The risk profile of the portfolios exposed to credit risk is continuously analysed. For portfolio segments and individual customers or cooperation partners where the risk of default appears higher, reviews are performed more frequently. If a customer's or cooperation partner's risk profile has deteriorated, a number of corrective measures are considered and implemented. Each business unit is responsible for monitoring signals and conditions that might suggest that the level of credit risk in individual exposures has increased. In such situations a series of customised actions should be taken without delay to minimise the Group's/Company's risk or losses. A special restructuring and recovering unit supports the business units when the risk associated with a certain exposure has increased and it provides expertise in managing insolvency and restructuring cases.

3 Risk management (cont'd)

Mitigation of credit risk

The Group/Company reduces its exposure to credit risk by securing a pledge or other collateral adequate to the risk transaction and provisions of the target programme. The collateral, its value and risk mitigating effect is considered throughout the credit process. The term collateral covers pledges and guarantees. Credits without collateral are mainly granted for small loans. Special loan covenants are commonly created which entitle The Group/Company to renegotiate or terminate the agreement if the borrower's repayment capacity deteriorates, or if the covenants are otherwise breached.

The valuation of collateral is based on a thorough review and analysis of the pledged assets, and is an integrated part in the credit risk assessment of the customer. The establishment of the collateral value is part of the credit decision. The value of the collateral is reassessed within periodic credit reviews of the borrower and in situations where The Group/Company has reason to believe that the value has deteriorated or the exposure has become a problem loan.

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

Liquidity Risk

Liquidity risk is the risk that the Group/Company is unable to meet its contractual or contingent obligations, that it does not have the appropriate amount of funding and liquidity to support its assets or, in case of necessity, the resources might not be available to it on the market, and/or it might be unable to dispose of positions (for example, sell the assets) without considerable losses and in a short period of time to ensure the necessary liquidity.

The goal of liquidity risk management is to maintain liquidity resources that are sufficient in amount and quality and to provide the term structure of funding that is appropriate to meet its liabilities as they fall due.

Risk and liquidity management committee is responsible for monitoring and managing liquidity risk in line with the Group/Company's funding management objectives and risk framework.

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

Operational Risk

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

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

Interest Rate Risk

The interest rate risk is related to the possible influence of the fluctuations of the market rates onto the interest income and expenses of the Group / Company.

Interest rate management principles are determined in Risk management policy. Interest rate risk governance is performed by Asset and liability management committee, while daily interest rate analysis and management is performed by Budgeting and financial management department.

To assess the interest rate risk the Group/Company analyses the maturity structure of interest rate sensitive assets, liabilities and off-balance sheet items, net position of interest rate risk and its sensitivity to changes in interest rates.

The sensitivity has been measured calculating the impact of probable interest rate changes by 100 bps on the Group's/Company's interest income and expenses, assuming that all other variables held constant. Scenarios floor the lowest possible interest rate at zero if at the rate fixing date it is with negative value and if such a condition arises from the actual agreements.

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

Increase (+) /decrease (-) in interest rates by	**Group** 31/12/2018 (EUR '000)	**Group** 31/12/2017 (EUR '000)	**Company** 31/12/2018 (EUR '000)	**Company** 31/12/2017 (EUR '000)
+ 100 bps	1 081	973	1 081	973
-100 bps	(335)	(402)	(335)	(402)

3 Risk management (cont'd)

Foreign currency risk

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

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

	Group	Company
Scenario:	USD, (EUR '000)	USD, (EUR '000)
2018		
+5%	(111)	(111)
-5%	111	111
2017		
+5%	(686)	(686)
-5%	868	868

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

AML / CTF / sanctions risk

The Group/Company is subject to the Law on the Prevention of Money Laundering and Terrorism Financing (AML/CTF) and complies with the international legal acts and legal acts of the Republic of Latvia which regulate prevention of legalization of proceeds derived from criminal activity and financing of terrorism and ensures compliance with sanction lists (AML/CTF/Sanctions).

The internal control system of The Group/Company is based on the "Know Your Customer (KYC)" principles. Policies and procedures in place for the AML/CTF/Sanctions as well as control measures are developed on the basis of the international legal acts and legal acts of the Republic of Latvia that regulate AML/CTF/Sanctions. The international standards and the best practice guidelines as well as Policy and Guidelines of the Finance Latvia Association in the area of the AML/CFT/Sanctions are followed as well.

The Group/Company ensures compliance with Sanction lists requirements defined by EU regulations, OFAC and UN Regulations.

Since September 2018, The Group/Company has centralized AML/CTF/Sanctions compliance function with the Risk Management Department who carries client distance on-boarding with respect to the AML/CTF/Sanctions compliance through automated loan assessment system.

In February 2019, The Group/Company launched client's AML/CTF scoring system – every client who applies to loan, grant or export credit guarantee instrument as well as investments under venture capital instruments has been assigned the AML/CTF risk score.

4 Interest income

	Group	Group	Company	Company
	01/01/2018-31/12/2018	01/01/2017-31/12/2017 (restated)	01/01/2018-31/12/2018	01/01/2017-31/12/2017 (restated)
Interest income conculcated using effective rate	11,934	11,950	11,934	11,950
Interest on loans and guarantees*	9,934	9,791	9,934	9,791
Interest on securities at amortised cost	25	46	25	46
Interest on securities at fair value	1,966	2,094	1,966	2,094
Interest on balances due from credit institutions	9	19	9	19
Interest income conculcated without effective rate	-	244	-	-
Other interest income	-	244	-	-
Interest income from venture capital funds **	-	-	-	-
Total interest income	**11,934**	**12,194**	**11,934**	**11,950**

* Based on the Mezzanine and Guarantee Fund Activity Agreement concluded with the Ministry of Economics in 2016 (Agreement No 2011/16), the financing given by the Ministry of Economics must be increased by the income of the Mezzanine and Guarantee Fund from the placement of free funds, interest income from loans, premium income on issued guarantees, commissions, contractual penalties, etc. As a result, the Group's/Company's sub-item *Interest income on loans and guarantees* is reduced by EUR 703 thousand (2017: EUR 645 thousand).

** The Company's item *Interest income from venture capital funds* was restated for the previous period (see Note 2 (19), item (iv)).

5 Interest expense

	Group	Group	Company	Company
	01/01/2018-31/12/2018	01/01/2017-31/12/2017	01/01/2018-31/12/2018	01/01/2017-31/12/2017
Interest on balances due to credit institutions	184	218	184	218
Other interest expense	579	602	579	601
Total interest expense	**763**	**820**	**763**	**819**

6 Fee and commission income

	Group	Group	Company	Company
	01/01/2018-31/12/2018	01/01/2017-31/12/2017	01/01/2018-31/12/2018	01/01/2017-31/12/2017
From lending activities	537	472	537	472
Other fee and commission income	2	12	2	12
Total fee and commission income	**539**	**484**	**539**	**484**

7 Fee and commission expense

	Group	Group	Company	Company
	01/01/2018-31/12/2018	01/01/2017-31/12/2017	01/01/2018-31/12/2018	01/01/2017-31/12/2017
On venture capital fund management fee*	54	193	54	193
On securities portfolio maintenance	62	50	62	50
On asset management	-	7	-	7
Other fee and commission expense**	40	6	40	6
Total fee and commission expense	**156**	**256**	**156**	**256**

*As regards the Holding Fund Programme the expenses of the Group/Company for the reporting period include management fees of the venture capital funds amounting to 1,339 thsd euros (2017: 1,715 thsd euros) of which 1,339 thsd euros (2017: 1,522 thsd euros) were reimbursed (Note 18). The reimbursement scheme is stipulated by the agreement No 2011/15 On Implementation of the Holding Fund dated December 23, 2015.

Management fees for the *Baltic Innovation Fund* amounting to EUR 175 thousand (2017: EUR 193 thousand), of which EUR 121 thousand was compensated from the Support programme funding.

** Item *Other fee and commission expense* includes asset management fee of the financial intermediaries JSC SEB and JSC Swedbank. As regards the Holding Fund Programme the expenses of the Group / Company for the reporting period include the management fees of 8 thsd euros (2017: 15 thsd euros) of the financial intermediaries JSC SEB and JSC Swedbank that, according to the agreement No 2011/15 On Implementation of the Holding Fund, were reimbursed for 8 thsd euros (2017: 8 thsd euros).

8 Gains or (loss) from debt securities and foreign exchange transaction

	Group	Group	Company	Company
	01/01/2018-31/12/2018	01/01/2017-31/12/2017	01/01/2018-31/12/2018	01/01/2017-31/12/2017
Gain from trading securities	405	-	405	-
Loss on currency exchange and trade and revaluation of other financial instruments, net	(283)	(191)	(283)	(191)
Total net trading income	**122**	**(191)**	**122**	**(191)**

9 Other income

	Group	Group	Company	Company
	01/01/2018-31/12/2018	01/01/2017-31/12/2017	01/01/2018-31/12/2018	01/01/2017-31/12/2017
Other operating income*	48	4,542	418	4,542
Compensations**	1,877	2,992	1,877	2,992
Income from investment property revaluation	234	121	234	121
Income from lease payments for operational leases	421	136	421	136
Income from lease payments for financial leases	29	-	29	-
Total other income	**2,979**	**7,791**	**2,979**	**7,791**

* In year 2018 the other operating income of the Group/Company decreased considerably due to sale of the Group's/Company's real estate, situated at Elizabetes street 41/43, Riga in 2017.

** Compensations include the compensation for management expenses of state aid programs implemented by the Group/Company in amount of 1,877 thsd euros. Expenses in amount of 1,050 thsd euros (2017: 2,748 thsd euros) (on cash flow basis) are compensated to the Group/Company according to terms and budget of each particular programme. The compensation for management expenses includes personnel expenses of 810 thsd euros (2017: 2,012 thsd euros) (Note 10) and administrative and other operating expenses of 240 thsd euros (2017: 980 thsd euros) (Note 11).

10 Staff costs

	Group	Group	Company	Company
	01/01/2018-31/12/2018	01/01/2017-31/12/2017	01/01/2018-31/12/2018	01/01/2017-31/12/2017
Remuneration to the Council and the Board	503	376	503	376
To The Council	72	66	72	66
To The Board	431	310	431	310
Remuneration to staff	5,434	4,886	5,434	4,886
Social security contributions	1,431	1,260	1,431	1,260
Total staff costs	**7,368**	**6,522**	**7,368**	**6,522**

In year 2018, based on the implementation agreements of the state aid programmes concluded with the Responsible Institutions, the personnel expenses in amount of 810 thsd euros were compensated (on cash flow basis) to the Group/Company (2017: 2,012 thsd euros) (Note 9).

During the reporting period the Group/Company employed 227 employees on average (2017: 234). Due to optimisation of business purposes staff number has been reduced down to 208 as at 31/12/2018.

11 Administrative and other operating expense

	Group	Group	Company	Company
	01/01/2018-31/12/2018	01/01/2017-31/12/2017	01/01/2018-31/12/2018	01/01/2017-31/12/2017
Information system and communication expense	677	945	677	945
Maintenance costs of assets that have been taken over in the debt collection process	311	360	311	360
Premises and equipment maintenance expense	890	843	890	843
Other expense	516	258	516	258
Revaluation of assets that have been taken over in the debt collection process*	116	297	116	297
Advertising and public relations	291	495	291	495
Professional services**	398	428	398	428
Training and other staff expense	166	247	166	247
Real estate tax	152	137	152	137
Total administrative costs	**3,517**	**4,010**	**3,517**	**4,010**

In year 2018, based on the implementation agreements of the state aid programmes concluded with the Responsible Institutions, the Group/Company were compensated (on cash flow basis) the administrative and other operating expenses of 240 thsd euros (2017: 980 thsd euros) (Note 9).

*****The accounting policy of the assets that have been taken over in the debt collection process is described in Note 2 (9) item (viii). See also Note 23 for details.

** Item *Professional services* includes tax and accounting consulting services in amount of 12 thsd euros, which were received during 2018 year from Group's / Company's sworn auditor PricewaterhouseCoopers, ltd.

12 Impairment provisions, net

	Group	Group	Company	Company
	01/01/2018-31/12/2018	01/01/2017-31/12/2017 (restated)	01/01/2018-31/12/2018	01/01/2017-31/12/2017 (restated)
impairment losses on:	9,540	11,467	9,540	11,467
Loans, net	4,710	5,683	4,710	5,683
impairment losses (Note 19)	*5,917*	*5,683*	*5,917*	*5,683*
impairment losses covered by risk coverage reserve	*(1,207)*	-	*(1,207)*	-
other assets, net	1,803	2,526	1,803	2,526
impairment losses (Note 23)	*1,826*	-	*1,826*	-
impairment losses covered by risk coverage reserve	(23)	-	(23)	-
debt securities	-	-	-	-
investments in venture capital funds*	-	-	-	-
Guarantees, net**	2,939	3,258	2,939	3,258
impairment losses (Note 30)	*8,174*	*3,258*	*8,174*	*3,258*
impairment losses covered by risk coverage reserve	*(5,235)*	-	*(5,235)*	-
Loan commitments	88	-	88	-
impairment losses (Note 30)	*1,220*	-	*1,220*	-
compensation of impairment losses from risk coverage reserve	*(1,132)*	-	*(1,132)*	-
Reversal of impairment on:	(8,764)	(7,811)	(8,764)	(7,811)
Loans, net	(2,685)	(2,112)	(2,685)	(2,112)
reversal of impairment (Note 19)	*(3,408)*	*(2,112)*	*(3,408)*	*(2,112)*
reversal of impairment covered by risk coverage reserve	*723*	-	*723*	-
other assets, net	(424)	(467)	(424)	(467)
reversal of impairment (Note 23)	(1,229)	-	(1,229)	-
reversal of impairment covered by risk coverage reserve	805	-	805	-
debt securities	(211)	(130)	(211)	(130)
investments in venture capital funds*	-	-	-	-
Guarantees, net**	(5,444)	(5,102)	(5,444)	(5,102)
reversal of impairment (note 30)	*(6,876)*	*(5,102)*	*(6,876)*	*(5,102)*
reversal of impairment covered by risk coverage reserve	*1,432*	-	*1,432*	-
(Income) from release of provisions for onerous contracts (guarantees)	-	(474)	-	(474)
Recovery of loans written off in previous periods	(1,448)	(1,181)	(1,448)	(1,181)
Total impairment losses, net	**(672)**	**2,001**	**(672)**	**2,001**

* Company's items *Impairment losses on investments in venture capital funds and Reversal of impairment on investments in venture capital funds* were restated for the previous period. See Note 2 (19) item (iv) for details.
** As of adoption of IFRS 9 on 1 January 2018 the principles of establishment of provisions for financial guarantees are regulated by IFRS 9, exposing the financial guarantees for the establishment of the allowances for expected credit losses, as opposed to IAS 39. For more information see Note 2 (17) item (i).

13 Corporate income tax

	Group	Group	Company	Company
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Corporate income tax	-	125	-	125
Deferred tax	-	-	-	-
Total corporate income tax (income)	**-**	**125**	**-**	**125**

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

The new wording of the Law on Enterprise Income Tax stipulates that the tax losses can be used for decreasing of the corporate income tax only for the dividends calculated over 5 years. The Group's/Company's tax losses to be carried forward amount to 42,041 thsd euro. The Group/Company will not be able to use the tax losses carried forward to decrease the corporate income tax as the Group/Company, being governed by Section 15.2.(5) of Development Finance Institution Law, may not pay dividends. See also Note 2 (11) for details.

14 Investment securities

	Group	Group	Company	Company
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Investment securities valued at amortised cost				
Latvian Treasury bills and government bonds	427	404	427	404
OECD corporate bonds	3,879	3,843	3,879	3,843
Total investment securities valued at amortised cost	4,306	4,247	4,306	4,247
Impairment allowance	(3,839)	(3,804)	(3,839)	(3,804)
Net investment securities valued at amortised cost	467	443	467	443
Investment securities valued at fair value through other comprehensive income				
Latvian Treasury bills and government bonds	50,390	61,760	50,390	61,760
Total investment securities valued at fair value through other comprehensive income	50,390	61,760	50,390	61,760
Total investment securities	**50,857**	**62,203**	**50,857**	**62,203**

When making investments in securities, the Group/Company analyses the external credit ratings assigned to these financial institutions and entities and their financial and operational standing. Once funds are placed, the Group/ Company monitors the monetary financial institutions and follows the compliance of the imposed limits to the credit risk rating. All Latvian Treasury bills and government bonds are Stage 1 instruments for ECL purposes, while All OECD corporate bonds are Stage 3 instruments, as these are already defaulted papers. There were no movements among Stages during the year.

The following table provides the Group's / Company's debt securities profile by the assigned long-term credit ratings (Moody`s Investors Service) as at 31 December 2018:

	Investment securities valued at fair value through other comprehensive income*	Investment securities valued at amortised cost*	Total net
A1 - A3	50,390	427	50,817
Unrated	-	40	40
Total	**50,390**	**467**	**50,857**

*As of adoption of IFRS 9 on 1 January 2018 the investment securities classification was changed. See Note 2 (16) for details.

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

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

*As of adoption of IFRS 9 on 1 January 2018 the investment securities classification was changed. See Note 2 (16) for details.

The information about investment securities classification, which was in force in 2017, is available in Note 2 (20) item (i).
All securities are quoted. The average yield on debt securities was 3.16 % as at 31 December 2018 (2017: 3.42%).

15 Investment property

	Group	Group	Company	Company
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Carrying amount at the beginning of period	**10,808**	**17,087**	**10,808**	**17,087**
Reclassified to Assets held for sale (Note 26)	-	(12,218)	-	(12,218)
Acquired during the period*	3,988	5,839	3,988	5,839
Disposals during the financial period	(234)	(21)	(234)	(21)
Net gain from fair value adjustment	232	121	232	121
Carrying amount at the end of period	**14,794**	**10,808**	**14,794**	**10,808**

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

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

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

The accounting policy for Investment properties is described in Note 2 (9) item (viii).

16 Due from other credit institutions and treasury

	Group	Group	Company	Company
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Due from credit institutions registered in Latvia and the Treasury	137,031	109,594	136,651	109,594
Impairment allowances	(5)	-	(5)	-
Total net	**137,026**	**109,594**	**136,646**	**109,594**

When placing the funds with the Treasury of the Republic of Latvia and monetary financial institutions, the external credit ratings assigned to these financial institutions are evaluated. The evaluation of the financial institutions not having been assigned individual ratings is based on the ratings assigned to their parent banks as well as their financial and operational assessments. Once the contracts have been concluded, the Group/Company supervises the monetary financial institutions and follows that the assigned limits comply with credit risk assessment. All assets in this category represent Stage 1 for ECL calculation purposes and there were no changes in staging during the year. There were no major changes in calculated ECL during the year.

The table below shows the breakdown of the Group's balances due from credit institutions and the Treasury by categories as at 31 December 2018 (gross):

Moody`s ratings	Aaa	Aa1-Aa3	A1-A3	Baa1-Baa3	Ba1-Ba3	B1-B3	Caa-C	Withdrawn rating (*WR*)	Total
Due from credit institutions registered in the Republic of Latvia and the Treasury	-	12,595	96,875	22,159	5,402	-	-	-	137,031
Total gross	**-**	**12,595**	**96,875**	**22,159**	**5,402**	**-**	**-**	**-**	**137,031**

The table below shows the breakdown of the Company's balances due from credit institutions and the Treasury by categories as at 31 December 2018 (gross):

Moody`s ratings	Aaa	Aa1-Aa3	A1-A3	Baa1-Baa3	Ba1-Ba3	B1-B3	Caa-C	Withdrawn rating (*WR*)	Total
Due from credit institutions registered in the Republic of Latvia and the Treasury	-	12,411	96,875	21,963	5,402	-	-	-	136,651
Total gross	**-**	**12,411**	**96,875**	**21,963**	**5,402**	**-**	**-**	**-**	**136,651**

16 Due from other credit institutions and treasury (cont'd)

The table below shows the breakdown of the Group's/Company's balances due from credit institutions and the Treasury by categories as at 31 December 2017:

Moody`s ratings	Aaa	Aa1-Aa3	A1-A3	Baa1-Baa3	Ba1-Ba3	B1-B3	Caa-C	Withdrawn rating (WR)	Total
Due from credit institutions registered in the Republic of Latvia and the Treasury	-	21,094	85,297	-	3,203	-	-	-	109,594
Total gross	**-**	**21,094**	**85,297**	**-**	**3,203**	**-**	**-**	**-**	**109,594**

The increase in balances due from other credit institutions and the Treasury is related to the advance payment of EUR 28 million received in 2018 from the Central Finance and Contracting Agency (CFLA) for the grants issued under the Energy Efficiency Programme for Multi-apartment Buildings. In addition, in March 2018, the Company issued EUR 10 million bonds maturing on 7 March 2025 (Note 33).

As at 31 December 2018, the Group/Company held accounts with 4 banks and the Treasury of the Republic of Latvia.

As at 31 December 2018, the average interest rate on balances due from credit institutions was 0.012% (31 December 2017: -0.078%).

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

17 Financial assets at fair value through profit or loss

	Group	Group	Company	Company
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Investments by subsidiaries in the shares of companies	1,160	-	-	-
Derivatives	-	142	-	142
Total	**1,160**	**142**	**-**	**142**

In 2018 disbursements were made to the 4nd generation venture capital funds, part of which are classified *as investments in subsidiaries*. For more information on the classification see Note 39, for accounting policy Note 2 (6).

At the Group level the participation in the share capital of subsidiaries is consolidated.

The Group/Company uses such derivative financial instruments as currency swaps representing commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies.

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

	31/12/2018			31/12/2017		
	Notional contract value	Fair value		Notional contract value	Fair value	
		Assets	Liabilities		Assets	Liabilities
Currency swaps	1,507	-	2	11,435	142	
Total		**-**	**2**		**142**	

The contract is in force up to 21 January of 2019.

18 Investments in venture capital funds

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

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

At Group level, together with transition to IFRS 9, the valuation of BIF and its *investments has been changed to investments valued at fair value through profit or loss.*

At the Company level, together with transition to IFRS 9, several changes have been made in the accounting policy:

- For all investments in associates, except BIF, the Company has changed the accounting policy from the cost less impairment method to the equity method;
- valuation of BIF and its investments has been changed to *investments valued at fair value through profit or loss.*

The change in the accounting policy has been made retrospectively. See Note 2 (19) item (i) un (ii).

18 Investments in venture capital funds (cont'd)

The Group's/Company's investments in associates as at 31/12/2018 on the basis of 2018 year audited financial statements, provided by venture capital fund managers:

Company or VCF generation	Country of incorporation	31/12/2018 VCF's equity	31/12/2018 Carrying amount
The 1st generation of VCF	LV	2,387	746
The 2nd generation of VCF	LV	20,399	14,623
The 3rd generation of VCF	LV	24,950	23,763
The 4th generation of VCF	LV	186	119
Baltic Innovation fund	LU	54,942	10,988
Total investments		**102,864**	**50,239**

At 31.12.2018. the VCF portfolio value at cost value is 59,698 thsd. euros.

The movement in the Group's/Company's investments in associates in 2018:

	Investments in associates	BIF investments	Group/Company 01/01/2018-31/12/2018 Total amount
Carrying amount at the beginning of period (restated)	44,898	8,394	53,292
Invested	255	2,825	3,080
Refunded	(4,553)	(488)	(5,041)
Share of net loss of investment in joint venture and associate (See Note 2(19) item (iv))*	(1,348)	-	(1,348)
Share of gain of investment in joint venture and associate at fair value through profit or loss (See Note 2(19) item (iv))	-	257	257
Carrying amount at the end of the period ended	39,252	10,988	50,239
Impairment	-	-	-
Net carrying amount at the end of the period	**39,252**	**10,988**	**50,239**

* The 2nd and 3rd generation risk venture funds' revaluation result of 2018 was compensated by Risk coverage reserve in amount of EUR 1,298 thousand. The 1st generation risk venture funds' revaluation result of 2018 in amount of EUR 50 thousand was included into the profit or loss statement item *Share of loss of investment in joint venture and associate*.

The Group's/Company's investments in associates as at 31/12/2017:

Company	Country of Incorporation	Generation of VCF	31/12/2017 (restated) Equity per company	Group's correction*	Group's/Company's share of total share capital, %	31/12/2017 (restated) Carrying amount
KS ZGI Fonds	LV	1	-	-	-	-
KS Otrais Eko Fonds	LV	1	2,387	-	33.33	796
KS Baltcap Latvia Venture Capital Fund	LV	2	10,272		66.67	6,848
KS Imprimatur Capital Seed Fund	LV	2	4,474	(24)	100	4,450
KS Imprimatur Capital Technology Venture Fund	LV	2	3,899	(18)	67	2,600
KS Expansion Capital Fund	LV	3	13,738	-	95.24	13,084
KS ZGI-3	LV	3	7,474	-	95.24	7,118
KS Flycap Investment Fund	LV	3	10,502	-	95.24	10,002
Baltic Innovation Fund	LU	-	41,970	-	20	8,394
Total investments			**94,716**	**(42)**	**x**	**53,292**

* Adjustment to align with Group's accounting policies.

18 Investments in venture capital funds (cont'd)

The movement in the Group's/Company's investments in associates in 2017:

	Investments in associates	BIF investments	Group/Company 01/01/2017-31/12/2017 Total amount (restated)
Carrying amount at the beginning of period	52,936	5,879	58,815
Invested	677	1,605	2,282
Refunded	(3,030)	-	(3,030)
Share of net loss of investment in joint venture and associate (See Note 2(19) item (iv))*	(5,685)	-	(5,685)
Share of gain of investment in joint venture and associate at fair value through profit or loss (See Note 2(19) item (iv))	-	910	910
Carrying amount at the end of the period ended	44,898	8,394	53,292
Impairment	(140)	-	(140)
Net carrying amount at the end of the period	**44,758**	**8,394**	**53,152**

* The 2nd and 3rd generation venture capital funds' revaluation result of 2017 was covered by Risk coverage reserve in amount of EUR 5,682 thousand. See Note 2 (19) item (iv) for details.

The Group's/Company's investments in associates as at 31/12/2016:

Company	Country of Incorpo-ration	Gene-ration of VCF	31/12/2016 (restated) Equity per company	Group's correction*	Group's/Company's share of total share capital, %	31/12/2016 (restated) Carrying amount
KS ZGI Fonds	LV	1	5	-	65.07	3
KS Otrais Eko Fonds	LV	1	2,387	-	33.33	796
KS Baltcap Latvia Venture Capital Fund	LV	2	14,341	-	66.67	9,561
KS Imprimatur Capital Seed Fund	LV	2	7,429	(1,869)	100	5,560
KS Imprimatur Capital Technology Venture Fund	LV	2	6,173	(2,070)	67	2,749
KS Expansion Capital Fund	LV	3	13,883	-	95.24	13,222
KS ZGI-3	LV	3	11,195	(1,957)	95.24	8,798
KS Flycap Investment Fund	LV	3	12,860	-	95.24	12,247
Baltic Innovation Fund	LU	-	29,385	-	20	5,879
Total investments			**97,659**	**(5,896)**	**X**	**58,815**

* Adjustment to align with Group's accounting policies.

The movement in the Group's/Company's investments in associates in 2016:

	Investments in associates	BIF investments	Group/Company 01/01/2016-31/12/2016 Total amount (restated)
Carrying amount at the beginning of period	37,491	2,754	40,245
Invested	17,795	3,259	21,054
Refunded	(646)	-	(646)
Share of net loss of investment in joint venture and associate (See Note 2(19) item (iv))*	(1,704)	-	(1,704)
Share of loss of investment in joint venture and associate at fair value through profit or loss (See Note 2(19) item (iv))	-	(134)	(134)
Carrying amount at the end of the period ended	52,936	5,879	58,815
Impairment	(245)	-	(245)
Net carrying amount at the end of the period	**52,691**	**5,879**	**58,570**

* The 2nd and 3rd generation venture capital funds' revaluation result of 2016 was covered by Risk coverage reserve in amount of EUR 1,423 thousand. See Note 2 (19) item (iv) for details.

In the reporting period, the Group's / Company's expenses included:

- EUR 1,339 thousand from the risk coverage reserve used to cover management fees for the 2nd and 3rd generation venture capital funds (2017: EUR 1,521 thousand);
- Management fees for the *Baltic Innovation Fund* amounting to EUR 175 thousand (2017: EUR 193 thousand), of which EUR 121 thousand was compensated from the risk coverage reserve.

The program, through which are made investments into 4nd generation venture capital funds, is based on the *Agent* accounting principle. As a result, EUR 469 thousand from the risk coverage reserve used to cover management fees for the 4nd generation venture capital funds while it had no impact on the profit or loss statement of the Group / Company.

In 2018, disbursements were made to the 4nd generation venture capital funds, some of which are classified as *Investments in subsidiaries*. See Note 2 (2), Note 2 (6) and Note 39 for more detailed information on classification.

For information on the subscribed capital of the funds see Note 36.

19 Loans

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

Loans by type of borrower:

	Group	Group	Company	Company
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Private companies	189,549	180,833	189,267	180,833
Individuals	25,853	23,324	25,853	23,324
Financial institutions	867	2,431	867	2,431
Local governments	239	292	239	292
Public and religious institutions	623	269	623	269
Total gross loans	**217,131**	**207,585**	**216,849**	**207,585**
Impairment allowances*	(19,376)	(15,438)	(19,376)	(15,438)
Total net loans	**197,755**	**192,147**	**197,473**	**192,147**

* The increase in impairment allowances for loans was affected by the transition to IFRS 9, which includes two factors:

- transition to the expected credit loss model (see Note 2 (5) item (vi) for details);
- gross recognition of support programme funding (liabilities) at fair value.

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

	Group	Group	Company	Company
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Agriculture and forestry	94,954	84,124	94,954	84,124
Manufacturing	46,192	44,949	46,192	44,949
Private individuals	23,481	23,373	23,481	23,373
Other industries	21,508	14,599	21,226	14,599
Retail and wholesale	11,371	14,167	11,371	14,167
Hotels and restaurants	4,256	6,578	4,256	6,578
Electricity, gas and water utilities	3,958	5,562	3,958	5,562
Transport, warehousing and communications	1,166	1,889	1,166	1,889
Real estate	4,219	4,341	4,219	4,341
Construction	2,586	3,139	2,586	3,139
Financial intermediation	867	1,221	867	1,221
Fishing	2,334	3,352	2,334	3,352
Municipal authorities	239	293	239	293
Total gross loans	**217,131**	**207,585**	**216,849**	**207,585**

The loan amount, equalling to or exceeding EUR 1,000 thousand, issued to one customer is presented below:

	Group	Group	Company	Company
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Number of customers	16	23	16	23
Total credit exposure of customers (EUR '000))	19,420	36,895	19,420	36,895
Percentage of total gross portfolio of loans	8.9%	17.7%	8.9%	17.7%

Breakdown of the Group's / Company's loans by their qualitative assessment after the adoption of IFRS 9:

	Group	Group	Company	Company
	31/12/2018	01/01/2018	31/12/2018	01/01/2018
Credit risk has not increased significantly (Stage 1)	163,133	149,296	162,851	149,296
Credit risk has increased significantly (Stage 2)	16,597	10,349	16,597	18,349
Loans which have objective evidence of impairment (Stage 3)	37,401	47,940	37,401	39,940
Total loans gross	**217,131**	**207,585**	**216,849**	**207,585**
Impairment allowances	(19,376)	(24,064)	(19,376)	(24,064)
Total net loans	**197,755**	**183,521**	**197,473**	**183,521**

19 Loans (cont'd)

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

	Credit loss allowance				Gross carrying amount			
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total
At 1 January 2018	**1,393**	**1,895**	**20,775**	**24,063**	**151,247**	**10,311**	**46,027**	**207,585**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
to lifetime (from Stage 1 to Stage 2)	(255)	1,398	-	1,143	(7,298)	6,569	-	(729)
to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(194)	(300)	2,573	2,079	(5,830)	(902)	6,553	(179)
from credit-impaired to lifetime (from Stage 3 to Stage 2)	-	60	(697)	(637)	-	2,399	(2,916)	(517)
to 12-months ECL (from Stage 2 to Stage 1)	139	(428)	(6)	(295)	2,224	(2,486)	(23)	(285)
New originated or purchased	744	706	989	2,439	57,157	2,694	3,089	62,940
De-recognised during the period	(77)	(133)	(3,467)	(3,677)	(14,292)	(1,123)	(6,028)	(21,443)
Total movements with impact on credit loss allowance charge for the period	**357**	**1,303**	**(608)**	**1,052**	**31,961**	**7,151**	**675**	**39,787**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	(7,200)	(7,200)	-	-	(7,851)	(7,851)
FX and other movements	-	-	3	3	-	-	-	-
Modification of contractual cash flows (no movements between stages)*	248	(433)	1,643	1,458	(19,949)	(807)	(1,393)	(22,149)
Other movements (changes due to IFRS 9 correction)	-	-	-	-	(409)	(60)	(54)	(523)
Other movements	-	-	-	-	282	-	-	282
Total movements without impact on credit loss allowance charge for the period	**248**	**(433)**	**(5,554)**	**(5,739)**	**(20,076)**	**(867)**	**(9,298)**	**(30,241)**
At 31 December 2018	**1,998**	**2,765**	**14,613**	**19,376**	**163,132**	**16,595**	**37,404**	**217,131**

* Ordinary contractual cashflows from repayment of principal.

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

	Credit loss allowance				Gross carrying amount			
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total
At 1 January 2018	**1,393**	**1,895**	**20,776**	**24,064**	**151,247**	**10,311**	**46,027**	**207,585**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
to lifetime (from Stage 1 to Stage 2)	(255)	1,398	-	1,143	(7,298)	6,569	-	(729)
to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(194)	(300)	2,573	2,079	(5,830)	(902)	6,553	(179)
from credit-impaired to lifetime (from Stage 3 to Stage 2)	-	60	(697)	(637)	-	2,399	(2,916)	(517)
to 12-months ECL (from Stage 2 to Stage 1)	139	(428)	(6)	(295)	2,224	(2,486)	(23)	(285)
New originated or purchased	744	706	989	2,439	57,157	2,694	3,089	62,940
De-recognised during the period	(77)	(133)	(3,467)	(3,677)	(14,292)	(1,123)	(6,028)	(21,443)
Total movements with impact on credit loss allowance charge for the period	**357**	**1,303**	**(608)**	**1,052**	**31,961**	**7,151**	**675**	**39,787**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	(7,200)	(7,200)	-	-	(7,851)	(7,851)
FX and other movements	-	-	3	3	-	-	-	-
Modification of contractual cash flows (no movements between stages)*	248	(433)	1,643	1,458	(19,949)	(807)	(1,393)	(22,149)
Other movements (changes due to IFRS 9 correction)	-	-	-	-	(409)	(60)	(54)	(523)
Total movements without impact on credit loss allowance charge for the period	**248**	**(433)**	**(5,555)**	**(5,740)**	**(20,358)**	**(867)**	**(9,298)**	**(30,523)**
At 31 December 2018	**1,998**	**2,765**	**14,613**	**19,376**	**162,850**	**16,595**	**37,404**	**216,849**

* Ordinary contractual cashflows from repayment of principal.

19 Loans (cont'd)

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

	Group	Group	Company	Company
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Performing	178,557	171,964	178,275	171,964
Past due up to 30 days	17,565	12,062	17,565	12,062
Past due from 31 to 60 days	3,012	887	3,012	887
Past due from 61 to 90 days	618	284	618	284
Past due over 90 days	17,379	22,388	17,379	22,388
Total gross loans, without interest accrued on the loans	**217,131**	**207,585**	**216,849**	**207,585**

Credit quality analysis of the loans issued by the Group/Company:

PD range	01.01.2018.				31.12.2018.			
	Group		Company		Group		Company	
	Gross book value	Credit loss allowance	Gross book value	Credit loss allowance	Gross book value	Credit loss allowance	Gross book value	Credit loss allowance
0.00% - 2.00%	55,836	148	55,836	148	98,094	337	97,812	337
2.01% - 5.00%	86,401	650	86,401	650	63,465	901	63,465	901
5.01% - 10.00%	13,605	1,333	13,605	1,333	1,246	47	1,246	47
10.01% - 15.00%	829	21	829	21	13,784	2,622	13,784	2,622
15.01% - 99.00%	66	4	66	4	1,328	297	1,328	297
99.01% - 100.00%	50,848	21,907	50,848	21,908	39,214	15,172	39,214	15,172
Total gross loans, without interest accrued on the loans	**207,585**	**24,063**	**207,585**	**24,064**	**217,131**	**19,376**	**216,849**	**19,376**

Movement in the Group's/ Company's impairment allowances:

	Group	Group	Company	Company
	01/01/2018-31/12/2018	01/01/2017-31/12/2017	01/01/2018-31/12/2018	01/01/2017-31/12/2017
Allowances at the beginning of the period	15,438	16,179	15,438	16,179
Covered by risk coverage reserve	2,557	-	2,557	-
Impact of IFRS 9 adoption	4,324	-	4,324	-
Allowances for accrued income	1,745	-	1,745	-
Allowances at 1 January 2018*	24,064	16,179	24,064	16,179
Increase in impairment allowances (Note 12)	5,917	5,683	5,917	5,683
Decrease in impairment allowances (Note 12)	(3,408)	(2,112)	(3,408)	(2,112)
Accrued interest	-	(793)	-	(793)
Write-off of loans	(7,200)	(3,519)	(7,200)	(3,519)
Currency change	3	-	3	-
Allowances at the end of the period ended 31 December	**19,376**	**15,438**	**19,376**	**15,438**
Group's / Company's share of provisions	14,426	15,438	14,426	15,438
Provisions covered by risk coverage	4,950	2,557**	4,950	2,557**

* As of January 1, 2018, the Group/Company has recognized the provision for impairment in gross amount, taking into account the amount covered by Risk Coverage reserve. See Note 2 (17) item (i) for details.

**According to the Group's/Company's estimates as at December 31, 2017 the loan loss provisions should amount to EUR 17,836 thousand. The Risk coverage amount available for such loan loss provisions equals to EUE 2,557 thousand.

The Group/Company has performed sensitivity analysis of the Group's/Company's credit loss allowance for loans as at 31 December 2018 and results are presented in the table below:

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

19 Loans (cont'd)

The Group/Company uses two macro-economic factors in assessment of the ECL – change in real estate prices and change in GDP. For the purpose of sensitivity analysis, the Company applied the following upward and downward scenarios:

- the 1st year projected real estate prices were adjusted by +/- 5% and this adjustment was applied to a) the LGD used to calculate the ECL for collectively assessed loans and b) collateral value used to calculate ECL for individually assessed loans;
- the 1st year projected GDP were adjusted by +/- 1% and this adjustment was applied to the marginal PD used to calculate the ECL for both collectively assessed loans and individually assessed loans.

In calculating the impairment loss due to default on loan principal or interest payments or other loss events the following is taken into account collateral, including real estate and commercial pledges measured at market value. The value of collateral is based on the valuations performed by independent valuers.

Information on the value of collateral and position against net loan portfolio is provided below:

	Group	**Group**	**Company**	**Company**
	31/12/2018	01/01/2018	31/12/2018	01/01/2018
Real estate (loans)	155,299	151,321	155,299	151,321
Credit risk has not increased significantly (Stage 1)	*125,426*	*116,786*	*125,426*	*116,786*
Credit risk has increased significantly (Stage 2)	*8,192*	*6,559*	*8,192*	*6,559*
Loans which have objective evidence of impairment (Stage 3)	*21,681*	*27,977*	*21,681*	*27,977*
Real estate (leaseback)	6,923	520	6,923	520
Credit risk has not increased significantly (Stage 1)	*6,620*	*520*	*6,620*	*520*
Credit risk has increased significantly (Stage 2)	*303*	-	*303*	-
Loans which have objective evidence of impairment (Stage 3)	-	-	-	-
Movable property	22,273	26,250	22,273	26,250
Credit risk has not increased significantly (Stage 1)	*15,608*	*19,493*	*15,608*	*19,493*
Credit risk has increased significantly (Stage 2)	*1,514*	*1,528*	*1,514*	*1,528*
Loans which have objective evidence of impairment (Stage 3)	*5,151*	*5,230*	*5,151*	*5,230*
Guarantees	305	238	305	238
Credit risk has not increased significantly (Stage 1)	*204*	*99*	*204*	*99*
Credit risk has increased significantly (Stage 2)	-	*23*	-	*23*
Loans which have objective evidence of impairment (Stage 3)	*101*	*116*	*101*	*116*
Total collateral	**184,800**	**178,329**	**184,800**	**178,329**
Loan portfolio, gross	217,131	207,585	216,849	207,585
Group's / Company's share of provisions	(14,426)	(19,652)	(14,426)	(19,652)
Provisions covered by risk coverage	(4,950)	(4,412)	(4,950)	(4,412)
Loan portfolio, net	197,755	183,521	197,473	183,521
Exposed	**6.55%**	**3.11%**	**6.42%**	**3.11%**

As at 31 December 2018, the average annual interest rate for the loan portfolio of the Group/Company was 4.15% (31 December 2017: 4.15%).

20 Investment in subsidiaries

In 2018 disbursements were made to the 4nd generation venture capital funds, part of which are classified *as investments in subsidiaries,* but part *as investments in associates*. All these investments are made into newly established venture capital funds with payments made upon call for funds. Altum has the right to appoint fund manager and fund manager is governing each particular venture capital fund. Altum also has ability to unconditionally remove fund manager. This ability expires within two years after certain date determined in each separate agreement with fund manager.

At the Group level the investments in subsidiaries are consolidated.

Company's investments in the share capital of subsidiaries:

	Company 31/12/2018	**Company** 31/12/2017
KS Overkill Ventures Fund I	231	-
KS Buildit Latvia Pre-Seed Fund	300	-
KS Commercialization Reactor Pre-seed Fund	141	-
KS INEC 1	787	-
KS INEC 2	33	-
KS AIF Imprimatur Seed Fund 2	-	-
KS AIF Imprimatur Venture Fund 2	-	-
Participation in the share capital of subsidiaries	**1,492**	**-**

For more information on the structure of Group see Note 39.

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

The following table presents information about subsidiaries' volume of net assets as at 31/12/2018 and profit or loss volume in 2018, which is based on audited venture capital funds' financial statements for the year ended 31 December 2018:

	KS Overkill Ventures Fund I	KS Buildit Latvia Pre-Seed Fund	KS Commercialization Reactor Pre-seed Fund	KS INEC 1	KS INEC 2
Net assets value (NAV)	231	300	141	1,050	36
Profit or loss	(186)	(204)	(126)	(22)	(16)

21 Intangible assets

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

	Group	Group	Company	Company
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Computer software	1,347	771	1,347	771
Total intangible assets	**1,347**	**771**	**1,347**	**771**

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

	Group	Group	Company	Company
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Historical cost				
At the beginning of period	6,470	5,791	6,470	5,791
Additions*	765	679	765	679
Disposals**	(2,124)	-	(2,124)	-
As at 31 December	5,111	6,470	5,111	6,470
Accumulated amortisation				
At the beginning of period	5,699	5,623	5,699	5,623
Amortisation charge for the period	189	76	189	76
Disposals**	(2,124)	-	(2,124)	-
As at 31 December	3,764	5,699	3,764	5,699
Net book value at the beginning of period	771	**168**	771	**168**
Net book value as at 31 December	**1,347**	**771**	**1,347**	**771**

*Item *Additions* include 494 thsd euro (2016: 547 thsd euro) relating to development of software to support back-office processes.

** Item *Disposals* include 2,120 thsd euro from accounting software write-off, which was replaced with the new one.

22 Property, plant and equipment

Fully depreciated assets
A number of assets that have been fully depreciated are still in active use by the Group/Company. The total original cost value of these assets as at the end of the year is 7,538 thsd euros (2017: 10,807 thsd euros).

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

	Land and buildings	Vehicles	Office equipment*	Leasehold improvements	Total
Historical cost					
At the beginning of period	4,358	450	6,307	380	11,495
Additions	251	-	579	-	830
Disposals	-	(40)	(1,392)	-	(1,432)
Reclassified (Note 23)	-	17	-	-	17
as at 31 December 2018	4,609	427	5,494	380	10,910
Accumulated depreciation					
At the beginning of period	1,205	448	5,644	324	7,621
Depreciation charge for the period	135	2	281	12	430
Disposals	-	(40)	(1,387)	-	(1,427)
Reclassified (Note 23)	-	17	-	-	17
as at 31 December 2018	1,340	427	4538	336	6,641
Impairment provision					
At the beginning of period	-	-	-	(46)	(46)
Changes in provisions	-	-		5	5
as at 31 December 2018	-	-		(41)	(41)
Net book value at the beginning of period	**3,153**	**2**	**663**	**10**	**3,828**
Net book value as at 31 December 2017	**3,269**	**-**	**956**	**3**	**4,228**

The table below reflects changes in property, plant and equipment of the Group / Company in 2017 year:

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

*Office equipment includes such fixed assets categories as *Furniture and fittings* and *Computers and equipment*, Note 2 (9) item (v).

23 Other assets

	Group	Group	Company	Company
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Financial assets	30,349	16,735	30,349	16,735
Other assets (inventory)	819	1,946	819	1,946
Total other assets (gross)	**31,168**	**18,681**	**31,168**	**18,681**
Impairment provision for financial assets	(6,049)	(12,849)	(6,049)	(12,849)
Group's / Company's share of provisions	*(3,828)*	*(11,742)*	*(3,828)*	*(11,742)*
*Provisions covered by risk coverage**	*(23)*	*(1,107)*	*(23)*	*(1,107)*
Provisions compensated by risk coverage	*(2,198)*	-	*(2,198)*	-
Total other assets (net)	**25,119**	**5,832**	**25,119**	**5,832**

** As of January 1, 2018, the Group/Company has recognized the provision for impairment in gross amount, taking into account* the amount covered by Risk Coverage reserve. See Note 2 (17) item (i) for details.

The following table presents Group's/Company's movements in book value of financial assets, thsd. euro in 2018 year:

	Disbursed compensations	**Grants***	**Financial assets related to loan agreements**	**Other financial assets**	**Term deposits of JSC Savings Bank of Latvia being in liquidation**	**Total**
Financial assets						
At the beginning of period	5,073	2,772	1,045	197	7,648	16,735
Changes	621	19,803	97	758	(7,648)	13,631
Reclassified (Note 22)	-	-	-	(17)	-	(17)
As at 31 December 2018	5,694	22,575	1,142	938	-	30,349
Impairment provision						
At the beginning of period	5,073	-	6	122	7,648	12,849
Impact of IFRS 9 adoption**	-	2	-	-	-	2
Changes in Impairment provisions	621	12	70	143	(7,648)	(6,802)
As at 31 December 2018	5,694	14	76	265	-	6,049
Net book value at the beginning of period	**-**	**2,772**	**1,039**	**75**	-	**3,886**
Net book value as at 31 December 2018	**-**	**22,561**	**1,066**	**673**	,	**24,300**

* Issued grants are assessed for credit loss allowance based on historical ratio of payments made from EU funds that have not been recognised as eligible expenses by competent authority and total payments made from EU funds. All issued grants represent Stage 1 for ECL calculation purposes and there were no changes in staging during the year. There were no major changes in calculated ECL during the year.

** As of January 1, 2018, the Group/Company has recognized the provision for impairment in gross amount, taking into account the amount covered by Risk Coverage reserve. See Note 2 (17) item (i) for details.

The following table presents Group's/Company's movements in book value of financial assets, thsd. euro in 2017 year:

	Disbursed compensations	**Grants**	**Financial assets related to loan agreements**	**Other financial assets**	**Term deposits of JSC Savings Bank of Latvia being in liquidation**	**Total**
Financial assets						
At the beginning of period	2,713	-	719	191	7,648	11,271
Changes	2,360	2,772	326	6	-	5,464
As at 31 December 2017	5,073	2,772	1,045	197	7,648	16,735
Impairment provision						
At the beginning of period	2,686	-	10	26	7,648	10,370
Changes in Impairment provisions	2,387	-	(4)	96	-	2,479
As at 31 December 2017	5,073	-	6	122	7,648	12,849
Net book value at the beginning of period	**27**	**-**	**709**	**165**	-	**901**
Net book value as at 31 December 2017	**-**	**2,772**	**1,039**	**75**	-	**3,886**

23 Other assets (cont'd)

Other assets - assets that have been taken over in the debt collection process and are held to be sold in the ordinary course of business.

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

	Group	Company
At the beginning of period	**3,113**	**3,113**
Additions	271	271
Disposals	(1,141)	(1,141)
Reclassified	-	-
Revaluation	(297)	(297)
as at 31 December 2017	**1,946**	**1,946**
Additions	264	264
Disposals	(1,118)	(1,118)
Reclassified	(157)	(157)
Revaluation	(116)	(116)
as at 31 December 2018	**819**	**819**

24 Deferred expense

	Group	Group	Company	Company
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Management fees paid in advance	122	65	122	65
Other deferred expense	227	111	227	111
Total deferred expense	**349**	**176**	**349**	**176**

25 Accrued income

	Group	Group	Company	Company
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Compensation for management expenses of state aid programs	1,717	2,066	1,717	2,066
Other accrued income	6	14	6	14
Total accrued income	**1,723**	**2,080**	**1,723**	**2,080**

26 Assets held for sale

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

	Company	Company
	31/12/2018	31/12/2017
Hipo Latvia Real Estate Fund I	10,550	9,013
Hipo Latvia Real Estate Fund II	793	1,552
Assets held for sale	**11,343**	**10,565**

The following table presents Company's gains on the revaluation of assets held for sale:

	Company	Company
	01/01/2018-31/12/2018	01/01/2017-31/12/2017 (restated)
Gains on the revaluation of assets held for sale	778	-
Total	**778**	**-**

More information is available in Note 2 (9) item (ix) and Note 2 (17) item (iii).

26 Assets held for sale (cont'd)

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

	Group	Group
	31/12/2018	31/12/2017
Assets		
Due from other credit institutions and Treasury	3,539	256
Investment property	7,803	12,540
Other assets	-	139
Assets held for sale	**11,342**	**12,935**
Liabilities		
Other liabilities	-	2,000
Liabilities directly associated with assets held for sale	**-**	**2,000**
Amounts included in Group's Capital and reserve		
Reserves	-	1,839
Reserve of disposal group classified as held for sale	**-**	**1,839**

The following table presents Group's gains on the revaluation of assets held for sale:

	Group	Group
	01/01/2018- 31/12/2018	01/01/2017- 31/12/2017 (restated)
Gains on the revaluation of assets held for sale	408	-
Total	**408**	**-**

More information is available in Note 2 (9) item (ix) and Note 2 (17) item (iii).

27 Due to credit institutions

	Group	Group	Company	Company
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Due to credit institutions registered in OECD countries	38,245	46,933	38,245	46,933
Total	**38,245**	**46,933**	**38,245**	**46,933**

Balances due to credit institutions registered in the OECD countries include loans received by the Group/Company from the European Investment Bank (EIB) of EUR 38,245 thousand, of which EUR 58 thousand constitutes accrued interest expenses.

During the reporting period, the Group/Company repaid EUR 8,855 thousand, of which accrued interest was EUR 175 thousand.

The Ministry of Finance of the Republic of Latvia has issued a guarantee for the loan of EUR 38,187 thousand (Note 41) which is considered a parent guarantee on behalf of the Group/Company.

As at 31 December 2018, the average interest rate for the balances due to credit institutions was 0.41% (2017: 0.41%).

28 Due to general governments

	Group	Group	Company	Company
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Due to government entities	2,724	1,723	2,724	1,723
Loans received from Rural Support Service	7,171	9,685	7,171	9,685
Loans received from the Treasury	38,215	32,201	38,215	32,201
Total due to general governments	**48,110**	**43,609**	**48,110**	**43,609**

Liabilities due to government entities obligations worth 2,723 thsd euros (2017: 1,723 thsd euros), which, in amount of 1,723 thsd. euros, originate from reduction of capital of ERDFII and ESFII loan funds effected in year 2013 by ALTUM, whereby a share of public financing of ERDFII and ESFII was not repaid to the investors (state companies), although, an agreement was reached with the investors about accounting that amount outside the Statement of financial position of ERDFII and ESFII loan funds, i.e. on the liabilities side of the ALTUM Statement of financial position. In 2018, *Liabilities due to government entities were* increased by 1,001 thsd euros, because of Start-up State Aid Cumulation Lending Programme's funding redistribution.

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

As at 31 December 2018, based on the requests for funds received from the Ministry of Agriculture, the Group/Company had repaid to the Rural Support Service (RSS) EUR 35,308 thsd of which EUR 11,855 thsd (EFF – EUR 2,503 thsd; EAFRD – EUR 9,352 thsd) were non-disbursed loan funds and EUR 23,453 thsd (EFF – EUR 2,449 thsd; EAFRD – EUR 21,004 thsd) – the principal amount re-flows from the financial intermediaries.

In the reporting period, the Group/Company had not made any reimbursements to RSS. However, in year 2018, based on the Agreement No 2018/88 dated 29 August 2018 concluded between Altum and Ministry of Agriculture and Section 4.1. and Section 4.2. of the Cabinet of Ministers Regulations No 446 dated 24 July 2018 On the Lending Programmes for Agricultural, Rural and Fisheries Economic Operators, the Group/Company invested EUR 2,5 mln in the Lending Programme for Agricultural and Rural Economic Activities and Lending Programme for Fisheries Economic Activities resulting in a EUR 2 mln reduction of the funding repaid by measure 'Loan Fund' under 'Modernisation 121' and EUR 500 thsd reduction of the funding repaid by measure 'Loan Fund' under 'EFF measures'.

As at the end of year 2018 Group/Company liabilities towards RSS consist of the principal amount of 6,903 thsd euros and accrued interest – 269 thsd euros.

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

Loans received from the Treasury of Latvia includes the loan of 38,215 thsd euros received by the Group/Company for implementation of land acquisition programmes. In compliance with Articles 9 and 13 of the Cabinet regulation No 381 "Procedure of granting state aid for procurement of agricultural land for producing agricultural produce" of 29 May 2012, the Republic of Latvia and Group/Company concluded loan agreement *No A1/1/F12/296* and the State Treasury on 25 June 2012.

The Group/Company has issued 1,483 loans (2017: 1,253 loans) of 60,198 thsd euros as at 31 December 2018 (2017: 51,465 thsd euros). These assets are pledged. The secured claim amount is 38,215 thsd euros. More information is available in Note 41.

29 Support programme funding and state aid

	Group	Group	Group	Company	Company	Company
	31/12/2018	31/12/2017 (restated)	31/12/2016 (restated)	31/12/2018	31/12/2017 (restated)	31/12/2016 (restated)
Support programme funding	**126,959**	**93,661**	**98,058**	**126,959**	**96,520**	**96,850**
State aid	**-**	**3,968**	**5,575**	**-**	**3,968**	**5,575**

Group/Company has changed the accounting methodology for Support programme funding. For more information see Note 2 (17) item (ii) and Note 2 (19) item (iii).

The table below presents the Risk coverage reserve included in the Support programme funding and State aid, which can be used for covering the Group's credit risk losses as at 31 December 2018, 31 December 2017 and 31 December 2016:

Programme	Programme funding as at 31/12/2018, EUR '000	Credit risk cover as at 31/12/2018, EUR '000	Provisions covered by risk coverage as at 31/12/2018, EUR '000	Net programme funding as at 31/12/2018, EUR '000	Programme funding as at 31/12/2017, EUR '000 (restated)	Credit risk cover as at 31/12/2017, EUR '000 (restated)	Programme funding as at 31/12/2016, EUR '000 (restated)	Credit risk cover as at 31/12/2016, EUR '000 (restated)
ERDF II	11,888	5,208	(984)	10,904	25,269	6,451	25,746	9669
ESF II	1,422	1,225	(363)	1059	6,392	2,436	9,466	3937
Microcredits of Swiss programme	5,435	1,366	(43)	5,392	5,643	1,657	5,711	2201
ERDF I	606	197	(28)	578	1,285	620	1,470	972
ESF I	380	157	(77)	303	1,008	184	987	210
Microcredits	15	-	-	15	605	3	616	5
ERDF II (second round)	5,733	1,662	(186)	5,547	5,528	2,703	5,051	3685
Incubators (from ESF II)	78	20	(2)	76	546	546	545	545
ERAF II 2 Public fund	2,396	317	(16)	2,380	2,485	960	2,485	1691
Fund of Funds and venture capital funds	24,914	19,931	-	24,914	16,424	12,699	24,207	12609
Fund of Funds programme - Start-up loans	2,283	2,282	(354)	1,929	1,316	1,079	625	513
Fund of Funds programme – Microcredits	297	297	(42)	255	257	141	80	44
Fund of Funds programme - Parallel loans	2,143	2,143	(2,044)	99	1,200	1,080	1,200	1080
Fund of Funds programme - Guarantees	14,981	14,981	(4,254)	10,727	9,500	8645	3,522	3205
EEPMB* loan fond	2,388	2,388	-	2,388	2,512	452	2,512	452
EEPMB guarantees	3,008	2,400	(530)	2,478	2,994	2,006	3,051	2044
EEPMB grants	31,305	-	-	31,305	4,856	-	-	-
Housing Guarantee Programme	6,849	6,849	(5,769)	1,080	2,849	2,849	-	-
Social Entrepreneurship Programme	302	-	-	302	-	-	-	-
Start-up State Aid Cumulation Lending Programme	1,000	1,000	(342)	658	2,000	2,000	-	-
GPLEC **	6,158	6,158	(1,090)	5,068	5,000	4,750	5,000	4,750
Other loans to start-ups	2,407	898	(94)	2,313	2,239	1,677	2,481	1,677
Mezzanine Loan Programme	3,806	3,045	(2,906)	900	4,462	3,793	5,322	4,524
Investment Fund Activity***	1,130	836	-	1,130	2,693	2,586	11,441	10,984
Baltic Innovation Fund***	1,860	930	-	1,860	1,420	1,420	-	-
Guarantees and interest grants programme	4,278	4,278	-	4,278	1,904	1,904	-	-
Parallel loans to large entrepreneurs	580	580	-	580	-	-	-	-
Portfolio Guarantee Fund	1,923	1,923	(42)	1,881	-	-	-	-
Parallel loans	2,000	2,000	(21)	1,979	-	-	-	-
Export guarantees	2,030	2,030	(79)	1,951	-	-	-	-
Loans for enterprises in rural territories	2,499	175	(2)	2,497	-	-	-	-
Energy Efficiency Fund	133	-	-	133	-	-	-	-
Total	**146,227**	**85,276**	**(19,268)**	**126,959**	**110,387**	**62,641**	**111,518**	**64,797**

*EEPMB – Energy Efficiency Programme for Multi-apartment Buildings
**GPLEC - Guarantee Programme for Clients of State Aid Accumulation, Grace Period and Large Economic Operators
***Programme funding for *Investment Fund Activity* and *Baltic Innovation Fund* has been revised for previous periods. Corrections are due to the changes of accounting methodology for venture capital funds. For more information see Note 2(19) item (iv).

29 Support programme funding and state aid (cont'd)

The table below presents the Risk coverage reserve included in the Support programme funding and State aid, which can be used for covering the Company's credit risk losses as at 31 December 2018, 31 December 2017 and 31 December 2016:

Programme	Programme funding as at 31/12/2018, EUR '000	Credit risk cover as at 31/12/2018, EUR '000	Provisions covered by risk coverage as at 31/12/2018, EUR '000	Net programme funding as at 31/12/2018, EUR '000	Programme funding as at 31/12/2017, EUR '000 (restated)	Credit risk cover as at 31/12/2017, EUR '000 (restated)	Programme funding as at 31/12/2016, EUR '000 (restated)	Credit risk cover as at 31/12/2016, EUR '000 (restated)
ERDFII	11,888	5,208	(984)	10,904	25,269	6,451	25,746	9,669
ESF II	1,422	1,225	(363)	1059	6,392	2,436	9,466	3,937
Microcredits of Swiss programme	5,435	1,366	(43)	5,392	5,643	1,657	5,711	2,201
ERDF I	606	197	(28)	578	1,285	620	1,470	972
ESF I	380	157	(77)	303	1,008	184	987	210
Microcredits	15	-	-	15	605	3	616	5
ERDF II (second round)	5,733	1,662	(186)	5,547	5,528	2,703	5,051	3,685
Incubators (from ESF II)	78	20	(2)	76	546	546	545	545
ERAF II 2 Public fund	2,396	317	(16)	2,380	2,485	960	2,485	1,691
Fund of Funds and venture capital funds	24,914	19,931	-	24,914	16,424	12,699	24,207	12,609
Fund of Funds programme - Start-up loans	2,283	2,282	(354)	1,929	1,316	1,079	625	513
Fund of Funds programme – Microcredits	297	297	(42)	255	257	141	80	44
Fund of Funds programme - Parallel loans	2,143	2,143	(2,044)	99	1,200	1,080	1,200	1,080
Fund of Funds programme - Guarantees	14,981	14,981	(4,254)	10,727	9,500	8,645	3,522	3,205
EEPMB* loan fond	2,388	2,388	-	2,388	2,512	452	2,512	452
EEPMB guarantees	3,008	2,400	(530)	2,478	2,994	2,006	3,051	2,044
EEPMB grants	31,305	-	-	31,305	4,856	-	-	-
Housing Guarantee Programme	6,849	6,849	(5,769)	1,080	2,849	2,849	-	-
Social Entrepreneurship Programme	302	-	-	302	-	-	-	-
Start-up State Aid Cumulation Lending Programme	1,000	1,000	(342)	658	2,000	2,000	-	-
GPLEC **	6,158	6,158	(1,090)	5,068	5,000	4,750	5,000	4,750
Other loans to start-ups	2,407	898	(94)	2,313	2,239	1,677	2,481	1,677
Mezzanine Loan Programme	3,806	3,045	(2,906)	900	4,462	3,793	5,322	4,524
Investment Fund Activity***	1,130	836	-	1,130	2,704	2,596	10,232	9,823
Baltic Innovation Fund***	1,860	930	-	1,860	1,420	1,420	-	-
Guarantees and interest grants programme	4,278	4,278	-	4,278	1,904	1,904	-	-
Parallel loans to large entrepreneurs	580	580	-	580	-	-	-	-
Portfolio Guarantee Fund	1,923	1,923	(42)	1,881	-	-	-	-
Parallel loans	2,000	2,000	(21)	1,979	-	-	-	-
Export guarantees	2,030	2,030	(79)	1,951	-	-	-	-
Loans for enterprises in rural territories	2,499	175	(2)	2,497	-	-	-	-
Energy Efficiency Fund	133	-	-	133	-	-	-	-
Total	**146,227**	**85,276**	**(19,268)**	**126,959**	**110,398**	**62,651**	**110,309**	**63,636**

*EEPMB – Energy Efficiency Programme for Multi-apartment Buildings
**GPLEC - Guarantee Programme for Clients of State Aid Accumulation, Grace Period and Large Economic Operators
***Programme funding for *Investment Fund Activity* and *Baltic Innovation Fund* has been revised for previous periods. Corrections are due to the changes of accounting methodology for venture capital funds. For more information see Note 2(19) item (iv).

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29 Support programme funding and state aid (cont'd)

Provisions covered by risk coverage

	31/12/2018	31/12/2017	31/12/2016
Provisions for financial guarantees covered by risk coverage (Note 30)	13,162	2,196	1,218
Provisions for loans covered by risk coverage (Note 19)	4,951	2,557	3,105
Provisions loan commitments covered by risk coverage (Note 30)	1,132	-	-
Provisions for financial assets (disbursed compensations) (Note 23)	23	-	-
Total provisions covered by risk coverage	**19,268**	**4,753**	**4,323**

Based on the concluded programme implementation contracts, the funding received could be reduced by the outstanding principal amount of the loans classified as lost, non-repaid loan principal amount and / or disbursements of guarantee compensations. The Group/Company need not have to repay the reductions of funding to the funding provider.
The table below presents the movement of Risk coverage reserve in 2018:

Programme	Programmes' funding as at 31/12/2017, EUR '000	Received funding during report period, EUR' 000	Reallocated funding among the programs, EUR'000	Grants compensation, EUR' 000	Compensa tion of write-off loan and disbursed compensations, EUR' 000	Impact of IFRS 9 adoption, EUR' 000	Management fees compensated by funding, EUR' 000	Altum management fee, EUR'000	Other changes, EUR' 000	Revaluation of liabilities EUR'000	Programs' funding as at 31/12/2018, EUR '000	Provisions covered by risk coverage as at 31/12/2018, EUR '000	Net programmes funding as at 31/12/2018, EUR '000
ERDFII	25,269	-	(6,655)	-	(32)	(4,405)	-	-	(1,971)	(316)	11,890	(984)	10,904
ESF II	6,392	-	(4,500)	-	(218)	(302)	-	-	(43)	93	1,422	(363)	1059
Microcredits of Swiss programme	5,643	-	-	-	(2)	(100)	-	-	(50)	(56)	5,435	(43)	5,392
ERDF I	1,285	-	-	-	(351)	(291)	-	-	(19)	(17)	606	(28)	578
ESF I	1,008	-	(676)	-	-	-	-	-	37	11	380	(77)	303
Microcredits	605	-	(580)	-	(3)	-	-	-	(7)	-	15	-	15
ERDF II (second round)	5,528	-	-	-	(17)	(476)	-	-	401	297	5,733	(186)	5,547
Incubators (from ESF II)	546	-	(483)	-	-		-	-	10	5	78	(2)	76
ERAF II 2 Public fund	2,485	-	-	-	-	(89)	-	-	-	-	2,396	(16)	2,380
Fund of Funds and venture capital funds	16,424	17,020	(8,420)	-	519	-	(597)	(719)	535	152	24,914	-	24,914
Fund of Funds programme - Start-up loans	1,316	-	904	-	-	(46)	-	-	109	-	2,283	(354)	1,929
Fund of Funds programme – Microcredits	257	-	24	-	-	(11)	-	-	27	-	297	(42)	255
Fund of Funds programme - Parallel loans	1,200	1,160	-	-	-	(217)	-	-	(5)	5	2,143	(2,044)	99
Fund of Funds programme - Guarantees	9,500	-	6,000	-	(519)	-	-	-	-	-	14,981	(4,254)	10,727
EEPMB* loan fond	2,512	-	-	-	-	(129)	-	-	5	-	2,388	-	2,388
EEPMB guarantees	2,994	-	-	-	-	-	-	(37)	51	-	3,008	(530)	2,478
EEPMB grants	4,856	28,000	-	(1,109)	-	-	-	(442)	-	-	31,305	-	31,305
Housing Guarantee Programme	2,849	4,000	-	-	-	-	-	-	-	-	6,849	(5,769)	1,080
Social Entrepreneurship Programme	-	1,209	120	(1,027)	-	-	-	-	-	-	302	-	302
Start-up State Aid Cumulation Lending Programme	2,000	-	(1,000)	-	-	(16)	-	-	16	-	1,000	(342)	658
GPLEC **	5,000	-	1,158	-	-	-	-	-	-	-	6,158	(1,090)	5,068
Other loans to start-ups	2,239	-	(82)	-	-	(136)	-	-	212	171	2,404	(94)	2,313
Mezzanine Loan Programme	4,462	-	-	-	(835)	(264)	-	(261)	705	-	3,807	(2,906)	900
Investment Fund Activity***	2,704	-	2,000	-	-	(983)	(1,378)	(134)	219	(1,298)	1,130	-	1,130
Baltic Innovation Fund***	1,420	-	580	-	-	-	(120)	(20)	-	-	1,860	-	1,860
Guarantees and interest grants programme	1,904	-	2,500	-	-	-	-	-	(126)	-	4278	-	4,278
Parallel loans to large entrepreneurs	-	-	580	-	-	-	-	-	-	-	580	-	580
Portfolio Guarantee Fund	-	-	2,000	-	-	-	-	(77)	-	-	1923	(42)	1,881
Parallel loans	-	-	2,000	-	-	-	-	-	-	-	2000	(21)	1,979
Export guarantees	-	-	2,030	-	-	-	-	-	-	-	2030	(79)	1,951
Loans for enterprises in rural territories	-	-	2,499	-	-	-	-	-	-	-	2,499	(2)	2,497
Energy Efficiency Fund	-	133	-	-	-	-	-	-	-	-	133	-	133
Total	**110,398**	**51,521**	**-**	**(2,136)**	**(1,458)**	**(7,465)**	**(2,095)**	**(1,690)**	**106**	**(953)**	**146,227**	**(19,268)**	**126,959**

*EEPMB – Energy Efficiency Programme for Multi-apartment Buildings
**GPLEC - Guarantee Programme for Clients of State Aid Accumulation, Grace Period and Large Economic Operators
***Programme funding for *Investment Fund Activity* and *Baltic Innovation Fund* has been revised for previous periods. Corrections are due to the changes of accounting methodology for venture capital funds. For more information see Note 2(19) item (iv).

30 Provisions

	Group	Group	Company	Company
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Provisions for financial guarantees	24,144	14,531	24,144	14,531
Provisions for loan commitments	1,220	-	1,220	-
Provisions for grant commitments	9	-	9	-
Total provisions	**25,373**	**14,531**	**25,363**	**14,531**

As of adoption of IFRS 9 on 1 January 2018 the principles of establishment of provisions for financial guarantees are regulated by IFRS 9, exposing the financial guarantees for the establishment of the allowances for expected credit losses, as opposed to IAS 39. For more information see Note 2 (5) item (vi) and Note 2 (17) item (i).

Provisions for financial guarantees:

	Group	Group	Company	Company
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Provisions for:				
Onerous contracts*	-	8,544	-	8,544
Other guarantee programmes	10,294	3,818	10,294	3,818
Guarantee activity	1,219	941	1,219	941
Loan guarantees to rural entrepreneurs	2,220	824	2,220	824
Guarantees *under the Mezzanine loan programme*	1,421	391	1,421	391
Housing Guarantee Programme	8,990	13	8,990	13
Total provisions*	**24,144**	**14,531**	**24,144**	**14,531**
Group's / Company's share of provisions	10,982	14,531	10,982	14,531
Provisions covered by risk coverage**	13,162	-	13,162	-

*On 31 December 2017, total impairment due to credit losses applied to the Group / Company were measured according to IAS 39 and IAS 37, while on 1 January 2018, total impairment due to credit losses applied to the Group/Company consisted of credit losses measured only according to IFRS 9. For more information see Note 2 (17) item (i).

**As of 1 January 2018, Group's /Company's allowances for expected credit losses disclosed at gross value, including the risk coverage amount. Provisions covered by risk coverage as at 1 January 2018 amounts 9,359 thsd euros comprising 2,196 thsd euros originated by applying IAS 39 and 7,163 thsd euros by applying IAS 37 for the period until 31 December 2017. For more information see Note 2 (5) item (vi) and Note 2 (17) item (i). For more information see Note 2 (5) item (vi) and Note 2 (17) item (i).

As a result of the transition to the expected credit loss model, which is basis of IFRS 9, Group/Company has estimated allowances for expected credit losses for loan commitments:

	Group	Group	Company	Company
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Total provisions for loan commitments	**1,220**	**-**	**1,220**	**-**
Group's / Company's share of provisions	88	-	88	-
Provisions covered by risk coverage	1,132	-	1,132	-

For more information see Note 2 (5) item (vi).

As a result of the transition to the expected credit loss model, which is basis of IFRS 9, Group/Company has estimated allowances for expected credit losses for grant commitments:

	Group	Group	Company	Company
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Total provisions for grant commitments	**9**	**-**	**9**	**-**
Group's / Company's share of provisions	9	-	9	-
Provisions covered by risk coverage	-	-	-	-

For more information see Note 2 (5) item (vi).

30 Provisions (cont'd)

Movements in the Group's / Company's provisions for financial guarantees, except for Onerous contracts:

	Group	Group	Company	Company
	01/01/2018-31/12/2018	01/01/2017-31/12/2017	01/01/2018-31/12/2018	01/01/2017-31/12/2017
Provisions at the beginning of the period	5,986	7,845	5,986	7,845
Impact of IFRS 9 adaption*	6,123	-	6,123	-
Reclassification IAS 37 (Provisions for onerous contracts) **	8,544	-	8,544	-
Provisions covered by risk coverage*	2,196	-	2,196	-
Provisions as at 1 January 2018	22,849	7,845	22,849	7,845
Increase in provisions (Note 12)	8,174	3,258	8,174	3,258
Decrease in provisions (Note 12)	(6,876)	(5,101)	(6,876)	(5,101)
Currency change	(3)	(16)	(3)	(16)
Provisions at the end of the period	**24,144**	**5,986**	**24,144**	**5,986**
Group's / Company's share of provisions	10,982	5,986	10,982	5,986
Provisions covered by risk coverage	13,162	2,196***	13,162	2,196***

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

** As of adoption of IFRS 9 on 1 January 2018 the principles of establishment of provisions for financial guarantees are regulated by IFRS 9, exposing the financial guarantees for the establishment of the allowances for expected credit losses, as opposed to IAS 39. For more information see Note 2 (17) item (i).

*** According to the Group's/Company's estimates as at December 31, 2017 the guarantee provisions (except for provisions for onerous contracts) should amount to 8,182 thsd euros, of which 2,196 thsd euros are covered from the risk coverage amount.

The Group/Company has performed sensitivity analysis of the Company's credit loss allowance for financial guarantees as at 31 December 2018 and results are presented in the table below:

		Change in real estate prices		Change in GDP	
	Gross book value	+ 5%	- 5%	+ 1%	- 1%
Credit loss allowance for financial guarantees	10,982	(96)	96	(9)	9
Total credit loss allowance for financial guarantees	**10,982**	**(96)**	**96**	**(9)**	**9**

The Company uses two macro-economic factors in assessment of the ECL – change in real estate prices and change in GDP. For the purpose of sensitivity analysis, the Company applied the following upward and downward scenarios:

- the 1st year projected real estate prices were adjusted by +/- 5% and this adjustment was applied to the LGD used to calculate the ECL for financial guarantees;
- the 1st year projected GDP were adjusted by +/- 1% and this adjustment was applied to the marginal PD used to calculate the ECL for financial guarantees.

30 Provisions (cont'd)

Changes in the Group's/Company's credit loss allowance and gross carrying amount for financial guarantees in 2018:

	Credit loss allowance				Gross carrying amount			
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total
At 1 January 2018	**15,627**	**267**	**6,955**	**22,849**	**171,753**	**1,461**	**9,162**	**182,376**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
to lifetime (from Stage 1 to Stage 2)	(146)	260	-	114	(1,122)	779	-	(343)
to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(160)	(19)	1,176	997	(1,682)	(41)	1,709	(14)
from credit-impaired to lifetime (from Stage 3 to Stage 2)	-	17	(536)	(519)	-	656	(820)	(164)
to 12-months ECL (from Stage 2 to Stage 1)	3	(8)	1	(4)	24	(31)	-	(7)
New originated or purchased	6,600	-	-	6,600	88,590	-	-	88,590
De-recognised during the period	(1,101)	(2)	(1,212)	(2,315)	(21,201)	(74)	(1,447)	(22,722)
Other movements (changes due to paid out compensation and reclassification from off-balance sheet liabilities to receivables)	(31)	-	(1,351)	(1,382)	(610)	-	(1,863)	(2,473)
Total movements with impact on credit loss allowance charge for the period	**5,165**	**248**	**(1,922)**	**3,491**	**63,999**	**1,289**	**(2,421)**	**62,867**
Movements without impact on credit loss allowance charge for the period:								
FX and other movements	-	-	(1)	(1)	-	-	-	-
Modification of contractual cash flows (no movements between stages)*	(1,774)	(43)	(378)	(2,195)	(7,671)	(254)	(423)	(8,348)
Total movements without impact on credit loss allowance charge for the period	**(1,774)**	**(43)**	**(379)**	**(2,196)**	**(7,671)**	**(254)**	**(423)**	**(8,348)**
At 31 December 2018	**19,018**	**472**	**4,654**	**24,144**	**228,081**	**2,496**	**6,318**	**236,895**

* Ordinary contractual cashflows from repayment of principal.

Breakdown of the Group's / Company's guarantees by their qualitative assessment after the adoption of IFRS 9:

	Group	Group	Company	Company
	31/12/2018	01/01/2018	31/12/2018	01/01/2018
Credit risk has not increased significantly (Stage 1)	228,081	171,753	228,081	171,753
Credit risk has increased significantly (Stage 2)	2,496	1,461	2,496	1,461
Loans which have objective evidence of impairment (Stage 3)	6,317	9,163	6,317	9,163
Total gross	**236,895**	**182,376**	**236,895**	**182,376**
Impairment allowances	(24,144)	(22,849)	(24,144)	(22,849)
Total net	**212 750**	**159,527**	**212 750**	**159,527**

See Note 2(17) item (i) for details.

Analysis of the movement in the Group's / Company's provisions for onerous contracts:

	Group	Group	Company	Company
	01/01/2018-31/12/2018	01/01/2017-31/12/2017	01/01/2018-31/12/2018	01/01/2017-31/12/2017
Provisions at the beginning of the period	8,544	9,019	8,544	9,019
Impact of IFRS 9 adaption*	(8,544)	-	(8,544)	-
Provisions as at 1 January 2018	-	9,019	-	9,019
Increase in provisions	-	3,940	-	3,940
Decrease in provisions	-	(4,415)	-	(4,415)
Provisions at the end of the period ended	**-**	**8,544**	**-**	**8,544**
Group's / Company's share of provisions	-	8,544	-	8,544
Provisions covered by risk coverage	-	-	-	-

As of adoption of IFRS 9 on 1 January 2018 the principles of establishment of provisions for financial guarantees are regulated by IFRS 9, exposing the financial guarantees for the establishment of the allowances for expected credit losses, as opposed to IAS 37. For more information Note 2 (17) item (i).

30 Provisions (cont'd)

Financial guarantees, gross and net amounts:

	Group	Group	Company	Company
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Maximum exposure to credit risk with regard to the off-balance sheet amount	236,895	182,376	236,895	182,376
Provisions for financial guarantees	(24,144)	(5,986)	(24,144)	(5,986)
Off-balance sheet net amount of guarantees	**212,751**	**176,390**	**212,751**	**176,390**

Loan commitments, gross and net amounts:

	Group	Group	Company	Company
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Loan commitments	19,611	8,788	19,611	8,788
Provisions for loan commitments	(1,220)	-	(1,220)	-
Net amount of loan commitments	**18,391**	**8,788**	**18,391**	**8,788**

Grant commitments, gross and net amounts:

	Group	Group	Company	Company
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Grant commitments	7,320	365	7,320	365
Provisions for grant commitments	(9)	-	(9)	-
Net amount of loan commitments	**7,311**	**365**	**7,311**	**365**

For more information on the amount of guarantees, loan and grant commitments see Note 36.

31 Other liabilities

	Group	Group	Company	Company
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Due to customers	1,895	2,148	1,895	2,148
Other liabilities	811	1,616	748	1,340
Total other liabilities	**2,706**	**3,764**	**2,643**	**3,488**

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

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

32 Accrued expense

	Group	Group	Company	Company
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Other accrued expense	461	488	461	488
Bonuses of the employees and Board	354	479	354	479
Audit services	15	15	15	15
Total accrued expense	**830**	**982**	**830**	**982**

33 Issued debt securities

In March 2018, the Company's second bond issue took place totalling EUR 10 million. All bonds are listed on the *Nasdaq Baltic Bond List*.

ISIN	Currency	Number of initially issued securities	Par value	Date of emission	Date of maturity	Discount / Coupon rate, %	Group	Group	Company	Company
							31/12/2018	31/12/2017	31/12/2018	31/12/2017
LV0000802353	EUR	20,000	1,000	17.10.2017	17.10.2024	1.3	19,883	19,852	19,883	19,852
LV0000880037	EUR	10,000	1,000	07.03.2018	07.03.2025	1.3	10,060	-	10,060	-
Total issued debt securities							**29,943**	**19,852**	**29,943**	**19,852**

So called "Green bonds" are financial instruments used to support sustainability projects in Latvia, while providing the Company with an opportunity to diversify Company's funding base and support development of the Baltic Bond market.

For details on the recognition and measurement for these liabilities, refer Note 2 (5) item(*xviii)*.

The next table presents movement of issued debt securities:

	Group	Group	Company	Company
	01/01/2018-31/12/2018	01/01/2017-31/12/2017	01/01/2018-31/12/2018	01/01/2017-31/12/2017
at the beginning of the period	19,852	-	19,852	-
Bond issue	10,000	20,000	10,000	20,000
Accrued coupon	370	53	370	53
Coupon pay-out	(260)	-	(260)	-
Amortisation	(19)	(201)	(19)	(201)
At the end of the period	**29,943**	**19,852**	**29,943**	**19,852**

34 Share capital

The share capital of the Company was as follows:

	31/12/2018		31/12/2017	
	Quantity	EUR	Quantity	EUR
Fully paid share capital				
Ordinary shares	204,862,332	204,862,332	204,862,332	204,862,332
Total fully paid share capital	**204,862,332**	**204,862,332**	**204,862,332**	**204,862,332**

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

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

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

For more information see Note 1 (1).

35 Reserves

Information about the Group's reserves movements below:

	Specific reserves				
	Difference recognised in Group's reorganisation reserve, EUR '000	Reserve capital for Housing Guarantee Programme, EUR '000	General reserve capital, EUR '000	Revaluation reserve of financial assets measured at fair value through other comprehensive income, EUR '000	Reserves, EUR '000
Reserves as at 31/12/2016	(17,259)	7,195	1,829	9,092	857
Change in accounting policy (see Note 2 (19) item (iv))	38	-	-	-	38
Reserves as at 31/12/2016 (restated)	(17,221)	7,195	1,829	9,092	895
Changes of reserves (see Note 2 (17) item (i))	2,394	-	-	-	2,394
Distribution of 2016 year profit of Company	-	-	4,025	-	4,025
Increase of reserve capital	-	2,500	-	-	2,500
(Decrease) in revaluation reserve of financial assets measured at fair value through other comprehensive income (Note 38	-	-	-	(1,161)	(1,161)
Reserves as at 31/12/2017 (restated)	**(14,827)**	**9,695**	**5,854**	**7,931**	**8,653**
Impact of IFRS 9 adoption (Note 2 (17))	-	-	-	(1,839)	(1,839)
Reserves as at 01/01/2018 (restated)	**(14,827)**	**9,695**	**5,854**	**6,092**	**6,814**
Changes of reserves	(753)	-	-	-	(753)
Distribution of 2017 year profit of Company	-	-	5,884	-	5,884
Increase of reserve capital	-	2,112	-	-	2,112
(Decrease) in revaluation reserve of financial assets measured at fair value through other comprehensive income (Note 38)	-	-	-	(2,495)	(2,495)
Reserves as at 31/12/2018	**(15,580)**	**11,807**	**11,738**	**3,597**	**11,562**

Applying the new accounting policy on investments in venture capital funds, Changes of reserves was restated for the previous periods. See more information in Note 2 (19) item (iv).

One of the Group's/Company's reserve capital is related to *Housing Guarantee Programme*. To implement this programme the Group's/Company's reserve capital was increased in 2,112 thsd euros in 2018 and in 2,500 thsd euros in 2017 by Company's shareholders. The reserve capital increase was fully paid.

Information about the Company's reserves movements below:

	Difference recognised in Company's reorganisation reserve, EUR '000	Revaluation reserve of financial assets measured at fair value through other comprehensive income, EUR '000	Reserve capital for Housing Guarantee Programme, EUR '000	General reserve capital, EUR '000	Reserves, EUR '000
Reserves as at 31/12/2016	(15,935)	9,092	7,195	1,829	2,181
(Decrease) in revaluation reserve of financial assets measured at fair value through other comprehensive income (Note 38)	-	(1,161)	-	-	(1,161)
Distribution of 2016 year profit of Company	-	-	-	4,025	4,025
Increase of reserve capital	-	-	2,500	-	2,500
Reserves as at 31/12/2017	**(15,935)**	**7,931**	**9,695**	**5,854**	**7,545**
Impact of IFRS 9 adoption (Note 2 (17))	-	(1,839)	-	-	(1,839)
Reserves as at 01/01/2018	**(15,935)**	**6,092**	**9,695**	**5,854**	**5,706**
(Decrease) in revaluation reserves of financial assets measured at fair value through other comprehensive income (Note 38)	-	(2,495)	-	-	(2,495)
Distribution of 2017 year profit of Company	-	-	-	5,884	5,884
Increase of reserve capital	-	-	2,112	-	2,112
Reserves as at 31/12/2018	**(15,935)**	**3,597**	**11,807**	**11,738**	**11,207**

36 Off balance sheet items and contingent liabilities

EUR '000	Group	Group	Company	Company
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Contingent liabilities:				
outstanding guarantees	236,895	182,376	236,895	182,376
Financial commitments:				
loan commitments	19,611	8,788	19,611	8,788
commitments to venture capital funds	60,258	27,020	60,258	27,020
grant commitments	7,320	-	7,320	-
Total contingent liabilities	**324,084**	**218,184**	**324,084**	**218,184**

The largest portion of the Group's/Company's off-balance sheet items presents the guarantees issued by the Group/Company. The Company's guarantee portfolio consists of the portfolios of the State aid programmes implemented through guarantees.

Commitments to venture capital funds are contingent liabilities, which are based on agreements between the Group/Company and the venture capital fund which put an obligation on the Group/Company to allocate financial resources to the fund. In the reporting period, the Group/Company concluded several agreements with the 4th generation venture capital funds.
For more information on the classification of the new venture capital funds see Note 39.

Approved funding for the venture capital funds:

	Contract period	Commitment, EUR '000	Approved funding not invested in fund as at 31/12/2018, EUR '000	Approved funding not invested in fund as at 31/12/2017, EUR '000
KS BaltCap LatviaVentureCapital Fund	22.01.2020.	20,000	3,994	4,114
KS Impr.Cap.Technol.Vent.Fund	11.06.2020.	4,966	419	638
KS Imprimatur Capital Seed Fund	11.06.2020.	10,000	755	893
KS ZGI-3	31.12.2020.	11,800	1,236	1,502
KS FlyCap Investment Fund I	31.12.2020.	15,000	1,484	1,875
KS Expansion Capital Fund	31.12.2020.	15,000	299	331
Baltic Innovation Fund	01.01.2029.	26,000	14,667	17,667
KS Overkill Ventures Fund I	09.05.2026.	3,200	2,783	-
KS Overkill Ventures Fund II	09.08.2026.	1,800	1,771	-
KS Buildit Latvia Seed Fund	20.06.2026.	1,800	1,765	-
KS Buildit Latvia Pre-Seed Fund	31.06.2026.	3,200	2,697	-
KS Commercialization Reactor Pre-seed Fund	24.07.2026.	3,200	2,933	-
KS Commercialization Reactor Seed Fund	22.08.2026.	1,800	1,773	-
KS ZGI-4	24.08.2028.	15,000	14,778	-
KS INEC 1	29.11.2028.	5,250	4,449	-
KS INEC 2	29.11.2020.	4,500	4,456	-
Total		**142,516**	**60,259**	**27,020**

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

The following table shows the remaining contractual maturities of the Group's / Company's off-balance sheet assets and contingent liabilities as at 31 December 2018:

EUR '000	Up to 1 month	1 to 3 months	3 to 6 months	Up to 1 year	1 to 5 years	Over 5 years and undated	**Total**
Contingent liabilities							
outstanding guarantees	236,895 *	-	-	-	-	-	236,895
Financial commitments							
loan commitments	19,611	-	-	-	-	-	19,611
grant commitments	7,320	-	-	-	-	-	7,320
commitments to venture capital funds	600	2,100	4,600	10,000	38,000	4,958	60,258
Total financial commitments	27,531	2,100	4,600	10,000	38,000	4,958	87,189
Total	**264,426***	**2,100**	**4,600**	**10,000**	**38,000**	**4,958**	**324,084**

* According to IAS 7 "Financial Instruments: Disclosures" requirements the major part of the guarantee portfolio issued by the Group / Company has been classified within maturity "Up to 1 month" thus Total financial liabilities, off-balance sheet items and contingent liabilities substantially exceeds Liquid assets with maturity of "Up to 1 month". Track records of claimed guarantee compensations presents that the volume of guarantees claimed within such terms are considerably less than the amount of the commitment disclosed in the above maturity analyses. As a consequence, the liquidity of the Group / Company is not deteriorated.

The following table shows restated remaining contractual maturities of the Group's / Company's off-balance sheet assets and contingent liabilities as at 31 December 2017:

EUR '000	Up to 1 month	1 to 3 months	3 to 6 months	Up to 1 year	1 to 5 years	Over 5 years and undated	**Total**
Contingent liabilities							
outstanding guarantees	182,376 *	-	-	-	-	-	182,376
Financial commitments							
loan commitments	8,788	-	-	-	-	-	8,788
commitments to venture capital funds	436	714	1,676	3,732	16,246	4,216	27,020
Total financial commitments	9,224	714	1,676	3,732	16,246	4,216	35,808
Total	**191,600 ***	**714**	**1,676**	**3,732**	**16,246**	**4,216**	**218,184**

* According to IAS 7 "Financial Instruments: Disclosures" requirements the major part of the guarantee portfolio issued by the Group / Company has been classified within maturity "Up to 1 month" thus Total financial liabilities, off-balance sheet items and contingent liabilities substantially exceeds Liquid assets with maturity of "Up to 1 month". Track records of claimed guarantee compensations presents that the volume of guarantees claimed within such terms are considerably less than the amount of the commitment disclosed in the above maturity analyses. As a consequence, the liquidity of the Group / Company is not deteriorated.

37 Cash and cash equivalents

	Group	**Group**	**Company**	**Company**
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Demand deposits with other credit institutions	128,916	100,597	128,536	100,597
Total	**128,916**	**100,597**	**128,536**	**100,597**

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

	Group	Group	Company	Company
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
As at 31 December	7,931	9,092	7,931	9,092
Decrease of reserve of disposal group classified as held for sale Due to IFRS 9 adoption*	(1,839)	-	(1,839)	-
As at 1 January	6,092	9,092	6,092	9,092
(Loss) from changes in fair value	(2,472)	(1,161)	(2,472)	(1,161)
(Loss) from sales	(55)	-	(55)	-
Impairment loss*	32	-	32	-
Other comprehensive income (Note 35)	(2,495)	(1,161)	(2,495)	(1,161)
Total at the end of the period	**3,597**	**7,931**	**3,597**	**7,931**
Reserve of disposal group classified as held for sale	**-**	**(1,839)**	**-**	**(1,839)**
Revaluation reserve of financial assets measured at fair value through other comprehensive income	**3,597**	**6,092**	**3,597**	**6,092**

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

39 Related party transactions

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

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

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

The remuneration of the members of the Company's Council and Board in the reporting period amounted to 503 thsd euros (2017: 376 thsd euros) (Note 10).

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

The Group's / Company's transactions with related parties in the reporting year ended 31 December 2018 and in the year ended 31 December 2017 are summarised below:

		Received Support programme funding, EUR '000	**Issued programme funding or funding paid back, EUR '000**
Transactions with shareholders: Ministry of Finance	31/12/2018	-	-
	31/12/2017	-	(336)
Ministry of Economics	31/12/2018	6,244	-
	31/12/2017	5,349	(217)
The Ministry of Welfare	31/12/2018	1,209	(1,027)
	31/12/2017	-	-
Associates: Venture capital funds	31/12/2018	4,553	(6,821)
	31/12/2017	3,030	(3,998)
Other companies owned by Group's shareholders: Rural Support Service	31/12/2018	-	-
	31/12/2017	-	(3,304)
Central Finance and Contracting Agency	31/12/2018	46,180	(1,109)
	31/12/2017	4,946	-

39 Related party transactions (cont'd)

Assessing the value of *Assets held for sale,* the revaluation result of the year 2018 measured at fair value as at 31 December 2018, is included in the Group's profit or loss calculation for 408 thsd euro and in the Company's profit or loss calculation – for 778 thsd euro (Note 26).

The Group's balances from transactions with related parties, including off-balance sheet financial liabilities, as at 31 December 2018 and 31 December 2017 summarised as follows:

		People with significant control (PSC), EUR '000	**Transactions with shareholders, EUR '000**	**Associates, EUR '000**	**Other companies owned by the Group's shareholders, EUR '000**
Due from other credit institutions and Treasury (Note 16)	31.12.2018.	-	-	-	-
	31.12.2017.	-	-	-	-
Financial assets at fair value through profit or loss	31.12.2018.	-	-	-	-
	31.12.2017.	-	-	-	-
Investments in venture capital funds – associates (Note 18)	31.12.2018.	-	-	50,239	-
	31.12.2017.	-	-	53,292	-
	31.12.2017.	-	-	(140)	-
Loans (Note 19)	31.12.2018.	-	-	-	-
	31.12.2017.	-	-	-	-
Assets held for sale (Note 26)	31.12.2018.	11,343	-	-	-
	31.12.2017.	12,935	-	-	-
Due to general governments	31.12.2018.	-	-	-	7,171
	31.12.2017.	-	-	-	9,686
Support programme funding un state aid (Note 29)*	31.12.2018.	-	102,045		23,422
	31.12.2017.	-	87,267	-	10,362
Liabilities directly associated with assets held for sale	31.12.2018.	-	-	-	-
	31.12.2017.	2,000	-	-	-
Other liabilities	31.12.2018.	-	-	-	-
	31.12.2017.	-	-	-	-
Non-controlling interest	31.12.2018.	-	-	-	-
	31.12.2017.	-	-	-	-
Off-balance sheet financial liabilities for venture capital funds (Note 26)	31.12.2018.	-	-	43,952	-
	31.12.2017.	-	-	27,020	-

*Item Support programme funding un state aid was restated for the previous period. See Note 2 (19) item (iv) for details.

The Company's balances from transactions with related parties, including off-balance sheet financial liabilities, as at 31 December 2018 and 31 December 2017 can be summarised as follows:

		People with significant control (PSC), EUR '000	**Transactions with shareholders, EUR '000**	**Associates, EUR '000**	**Other companies owned by Altum shareholders, EUR '000**	**Investments in subsidiaries, EUR '000**
Investments in venture capital funds – associates (Note 18)	31.12.2018.	-	-	50,239	-	-
	31.12.2017.	-	-	53,292	-	-
	31.12.2017.	-	-	(140)	-	
Investments in subsidiaries (Note 20)	31.12.2018.	-	-	-	-	1,492
	31.12.2017.	-	-	-	-	-
Due to general governments	31.12.2018.	-	-	-	7,171	-
	31.12.2017.	-	-	-	9,685	-
Support programme funding and State aid (Note 29)*	31.12.2018.	-	103,537		23,422	-
	31.12.2017.	-	90,126	-	10,362	-
Off-balance sheet financial liabilities for venture capital funds (Note 26)	31.12.2018.	-	-	43,952	-	-
	31.12.2017.	-	-	27,020	-	-

*Item Support programme funding un state aid was restated for the previous period. See Note 2 (19) item (iv) for details.

39 Related party transactions (cont'd)

The following table provides information regarding the Group:

Legal tittle	Legal address	Investment % in share capital	Classification
Venture capital funds			
KS Otrais Eko Fonds	Darza street 2, Riga, LV-1007	33	Associate
KS Baltcap Latvia Venture Capital Fund	Jaunmoku street 34, Riga, Latvia, LV-1046	67	Associate
KS Imprimatur Capital Technology Venture Fund	Elizabetes street 85a-18, Riga, Latvia, LV-1050	67	Associate
KS Imprimatur Capital Seed Fund	Elizabetes street 85a-18, Riga, Latvia, LV-1050	100	Associate
KS ZGI-3	Daugavgrivas street 21, Riga, Latvia, LV-1048	95	Associate
KS FlyCap investment Fund	Matrozu street 15A, Riga, Latvia, LV-1048	95	Associate
KS Expansion Capital fund	Kr. Barona street 32-7, Riga, Latvia, LV-1011	95	Associate
Baltic Innovation Fund	Eiropean Investment Fund, 37B, avenue J.F. Kennedy, L-2968 Luxembourg	20	Associate
KS Overkill Ventures Fund I	Dzirnavu street 105, Riga, Latvia, LV-1011	100	Subsidiary
KS Overkill Ventures Fund II	Dzirnavu street 105, Riga, Latvia, LV-1011	80	Associate
KS Buildit Latvia Seed Fund	Sporta street 2, Riga, Latvia, LV-1013	80	Associate
KS Buildit Latvia Pre-Seed Fund	Sporta street 2, Riga, Latvia, LV-1013	100	Subsidiary
KS Commercialization Reactor Pre-seed Fund	Brivibas gatve 300 -9, Riga, Latvia	100	Subsidiary
KS Commercialization Reactor Seed Fund	Brivibas gatve 300 -9, Riga, Latvia	80	Associate
KS ZGI-4	Daugavgrivas street 21, Riga, Latvia, LV-1048	60	Associate
KS INEC 1	Kr. Barona street 32-7, Riga, Latvia, LV-1011	75	Subsidiary
KS INEC 2	Kr. Barona street 32-7, Riga, Latvia, LV-1011	90	Subsidiary
KS Imprimatur Seed Fund 2 *	Elizabetes street 85A - 18, Riga, Latvia, LV -1050	90	Subsidiary
KS Imprimatur Venture Fund 2 *	Elizabetes street 85A - 18, Riga, Latvia, LV-1050	75	Subsidiary
Alternative investment funds controlled by the Company			
Hipo Latvia Real Estate Fund I	Elizabetes street 41/43, Riga, Latvia, LV-1010	100	
Hipo Latvia Real Estate Fund II	Elizabetes street 41/43, Riga, Latvia, LV-1010	100	

* Due to failure of raising capital to the extent stipulated in the agreement, decision about termination of operation of KS AIF Imprimatur Seed Fund 2 and KS AIF Imprimatur Venture Fund 2 and initiation of liquidation of the limited partnerships has been taken by unanimous decision of the shareholders. Applications about liquidation have been submitted to Commercial register and Financial Capital Market Commission. However, decisions have not yet been taken.

The above disclosed classification of venture capital fund as subsidiary or associate is only for purposes of financial accounting.

40 Segment information

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

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

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

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

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

40 Segment information (cont'd)

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

	Loan service, thsd EUR	Guarantee service, thsd EUR	Venture capital funds service, thsd EUR	Other services, thsd EUR	Total, thsd EUR
Net interest income	9,715	1,167	46	243	11,171
Net income from fees and commissions	73	182	43	85	383
Net trading income	36	73	4	9	122
Share of (loss) of investment in joint venture and associate	-	-	(1,348)	-	(1,348)
Share of gain or (loss) of investment in joint venture and associate at fair value through profit or loss	-	-	257	-	257
Gains less losses from liabilities at fair value through profit or loss	201	46	(63)	769	953
Other income	627	145	(196)	2,403	2,979
Gains on the revaluation of assets held for sale	-	-	-	408	408
Operating income before operating expenses	**10,652**	**1,613**	**(1,257)**	**3,917**	**14,925**
Staff costs	(3,832)	(1,348)	(280)	(1,908)	(7,368)
Administrative expense	(1,855)	(640)	(161)	(861)	(3,517)
Amortisation of intangible assets and depreciation of property, plant and equipment	(326)	(136)	(21)	(137)	(620)
Net impairment provisions	(665)	2,569	-	(1,232)	672
Corporate income tax	-	-	-	-	-
Total segment profit/(loss)	**3,974**	**2,058**	**(1,719)**	**(221)**	**4,092**
Investments in venture capital funds - associates	-	-	50,239	-	50,239
Additions of property and equipment, intangible assets and investment property	830	292	61	412	1,595
Total segment assets	**277,554**	**100,213**	**54,402**	**63,770**	**495,939**
Total segment liabilities	**158,045**	**55,012**	**25,901**	**35,391**	**274,349**

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

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

	Loan service, thsd EUR	Guarantee service, thsd EUR	Venture capital funds service, thsd EUR	Other services, thsd EUR	Total, thsd EUR
Net interest income	9,671	1,399	96	208	11,374
Net income from fees and commissions	449	(24)	(191)	(6)	228
Net trading income	(97)	(83)	(10)	(1)	(191)
Share of gain of investment in joint venture and associate*	-	-	1,672	-	1,672
Share of gain of investment in joint venture and associate at fair value through profit or loss*	-	-	910	-	910
Other income	1,623	454	636	5,078	7,791
Operating income before operating expenses	**11,646**	**1,746**	**3,113**	**5,279**	**21,784**
Staff costs	(3,653)	(1,203)	(241)	(1,425)	(6,522)
Administrative expense	(2,849)	(275)	(140)	(746)	(4,010)
Amortisation of intangible assets and depreciation of property, plant and equipment	(344)	(40)	(7)	(26)	(417)
Net impairment provisions	(2,390)	2,318	-	(1,929)	(2,001)
Corporate income tax	(43)	(45)	(17)	(20)	(125)
Total segment profit	**2,367**	**2,501**	**2,708**	**1,133**	**8,709**
Investments in venture capital funds - associates *	-	-	53,292	-	53,292
Additions of property and equipment, intangible assets and investment property	786	234	49	273	1,342
Total segment assets*	**286,204**	**82,305**	**59,564**	**25,595**	**453,668**
Total segment liabilities*	**176,196**	**31,014**	**14,073**	**9,537**	**230,820**

* Items were restated for previous period. See note 2 (19) item (iv) for details.

41 Maximum exposure to credit risk

Credit risk is a risk that a customer or cooperation partner of the Group/Company will be unable or unwilling to meet in full their liabilities towards the Group/Company and within the established timeframe.

The table below shows the credit risk exposures of the balance and off-balance sheet items (not including collateral held or other security):

	Group	Group	Company	Copany
	31/12/2018	31/12/2017 (restated)	31/12/2018	31/12/2017 (restated)
Assets exposed to credit risk				
Due from other credit institutions and the Treasury	137,026	109,594	136,646	109,594
Financial assets at fair value through other comprehensive income - investment securities	50,389	61,760	50,389	61,760
Financial assets at amortised cost:				
Investment securities	467	443	467	443
Loans	197,755	192,147	197,473	192,147
Investments in venture capital funds	50,239	53,152	50,239	53,152
Other assets	24,300	3,886	24,300	3,886
Total	**460,176**	**420,982**	**459,514**	**420,982**

	Group	Group	Company	Company
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Off-balance sheet items exposed to credit risk				
Contingent liabilities (Note 36)	236,895	182,376	236,895	182,376
Financial commitments (Note 36)	87,189	35,808	87,189	35,808
Total	**324,084**	**218,184**	**324,084**	**218,184**

As at 31 December 2018, a part of the Group/Company assets amounting to EUR 76,402 thousand were pledged. Detailed information on the loan agreements concluded by the Group/Company as at 31 December 2018:

On 16 June 2015, a commercial pledge stemming from loan agreement No A/1/F12/296 and its amendments concluded between the Group/Company and the Ministry of Finance of the Republic of Latvia was renewed. The commercial pledge refers to the loans granted by the Group/Company in compliance with Cabinet Regulation No 381 "Procedure for Granting State Aid for the Acquisition of Agricultural Land Used for Agricultural Production", dated 29 May 2012, as well as future components of the aggregation of property. The secured claim amount is EUR 38,215 thousand (2017: EUR 32,201 thousand) (Note 28).

As at 31 December 2018, the total amount of the Group/Company commitments considered as an aggregation of property in favour of the Ministry of Finance was EUR 38,205 thousand (2017: EUR 46,933 thousand). A guarantee of the Ministry of Finance of the Republic of Latvia amounting to EUR 38,187 thousand was issued to secure the Group's/Company's loan from EIB (Note 27).

Detailed information on commercial pledges stemming from the signed loan agreements, the funding under which was not disbursed, as at 31 December 2018:

Based on the loan agreement No A1/1/F16/474 dated 24 November 2016 between the Group/Company and Treasury of the Republic of Latvia a commercial pledge agreement was concluded on the same date. The commercial pledge refers to the loan funds that the Group/Company received from the Treasury and used to issue loans according to the Cabinet Regulation No 469 dated 15 July 2016 On Parallel Loans for Improvement of Competitiveness of Businesses. The maximum secured claim amount is 24,000 thsd euro. As at 31 December 2018 the Group/Company has not yet started to use the Treasury's.

On 29 December 2016 a commercial pledge agreement was concluded based on the following two loan agreements: loan agreement No A1/1/15/698 dated 18 December 2015 and loan agreement No A1/1/16/395 dated 26 September 2016. The commercial pledge refers to the funding the Group/Company received from the Treasury and used to issue loans according to the Cabinet Regulation No 1065 dated 15 September 2009 On Loans for Promoting the Development of Micro, Small and Medium Sized Merchants and Agricultural Service Co-operative Societies and Cabinet Regulation No 328 dated 31 May 2016 On Micro Loans and Start-up Loans. The maximum secured claim amount is 39,600 thsd euro. As at 31 December 2018the Group/Company has not yet started to use the Treasury's loan.

41 Maximum exposure to credit risk (cont'd)

On 30 October 2017 a loan agreement with the Council of Europe Development Bank was signed. Within the framework of the loan agreement Group/Company would have the opportunity of borrowing EUR 50 mln for implementation of the energy efficiency improvement measures in multi-apartment buildings. The agreement has been signed to fund Group's/Company's loans within the energy efficiency programme of the multi-apartment buildings. Nevertheless, as at 31 December 2018 Group/Company didn't use the funds of the Council of Europe Development Bank as Group's/Company's loan for implementation of the project involving the multi-apartment buildings could only be issued if the commercial banks refused to fund the project, but in view of the current economic circumstances such occurrences were rear (in year 2017 – 4 loans worth EUR 0.6 mln, in year 2018 – EUR 0.51 mln). These funds will be used only if there is a demand for Group's/Company's loans of at least 12,5 mln which is the minimum amount of the tranche. As stipulated by agreement, the first tranche has to be disbursed within September 2019 and there is no payment on the portion of the loan that has not been disbursed. The loan is not secured by a registered collateral, but presents pari passu rights against other creditors.

Transactions with derivatives, effective as at 31 December 2018, were concluded to minimise the effect of exchange rate fluctuations on the value of balance-sheet items.

Loans are secured mostly by real estate, to a lesser extent – by other types of assets or commercial pledges. Some loans, issued during lending campaigns, are partially covered by guarantees under the State aid programmes. In estimating the loan impairment, the expected cash flows from collateral are taken into account. Information on the loan quality is provided in Note 19.

42 Fair values of assets and liabilities

The Management considers that the fair value of assets and liabilities which in the Group's statement of financial position are not stated at their fair value differs from their carrying values and from those assets and liabilities which are stated at fair value, as follows:

	31/12/2018		**31/12/2017 (restated)**	
	Carrying amount, EUR '000	**Fair value, EUR '000**	**Carrying amount, EUR '000**	**Fair value, EUR '000**
Assets				
Due from other credit institutions and Treasury	137,026	137,007	109,594	109,594
Financial assets at fair value through profit or loss	1,160	1,160	142	142
Financial assets at fair value through other comprehensive income - investment securities	50,389	50,389	61,760	61,760
Financial assets at amortised cost:				
Investment securities	467	1,148	443	1,208
Individuals	*23,485*	*23,387*	*21,635*	*21,597*
Companies	*174,270*	*173,014*	*170,512*	*169,699*
Loans	197,755	196,401	192,147	191,296
Assets held for sale	11,343	11,343	12,935	12,935
Investments in venture capital funds – associates (investments in BIF)	10,988	10,988	8,394	8,394
Investment properties	14,794	14,794	10,808	10,808
Other assets	24,300	24,300	3,886	3,886
Total assets	**448,222**	**447,530**	**400,109**	**400,023**
Liabilities				
Due to credit institutions	38,245	38,245	46,933	46,933
Financial liabilities at fair value through profit or loss – derivatives	2	2	-	-
Due to general governments	48,110	47,370	43,609	42,103
Financial liabilities at amortised cost - Issued debt securities	29,943	29,943	19,852	19,852
Liabilities directly associated with assets held for sale	-	-	2,000	2,000
Support programme funding	126,959	126,959	93,661	93,661
Total liabilities	**243,259**	**242,519**	**206,055**	**204,549**

Information for the fair value of the Group's assets and liabilities as at 31 December 2017 has been restated considering the change of accounting policy in respect of investments in venture capital funds. For more information see Note 2 (19) item (iv).

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

The Management considers that the fair value of assets and liabilities which in the Company's statement of financial position are not stated at their fair value differs from their carrying values and from those assets and liabilities which are stated at fair value, as follows:

	31/12/2018		31/12/2017 (restated)	
	Carrying amount, EUR '000	Fair value, EUR '000	Carrying amount, EUR '000	Fair value, EUR '000
Assets				
Due from other credit institutions and Treasury	136,646	136,627	109,594	109,594
Financial assets at fair value through profit or loss	-	-	142	142
Financial assets at fair value through other comprehensive income - investment securities	50,389	50,389	61,760	61,760
Financial assets at amortised cost:				
Investment securities	467	1,148	443	1,208
Individuals	*23,451*	*23,353*	*21,635*	*21,597*
Companies	*174,022*	*172,766*	*170,512*	*169,699*
Loans	197,473	196,119	192,147	191,296
Assets held for sale	11,343	11,343	10,565	10,565
Investments in venture capital funds – associates (investments in BIF)	10,988	10,988	8,394	8,394
Investments in subsidiaries	1,492	1,492	-	-
Investment properties	14,794	14,794	10,808	10,808
Other assets	24,300	24,300	3,886	3,886
Total assets	**447,892**	**447,200**	**397,739**	**397,653**
Liabilities				
Due to credit institutions	38,245	38,245	46,933	46,933
Financial liabilities at fair value through profit or loss – derivatives	2	2	-	-
Due to general governments	48,110	47,370	43,609	42,103
Financial liabilities at amortised cost - Issued debt securities	29,943	29,943	19,852	19,852
Support programme funding	126,959	126,959	96,520	96,520
Total liabilities	**243,259**	**242,519**	**206,914**	**205,408**

Information for the fair value of the Company's assets and liabilities as at 31 December 2017 has been restated considering the change of accounting policy in respect of investments in venture capital funds. For more information see Note 2 (19) item (iv).

Assets

Where possible, the fair value of securities is estimated on the basis of quoted market prices. For determining the fair value of other securities, the Management has applied the discounted cash flow method where the cash flow forecasts are based on assumptions and up-to-date market information available at the time of measurement. The fair value of loans with interest payable at fixed rates by specified dates was determined by applying the discounted cash flow method, whilst in regard to the fair value of loans with their basic interest rate tied to variable market rates, the Group/Company have assumed that the carrying amount of such loans corresponds to their fair value.

Liabilities

The fair value of financial liabilities stated at amortised cost, for example, the fair value of balances due to credit institutions, is estimated using the discounted cash flow method and the interest rates applied to similar products at the end of the year. The fair value of financial liabilities (for example, balances due to credit institutions) repayable on demand or subject to a variable interest rate, approximately corresponds to their carrying amount.

The value of Support programme funding is stated at fair value. Although these liabilities are interest-free or have an interest rate that differs from the average market rate, they have an additional participation in the profit or loss related to the assets in which the Group/Company has invested using these resources. So the fair value methodology means that all changes in assets value, in which this funding is invested, for example changes in credit risk, changes in venture capital funds' fair value, as well as venture capital funds' management fees immediately reflects on liabilities' value. See Note 2 (17) item (ii) and Note 29 for details.

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

The following table shows the hierarchy of the Group's financial assets and liabilities measured and disclosed at fair value as at 31 December 2018:

	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Financial assets at fair value through profit or loss	-	-	1,160	1,160
Financial assets at fair value through other comprehensive income - investment securities	36,344	14,045	-	50,389
Assets held for sale	-	-	11,343	11,343
Investments in venture capital funds – associates (investments in BIF)	-	-	10,988	10,988
Investment properties	-	-	14,794	14,794
Assets with fair values disclosed				
Due from other credit institutions and Treasury	132,026	-	4,981	137,007
Financial assets at amortised cost:				
Investment securities	-	1,148	-	1,148
Loans	-	-	196,401	196,401
Other assets	-	-	24,300	24,300
Total assets	**168,370**	**15,193**	**263,967**	**447,530**
Liabilities measured at fair value				
Financial liabilities at fair value through profit or loss – derivatives	-	2	-	2
Liabilities directly associated with assets held for sale	-	-	-	-
Support programme funding	-	-	126,959	126,959
Liabilities with fair value disclosed				
Due to credit institutions	-	-	38,245	38,245
Due to general governments	-	-	47,370	47,370
Financial liabilities at amortised cost - Issued debt securities	-	-	29,943	29,943
Total liabilities	**-**	**2**	**242,517**	**242,519**

The following table shows the hierarchy of the Group's financial assets and liabilities measured and disclosed at fair value as at 31 December 2017:

	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Financial assets at fair value through other comprehensive income - investment securities	37,723	24,037	-	61,760
Financial assets at fair value through profit or loss - derivatives	-	142	-	142
Assets held for sales	-	-	10,565	10,565
Investments in venture capital funds – associates (investments in BIF)	-	-	8,394	8,394
Investment properties	-	-	10,808	10,808
Assets with fair values disclosed				
Due from other credit institutions and Treasury	100,594	-	9,000	109,594
Financial assets at amortised cost				
Investment securities	-	1,208	-	1,208
Loans	-	-	191,296	191,296
Other assets	-	-	3,886	3,886
Total assets	**138,317**	**25,387**	**233,949**	**397,653**
Liabilities measured at fair value				
Financial liabilities at fair value through profit or loss – derivatives	-	-	-	-
Liabilities with fair value disclosed				
Due to credit institutions	-	-	46,933	46,933
Due to general governments	-	-	42,103	42,103
Financial liabilities at amortised cost - Issued debt securities	-	-	19,852	19,852
Support programme funding	-	-	96,520	96,520
Total liabilities	**-**	**-**	**205,408**	**205,408**

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

Information for the fair value of the Group's assets and liabilities as at 31 December 2017 has been restated considering the change of accounting policy in respect of investments in venture capital funds. For more information see Note 2 (19) item (iv).

The following table shows the hierarchy of the Company's financial assets and liabilities measured and disclosed at fair value as at 31 December 2018:

	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Financial assets at fair value through profit or loss	-	-	-	-
Financial assets at fair value through other comprehensive income - investment securities	36,344	14,045	-	50,389
Investments in venture capital funds – associates (investments in BIF)	-	-	10,988	10,988
Investments in subsidiaries	-	-	1,492	1,492
Investment properties	-	-	14,794	14,794
Assets held for sale	-	-	11,343	11,343
Assets with fair values disclosed				-
Due from other credit institutions and Treasury	131,646	-	4,981	136,627
Financial assets at amortised cost				
Investment securities	-	1148	-	1,148
Loans	-	-	196,119	196,119
Other assets	-	-	24,300	24,300
Total assets	**167,990**	**15,193**	**264,017**	**447,200**
Liabilities measured at fair value				
Financial liabilities at fair value through profit or loss – derivatives	-	2	-	2
Support programme funding	-	-	126,959	126,959
Liabilities with fair value disclosed				
Due to credit institutions	-	-	38,245	38,245
Due to general governments	-	-	47,370	47,370
Financial liabilities at amortised cost - Issued debt securities	-	-	29,943	29,943
Total liabilities	**-**	**2**	**242,517**	**242,519**

The following table shows the hierarchy of the Company's financial assets and liabilities measured and disclosed at fair value as at 31 December 2017:

	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Financial assets at fair value through other comprehensive income - investment securities	37,723	24,037	-	61,760
Financial assets at fair value through profit or loss - derivatives	-	142	-	142
Assets held for sales	-	-	10,565	10,565
Investments in venture capital funds – associates (investments in BIF)	-	-	8,394	8,394
Investments in subsidiaries	-	-	-	-
Investment properties	-	-	10,808	10,808
Assets with fair values disclosed				
Due from other credit institutions and Treasury	100,594	-	9,000	109,594
Financial assets at amortised cost				
Investment securities	-	1,208	-	1,208
Loans	-	-	191,296	191,296
Other assets	-	-	3,886	3,886
Total assets	**138,317**	**25,387**	**233,949**	**397,653**
Liabilities measured at fair value				
Financial liabilities at fair value through profit or loss – derivatives	-	-	-	-
Liabilities with fair value disclosed				
Due to credit institutions	-	-	46,933	46,933
Due to general governments	-	-	42,103	42,103
Financial liabilities at amortised cost - Issued debt securities	-	-	19,852	19,852
Support programme funding	-	-	96,520	96,520
Total liabilities	**-**	**-**	**205,408**	**205,408**

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

Information for the fair value of the Company's assets and liabilities as at 31 December 2017 has been restated considering the change of accounting policy in respect of investments in venture capital funds. For more information see Note 2 (19) item(iv).

Fair value hierarchy of financial assets and liabilities

The Group/Company classify the fair value measurements based on the fair value hierarchy, reflecting the significance of the input data. The fair value hierarchy of the Group/Company has 3 levels:

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

Debt securities

Debt securities are measured applying quoted prices or valuation techniques using observable or unobservable market inputs or combination of the two. The majority of investments in debt securities recognised at fair value are investments in Latvian treasury bills with a quoted price, but not traded on the active market. The Management has estimated that it is reasonable to presume the fair value of these securities to be equal to their quoted price.

Derivatives

The derivatives, measured using valuation techniques which rely on observable market inputs, are mainly currency swaps and forwards. The most frequently applied valuation techniques include discounted cash flow calculations, where inputs include foreign exchange spot and forward rates as well as interest rate curves.

Investments in venture capital funds

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

The Group's and Company's investments in venture capital funds are classified as *Associates* or *Investments in subsidiaries*. Associate is the entity over which the Group/Company has significant influence, but no control. Significant influence is the power to participate in the financial and operating policy decisions of the investee. Subsidiary is the entity controlled by the Group/Company.

Investments in venture capital funds, except from investment in Baltic Innovation Fund, are measured using the equity method both at the Group and the Company level.

Investments in Baltic Innovation Fund are measured at fair value through profit or loss statement.

See more information on change of accounting policy regarding investments in venture capital funds in Note 2 (19).

Investment properties

The fair value of the Group's / Company's investment property is determined based on reports of independent appraisers, who hold a recognised and relevant professional qualification, and who have had recent experience of the valuation of property in similar locations and of similar category.

Investments in property are measured at fair value applying one or complex of the following three methods:

(a) Market approach;

(b) Income approach;

(c) Cost approach.

The appropriate valuation method is selected depending on the nature of property and acquisition purpose.

Investment property represents agricultural land, which average selling price per hectare is 2,5 thsd euro.

Assets held for sale

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

The fair value of assets held for sale is based on selling price of underling investment properties.

43 Liquidity risk

The table below presents the maturity profile of expected undiscounted future cash flows of the Group's financial liabilities, off-balance liabilities and liquid assets, including balances due from other credit institutions and the Treasury and investment securities as at 31 December 2018. The amounts are based on the expected future cash flow dependent on payment schedules and includes interest while the maturity analysis presented in Note 44 discloses the maturity profile of the actual balances of liabilities and assets.

	Up to 1 year	1 to 5 years	Over 5 years and w/o date	Total
Due to other credit institutions	8,831	26,700	3,143	38,674
Due to general governments	191	764	51,406	52,361
Support programme funding	-	-	126,959	126,959
Issued debt securities	390	21,950	10,130	32,470
Other liabilities	-	-	2,706	2,706
Total financial liabilities	**9,412**	**49,414**	**194,344**	**253,170**
Off-balance sheet items and contingent liabilities	281,126	38,000	4,958	324,084
Total financial liabilities, off-balance items and contingent liabilities	**290,538***	**87,414**	**199,302**	**577,254**
Due from other credit institutions and the State Treasury	137,026	-	-	137,026
Investment securities	1,696	38,839	10,321	50,856
Liquid assets	**138,722**	**38,839**	**10,321**	**187,882**

* According to IAS 7 "Financial Instruments: Disclosures" requirements the major part of the guarantee portfolio issued by the Group has been classified within maturity "Up to 1 year" thus Total financial liabilities, off-balance sheet items and contingent liabilities substantially exceeds Liquid assets with maturity of "Up to 1 year". Track records of claimed guarantee compensations presents that the volume of guarantees claimed within such terms are considerably less than the amount of the commitment disclosed in the above maturity analyses. As a consequence, the liquidity of the Group is not deteriorated.

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

	Up to 1 year	1 to 5 years	Over 5 years and w/o date	Total
Due to other credit institutions	8,857	32,376	6,309	47,542
Due to general governments	163	612	44,869	45,644
Issued debt securities	260	1,300	20,260	21,820
Support programme funding and state aid *	-	-	97,629	97,629
Other liabilities	-	-	3,764	3,764
Total financial liabilities	**9,280**	**34,288**	**172,831**	**216,399**
Off-balance sheet items and contingent liabilities	197,722	16,247	4,215	218,184
Total financial liabilities, off-balance items and contingent liabilities	**207,002****	**50,535**	**177,046**	**434,583**
Due from other credit institutions and the State Treasury	109,594	-	-	109,594
Investment securities	38	51,426	10,739	62,203
Liquid assets	**109,632**	**51,426**	**10,739**	**171,797**

* Support programme funding and state aid has been restated for the comparative period. For more information see Note 2 (19) item (iv).

** According to IAS 7 "Financial Instruments: Disclosures" requirements the major part of the guarantee portfolio issued by the Group has been classified within maturity "Up to 1 year" thus Total financial liabilities, off-balance sheet items and contingent liabilities substantially exceeds Liquid assets with maturity of "Up to 1 year". Track records of claimed guarantee compensations presents that the volume of guarantees claimed within such terms are considerably less than the amount of the commitment disclosed in the above maturity analyses. As a consequence, the liquidity of the Group is not deteriorated.

43 Liquidity risk (cont'd)

The table below presents the maturity profile of expected undiscounted future cash flows of the Company's financial liabilities, off-balance liabilities and liquid assets as at 31 December 2018:

	Up to 1 year	1 to 5 years	Over 5 years and w/o date	Total
Due to other credit institutions	8,831	26,700	3,143	38,674
Due to general governments	191	764	51,406	52,361
Issued debt securities	390	21,950	10,130	32,470
Support programme funding	-	-	126,959	126,959
Other liabilities	-	-	2,643	2,643
Total financial liabilities	**9,412**	**49,414**	**194,281**	**253,107**
Off-balance items and contingent liabilities	281,126	38,000	4,958	324,084
Total financial liabilities, off-balance items and contingent liabilities	**290,538***	**87,414**	**199,239**	**577,191**
Due from other credit institutions and the State Treasury	136,646	-	-	136,646
Investment securities	1,696	38,839	10,321	50,856
Liquid assets	**138,342**	**38,839**	**10,321**	**187,502**

* According to IAS 7 "Financial Instruments: Disclosures" requirements the major part of the guarantee portfolio issued by the Company has been classified within maturity "Up to 1 year" thus Total financial liabilities, off-balance sheet items and contingent liabilities substantially exceeds Liquid assets with maturity of "Up to 1 year". Track records of claimed guarantee compensations presents that the volume of guarantees claimed within such terms are considerably less than the amount of the commitment disclosed in the above maturity analyses. As a consequence, the liquidity of the Company is not deteriorated.

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

	Up to 1 year	1 to 5 years	Over 5 years and w/o date	Total
Due to other credit institutions	8,857	32,376	6,309	47,542
Due to general governments	163	612	44,869	45,644
Issued debt securities	260	1,300	20,260	21,820
Support programme funding and state aid *	-	-	100,488	100,488
Other liabilities	-	-	3,488	3,488
Total financial liabilities	**9,280**	**34,288**	**175,414**	**218,982**
Off-balance items and contingent liabilities	197,722	16,247	4,215	218,184
Total financial liabilities, off-balance items and contingent liabilities	**207,002****	**50,535**	**179,629**	**437,166**
Due from other credit institutions and the State Treasury	109,594	-	-	109,594
Investment securities	38	51,426	10,738	62,202
Liquid assets	**109,632**	**51,426**	**10,738**	**171,796**

* Support programme funding and state aid has been restated for the comparative period. For more information see Note 2 (19) item (iv).

** According to IAS 7 "Financial Instruments: Disclosures" requirements the major part of the guarantee portfolio issued by the Company has been classified within maturity "Up to 1 year" thus Total financial liabilities, off-balance sheet items and contingent liabilities substantially exceeds Liquid assets with maturity of "Up to 1 year". Track records of claimed guarantee compensations presents that the volume of guarantees claimed within such terms are considerably less than the amount of the commitment disclosed in the above maturity analyses. As a consequence, the liquidity of the Company is not deteriorated.

44 Analysis of remaining maturities of assets and liabilities

The table below provides an analysis of assets and liabilities by their contractual maturity. With regard to loans and advances to customers, the Group uses the same basis of expected repayment behaviour as used for estimating the effective interest rate. Investments in securities reflect their contractual coupon amortisations.

The table below presents the breakdown of the Group's assets by maturity profile as at 31 December 2018 based on the time remaining from the reporting date to their contractual maturity.

	Up to 1 month	1 to 3 months	3 to 6 months	Up to 1 year	1 to 5 years	Over 5 years and undated	**Total**
Assets							
Due from other credit institutions and the State Treasury	123,824	8,202	-	5,000	-	-	137,026
Financial assets at fair value through profit or loss	-	-	-	-	-	1,160	1,160
Investment securities	96	1,270	71	260	38,866	10,293	50,856
Loans	10,224	8,387	7,779	18,886	85,664	66,815	197,755
Assets held for sale	11,343	-	-	-	-	-	11,343
Investments in venture capital funds	746	-	-	-	38,505	10,988	50,239
Deferred expense and accrued income	158	-	-	1,703	211	-	2,072
Investment property	-	-	-	-	12,747	2,047	14,794
Property, plant and equipment	-	-	-	-	-	4,228	4,228
Intangible assets	-	-	-	-	-	1,347	1,347
Other assets	1,241	-	-	652	23,226	-	25,119
Total assets	**147,632**	**17,859**	**7,850**	**26,501**	**199,219**	**96,878**	**495,939**
Liabilities							
Due to credit institutions	-	4,398	-	4,333	26,389	3,125	38,245
Financial assets at fair value through profit or loss – derivatives	2	-	-	-	-	-	2
Due to general governments	-	1	-	-	-	48,109	48,110
Issued debt securities	109	-	-	-	-	29,834	29,943
Deferred income and accrued expense	970	185	228	253	789	586	3,011
Support programme funding and State aid	34,052	-	206	-	11,883	80,818	126,959
Liabilities directly associated with assets held for sale	-	-	-	-	-	-	-
Provisions	25,103	-	-	270	-	-	25,373
Corporate income tax liabilities	-	-	-	-	-	-	-
Other liabilities	2,706	-	-	-	-	-	2,706
Total liabilities	**62,942**	**4,584**	**434**	**4,856**	**39,061**	**162,472**	**274,349**
Net liquidity	**84,690**	**13,275**	**7,416**	**21,645**	**160,158**	**(65,594)**	**221,590**

44 Analysis of remaining maturities of assets and liabilities (cont'd)

The table below presents the restated breakdown of the Group's assets by maturity profile as at 31 December 2017 based on the time remaining from the reporting date to their contractual maturity.

	Up to 1 month	1 to 3 months	3 to 6 months	Up to 1 year	1 to 5 years	Over 5 years and undated	**Total (restated)**
Assets							
Due from other credit institutions and the State Treasury	100,597	-	-	8,997	-	-	109,594
Investment securities	-	-	-	38	51,426	10,739	62,203
Loans	9,708	11,789	10,152	19,765	-	140,733	192,147
Derivatives	-	142	-	-	-	-	142
Assets held for sale	-	-	-	12,935	-	-	12,935
Investments in venture capital funds*	-	796	-	-	43,962	8,394	53,152
Deferred expense and accrued income	655	1,581	3	3	9	5	2,256
Investment property	-	-	-	234	8,142	2,432	10,808
Property, plant and equipment	-	-	-	-	-	3,828	3,828
Intangible assets	-	-	-	-	-	771	771
Corporate income tax	-	-	-	-	-	-	-
Other assets	271	-	139	-	1,966	3,456	5,832
Total assets	**111,231**	**14,308**	**10,294**	**41,972**	**105,505**	**170,358**	**453,668**
Liabilities							
Due to credit institutions	-	4,399	-	4,340	31,944	6,250	46,933
Due to general governments	-	-	-	-	5,000	38,609	43,609
Issued debt securities	-	-	-	53	-	19,799	19,852
Deferred income and accrued expense	48	87	451	425	135	1,231	2,377
Support programme funding and State aid*	9,795	-	-	8,290	20,798	58746	97,629
Liabilities directly associated with assets held for sale	-	-	-	2,000	-	-	2,000
Provisions	843	757	66	259	4 199	8,407	14,531
Corporate income tax liabilities	125	-	-	-	-	-	125
Other liabilities	2,962	-	53	319	-	430	3,764
Total liabilities	**13,773**	**5,243**	**570**	**15,686**	**62,076**	**133,472**	**230,820**
Net liquidity	**97,458**	**9,065**	**9,724**	**26,286**	**43,429**	**36,886**	**222,848**

*Items *Investments in venture capital funds, Support programme funding* and *State aid service* were restated for the previous period (see Note 2 (19) item (iv)).

44 Analysis of remaining maturities of assets and liabilities (cont'd)

The table below presents the breakdown of the Company's assets by maturity profile as at 31 December 2018 based on the time remaining from the reporting date to their contractual maturity.

	Up to 1 month	1 to 3 months	3 to 6 months	Up to 1 year	1 to 5 years	Over 5 years and undated	**Total**
Assets							
Due from other credit institutions and the State Treasury	123,444	8,202	-	5,000	-	-	136,646
Investment securities	96	1,270	71	260	38,866	10,293	50,856
Loans	10,224	8,387	7,779	18,886	85,664	66,533	197,473
Derivatives	-	-	-	-	-	-	-
Assets held for sale	11,343	-	-	-	-	-	11,343
Investments in venture capital funds	746	-	-	-	38,505	10,988	50,239
Investments in subsidiaries	-	-	-	-	-	1,492	1,492
Deferred expense and accrued income	158	-	-	1,703	211	-	2,072
Investment property	-	-	-	-	12,747	2,047	14,794
Property, plant and equipment	-	-	-	-	-	4,228	4,228
Intangible assets	-	-	-	-	-	1,347	1,347
Other assets	1,241	-	-	652	23,226	-	25,119
Total assets	**147,252**	**17,859**	**7,850**	**26,501**	**199,219**	**96,928**	**495,609**
Liabilities							
Due to credit institutions	-	4,398	-	4,333	26,389	3,125	38,245
Derivatives	2	-	-	-	-	-	2
Due to general governments	-	1	-	-	-	48,109	48,110
Issued debt securities	109	-	-		-	29,834	29,943
Deferred income and accrued expense	970	185	228	253	789	586	3,011
Support programme funding and State aid	34,052	-	206	-	11,883	80,818	126,959
Provisions	25,103	-	-	270	-	-	25,373
Corporate income tax liabilities	-	-	-	-	-	-	-
Other liabilities	2,643	-	-	-	-	-	2,643
Total liabilities	**62,879**	**4,584**	**434**	**4,856**	**39,061**	**162,472**	**274,286**
Net liquidity	**84,373**	**13,275**	**7,416**	**21,645**	**160,158**	**(65,544)**	**221,323**

44 Analysis of remaining maturities of assets and liabilities (cont'd)

The table below presents the restated breakdown of the Company's assets by maturity profile as at 31 December 2017 based on the time remaining from the reporting date to their contractual maturity.

	Up to 1 month	1 to 3 months	3 to 6 months	Up to 1 year	1 to 5 years	Over 5 years and undated	**Total (restated)**
Assets							
Due from other credit institutions and the State Treasury	100,597	-	-	8,997	-	-	109,594
Investment securities	-	-	-	38	51,426	10,739	62,203
Loans	9,708	11,789	10,152	19,765	-	140,733	192,147
Derivatives	-	142	-	-	-	-	142
Investments in venture capital funds*	-	796	-	-	43 962	8 394	53 152
Deferred expense and accrued income	655	1 581	3	3	9	5	2,256
Investment property	-	-	-	234	8,142	2,432	10,808
Property, plant and equipment	-	-	-	-	-	3 828	3 828
Intangible assets	-	-	-	-	-	771	771
Corporate income tax liabilities	-	-	-	-	-	-	-
Other assets	271	-	139	-	1,966	3,456	5,832
Assets held for sale	-	-	-	10,565	-	-	10,565
Total assets	**111,231**	**14,308**	**10,294**	**39,602**	**105,505**	**170,358**	**451,298**
Liabilities							
Due to credit institutions	-	4,399	-	4,340	31,944	6,250	46,933
Due to general governments	-	-	-	-	5,000	38,609	43,609
Issued debt securities	-	-	-	53	-	19,799	19,852
Deferred income and accrued expense	48	87	451	425	135	1,231	2,377
Support programme funding and State aid*	9,625	-	-	1,904	29,392	59 567	100 488
Provisions	843	757	66	259	4 199	8,407	14,531
Corporate income tax liabilities	125	-	-	-	-	-	125
Other liabilities	2,962	-	53	42	-	431	3,488
Total liabilities	**13,603**	**5,243**	**570**	**7,023**	**70,670**	**134,294**	**231,403**
Net liquidity	**97,628**	**9,065**	**9,724**	**32,579**	**34,835**	**36,064**	**219,895**

*Items *Investments in venture capital funds, Support programme funding* and *State aid service* were restated for the previous period (see Note 2 (19) item (iv)).

45 Assets and liabilities by currency profile

The table below provides data of the Group's assets, liabilities, shareholders' equity and reserves as well as off-balance sheet items outstanding as at 31 December 2018 by currency profile:

	EUR	USD	Other	Total
Assets				
Due from other credit institutions and Treasury	137,012	14	-	137,026
Investment securities	48,931	1,925	-	50,856
Loans	197,457	298	-	197,755
Financial assets at fair value through profit or loss	1,160	-	-	1,160
Investments in venture capital funds	50,239	-	-	50,239
Deferred expense and accrued income	2,072	-	-	2,072
Assets held for sale	11,343	-	-	11,343
Investment property	14,794	-	-	14794
Property, plant and equipment	4,228	-	-	4,228
Intangible assets	1,347	-	-	1,347
Other assets	25,118	1	-	25,119
Total assets	**493,701**	**2,238**	**-**	**495,939**
Liabilities and shareholders' equity				
Due to credit institutions	38,245	-	-	38,245
Derivatives	2	-	-	2
Due to general governments	48,110	-	-	48,110
Issued debt securities	29,943	-	-	29,943
Deferred income and accrued expense	3,008	3	-	3,011
Support programme funding	126,959	-	-	126,959
State aid	-	-	-	
Provisions	25,373	-	-	25,373
Other liabilities	2,706	-	-	2,706
Liabilities directly associated with assets held for sale	-	-	-	-
Capital and reserves	221,590	-	-	221,590
Total liabilities and shareholders' equity	**495,936**	**3**		**495,939**
Forward foreign exchange (payables)	(1,511)	1,509	-	(2)
Currency position	**(2,235)**	**2,237**	**-**	**2**

45 Assets and liabilities by currency profile (cont'd)

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

	EUR	USD	Other	Total (restated)
Assets				
Due from other credit institutions and Treasury	109,329	265	-	109,594
Investment securities	51,443	10,760	-	62,203
Loans	191,800	347	-	192,147
Derivatives	-	142	-	142
Investments in venture capital funds*	53,152	-	-	53,152
Deferred expense and accrued income	2,253	3	-	2,256
Investment property	10,808	-	-	10,808
Property, plant and equipment	3,828	-	-	3,828
Intangible assets	771	-	-	771
Corporate income tax overpaid	-	-	-	-
Other assets	5,832	-	-	5,832
Asset held for sale	12,935	-	-	12,935
Total assets	**442,151**	**11,517**	**-**	**453,668**
Liabilities and shareholders' equity				
Due to credit institutions	46,933	-	-	46,933
Due to general governments	43,609	-	-	43,609
Issued debt securities	19,852	-	-	19,852
Deferred income and accrued expense	2,375	2	-	2,377
Support programme funding*	93,661	-	-	93,661
State aid	3,968	-	-	3,968
Provisions	14,424	107	-	14,531
Corporate income tax liabilities	125	-	-	125
Other liabilities	3,764	-	-	3,764
Liabilities directly associated with assets held for sale	2,000	-	-	2,000
Capital and reserves*	221,857	991	-	222,848
Total liabilities and shareholders' equity	**452,568**	**1,100**	**-**	**453,668**
Forward foreign exchange (payables)	1,089	(947)	-	142
Currency position	**(9,328)**	**9,470**	**-**	**142**

*Items *Investments in venture capital funds, Support programme funding* and *Capital and reserves* were restated for the previous period (see Note 2 (19) item (iv)).

45 Assets and liabilities by currency profile (cont'd)

The table below provides data of the Company's assets, liabilities and shareholders' equity as well as off-balance sheet items outstanding as at 31 December 2018 by currency profile:

	EUR	USD	Other	Total
Assets				
Due from other credit institutions and the State Treasury	136,632	14	-	136,646
Investment securities	48,931	1,925	-	50,856
Loans	197,175	298	-	197,473
Derivatives	-	-	-	-
Investments in venture capital funds	50,239	-	-	50,239
Investment in subsidiaries	1,492	-	-	1,492
Deferred expense and accrued income	2,072	-	-	2,072
Assets held for sale	11,343	-	-	11,343
Investment property	14,794	-	-	14,794
Property, plant and equipment	4,228	-	-	4,228
Intangible assets	1,347	-	-	1,347
Other assets	25,118	1	-	25,119
Total assets	**493,371**	**2,238**	**-**	**495,609**
Liabilities and shareholders' equity				
Due to credit institutions	38,245	-	-	38,245
Derivatives	2	-	-	2
Due to general governments	48,110	-	-	48,110
Issued debt securities	29,943	-	-	29,943
Deferred income and accrued expense	3,008	3	-	3,011
Provisions	25,373	-	-	25,373
Support programme funding	126,959	-	-	126,959
Other liabilities	2,643	-	-	2,643
Capital and reserves	221,323	-	-	221,323
Total liabilities and shareholders' equity	**495,606**	**3**	**-**	**495,609**
Forward foreign (payables)	(1,511)	1,509	-	(2)
Currency position	**(2,235)**	**2,237**	**-**	**2**

45 Assets and liabilities by currency profile (cont'd)

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

	EUR	USD	Other	Total
Assets				
Due from other credit institutions and the State Treasury	109,329	265	-	109,594
Investment securities	51,443	10,760	-	62,203
Loans	191,800	347	-	192,147
Derivatives	-	142	-	142
Investments in venture capital funds*	53,152			53,152
Deferred expense and accrued income	2,253	3	-	2,256
Investment property	10,808	-	-	10,808
Property, plant and equipment	3,828	-	-	3,828
Intangible assets	771	-	-	771
Investment in subsidiaries	-	-	-	-
Corporate income tax overpaid	-	-	-	-
Other assets	5,832	-	-	5,832
Asset held for sale	10,565	-	-	10,565
Total assets	**439,781**	**11,517**	**-**	**451,298**
Liabilities and shareholders' equity				
Due to credit institutions	46,933	-	-	46,933
Due to general governments	43,609	-	-	43,609
Issued debt securities	19,852	-	-	19,852
Deferred income and accrued expense	2,375	2	-	2,377
Support programme funding and state aid*	100,488	-	-	10,0488
Provisions	14,424	107	-	14,531
Corporate income tax liabilities	125	-	-	125
Other liabilities	3,488	-	-	3,488
Capital and reserves*	218,904	991	-	219,895
Total liabilities and shareholders' equity	**450,198**	**1,100**	**-**	**451,298**
Forward foreign (payables)	1,089	(947)	-	142
Currency position	**(9,328)**	**9,470**	**-**	**142**

*Items *Investments in venture capital funds, Support programme funding* and *State aid service* and *Capital and reserves* were restated for the previous period (see Note 2 (19) item (iv)).

46 Minimum future lease payments

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

	Group	Company
Year 2019	117	117
Year 2020	107	107
Year 2021	106	106
Year 2022	106	106
Year 2023	67	67
Total for 5 years	**503**	**503**
Year 2024 and later	57	57

47 Financial assets and liabilities by classification principles

The assets and liabilities of the Group as at 31 December 2018 by classification principles are as follows:

	Financial assets/ liabilities at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Financial assets/ liabilities at amortised cost	Financial assets at equity method	Total book value
Assets					
Due from other credit institutions and Treasury	-	-	137,026	-	137,026
Investments by subsidiaries in the shares of companies	1,160	-	-	-	1,160
Investment securities	-	50,389	467		50,856
Loans	-	-	197,755		197,755
Investments in venture capital funds	-	-	-	50 239	50 239
Other financial assets	26,137	-	27,191	-	53,328
Total financial assets	**27,297**	**50,389**	**362,439**	**50,239**	**490,364**
Non-financial assets	-	-	5,575	-	5,575
Total assets	**27,297**	**50,389**	**368,014**	**50,239**	**495,939**
Liabilities					
Due to credit institutions	-	-	38,245		38,245
Derivatives	2	-	-	-	2
Due to general governments	-	-	48,110	-	48,110
Issued debt securities	-	-	29,943	-	29,943
Liabilities directly associated with assets held for sale	-	-	-	-	-
Support programme funding	126,959	-	-	-	126,959
State aid	-	-	-	-	-
Corporate income tax liabilities	-	-	-	-	-
Other financial liabilities	-	-	31,090	-	31,090
Total financial liabilities	**126,961**	-	**147,388**	-	**274,349**
Non-financial liabilities	-	-	221,590	-	221,590
Total liabilities	**126,961**	**-**	**368,978**	**-**	**495,939**

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

	Financial assets and liabilities held for trading	Financial assets available for sale	Financial assets/ liabilities at amortised cost	Financial assets at equity method	Total book value
Assets					
Due from other credit institutions and Treasury	-	-	109,594	-	109,594
Investment securities	-	61,760	443	-	62,203
Loans	-	-	192,147	-	192,147
Derivatives	142	-	-	-	142
Investments in venture capital funds*	-	-	-	53,152	53,152
Other financial assets	-	12,935	18,896	-	31,831
Total financial assets	**142**	**74,695**	**321,080**	**53,152**	**449,069**
Non-financial assets	-	-	4,599	-	4,599
Total assets	**142**	**74,695**	**325,679**	**51,170**	**453,668**
Liabilities					
Due to credit institutions	-	-	46,933	-	46,933
Due to general governments	-	-	43,609	-	43,609
Issued debt securities	-	-	19,852	-	19,852
Support programme funding*	-	-	93,661	-	93,661
State aid	-	-	3,968	-	3,968
Corporate income tax liabilities	-	-	125	-	125
Other financial liabilities	-	-	20,672	-	20,672
Liabilities directly associated with assets held for sale	-	-	2,000	-	2,000
Total financial liabilities	-	-	**230,820**		**230,820**
Non-financial liabilities*	-	-	222,848	-	222,848
Total liabilities	-	-	**453,668**	**-**	**453,668**

*Items *Investments in venture capital funds, Support programme funding* and *Non-financial liabilities* were restated for the previous period (see Note 2 (19) item (iv)).

47 Financial assets and liabilities by classification principles (cont'd)

The assets and liabilities of the Company as at 31 December 2018 by classification principles are as follows:

	Financial assets/ liabilities at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Financial assets/ liabilities at amortised cost	Financial assets at equity method	Total book value
Assets					
Due from other credit institutions and the State Treasury	-	-	136,646	-	136,646
Investment securities	-	50,389	467	-	50,856
Loans	-	-	197,473	-	197,473
Investments in venture capital funds	-	-	-	50,239	50,239
Investments in subsidiaries	1,492	-	-	-	1,492
Other financial assets	26,137	-	27,191	-	53,328
Total financial assets	**27,629**	**50,389**	**361,777**	**50,239**	**490,034**
Non-financial assets	-	-	5,575	-	5,575
Total assets	**27,629**	**50,389**	**367,352**	**50,239**	**495,609**
Liabilities					
Due to credit institutions	-	-	38,245	-	38,245
Derivatives	2	-	-	-	2
Due to general governments	-	-	48,110	-	48,110
Issued debt securities	-	-	29,943	-	29,943
Support programme funding	126,959	-	-	-	126,959
State aid	-	-	-	-	-
Corporate income tax liabilities	-	-	-	-	-
Other financial liabilities	-	-	31,027	-	31,027
Total financial liabilities	**126,961**	**-**	**147,325**	**-**	**274,286**
Non-financial liabilities	-	-	221,323	-	221,323
Total liabilities	**126,961**	**-**	**368,648**	**-**	**495,609**

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

	Financial assets and liabilities held for trading	Financial assets available for sale	Financial assets/ liabilities at amortised cost	Financial assets at equity method	Total book value
Assets					
Due from other credit institutions and the State Treasury	-	-	109,594	-	109,594
Investment securities	-	61 760	443	-	62,203
Loans	-	-	192,147	-	192,147
Derivatives	142	-	-	-	142
Investments in venture capital funds*	-	-	-	53,152	53,152
Investments in subsidiaries	-	-	-	-	-
Other financial assets	-	10,565	18,896	-	29,461
Total financial assets	**142**	**72,325**	**321,080**	**53,152**	**446,699**
Non-financial assets	-	-	4,599	-	4,599
Total assets	**142**	**72,325**	**325,679**	**53,152**	**451,298**
Liabilities					
Due to credit institutions	-	-	46,933	-	46,933
Due to general governments	-	-	43,609	-	43,609
Issued debt securities	-	-	19,852	-	19,852
Support programme funding *	-	-	96,520	-	96,520
State aid	-	-	3,968		3,968
Corporate income tax liabilities	-	-	125	-	125
Other financial liabilities	-	-	20,396	-	20,396
Total financial liabilities	**-**	**-**	**231,403**		**231,403**
Non-financial liabilities*	-	-	219,895	-	219,895
Total liabilities	**-**	**-**	**451,298**		**451,298**

*Items *Investments in venture capital funds, Support programme funding* and *Non-financial liabilities* were restated for the previous period (see Note 2 (19) item (iv)).

48 Capital management

Capital management is forward-looking and aligned with short-term and long-term business plans and the macroeconomic environment. This is evaluated in the annual budgeting assessment process.

Capital management ensures that the Group and the Company use capital to implement the government-approved state aid programs. Capital planning involves assessing the impact of risks on capital by implementing all approved development programs at the full amount. In accordance with the Development Finance Institution Act, Company before the approval of each program by the Cabinet of Ministers evaluate the impact of the program, risks and expected losses, financial results and costs of program implementation.

In order to assess within the capital government that the amount of equity is in line with the risks arising from the scope of activity, the Group calculates the capital adequacy ratio, Tangible common equity (TCE) relative to the Tangible managed assets (TMA). An explanation of the indicator and the dynamics of changes over the periods is available in the section "Key Financial and Performance Indicators" under Other Notes to the Group's Financial Statements.

49 SUBSEQUENT EVENTS

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

Translation from Latvian original*

INDEPENDENT AUDITOR'S REPORT

To the Shareholder of JSC Finance Development Institution ALTUM

Report on the audit of the separate and consolidated financial statements

Our opinion

In our opinion, the separate and consolidated financial statements as set out on pages 11 to 100 of the accompanying Annual report give a true and fair view of the separate and consolidated financial position of JSC Finance Development Institution ALTUM ("the Company") and its subsidiaries ("the Group") as at 31 December 2018, and of their separate and consolidated financial performance and their separate and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Our opinion is consistent with our additional report to the Audit Committee dated 29 March 2019.

What we have audited

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

- the separate and consolidated statements of financial position as at 31 December 2018;
- the separate and consolidated statements of comprehensive income for the year then ended;
- the separate and consolidated statements of changes in equity for the year then ended;
- the separate and consolidated cash flow statements for the year then ended; and
- the notes to the separate and consolidated financial statements, which include significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing adopted in the Republic of Latvia (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the separate and consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company and the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) and with the ethical requirements of the Law on Audit Services that are relevant to our audit of the financial statements in the Republic of Latvia. We have fulfilled our other ethical

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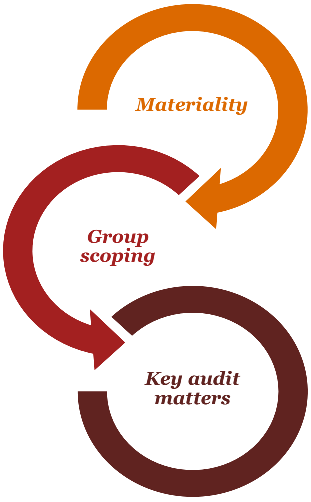
responsibilities in accordance with these requirements and the IESBA Code and the ethical requirements of the Law on Audit Services.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Company and the Group and their related entities are in accordance with the applicable law and regulations in Latvia and that we have not provided non-audit services that are prohibited under Article 37.6 of Law on Audit Services of the Republic of Latvia.

The non-audit services that we have provided to the Company and its subsidiaries, in the period from 1 January 2018 to 31 December 2018, are disclosed in Note 11 to the separate and consolidated financial statements.

Our audit approach

Overview



- Overall Company materiality: EUR 5,000 thousand.
- Overall Group materiality: EUR 5,000 thousand.

- We have audited the separate financial statements of the Company.
- We have performed selected audit procedures over assets owned by subsidiaries and associates.
- Our audit scope covered approximately 99% of the Group's revenues and 98% of the Group's total assets.

- Impairment of loans and financial guarantees
- Accounting for liabilities received at fair value
- Valuation of investments in Venture Capital Funds

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the separate and consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Company and Group materiality for the separate and consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall Company and Group materiality	Overall materiality applied to the Company and to the Group was EUR 5,000 thousand.
How we determined it	1% of total assets
Rationale for the materiality benchmark applied	We chose total assets as the base benchmark because, in our view, it is the benchmark against which the performance of the Company and the Group is most commonly measured by users of the financial statements, and it is a generally accepted benchmark. We chose 1%, which is consistent with quantitative materiality thresholds used for entities in this sector.

We agreed with the Audit Committee that we would report to them the misstatements identified during our audit above EUR 250 thousand, as well as the misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	*How our audit addressed the key audit matter*
Impairment of loans and guarantees *Refer to Notes 2 (16), 12, 19 and 30 to the financial statements on pages 31 – 33, 50, 56 – 59 and 70 - 73 respectively.* We focused on this area because management has adopted IFRS 9 "Financial instruments" in 2018 and implemented expected credit loss (ECL) model for impairment losses on loans and financial guarantees. Management makes complex and subjective judgements over the estimation of the ECL.	We assessed whether the Company's and Group's accounting policies in relation to the ECL of loans and guarantees are in compliance with IFRS 9 by assessing each significant model component for both loans ECL calculation tool and guarantees ECL calculation tool: exposure at default, probability of default and loss given default, definitions of default and significant increase

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Key audit matter	*How our audit addressed the key audit matter*
The key features of the ECL model include classification of loans and guarantees to 3 stages, assessment of credit risk parameters and application of forward looking information. The amount of impairment provision for the Company's and Group's loans and guarantees is based on the model calculations taking into consideration the exposure at default, probability of default, other known risk factors impacting stage of each exposure, and taking into account estimated future cash flows from the loan repayments or sale of collateral (loss given default), and ECL adjustments for expected impact of future macroeconomic scenarios. For all loans and guarantees in Stage 1 and 2 and insignificant loans in Stage 3 the expected credit losses are calculated using the ECL model, while for significant exposures and guarantees in Stage 3 additional specific provisions are calculated based on expert judgement to determine if the ECL calculated in accordance with the model needs to be adjusted. IFRS 9 adoption as at 1 January 2018 resulted in decrease of the Company's and Group's equity by EUR 1,667 thousand due to additional allowances for loans and guarantees. Net credits for expected credit losses for the year ended 31 December 2018 amounted EUR 672 thousand for the Company and Group (refer to note 12).	in credit risk, use of macroeconomic scenarios. Further, we performed detailed testing over reliability of loan and guarantee data, including contract dates, collateral values and types, allocation of stages, including aging and performing/non performing status and other inputs used in ECL calculation tools as at 1 January 2018 and 31 December 2018. We also performed detailed testing over macroeconomic factors used as inputs to ECL calculation tools. In addition, we performed detailed recalculations for selected items in ECL calculation tools to verify that the ECL is calculated correctly and that it is in line with our expectations. We also assessed the ECL adjustments related to specific provisions recognised for Stage 3 loans and guarantees on a sample of loans and guarantees. We verified the rationale of these adjustments and also verified the appropriateness of the valuation of collaterals used in the assessment of the adjustments.
Accounting for liabilities measured at fair value through profit or loss *Refer to Notes 2 (16) and 29 to the financial statements on pages 31 – 33 and 67 – 69 respectively.* The Company and the Group receive financing in the form of long term liabilities to ensure issuance of loans, guarantees and investments into venture capital funds. In the audited year, as the result of the implementation of IFRS 9, the Company and the Group changed their accounting policy for measurement of these liabilities. Due to the fact that these liabilities contain embedded derivatives they are measured at fair value through profit and loss.	We examined the liability contracts signed for a sample of selected programmes and obtained understanding with regards to the principles applied to calculate the fair value of those liabilities. We obtained understanding over the change in the accounting policies coming from the implementation of IFRS 9 which was made by the Company and the Group and assessed whether it was applied in accordance with IFRS requirements. We obtained and verified the calculations of fair value of liabilities performed by the

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Key audit matter	*How our audit addressed the key audit matter*
The calculation of fair value of liabilities was performed for the first time in 2018, therefore, it was considered a key audit matter during our audit, also taking into account the total amount of outstanding liability as at 31 December 2018 being EUR 126,959 thousand.	Company and the Group. We challenged the underlying assumptions for the determination of the discount rate and estimated returns for a sample of selected programmes. We investigated any significant differences identified with the Management.
Valuation of investments in Venture Capital Funds *Refer to Notes 2 (16), 2 (19), 18 and 20 to the financial statements on pages 31 – 33, 36 – 39, 53 – 55 and 60 respectively.* The Company and the Group has significant investments into Venture Capital Funds (VCFs). Depending on whether the Company has control or significant influence over VCFs, they are classified in the financial statements as subsidiaries or associates. Subsidiaries in separate financial statements are measured at fair value through profit and loss, while in consolidated financial statements they are fully consolidated. Associates in both separate and consolidated financial statements are measured using the equity method, except for Baltic Innovation Fund (BIF), which is measured in both separate and consolidated financial statements at fair value through profit or loss. The measurement of VCFs at equity method and BIF is performed using the fair values of underlying investments made by those associates. Because of significance of investments in VCFs to the separate and consolidated financial statements, and the fact that changes in assumptions could lead to material changes in estimated values of net assets, impacting value of investments in VCFs, we considered valuation of these investments as a key audit matter.	We assessed accounting policies used by the Company and the Group and verified that VCFs are appropriately classified as either associates or subsidiaries. We obtained the calculation of fair value of investments held by VCFs prepared by the management of the Company and the Group, as well as calculation of net asset values of VCFs and the full list of the investments made by VCFs into the companies. On a sample basis, we verified detailed calculations of fair value of investments and the amount of net assets value of particular funds. We met with the representatives of the Company and the Group responsible for monitoring of the performance of the underlying investments made by the VCFs to understand current business performance of these investments and expectations of their exit values, which are considered to be representative of fair values of underlying investments. We also reviewed the methodology for investment valuation. We reviewed the agreements register and inspected a sample of new investments made by VCFs in companies. We also assessed the information contained in investment memos prepared on initial investment.

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How we tailored our Group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

We are not the statutory auditors of all of the Company's subsidiaries and associates, however, we have performed selected audit procedures over assets owned by subsidiaries and associates. We covered approximately 99% of the Group's revenues and 98% of the Group's total assets.

Reporting on other information, including the Management Report

Management is responsible for the other information. The other information, which we obtained prior to the date of this auditor's report, comprises:

- the Management Report (including Non-financial Statement), as set out on pages 3 to 8 of the accompanying Annual report;
- the Statement of management's responsibility, as set out on page 10 of the accompanying Annual report; and
- the Corporate Governance Report, as set out on pages 114 to 117 of the accompanying Annual report,

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

Our opinion on the separate and consolidated financial statements does not cover the other information, including the Management Report (including Non-financial Statement), the Statement of management's responsibility and the Corporate Governance Report.

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

With respect to the Management Report (including Non-financial Statement), we also performed the procedures required by Law on Audit Services. Those procedures include considering whether the Management Report (including Non-financial Statement) is prepared in accordance with the requirements of the applicable legislation.

In addition, in accordance with the Law on Audit Services of the Republic of Latvia with respect to the Corporate Governance Report, our responsibility is to consider whether the Corporate Governance Report includes the information required in accordance with Article 56.1, section 1, clauses 3, 4, 6, 8 and 9, as well as Article 56.2, section 2, clause 5 of the Financial Instruments Market Law and whether it includes the information stipulated in Article 56.2, section 2, clauses 1, 2, 3, 4, 7 and 8 of the Financial Instruments Market Law.

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

- the information given in the Management Report (including Non-financial Statement) and the Statement of management’s responsibility for the financial year for which the financial statements are prepared is consistent with the financial statements;
- the Management Report (including Non-financial Statement) has been prepared in accordance with the requirements of the Law on Annual Reports and Consolidated Annual Reports of the Republic of Latvia; and
- The Corporate Governance Report, included the information in accordance with Article 56.1, section 1, clauses 3, 4, 6, 8 and 9, as well as Article 56.2, section 2, clause 5 of the Financial Instruments Market Law and it included the information stipulated in Article 56.2, section 2, clauses 1, 2, 3, 4, 7 and 8 or the Financial Instruments Market Law.

Furthermore, in accordance with the Law on Audit Services of the Republic of Latvia with respect to the Non-financial Statement, our responsibility is to report whether the Company has prepared the Non-financial Statement and whether the Non-financial Statement is included in the Report of the board of directors or prepared as a separate element of the Annual Report.

We hereby report that the Company has prepared a Non-financial Statement, and it is included in the Report of the board of directors.

In addition, in light of the knowledge and understanding of the Company and the Group and their environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the Management Report (including Non-financial Statement) and the Statement of management’s responsibility that we obtained prior to the date of this auditor’s report. We have nothing to report in this respect.

Responsibilities of management and those charged with governance for the separate and consolidated financial statements

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

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

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

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

Auditor's responsibilities for the audit of the separate and consolidated financial statements

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

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

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

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financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on other legal and regulatory requirements

Appointment

We were appointed as auditors of the Company and the Group on 25 April 2018. This is the first year of our appointment as auditors.

PricewaterhouseCoopers SIA
Certified audit company
License No. 5

Ilandra Lejiņa
Member of the Board

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

Riga, Latvia
29 March 2019

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OTHER NOTES TO THE ANNUAL REPORT

KEY FINANCIAL AND PERFORMANCE INDICATORS

	2017 (restated*)	2016 (restated*)	2015 (restated*)	2018 (audited)	2017 (restated*)
Key financial data					
Net income from interest, fees and commission (tEUR)	11,602*	11,024	16,419	11,554	11,602*
Profit for the period (tEUR)	8,709*	2,170	4,924	4,092	8,709*
Cost to income ratio (CIR)	50.3%*	88,4%	55,8%	77.1%	50.3%*
Employees	230	242	282	222	230
Total assets (tEUR)	**453,668***	**443,400***	**406,918**	**495,939**	**453,668***
Tangible common equity (TCE)/total tangible managed assets (TMA)**	35.1%*	36.5%*	37,3%	31.7%	35.1%*
Equity and reserves (tEUR)	222,848*	210,406*	199,610	221,590	222,848*
Total risk coverage: (tEUR)	67,593*	66,508*	41,021	77,815	67,593*
Risk coverage reserve	62,651*	63,636*	40,662	85,276	62,651*
Risk coverage reserve used for provisions	-4,753	-4,323	-1,276	-19,268	-4,753
Portfolio loss reserve (specific reserve capital)	9,695	7,195	1,635	11,807	9,695
Liquidity ratio for 180 days***	482%*	449%	352%	227%	482%*
Financial instruments (gross value)					
Outstanding (tEUR) (by financial instrument)					
Loans	207,585	217,429	218,562	217,131	207,585
Guarantees	182,376	147,175	131,120	236,895	182,376
Venture capital funds	62,299******	64,785*****	44,378*****	59,698	62,299*****
Total	**452,260*******	**429,389*******	**394,060*******	**513,724**	**452,260*******
Number of contracts	14,402	11,449	8,901	18,280	14,402
Volumes granted (tEUR) (by financial instrument)					
Loans	51,869	59,465	52,329	66,443****	51,869
Guarantees	68,615	56,109	50,065	88,765	68,615
Venture capital funds	2,638	21,356	18,798	4,149	2,638
Total	**123,122**	**136,929**	**121,192**	**159,357**	**123,122**
Number of contracts	4,697	4,461	2,819	5,464	4,697
Leverage for raised private funding	185%	162%	104%	162%	185%

* Due to change of accounting policy regarding investments in venture capital funds and adoption of IFRS 9 requirements that effects the accounting of public funding risk coverage the comparatives for 2017,2016 and 2015 have been restated.
** TMA includes off-balance sheet item outstanding guarantees.
***Liquidity ratio calculation takes into account previous experience and management estimate of expected amount and timing of guarantees claims.
**** Loans issued.
***** The Venture Capital Funds presented at their gross value.

Definitions of ratios

Net income from interest, fees and commission	Net income from interest, fees and commission consists of the following items in the statement of profit or loss: net interest income and net commission income. It measures operating income of the ALTUM Group.
Cost to income ratio (CIR)	Cost to income ratio (CIR) is calculated by dividing the amount of personnel expenses, administrative expenses and depreciation of intangible assets and property, plant and equipment by operating income before operating expense included in the statement of profit or loss. It measures operating income of the ALTUM.
Tangible common equity (TCE) / tangible managed assets (TMA)	Tangible Common Equity (TCE) is calculated by subtracting the revaluation reserve of available for sale investments from total equity. The amount of total managed assets (TMA) is calculated by adding the guarantees shown as off-balance sheet items to the total assets of ALTUM Group taking into account provisions for these guarantees and subtracting deferred expense, accrued income, property, plant and equipment, intangible assets, other assets and available for sale assets. The items used to calculate both indicators (TCE, TMA) are included in the following financial statements of the ALTUM Group: statement of financial position and statement of changes in equity, and in the following notes: Off-balance items and contingent liabilities and Provisions. TCE/TMA are used to measure the Group's capital adequacy.
Total risk coverage	Total Risk Coverage is the net funding available for covering the expected credit losses of the State aid programmes implemented by ALTUM. Total Risk Coverage is calculated as the total of the Risk Coverage Reserve and Portfolio Loss Reserve (Specific Capital Reserves) less Risk Coverage Reserve Used for Provisions. The expected losses are estimated before implementation of the respective State aid programme and a portion of the public funding intended for coverage of the credit risk losses expected in the respective State aid programme is either allocated to the Portfolio Loss Reserve which is the Group's specific capital reserve or alternatively accounted for separately as provisions for risk coverage under liabilities item "Risk Coverage Reserve". The Portfolio Loss Reserve (specific capital reserve) is disclosed in the Note on Reserves to the financial statements of the ALTUM Group. The Risk Coverage Reserve is disclosed in the Note on Support Programme Funding and State Aid to the financial statements of ALTUM Group. The Risk Coverage Reserve Used for Provisions is the amount of the Risk Coverage Reserve allocated to and used for provisioning for impairment of the loan portfolio and guarantees which in its turn is disclosed in the Note on Loans and Note on Provisions to the financial statements of ALTUM Group. Total Risk Coverage is a key indicator for measuring the risk coverage in the State aid programmes implemented by ALTUM and assessing the long-term financial stability of the Group.
180-day liquidity ratio	The180-day liquidity ratio is calculated by dividing the amount of the balances due from other credit institutions and the Treasury with a maturity of up to 1 month and available-for-sale Investment securities by the amount of the total liabilities maturing within 6 months and total financial commitments maturing within 6 months (off-balance items). The data required for the calculation of the liquidity ratio for 180 days is disclosed in the following notes of the financial statements of the ALTUM Group: Off-balance items and contingent liabilities and Analysis of remaining maturities of assets and liabilities. The 180-day liquidity ratio demonstrates the ability of the ALTUM Group to honour its obligations within the required time and with currently available liquid assets.
Leverage of raised private funding	Private financing leverage ratio measures the additional private funds raised and invested in a project funded by ALTUM. The leverage ratio is determined by assessing the funds which have been invested by a private co-financier and implementer of the project in addition to ALTUM's funding. On average, it makes up to 50 per cent for loans, up to 70 per cent for guarantees and venture capital (except for the first instalment of the Housing Guarantee Programme where the ratio is 795 per cent).
Staff number	Average number of employees in the period excluding members of the Council and the Audit Committee.

Venture capital	The Venture Capital Funds presented at their gross value

RESTATED KEY FINANCIAL AND PERFORMANCE INDICATORS

	2017 (audited)	2017 (restated*)	2016 (audited)	2016 (restated*)	2015 (audited)	2015 (restated*)
Key financial data						
Net income from interest, fees and commission (tEUR)	11,374	11,602*	11,024	11,024	16,419	16,419
Profit for the period (tEUR)	6,945	8,709*	2,170	2,170	4,924	4,924
Cost to income ratio (CIR)	54.7%	50.3%*	88.4%	88.4%	55,8%	55,8%
Employees	230	230	242	242	282	282
Total assets (tEUR)	**451,686**	**453,668***	**443,126**	**443,400***	**406,918**	**406,918**
Tangible common equity (TCE)/total tangible managed assets (TMA)**	35.6%	35.1%*	35.2%	36.5%*	37,3%	37,3%
Equity and reserves (tEUR)	222,486	222,848*	210,094	210,406*	199,610	199,610
Total risk coverage: (tEUR)	65,002	67,593*	67,705	66,508*	41,021	41,021
Risk coverage reserve	60,060	62,651*	64,833	63,636*	40,662	40,662
Risk coverage reserve used for provisions	-4,753	-4,753	-4,323	-4,323	-1,276	-1,276
Portfolio loss reserve (specific reserve capital)	9,695	9,695	7,195	7,195	1,635	1,635
Liquidity ratio for 180 days***	507%	482%*	449%	449%	352%	352%
Financial instruments (gross value)						
Outstanding (tEUR) (by financial instrument)						
Loans	207,585	207,585	217,429	217,429	218,562	218,562
Guarantees	182,376	182,376	147,175	147,175	131,120	131,120
Venture capital funds	51,310	62,299****	58,541	64,785****	39,929	44,378*****
Total	**441,271**	**452,260*******	**423,145**	**429,389*******	**389,611**	**394,060•••••**

* Due to change of accounting policy regarding investments in venture capital funds and adoption of IFRS 9 requirements that effects the accounting of public funding risk coverage the comparatives for 2017, 2016 and 2015 have been restated.
** TMA includes off-balance sheet item outstanding guarantees.
***Liquidity ratio calculation takes into account previous experience and management estimate of expected amount and timing of guarantees claims.
**** The Venture Capital Funds presented at their gross value.

Corporate Governance Report 2018

The statement of joint-stock company Attīstības Finanšu Institūcija Altum (Development Finance Institution Altum, hereinafter – Altum), unified registration No. 50103744891, on corporate governance in 2018 is prepared in accordance with the requirements of Section 56.2 Paragraph three of the Financial Instruments Market Law.

Altum Group (Altum and the total of companies included in the consolidation group, hereinafter referred as the Group) parent company is a Latvia state-owned company ensuring access of enterprises and households to the financing resources by means of support financial instruments - loans, guarantees, investments in venture capital funds - in areas defined as important and to be supported by the state, thus developing national economy and by such way enhancing mobilization of private capital and financial resources.

Information about management of Altum and Group, representatives of the holders of the capital shares, Audit Committee and administrative structure of Altum is available on Altum's home page www.altum.lv, under section ABOUT ALTUM, sub-section Management and Structure.

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

Internal control

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

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

The Internal Audit Division, being an independent body subordinated to Altum's Council with its head appointed based on the decision of Altum shareholders' meeting, supervises the internal control system at Altum and the Group and assesses its adequacy and efficiency. Every year the shareholders' meeting approves the annual action plan for the internal audit about which the Internal Audit Division reports to the Council. The Council supervises how the Board provides for establishment of the internal control system and its efficient operation. The reports on the results of the internal audits and functioning of the management and control system produced by the Internal Audit Division are submitted to the Council. At least once a year the Internal Audit Division drafts and submits to the Shareholders' meeting a report on the accomplished audits and major problems identified, gives its assessment of ICS efficiency and opinion on the measures to be undertaken to improve the operation of the internal control system. An Audit Committee has been established in Altum and the Group, which, inter alia, monitors the efficiency of the internal control and risk management system, in as much as it pertains to maintaining the credibility and impartiality of annual reports and consolidated annual reports. The Audit Committee, in line with the requirements of Law on the Financial Instruments Market, monitors the process of the preparation of financial statements of Altum and the Group, and performs other duties assigned to it by laws and regulations. The Internal Audit Division performs its duties in accordance with the applicable laws and regulations, the international standards for the professional practice in internal auditing and the internal regulations of Altum and the Group.

An Accounting Policy and Rules on Asset Assessment and Establishment of Provisions have been developed in Altum and the Group, the purpose of which is to define principles, methods and rules for the accounting, assessment and disclosure of transactions, facts, events and items in financial statements. The management of Altum and the Group has established an accounting policy that ensures that the financial statements provide information that is reliable and useful for the users of such statements in decision-making. The applied Accounting Policy and Rules on Asset Assessment and Establishment of Provisions ensure that the information disclosed in the statements of Altum and the Group is true, comparable, timely, significant, explicit, relevant and complete. Altum and the Group have developed internal regulatory documents defining the procedure of preparing the financial statements.

Corporate Governance Report 2018 (continued)

Risk management

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

The following major risk management principles are followed:

- Risk management is a component of every-day functions
- Altum and the Group identify and assess the probable risks before launching of new products or services
- While assuming the risks, Altum and the Group are capable of long-term pursuit of the delegated aims and assignments
- Altum and the Group do not enter into transactions, operations, etc. entailing risks that endanger their operational stability or may result in substantial damage to their reputation

In their risk management Altum and the Group make use of various risk analysis methods and instruments as well as establish risk limits and restrictions.

Information about the key elements of the risk management system of enterprises involved in consolidation, applied in preparation of consolidated financial statements, is provided in AS Attīstības finanšu institūcija Altum Consolidated and Separate Annual Report for the period ended 31 December 2018.

AS Attīstības finanšu institūcija Altum Consolidated and Separate Annual Report for the period ended 31 December 2018 is publicly available in the premises of Altum at 4 Dome Square, Riga and in electronic form – on the website www.altum.lv, in INVESTORS section under FINANCIAL INFORMATION sub-section and in ABOUT ALTUM section under FINANCIAL INFORMATION sub-section.

Independent audit

An independent audit of the financial statements of Altum and the Group is performed by independent auditors who provide their opinion stating whether the financial statements of Altum and the Group give a true and fair view of the financial position, financial performance and cash flows of Altum and the Group in accordance with the International Financial Reporting Standards as adopted by the European Union. SIA PricewaterhouseCoopers has been approved the auditor of the financial statements of Altum and Group for years 2018-2019. The auditor was selected following the procedure established by the Public Procurement Law. The following qualification criteria were considered in selection of the auditor:
- In the last 3 (three) years has had experience of at least 3 (three) audits performed on the annual reports of credit institutions and/or insurance companies
- Holds a licence for provision of the services of sworn auditor
- The auditor in charge holds the certificate of sworn auditor issued by Latvian Association of Sworn Auditors.
The following criteria were applied to selection of the auditor:
- The lowest price
- Performance of the contract involves an expert on International Financial Reporting Standards

Remuneration policy

Altum publishes information about the principles of remuneration policy alongside the fundamental principles of Altum's code of ethics, which are available at www.altum.lv, under section ABOUT ALTUM, sub-section Personnel/Vacancies.

Corporate social responsibility

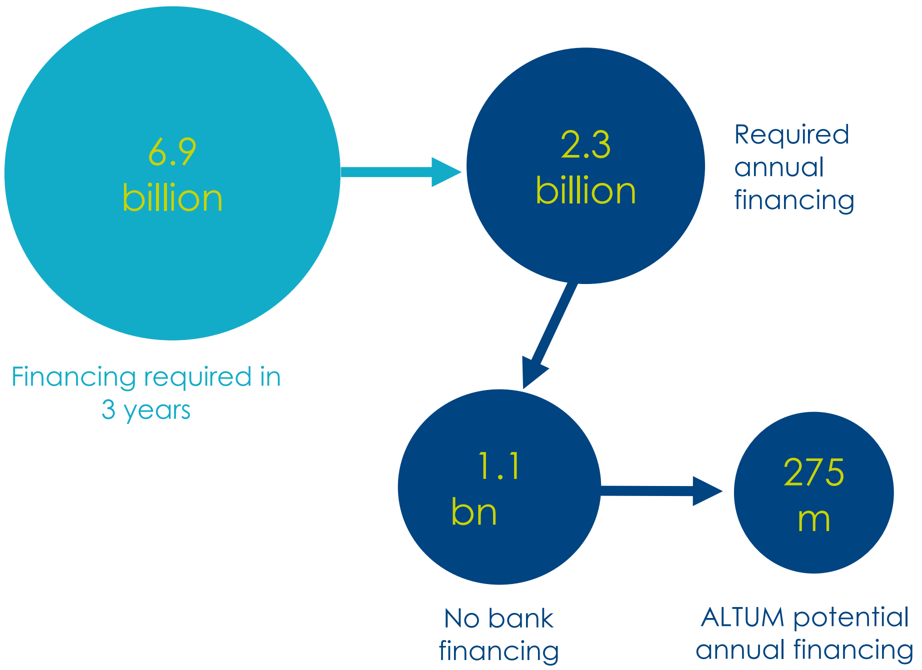
In its day-to-day operations in implementing State-delegated functions to foster development of the national economy and voluntarily taking the responsibility for its impact on society and the environment, Altum acts in compliance with the organization's strategy and values (Team, Excellence, Responsibility).

Altum uses support financial instruments to foster development of the national economy in areas defined as important and to be supported by the state, enhancing mobilization of private capital and financial resources. Altum has a long-term vision to attract financing for the purpose of ensuring the availability of resources to finance business projects important for the national economy.

Corporate Governance Report 2018 (continued)

A study carried out in 2018 found that the amount of Altum's potential financing for Latvian companies, adjusted for the existing market distortions, is EUR 275 million annually.

Amount of financing necessary for Latvian companies, EUR*



*Findings of the study that Altum carried out in cooperation with market and public opinion research centre SKDS, https://www.altum.lv/lv/jaunumi/altum-gatava-butiski-palielinat-valsts-atbalsta-finansejumu-uznemumiem .

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

ALTUM has identified and developed close cooperation with parties relevant to the organization, being aware of ALTUM's special role in the national economy and the needs of the relevant parties. In developing relations with the parties relevant, ALTUM organizes and is involved in consultations, establishes partnerships, organises informational and educational events.

ALTUM focuses on business development and makes no donations, it is part to goal-oriented projects to offer financial support for activities fostering entrepreneurship. ALTUM cooperates with Latvian universities and colleges by enhancing cooperation between science and business, fostering youth involvement in scientific research, supporting quality research and commercialization of innovative ideas.

Through implementing state support programmes in the small- and medium-sized enterprise segment, ALTUM helps energy efficiency and renewable energy measures, thereby contributing to reducing the impact on the environment and popularizing green thinking.

In 2017 Altum issued transferable debt securities as series of notes, registered them with the Latvian Central Depository and quoted on *Nasdaq Riga* for the total face value of EUR 20 million being in compliance with the Green Bond Framework, becoming the first national development institution of the Central and Eastern European countries that has issued the green bonds. In order to assure investors that funding attracted from the issue of the Green Bonds will be used by ALTUM to invest in environment-friendly projects and help attain specific environmental objectives, CICERO (Centre for International Climate and Environmental Research, Oslo) prepared an impartial opinion about the Green Bond Framework of ALTUM. CICERO recognised that the system of financial management and reporting of the funds acquired as a result of the issue of the notes complied with high standards. The funding attracted from the issue of the Green Bonds is used to fund sustainable business projects in the fields of energy efficiency, energy generation from renewable energy resources, green buildings and transport, including energy service companies (ESCO) that provide services to the companies in these fields.

Corporate Governance Report 2018 (continued)

For the purposes of improving the legal and social situation of its employees and creating a positive working environment based on justice, mutual trust, understanding and openness that would help achieve the established goals, Altum has concluded a Collective Agreement.

Corporate Governance Report 2018 is publicly available at Altum's premises at 4 Dome Square, Riga and in electronic form – on the website www.altum.lv, in INVESTORS section under FINANCIAL INFORMATION sub-section.

Reinis Bērziņš
Chairman of the Board

29 march 2019