JSC DEVELOPMENT FINANCE INSTITUTION ALTUM

Consolidated and Separate Annual Report for the year ended 31 December 2020

(the 7th reporting period)

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Altum Group

MISSION We help Latvia grow!

VISION To be a partner and financial expert in economic development

VALUES Excellence / Team / Responsibility

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

Long-term objectives until 2021

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

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

Management Report

Activity during the reporting period

In 2020, the Development Finance Institution Altum group (hereinafter – the Group) and the Group's parent company, the joint-stock company Development Finance Institution Altum (hereinafter – the Company), earned a profit of EUR 5.5 million. The financial result achieved is lower than it was forecast before the Covid-19 virus pandemic, but at the same time it corresponds to the current situation. Considering the circumstances of the crisis, when assessing the creditworthiness of the customers, a grace period has been granted to part of the clients. Following the International Financial Reporting Standards, this has resulted in a prudent credit loss allowance policy for both this initiative and credit loss allowances for new volumes issued, which reflects in a roughly twofold decrease in profits.

Key financial and performance indicators of the Group

Based on data from audited financial statements for the respective years

	2020	2019	2018
Key financial data			
Net interest income (EUR '000) *	14 572	11 569	11 302
Profit for the period (EUR '000)	5 539	8 131	4 092
Cos to income ratio (CIR) **	47.51%	52.58%	74.84% **
Employees	211	203	222
Total assets (EUR '000)	850 704	560 061	495 939
Tangible common equity (TCE) / Total tangible managed assets (TMA) ***	**33.56%**	**29.40%**	**31.70%**
Equity and reserves (EUR '000)	382 594	232 738	221 590
Total risk coverage: (EUR '000)	**180 205**	**87 456**	**77 815**
Risk coverage reserve	112 567	99 778	85 276
Risk coverage reserve used for provisions	(28 197)	(27 829)	(19 268)
Portfolio loss reserve (specific reserve capital)	102 264	15 507	11 807
Portfolio loss reserve used to compensate provisions in the distribution of annual profit	(6 429)	-	-
Liquidity ratio for 180 days ****	464%	582%	227%
Financial instruments (gross value)			
Outstanding (EUR '000) (by financial instrument)			
Loans (excluding sales and leaseback transactions)	302 481	225 144	210 208
Guarantees	359 605	284 232	236 895
Venture capital funds	73 165	68 331	59 698
Land Fund, of which:	68 258	39 634	21 717
- sales and leaseback transactions	31 500	15 268	6 923
- investment properties	36 758	24 366	14 794
Total	**803 509**	**617 341**	**528 518**
Number of transactions	26 578	22 437	18 603
Volumes issued (EUR '000) (by financial instrument)			
Loans (excluding sales and leaseback transactions)	138 238	64 320	59 608
Guarantees	137 425	98 240	88 765
Venture capital funds	14 014	9 022	4 149
Land Fund, of which: *****	28 191	16 384	10 823
- sales and leaseback transactions	16 796	7 239	6 835
- investment properties	11 395	9 145	3 988
Total	**317 868**	**187 966**	**163 345**
Number of transactions	6 147	5 559	5 590
Total contribution to economy, including the participation of the final recipients (EUR '000)	696 305	531 661	460 045
Leverage for raised private funding	114%	142%	162%
Volume of support programmes funding per employee (EUR '000)	3 808	3 041	2 381
Long-term rating assigned by Moody's Investors Service	Baa1	Baa1	Baa1

* Due to reclassification of fees and commission related to lending activities following the industry practise, excludes fees and commission not related to lending activities, the comparatives for 2018 have been reclassified with subsequent ratio recalculation.
** Due to reclassification of staff and administrative costs to be compensated as well as respective income on compensation, the comparatives for 2018 have been reclassified with subsequent ratio recalculation.
*** TMA includes off-balance sheet item outstanding guarantees.
**** Liquidity ratio calculation takes into account the previous experience and management estimate of expected amount and timing of guarantees claims
***** Taking into account the significance of the volume, the Land Fund portfolio, which consists of sales and leaseback transactions and investment properties, is also presented in the outstanding volumes and in volumes issued in the period. Since according to the accounting principles and IFRS the sales and leaseback transactions are accounted for under the loans, the volume of loans presented in this table has been reduced for the volume of the sales and leaseback transactions as it is recorded under the Land Fund portfolio.

The figures are explained in the section "Key Financial and Performance Indicators" under Other Notes to the Annual Report.

Management Report (cont'd)

Operational volumes

The core business lines of the Group include lending, issuing of guarantees, investments in venture capital funds and transactions of the Latvian Land Fund (hereinafter - the Land Fund) activities that form the Group's portfolio.

The year 2020 started with a new and unknown challenge for the world and Latvia when the existence of the new coronavirus (Covid-19) was confirmed; it spread throughout the world, including Latvia, and significantly affected business and economic activities. With immediate reaction towards Covid-19 as global pandemic in mid-March and sharp downturn of economic situation the Group has been actively involved in mitigating the negative impact of Covid-19 in the business sector. The Group takes pillar role for providing Covid-19 support financial instruments (excl. standstill grants) – loans and guarantees in Latvia. New financial instruments for support were developed fast in cooperation with the Ministry of Economics as well as the continued the implementation of other support programmes, not-related to mitigating the negative impact of Covid-19, and terms and conditions of the existing support instruments improved.

In spring another financial instrument alternative investment fund "Altum Capital Fund" was created with the aim to support well-managed, perspective Mid-cap companies to overcome the effect of Covid-19 that as a result of the virus impact are ready to adjust their operations by changing their business model, adjusting product development, introducing new technology and expanding to new export markets. The Fund's committed capital was fully subscribed on September 16, 2020, reaching EUR 100 million, of which the majority (EUR 51.1 million or 51.1%) were largest private pension funds' managers and EUR 48.9 million consists of public funding invested by the Group.

Total capital injection in Specific Reserve capital to ensure Covid-19 financial instruments to SME and Midcaps reached EUR 145 million during 2020 for respective funding needs and expected credit loss. For more detailed information see Note 37.

As at 31 December 2020, the Group's gross financial instruments portfolio was EUR 804 million consisting of 26,578 projects (31.12.2019: EUR 617 million and 22,437).

In 2020, the Group's financial instruments portfolio increased by EUR 186 million (+30.2 %) in terms of volume and by 4,141 projects regarding the number of projects (+18.5%) compared to the end of 2019. Its growth in 2020 was significantly higher than in 2019, when the portfolio increased by EUR 88.8 million (+16.8%) in term of volumes and by 3,834 projects (+20.6%). Although the increase in the Group's portfolio in 2020 was ensured by the Group's specialised financial instruments for Covid-19 effect mitigation leading to the portfolio increase by EUR 103.7 million, it also continued to grow in daily programmes to fund the small and medium entities businesses' development as well as agriculture needs, that are not related to support provided to mitigate the negative effects of Covid-19.

As the support for the businesses to mitigate the negative effects of the Covid-19 pandemic is provided by the Group through loan and guarantee instruments, the respective portfolios experience a significant growth as well.

In 2020, the loan portfolio increased by EUR 77.3 million (+34.4%), which is 5 times more than in 2019, when the loan portfolio increased by EUR 14.9 million (+7.1%), while the number of transactions in the loan portfolio increased by 274 (+4.5%), which is 4 times more than in 2019, when their number increased by 66 projects (+1.1%). It should be noted that the increase in the loan portfolio in 2020 was mainly due to the Covid-19 effect mitigation loan programme for liquidity support implemented by the Group, the portfolio reaching EUR 65 million. Notwithstanding the consequences brought by Covid-19 to global and Latvian economy, in 2020 the Group's loan portfolio continued to grow in programs that are not related to mitigating the negative impact of Covid-19: loans for acquisition of agricultural land intended for agricultural production (+EUR 10 million), SME growth loans (+EUR 8.3 million), small loans in rural areas (+ EUR 3.6 million), Energy Efficiency Programme of Multi-apartment Buildings (+EUR 3.3 million) and SME growth loans issued to companies for implementing energy efficiency projects (+ EUR 3.2 million).

In 2020, the guarantee portfolio increased by EUR 75.4 million (+26.5%), which is more than in 2019, when the guarantee portfolio grew by EUR 47.3 million (+20%). In turn, the number of projects in the guarantee portfolio increased by 3,650 projects (+23.4%), which is almost in level of 2019 when it grew by 3,691 projects (+31%). The largest increase of guarantee portfolio in the twelve months of 2020 was ensured by the loan guarantee programmes for the Covid-19 affected businesses (+38.7 million EUR), Housing Guarantees for Families with Children (+EUR 16.4 million), loan guarantees for entrepreneurs (+EUR 10.9 million), as well as Housing Guarantees for Young Professionals (+EUR 5.9 million).

In 2020, the operations of the Land Fund increased by EUR 28.6 million (+72.2%) which is more than in 2019 when the Land Fund's operations increased by EUR 17.9 million (+82.5%). The number of projects in the Land Fund in 2020 increased by 190 projects (+35.7%), while in 2019 this increase was faster, when it increased by 209 projects (+ 64.7%), indicating that transactions take place less frequently, but the properties purchased are larger and at a higher price.

Management Report (cont'd)

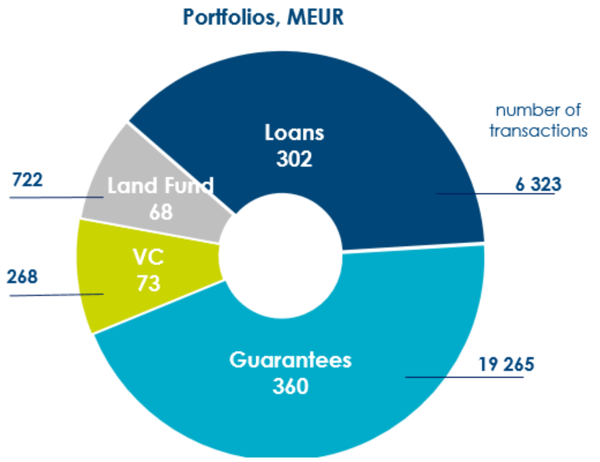
Operational volumes (cont'd)

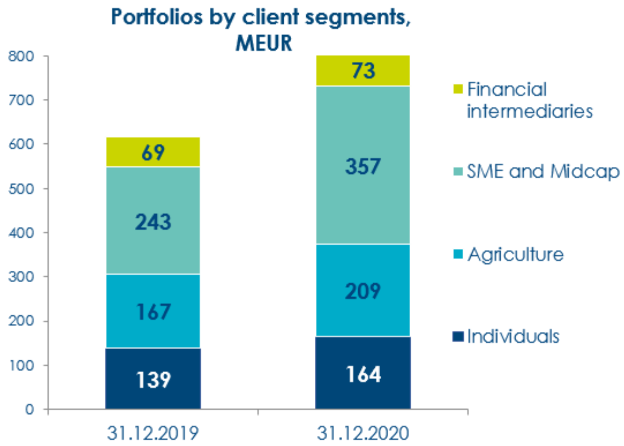
As at 31 December 2020, the balance sheet of the Land Fund included 1,013 properties with a total land area of 20,104 ha and amounting to EUR 68.3 million, including investment properties with a total area of 10,964 ha and amounting to EUR 36.8 million (31 December 2019: 7,996 ha; EUR 24.4 million), and leaseback transactions for 9,140 ha amounting to EUR 31.5 million (31 December 2019: 5,404 ha; EUR 15.3 million).

In the reporting period, the venture capital funds increased by EUR 4.8 million (+7.1%) in terms of volume and by 12 projects (+11.2%) in terms of the number of transactions.

As at reporting year end the largest portfolio of the Group is formed in the SMEs and Midcaps segment – 44.4%, while the Agriculture segment accounts for – 26.1%, Individuals – 20.4% and Financial intermediaries – 9.1%. The transactions of the Land Fund are recorded under the Agriculture segment.

Given the state aid programmes to support entrepreneurs in mitigating the Covid-19 effect, in 2020 the largest growth was demonstrated by the SMEs and Midcaps segment, namely, +EUR 114 million (+46.9%), which is significantly more than in 2019 when its growth reached EUR 23 million (+10.4%). In 2020, the Agriculture segment increased by EUR 42.6 million (+25.6%), which is more than in 2019 when the portfolio in this segment grew by EUR 25.3 million (+17.9%), and likewise the portfolio increase in the Individuals segment was by EUR 25.2 million (+18.2%). However, taking into account the Covid-19 related decrease in economic activity, the growth rates of the Individuals segment in 2020 were lower than in 2019, when it increased by EUR 32.2 million (+ 30.1%). In 2020 the segment Financial Intermediaries increased by EUR 4.3 million (+6.2%), which is less than in 2019 when the portfolio in this segment grew by EUR 8.4 million (+13.9%).





Group 31/12/2020

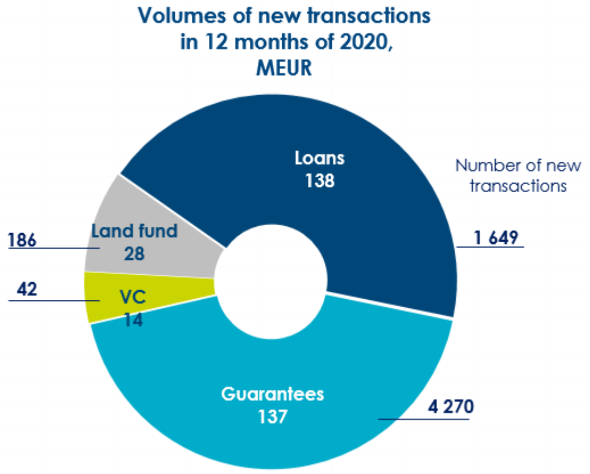
Volume of new transactions

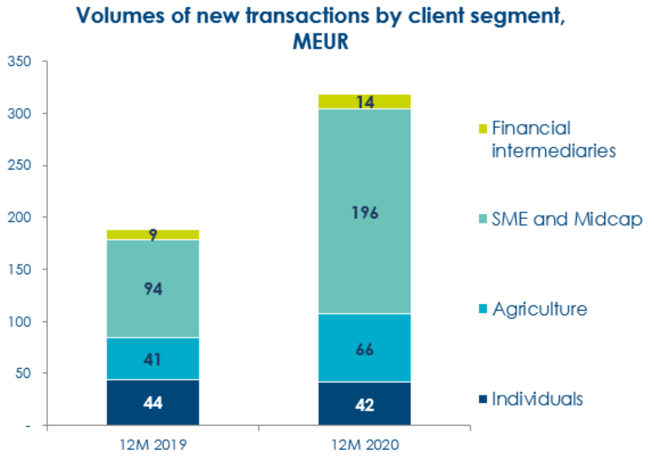
In 2020, the total funding disbursed for the implementation of the state aid programmes amounted to EUR 317.9 million, breaking down as follows: 43.5% (EUR 138.2 million) in loan programmes, 43.2% (EUR 137.4 million) for guarantee programmes, 8.9% (EUR 28.2 million) in the Land Fund transactions and 4.4% (EUR 14 million) in investments in the venture capital funds. In total, support was given to 6,147 projects. Compared to last year, the volume of the new transactions was larger by 69.1% (+EUR 129.9 million) in 2020.

In 2020, the largest volume of the new transactions was recorded in the following segments: SMEs and Mid-caps – 61.8%; Agriculture – 20.7%; Individuals – 13.1%; and Financial Intermediaries – 4.4%. The volume of new transactions in the SMEs and Midcaps significantly increased in 2020, namely, compared to the 2019 the respective volume has increased more than twice supported not only by Covid-19 crisis related support instruments, but also by large volume of new transactions in daily loan and guarantee programmes. Likewise, it was 1.6 times higher in the segment Agriculture, which was much aided by the high activity in the Land Fund transactions. However, taking into account the decreasing and cautious economic activity caused by the Covid-19-crisis, in 2020 the new transaction volume dropped in the segment Individuals, where it was by 5.4% lower than in 2019.

Management Report (cont'd)

Volume of new transactions (cont'd)





Group 31/12/2020

In 2020, the business community demand changed with regard to Covid-19 impact management instruments offered by ALTUM. The high interest recorded in the first months of the pandemic was followed by a drop in demand at the end of the summer that can be explained by the decrease in the virus spread and the recovering economic activity when lifting the state of emergency. With the onset of Covid-19 second wave and the consequent decline in economic activity, a change in business sentiment and a possible change in the lending of commercial banks, there is to be expected an increase in demand for financial instruments offered by ALTUM for liquidity support.

During the 2020, the number of new loans issued amounted to EUR 138.2 million or twice more as in 2019 when the new loans issued amounted to EUR 64.3 million. Most of the growth was brought about by the implementation of the Covid-19 crisis-related loan programme, under which EUR 65.7 million were disbursed, as well as the new loans in daily programmes - under the SME Growth Loan Programme amounting to EUR 28.1 million and the loans amounting to EUR 16 million for acquisition of agricultural land intended for agricultural production.

In the reporting period there were issued new guarantees for EUR 137.4 million or by 39.9% (+ EUR 39.2 million) more against the respective period in 2019. In 2020, the largest amount of new guarantees were issued under the daily Business Support Guarantee Programme (EUR 40.6 million); under the COVID-19 effect mitigation support programmes (EUR 40 million) and under the Housing Guarantee Programme for Families with Children (EUR 22.6 million).

Having launched the European Investment Fund (EIF) COSME and EaSI counter guarantees for loans up to EUR 25 thousand the Group has already supported 421 projects (COSME – 64 projects, EaSI – 357 projects) of which 205 projects were supported in 2020. If the loan is compatible with COSME or EaSI guarantee terms and conditions, the start-up and micro loans, working capital loans to farmers or small loans in rural areas are granted without additional collateral, based solely on a personal guarantee and at a lower interest rate compared to other types of unsecured loans.

As at 31 December 2020, as part of the Housing Guarantee Programme for Families with Children a total of 15,888 guarantees for EUR 118.1 million of the state aid for housing acquisition was granted, of which guarantees worth EUR 7.1 million were issued in the fourth quarter of 2020 which was an 8% increase over the previous quarter. The Programme's guarantees that help saving for the first instalment required to obtain a mortgage loan are used by families throughout Latvia. While a total of 2,617 guarantees worth EUR 19.6 million were issued to young professionals of which 253 guarantees worth EUR 2 million were issued in the fourth quarter of 2020.

In the reporting period, the managers of the 4th generation venture capital funds made investments of EUR 3.8 million, of which EUR 3.3 million was the Company's share and EUR 0.5 million was the private funding raised at fund level. Venture capital funds and acceleration funds continued to invest in existing companies and in 2020 they made investments in 35 new companies. At the same time, in the reporting period, the investments made within the framework of the Baltic Innovation Fund and Baltic Innovation Fund 2 amounted to EUR 3.3 million and EUR 0.67 million respectively.

Management Report (cont'd)

Volume of new transactions (cont'd)

The Covid-19 crisis still hinders new investments for the managers of the 4th generation venture capital funds thus challenging the selection of new projects and attraction of investors, implementing the Accelerator Programme and operations of start-ups.

Under the agreement signed on 16 September 2020 on the Group investments in the Three Seas Initiatives Investment Fund (3siif.eu), the Group made the first investment of EUR 6.7 million. The Fund is a new financial instrument for financing and developing infrastructure projects in 12 countries, incl. Latvia, aimed at reducing infrastructure development gaps between different European regions. Three Seas Initiative Investment Fund is a new financial instrument to support transport, energy and digitalization infrastructure projects in Central and Eastern Europe. Large scale projects from Latvia as well as projects from other countries from the region can already apply for 3SIIF funding, which supplements existing funding opportunities. It can help catalyse existing and new infrastructure projects in the fields of transport, energy and digital infrastructure.

In 2020, the Land Fund concluded land acquisition transactions for EUR 11.4 million, which is by EUR 2.3 million more than in 2019, and leaseback transactions – for EUR 16.8 million or by EUR 9.6 million more than in 2019. In general, in 2020, the volume of new transactions of the Land Fund increased by 72%, compared to those concluded during 2019.

Non-financial instrument portfolio

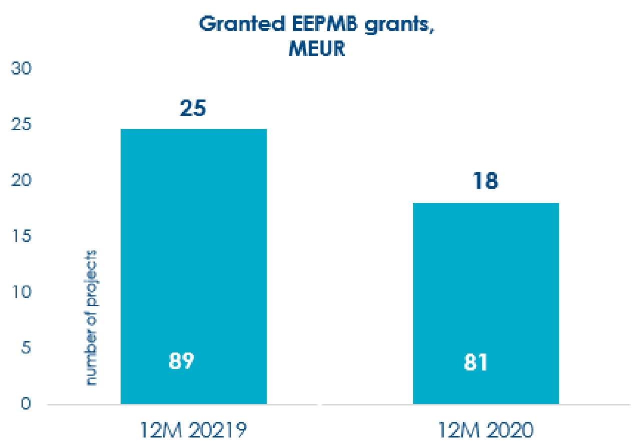
In order to make accessing to the support instruments more convenient for its clients, apart from the financial instruments, the Group services some grant programmes as well, namely, the grants issued under the Energy Efficiency Programme for Multi-apartment Buildings (EEPMB), Social Entrepreneurship Programme and European Local Energy Assistance (ELENA) Programme and, since November 2020, the grants under the support program BALSTS for the purchase or construction of housing for families with three or more children.

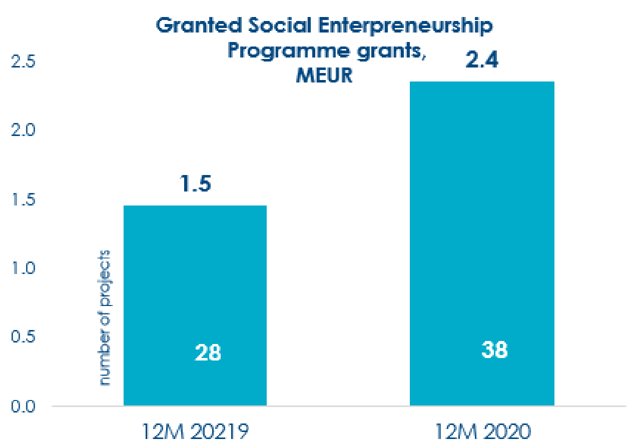
As at 31 December 2020, the EEPMB programme had awarded a total of 336 grants for EUR 71 million. As of 11 January 2020, the programme was suspended and no new applications were accepted. On 30 June 2020, the Cabinet approved amendments to the relevant Cabinet regulations allocating additional funding, and the EEPMB programme opened submission of new projects from 20 November 2020 closing it on 18 December 2020 after which date no new applications are accepted and currently the evaluation of the projects, awarding of grants and implementation of projects are carried out. As at 31 December 2020, a total of 989 applications were submitted to the EEPMB programme.

As at 31 December 2020, a total of 103 grants for EUR 6.6 million were awarded under the Social Entrepreneurship Programme.

In order to promote and support planning of the energy efficiency projects, the Group, acting in co-operation with the European Investment Bank, provides to companies a supplementary support grant earmarked for covering the costs related to expertise and drafting of energy efficiency projects. As at 31 December 2020, there were a total of 51 grants awarded for EUR 387 thousand.

In November 2020, within the framework of the new support programme BALSTS, the Group started accepting applications for the issuance of non-refundable state subsidies or grants for the purchase or construction of housing for families with three or more children. As at 31 December 2020, a total of 61 grants for EUR 506 thousand were awarded.





Management Report (cont'd)

New products and increasing operational efficiency

Since March 2020, as delegated by the government, the Group has engaged actively in mitigating the adverse impact of Covid-19 pandemic on SME and Midcaps in Latvia by developing new financial support instruments in co-operation with the Ministry of Economics,.

During 2020, there were developed and implemented 12 new support programmes, and changes in the Cabinet regulations referring to the respective programmes were made aimed at ensuring greater accessibility to the Group's support programmes by a wider range of beneficiaries and improving support conditions.

The first support instruments for mitigating the negative impact of Covid-19 were approved at an extraordinary meeting of financial the Cabinet already in March 2020, ensuring the provision of the following business support:

- in the form of individual and portfolio guarantees, which allow banks to defer payment of the principal amount for up to two years when obtaining additional collateral in the form of a guarantee;
- working capital loans on privileged terms and conditions;
- possibilities to receive export credit guarantees to EU member states, regardless of the exporter's volumes;
- as well as guarantees are offered to large exporting companies that need financing due to the impact of Covid-19.

Those financial instruments became effective as of 25 March 2020 being already co-ordinated with the European Commission.

Despite the tight time schedule for developing and implementing support programmes for mitigating the negative effects of Covid-19, in addition the Group executed other support programmes that are important and vital for certain customer groups:

- Portfolio guarantee programme for study loans;
- Portfolio guarantee programme for loans to improve the energy efficiency of private houses;
- Start-up loans to innovative companies;
- Loans to ESCO for acquisition of the future cash flows;
- Grant programme for improving energy efficiency of private houses;
- in addition, launching of a new support program BALSTS was approved, opening a possibility for families with three or more children to receive a non-refundable state subsidy or grant for the purchase or construction of housing. Additional support for large families, totalling EUR 3.5 million, will be available in the form of grant, enabling 400 large families to buy a new home. In cooperation with commercial banks, the implementation of the programme started in November.

In the spring of 2020, the process of establishing the AIF "Altum capital fund" was launched. The fund is created with the aim to support well-managed, perspective Mid-cap companies to overcome the effect of Covid-19 that as a result of the virus impact are ready to adjust their operations by changing their business model, adjusting product development, introducing new technology and expanding to new export markets. On May 26, the Board of the Financial Capital and Market Commission made a decision to register JSC Development Finance Institution Altum as an alternative investment fund AIF "Altum Capital Fund" manager. On 23 July, the Fund's Limited Partnership Agreement was signed. The Fund's committed capital was fully subscribed on September 16, 2020, reaching EUR 100 million, of which the majority (EUR 51.1 million or 51.1%) were private investors - investment management companies of the state funded pension scheme and pension 3rd pillar investment plans, and EUR 48.9 million consists of public funding invested by JSC Development Finance Institution Altum. Since the Fund's investment period expires on 31 December 2021 then very intense investment opportunities appraisal and origination process is carried out.

It is due highlighting that the centralized evaluation system of electronic loan applications of micro loan customers introduced in 2019 enabled to implement this system successfully in all regions in January 2020, regardless of the loan amount, while in March 2020 – to ensure qualitative and fast loan application review process for working capital loans related to the mitigation of the Covid-19 impact. Thus ensured to reach the double volume of new transactions in 2020 comparing to 2019 (+EUR 73 million) by keeping almost the same level of human resources.

In the twelve months of 2020, proceeding with the centralised reviewing of the applications for micro loans (up to EUR 25 thousand) introduced within the framework of automation and increasing of the Group's operational efficiency fully implemented in the regions in January 2020, 36% of the total number of the granted loans (excl. Covid-19 crisis related loans) were reviewed remotely without involving the regional employees in the application reviewing process. During the year, the total amount of the issued micro loans, both in centralized remote evaluation and in the regions, increased by 24% or by EUR 12.8 million and the number of the granted loans increased by 11%. Consequently, by saving the regions' human resources

Management Report (cont'd)

New products and increasing operational efficiency (cont'd)

involvement in micro loan application process, the average loan amount in the regions increased from EUR 71.4 thousand in 2019 to EUR 80 thousand in the 12 months of 2020, while in the same period the average loan amount evaluated remotely on a centralised basis was EUR 13.7 thousand.

To ensure wider availability of loans up to EUR 150 thousand for the Covid-19 crisis-related solutions, in June 2020, the EIF approved financing for the Group in response to its application to the EIF COSME loan guarantee facility, which provides guarantees up to 80% of the loan amount for loans issued by the Group.

In January 2021, the guarantee digitization project initiated in October 2020 was introduced, thus becoming more modern and up-to-date, providing a simplified process for submitting credit guarantee applications, applications and notifications, as there are less fill-in fields and automatic data import has been enabled. In turn, the Group increases the efficiency of its operations, i.e. constant human resources may service the rapidly growing guarantee portfolio.

At the same time, acting in a responsible way towards the health of employees and customers and following the recommendations of the responsible institutions on actions that would help reduce the risks of virus spread, from 13 March the Group continues to provide all services remotely via the customer portal mans.altum.lv, as well as through telephone and video consultations, thus ensuring continuous access to the services provided by the Group.

Long-term Funding

On 8 April 2020, in order to maintain long-term participation in the capital markets and diversify the funding base, the Company issued debt securities with a total amount of EUR 20 million as the second issue of bonds within the framework of the EUR 70 million bond issue programme, recording a yield of 1.3% per annum. The debt securities were issued in addition to EUR 10 million bonds issued on 7 March 2018 and EUR 15 million bonds issued on 5 June 2019 with the maturity date on 7 March 2025 and a fixed annual interest rate of 1.3% (ISIN LV0000880037), which are listed on the Nasdaq Riga Bond list. The emission attracted much interest of investors in Latvia, Lithuania and Estonia and the bonds were oversubscribed 3.8 times. The bonds were allocated to 15 investors in the Baltics: 12 asset managers and insurance companies (93%), and 3 banks (7%).

Rating

On 9 October 2020, the International credit rating agency Moody's Investors Service (Moody's) published the updated credit analysis of the Company.

On 25 March 2019, Moody's reconfirmed the Company's (the parent company of the Group) Baa1 long-term credit rating. The baseline credit assessment (BCA) was upgraded from Ba2 to Baa3 and the P-2 short-term rating was approved. The long-term credit rating was approved with a stable outlook.

In June 2017 for the first time Moody's assigned to the Company a long-term credit rating Baa1 which is one of the highest credit ratings assigned to a corporate entity in Latvia.

The assigned rating and being a regular participant in the capital market as well as bond issuance makes it possible for the Group to implement more successfully the Group's long-term strategy for fund raising.

Risk Management

In order to have an adequate risk management, the Group has developed the Risk Management System that provides both preventive risk management and timely implementation of risk mitigation or prevention measures. While assuming risks, the Group retains the long-term capability of implementing the established operational targets and assignments.

To manage risks, the Group applies various risk management methods and instruments as well as establishes risk limits and restrictions. The choice of the risk management methods is based on the materiality of the particular risk and its impact on the Group's operations.

In view of the Group's activities in high-risk areas when implementing the state aid programmes, as at the end of the reporting period the Group has the risk coverage of EUR 180 million (31 December 2019: EUR 87.5 million) to cover the expected credit loss of the State aid programmes. For example, total capital injection in Specific Reserve capital for credit risk coverage of Covid-19 products reached EUR 86 million recognised in Portfolio loss reserve as at 31 December 2020. The expected loss is

Management Report (cont'd)

Risk Management (cont'd)

assessed before implementing the respective aid programme and a portion of the public funding received within this programme is earmarked for the risk coverage. The latter consists of the sum total of the risk coverage reserve and portfolio loss reserve (special reserve capital) less the risk coverage reserve used for provisions.

Future Outlook

In in order to prepare for the expected financing under the InvestEU Programme 2021–2027, in 2020 the preparations undertaken already in 2019 for Pillar Assessment of the Group were continued. The initial or pilot assessment was carried out by the audit firm KPMG selected within the framework of the European Commission's technical assistance project and was aimed at identifying the necessary improvements in the Group's internal control system in accordance with the requirements set by the European Commission. The auditors were provided with the Group's self-assessment and the supporting internal documents. After the document examination, KPMG conducted remote interviews with responsible employees and random audits of various Group processes (transaction processing, personnel management, procurement, etc.). At the end of the audit, an auditors' report and a detailed plan for the implementation of the recommendations were submitted, the latter being actively executed at present. The Group is also involved in the preparing for the implementation of the next EU fund programming period by participating in the preparation of the market failure assessment as well as providing comments on the regulations drawn by the ministries in connection with the new planning period.

In July, the EU Member States agreed on the multiannual financial framework (MFF) and the extraordinary recovery effort, Next Generation EU (NGEU), which means a contribution of more than EUR 10 billion to the growth of Latvian economy. Part of this funding will be invested in Latvian economy in the form of financial instruments to help businesses recover from the effects of the Covid-19 pandemic, stimulate the economy and private investment, while continuing economic growth. To make the support of financial instruments available to entrepreneurs in 2021, the responsible Latvian ministries in cooperation with the Group have started the planning process of new financing.

In the current EU programming period, additional financing of the European Regional Development Fund has been allocated for the implementation of the Group's programmes amounting to EUR 60 million, of which EUR 10 million will be allocated to the Start-up Programme, EUR 32 million to the SME Growth Programme and EUR 18 million to the Guarantee Programmes. In October 2020, the Cabinet regulations referring to the respective programmes were amended concerning the additional funding and coordination with the involved institutions is in the process. Part of the funding is earmarked to support tourism companies.

In order to prevent the economic and social damage caused by the Covid-19 pandemic, stimulate European recovery and protect and create jobs, on 28 May 2020, the European Commission (EC) proposed the launch of an ambitious European Recovery Plan, a significant part of which will be allocated to the Recovery and Resilience Facility, a new budget programme managed centrally by the European Commission, which will provide funding to EU Member States in the form of loans and reimbursable grants. It is planned that approximately EUR 200 million of the funding available to Latvia will be invested in the form of financial instruments by the Group developing programmes to improve energy efficiency of multi-apartment buildings, funding for affordable housing, support of digitalisation and automatization of business as well as corporates' green investments projects.

Reinis Bērziņš
Chairman of the Management Board

31 March 2021

Supervisory Board 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	28.12.2019.	27.12.2022.
Jānis Šnore	Member of the Council	28.12.2019.	27.12.2022.
Kristaps Soms	Member of the Council	28.12.2019.	28.12.2019. - 22.03.2021.
Ilze Baltābola	Member of the Council	22.03.2021.	21.03.2022. *

* For the time (up to 1 year) until a new candidate is selected in line with the procedures of nominating supervisory board members, according to the Law on Governance of Capital Shares of a Public Person and Capital Companies.

There were no changes in the Supervisory Council of the Company in 2020. Kristaps Soms left the position of a Member of the Supervisory Council on 22 March 2021. Extraordinary shareholders' meeting approved Ilze Baltābola to the position of a Member of the Supervisory Council on 22 March 2021.

Management Board

Name, Surname	Position	Appointment Date	Date of expiry of the term of the mandate
Reinis Bērziņš	Chairman of the Board	11.06.2018.	10.06.2021.
Jēkabs Krieviņš	Member of the Board	11.06.2018.	10.06.2021.
Inese Zīle	Member of the Board	11.06.2018.	10.06.2021.
Aleksandrs Bimbirulis	Member of the Board	26.06.2020.	25.06.2023.
Ieva Jansone-Buka	Member of the Board	18.03.2021.	17.03.2024.

There were no changes in the Management Board of the Company in 2020. The Supervisory Board of the Company has appointed Ieva Jansone - Buka as a Member of the Management Board on 18 March 2021.

Statement of Management's responsibility

Riga 31 March 2021

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

The financial statements and notes thereto set out on pages 13 to 101 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 2020 and 2019, and the results of their operations, changes in the shareholders' equity and cash flows for the years then ended.

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

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

Reinis Bērziņš
Chairman of the Management Board

Statement of Comprehensive Income

All amounts in thousands of euro

	Notes	Group 01.01.2020.- 31.12.2020.	Group 01.01.2019.- 31.12.2019.	Company 01.01.2020.- 31.12.2020.	Company 01.01.2019.- 31.12.2019.
Interest income	4	16 442	13 344	16 442	13 344
Interest expense	5	(1 870)	(1 775)	(1 870)	(1 775)
Net interest income		14 572	11 569	14 572	11 569
					-
Income for implementation of state aid programmes	6	6 526	6 165	6 526	6 165
Expenses to be compensated for implementation of state aid programmes	7	(5 950)	(5 584)	(5 950)	(5 584)
Net income for implementation of state aid programmes		576	581	576	581
					-
Gains or losses from trading securities and foreign exchange translation	8	(56)	90	(56)	90
Share of (losses) of investment in associate	17	(2 094)	(136)	(2 094)	(136)
Remeasurement gain of investment in associate at fair value through profit or loss	17	288	18	288	18
Gains less losses from liabilities at fair value through profit or loss	31	1 908	129	1 908	129
Other income	9	3 053	2 168	3 053	2 168
Other expense	10	(1 065)	(634)	(1 145)	(634)
Operating income before operating expenses		17 182	13 785	17 102	13 785
					-
Staff costs	11	(5 416)	(4 640)	(5 416)	(4 640)
Administrative expense	12	(1 831)	(1 821)	(1 831)	(1 821)
Amortisation of intangible assets and depreciation of property, plant and equipment	23, 24	(916)	(787)	(916)	(787)
Impairment gain / (loss), net	13	(3 480)	1 699	(3 400)	1 699
(Loss) on the revaluation of assets held for sale	28	-	(105)	-	(105)
Profit before corporate income tax		5 539	8 131	5 539	8 131
					-
Corporate income tax		-	-	-	-
					-
Profit for the period		**5 539**	**8 131**	**5 539**	**8 131**
Other comprehensive income:		(1 425)	(959)	(1 425)	(959)
Items to be reclassified to profit or loss in subsequent periods Net loss from financial assets measured at fair value through other comprehensive income	39	(1 425)	(274)	(1 425)	(274)
Total comprehensive income for the period		**4 114**	**7 172**	**4 114**	**7 172**
Profit is attributable to:					
Owners of the Company		5 539	8 131	-	-
Non-controlling interest		-	-	-	-
Profit for the period		**5 539**	**8 131**	**-**	**-**
Total comprehensive income is attributable to:					
Owners of the Company		4 114	7 172	-	-
Non-controlling interest		-	-	-	-
Total comprehensive income for the period		**4 114**	**7 172**	**-**	**-**

The accompanying notes on pages 17 through 101 form an integral part of these financial statements.

Reinis Bērziņš
Chairman of the Management Board

Kaspars Gibeiko
Chief Accountant

31 March 2021

Statement of Financial Position

All amounts in thousands of euro

	Notes	Group 31.12.2020.	Group 31.12.2019.	Company 31.12.2020.	Company 31.12.2019.
Assets					
Due from credit institutions and the State Treasury	14	359 949	181 199	359 949	181 047
Financial assets at fair value through profit or loss	16	5 425	4 217	-	-
Financial assets at fair value through other comprehensive income - investment securities	15	36 958	47 941	36 958	47 941
Financial assets at amortised cost:					
Investment securities	15	441	478	441	478
Loans and receivables	20	313 268	220 129	313 268	220 129
Grants	19	31 107	17 186	31 107	17 186
Deferred expense	26	749	694	749	694
Accrued income	27	772	1 649	772	1 649
Other investments	18	7 503	250	7 503	250
Investments in associates					
Investments accounted for using the equity method	17	32 969	38 442	32 969	38 442
Investments accounted for using the FVTPL method	17	15 019	13 851	15 019	13 851
Investments in subsidiaries	22	-	-	4 879	3 812
Investment property	21	36 758	24 366	36 758	24 366
Property, plant and equipment	24	4 717	4 694	4 717	4 694
Intangible assets	23	1 398	1 395	1 398	1 395
Other assets	25	3 671	3 570	3 636	3 570
Total assets		**850 704**	**560 061**	**850 123**	**559 504**
Liabilities					
Due to credit institutions	29	65 855	29 542	65 855	29 542
Due to general government entities	30	103 520	86 272	103 520	86 272
Financial liabilities at amortised cost - Issued debt securities	35	65 522	45 348	65 522	45 348
Deferred income		4 991	3 091	4 991	3 091
Accrued expense	34	857	478	937	478
Provisions	32	32 501	31 076	32 501	31 076
Support programme funding	31	191 963	128 730	191 963	128 730
Other liabilities	33	2 901	2 786	2 901	2 773
Total liabilities		468 110	327 323	468 190	327 310
Equity					
Share capital	36	204 862	204 862	204 862	204 862
Reserves	37	170 321	16 565	170 319	16 563
Revaluation reserve of financial assets measured at fair value through other comprehensive income	39	1 213	2 638	1 213	2 638
Retained earnings		5 539	8 131	5 539	8 131
Net assets attributable to the Company's owners		381 935	232 196	381 933	232 194
Non-controlling interest		659	542	-	-
Total equity		382 594	232 738	381 933	232 194
Total equity and liabilities		**850 704**	**560 061**	**850 123**	**559 504**

The accompanying notes on pages 17 through 101 form an integral part of these financial statements.

Reinis Bērziņš
Chairman of the Management Board

Kaspars Gibeiko
Chief Accountant

31 March 2021

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	Retained earnings	Non-controlling interest	Total equity
As at 1 January 2019	**204 862**	**7 965**	**3 597**	**4 900**	**266**	**221 590**
Profit for the period	-	-	-	8 131	-	8 131
Other comprehensive income	-	-	(959)	-	-	(959)
Total comprehensive income	-	-	(959)	8 131	-	7 172
Increase of reserve capital (Note 37)	-	3 700	-	-	-	3 700
Distribution of profit of previous years	-	808	-	(808)	-	-
Distribution of 2018 profit of the Company (Note 37)	-	4 092	-	(4 092)	-	-
Non-controlling interest	-	-	-	-	276	276
As at 31 December 2019	**204 862**	**16 565**	**2 638**	**8 131**	**542**	**232 738**
Profit for the period	-	-	-	5 539	-	5 539
Other comprehensive income	-	-	(1 425)	-	-	(1 425)
Total comprehensive income	-	-	(1 425)	5 539	-	4 114
Increase of reserve capital (Note 37)	-	145 626	-	-	-	145 626
Distribution of 2019 profit of the Company (Note 37)	-	8 131	-	(8 131)	-	-
Non-controlling interest	-	-	-	-	117	117
As at 31 December 2020	**204 862**	**170 321**	**1 213**	**5 539**	**659**	**382 594**

The accompanying notes on pages 17 through 101 form an integral part of these financial statements.

Company's Statement of Changes in Equity

All amounts in thousands of euro

	Share capital	Reserves	Revaluation reserve of financial assets measured at fair value through other comprehensive income	Retained earnings	Total equity
As at 1 January 2019	**204 862**	**7 610**	**3 597**	**5 254**	**221 323**
Profit for the period	-	-	-	8 131	8 131
Other comprehensive income	-	-	(959)	-	(959)
Total comprehensive income	-	-	(959)	8 131	7 172
Increase of reserve capital (Note 37)	-	3 700	-	-	3 700
Distribution of profit of previous years	-	791	-	(791)	-
Distribution of 2018 profit (Note 37)	-	4 462	-	(4 462)	-
As at 31 December 2019	**204 862**	**16 563**	**2 638**	**8 131**	**232 194**
Profit for the period	-	-	-	5 539	5 539
Other comprehensive income	-	-	(1 425)	-	(1 425)
Total comprehensive income	-	-	(1 425)	5 539	4 114
Increase of reserve capital (Note 37)	-	145 626	-	-	145 626
Distribution of 2019 profit (Note 37)	-	8 131	-	(8 131)	-
As at 31 December 2020	**204 862**	**170 319**	**1 213**	**5 539**	**381 933**

The accompanying notes on pages 17 through 101 form an integral part of these financial statements.

Statement of Cash Flows

All amounts in thousands of euro

	Notes	Group 01.01.2020.- 31.12.2020.	Group 01.01.2019.- 31.12.2019.	Company 01.01.2020.- 31.12.2020.	Company 01.01.2019.- 31.12.2019.
Cash and cash equivalents at the beginning of period		176 199	128 916	176 047	128 536
Cash flows from operating activities					
Profit before taxes		5 539	8 131	5 539	8 131
Amortisation of intangible assets and depreciation of property, plant and equipment	23,24	916	786	916	786
Interest income	4	(16 441)	(9 882)	(16 441)	(9 882)
Interest received		13 002	6 205	13 002	6 205
Interest expenses	5	1 870	1 433	1 870	1 433
Interests paid		(1 328)	(1 082)	(1 328)	(1 082)
(Decrease) / increase in impairment allowances	13	3 480	(1 845)	3 400	(1 845)
(Decrease) of cash and cash equivalents from operating activities before changes in assets and liabilities		**7 038**	**3 746**	**6 958**	**3 746**
Due from credit institutions decrease		5 000	3 114	5 000	3 117
(Increase) of loans	19	(93 569)	(20 575)	(93 569)	(20 857)
Decrease / (increase) of grants	20	(14 084)	5 375	(14 084)	5 375
Increase of due to credit institutions and general government entities	29,30	53 561	25 698	53 561	25 696
Increase in deferred income and accrued expense		2 280	558	2 360	558
(Decrease) / increase in deferred expense and accrued income	26,27	822	(271)	822	(271)
(Increase) / Decrease of other assets	25	(101)	11 403	(66)	11 403
Increase in other liabilities		61 019	10 765	60 995	10 537
Net cash flows to/ from operating activities		**21 966**	**39 813**	**21 977**	**39 304**
Cash flows from investment activities					
Sale of investment securities	15	12 830	4 146	12 830	4 146
Acquisition of property, plant and equipment and intangible assets	23,24	(1 037)	(802)	(1 037)	(802)
Purchase of investment properties	21	(11 696)	(9 604)	(11 696)	(9 604)
Sale of investment properties	21	42	32	42	32
Other investments	18	(7 252)	(250)	(7 252)	(250)
Investments in associates, net	17	4 305	(1 695)	4 305	(1 695)
Investments of subsidiaries in underlying undertakings	16	(1 208)	(3 057)	-	
Investments in subsidiaries	22	-	-	(1 067)	(2 320)
Net cash flows to/ from investing activities		**(4 016)**	**(11 230)**	**(3 875)**	**(10 493)**
Cash flows from financing activities					
Issued debt securities	35	20 174	15 000	20 174	15 000
Increase of reserve capital	37	145 626	3 700	145 626	3 700
Net cash flow from financing activities		**165 800**	**18 700**	**165 800**	**18 700**
Increase in cash and cash equivalents		183 750	47 283	183 902	47 660
Cash and cash equivalents at the end of period		**359 949**	**176 199**	**359 949**	**176 047**

The accompanying notes on pages 17 through 101 form an integral part of these financial statements.

Approval of the Financial Statements

The management of the Company has approved these financial statements on 31 March 2021. The Commercial Law of the Republic of Latvia as well as Development Finance Institution Law stipulates that the shareholders' meeting is entitled to pass a decision on approval of the financial statements.

1 General Information

(1) Corporate Information

These financial statements contain the financial information about joint-stock company Development Finance Institution Altum (Company) and its subsidiaries (hereinafter together — the Group). The separate financial statements of the Company are included alongside these consolidated financial statements to comply with legal requirements. The Company is the parent entity of the Group (Note 22).

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

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

The Group / Company does not perform any regulated activities related to the financial and capital markets as financial institution, therefore the Group / Company is not required to comply with capital adequacy requirements. However, the Group / Company operates in accordance with best financial and capital market practices regarding internal control, risk management and compliance.

The Group holds investment in alternative investment fund "Altum Capital Fund" (the Fund) registered on 31 July 2020. The Fund is created with the aim to support well-managed, perspective Mid-cap companies to overcome the effect of Covid-19 that as a result of the virus impact are ready to adjust their operations by changing their business model, adjusting product development, introducing new technology and expanding to new export markets. The Fund's committed capital was fully subscribed on September 16, 2020, reaching EUR 100 million, of which the majority (EUR 51.1 million or 51.1%) were largest private pension funds and EUR 48.9 million consists of public funding invested by the Company. The Company is also the manager of the Fund registered with the Financial and Capital Market Commission on 26 May 2020.

Until August 2019, the Group includes the Company and two closed investment funds Hipo Latvia Real Estate Fund I and Hipo Real Estate Fund II (legal address – Elizabetes street 41/43, Riga, Latvia LV-1010) in which the Company was the sole investor. In August 2019, these funds were liquidated upon receipt of the liquidation quota by the Company. Now the Group includes the Company and number of venture capital funds, treated as subsidiaries for purposes of financial accounting.

The below listed venture capital funds - subsidiaries and associates - are treated as subsidiaries or associates during the reporting period only for purposes of financial accounting.

Legal Tittle	Legal Address	Investment % in share capital
Venture capital funds classified as Subsidiaries		
KS Overkill Ventures Fund I	Dzirnavu iela 105, Rīga, Latvija, LV-1011	100
KS Buildit Latvia Pre-Seed Fund	Sporta iela 2, Rīga, Latvija, LV-1013	100
KS Commercialization Reactor Pre-seed Fund	Brīvības gatve 300 -9, Rīga, Latvija	100
KS INEC 1	Krišjāņa Barona iela 32-7, Rīga, Latvijas, LV-1011	75
KS INEC 2	Krišjāņa Barona iela 32-7, Rīga, Latvijas, LV-1011	90

1 General Information (cont'd)

The below listed venture capital funds - subsidiaries and associates - are treated as subsidiaries or associates during the reporting period only for purposes of financial accounting. (cont'd)

Legal Tittle	Legal Address	Investment % in share capital
Venture capital funds classified as Associates		
KS Overkill Ventures Fund II	Dzirnavu iela 105, Rīga, Latvija, LV-1011	80
KS Buildit Latvia Seed Fund	Sporta iela 2, Rīga, Latvija, LV-1013	80
KS Commercialization Reactor Seed Fund	Brīvības gatve 300 -9, Rīga, Latvija	80
KS ZGI-4	Daugavgrīvas iela 21, Rīga, Latvija, LV-1048	60
FlyCap Mezzanine Fund II	Matrožu iela 15A, Rīga, LV-1048	60
KS Baltcap Latvia Venture Capital Fund	Jaunmoku iela 34, Rīga, Latvija, LV-1046	67
KS Imprimatur Capital Technology Venture Fund	Elizabetes iela 85a-18, Rīga, Latvija, LV-1050	67
KS Imprimatur Capital Seed Fund	Elizabetes iela 85a-18, Rīga, Latvija, LV-1050	100
KS ZGI-3	Daugavgrīvas iela 21, Rīga, Latvija, LV-1048	95
KS FlyCap Investment Fund	Matrožu iela 15A, Rīga, Latvija, LV-1048	95
KS Expansion Capital fund	Krišjāņa Barona iela 32-7, Rīga, Latvija, LV-1011	95
KS AIF "Altum capital fund"	Doma laukums 4, Rīga, LV-1050	48.9
Baltic Innovation Fund	Eiropean Investment Fund, 37B, avenue J.F. Kennedy, L-2968 Luxembourg	20

2 Accounting Policies

(1) Basis of presentation

These Group's and the Company's financial statements are financial statements prepared in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union, on a going concern basis. In preparation of these financial statements on a going concern basis the management considered the Group's / Company's financial position, access to financial resources and analysed the impact of the external factors on future operations of the Group / Company. For detailed disclosure on the impact of Covid-19 on the Group / Company see Note 3 (8).

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 and support programme financing.

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

Considering a share of the Group's / Company's investment in the Baltic Innovation Fund II (16.99%) of the committed capital of the Baltic Innovation Fund II) in order to ensure the users of the financial statements with a better understanding of the Group's / Company's financial position, the investments in "Baltic Innovation Fund II" (31 December 2019: EUR 250 thousand) have been classified separately as *Other investments* in the Statement of Financial Position comparing with the financial statements for the year 2019 where this item has been classified within *Investments in Associates*.

In order to ensure the users of the financial statements with a better understanding and transparency of the Group's / Company's investments in associates, item *Investments in Associates* in the Statement of Financial Position are split based on the measurement method: (i) Investments in Associates accounted for using the equity method and (ii) Investments in Associates accounted for using the FVTPL method.

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

2 Accounting Policies (cont'd)

(2) Consolidation and investments in associates (cont'd)

(i) Consolidation (cont'd)

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2020.

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

Financial statements of the parent company and of the consolidated subsidiaries refer to the same period and have been drawn up according to the accounting policies applicable to the Group. A subsidiary is included in the consolidated financial statements from the time of acquisition, being the date when the parent company gains control over the subsidiary. The subsidiary is included in the consolidated financial statements until the date when control over the company ceases to exist. The entities of the Group are listed in Note 22.

Intra-group transactions, balances and unrealised gains and losses on transactions between the Group companies are eliminated.

At the level of the Company, the investments in subsidiaries upon their initial recognition at cost are subsequently accounted for at equity method (see Note 2 (6) item (iii)). Some of the venture capital funds' investments are classified as investments in subsidiaries See Note 22 for details.

(ii) Investments in associates

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

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

The Group / Company measures investments in the associates as follows: (i) for investments in associates measured using equity method see Note 2 (6) item (i) and (ii) for investments in associates measured using fair value through profit or loss method see Note 2 (6) item (ii). Detailed information on investments in associates split between both methods see Note 17.

(3) Foreign currency translation

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

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

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

31.12.2020	31.12.2019
1 USD = EUR 1.22710	1 USD = EUR 1.12340
1 GBP = EUR 0.89903	1 GBP = EUR 0.85080

(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.

2 Accounting Policies (cont'd)

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

(i) Foreign income and expense

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

Foreign exchange gains and losses are recognised in the profit or loss of the reporting period.

(ii) Interest income and expense

Interest income and expense are recognised in profit or loss for all interest bearing instruments on an accrual basis using the effective interest rate method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows 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 estimating future cash flows, the Group / Company considers all contractual terms of the financial instrument (for example, prepayment options), but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Interest accrued on loans is included in profit or loss and interest accrual calculation uses either "30/360" or "actual days/360" accounting method as specified in agreements with customers.

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

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

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

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

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

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

If pricing for credit risk is covered by the Risk Coverage Reserve or Portfolio Loss Reserve, such cost component for credit risk coverage in pricing is excluded from interest income on loans and commissions from financial guarantees charged for customers. See also Note 2 (16) item (i) and Note 31.

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

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

(i) Initial recognition

Financial instruments at fair value through profit or loss (FVTPL) are initially recorded at fair value. All other financial instruments are initially recorded at fair value adjusted for transaction costs. Fair value at initial recognition is best evidenced by the transaction price. In cases transaction price is lower than the fair value of guarantee provided due to the fact that the price difference is covered by public funding for expected credit loss classified within Risk Coverage Reserve, the Day 1 loss is directly allocated to Risk Coverage Reserve. See also Note 2 (16) (i). In cases transaction price is lower than the fair value of guarantee

2 Accounting Policies (cont'd)

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

(i) Initial recognition (cont'd)

provided due to the fact that the price difference is covered by public funding for expected credit loss classified within Portfolio Loss Reserve (special reserve capital in equity), the Day 1 loss is charged to profit or loss and will be covered from Portfolio Loss Reserve by transfer to Retained earnings or General reserve capital upon approval of respective year annual accounts according to respective shareholder decision . See also Note 2 (16) (i).

After the initial recognition, an expected credit loss (ECL) allowance is recognised for financial assets measured at amortised cost (AC) and investments in debt instruments measured at fair value through other comprehensive income (FVOCI), resulting in an immediate accounting loss.

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

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

The Group / Company classifies financial assets in the following measurement categories: FVTPL, FVOCI and AC. The classification and subsequent measurement of debt financial assets depends on the Group's / Company's business model for managing the related assets portfolio and the cash flow characteristics of an asset.

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

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

- solely to collect the contractual cash flows from the assets ("hold to collect contractual cash flows",) or
- to collect both the contractual cash flows and the cash flows arising from the sale of assets ("hold to collect contractual cash flows and sell") or,
- if neither of (a) and (b) is applicable, the financial assets are classified as part of "other" business model and measured at FVTPL.

Business model is determined for a group of assets (on a portfolio level) based on all relevant evidence about the activities that the Group / Company undertakes to achieve the objective set out for the portfolio available at the date of the assessment. Factors considered by the Group / Company in determining the business model include the purpose and composition of a portfolio, past experience on how the cash flows for the respective assets were collected, how risks are assessed and managed and how the assets' performance is assessed. Refer to Note 2 (16) for critical judgements applied by the Group / Company in determining the business models for its financial assets.

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

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

Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the financial asset is classified and measured at FVTPL. The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed. Refer to Note 2 (16) for critical judgements applied by the Group / Company in performing the SPPI test for its financial assets.

(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.

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

Credit loss allowance is recognised on financial assets classified at AC and FVOCI as well as on non-financial assets such as grants that are classified at AC. Credit loss allowance for the exposures arising from loan commitments, grant commitments and financial guarantee contracts are recognized as provisions. The provisioning principles for expected credit losses arising from off-balance sheet financial commitments and contingent liabilities are consistent with the principles and methods applied for on-balance sheet exposures.

Credit loss allowance is measured based on expected credit loss model. Expected credit losses ("ECL") reflect an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes and considering all reasonable and supportable information, including past events, current conditions and reasonable and supportable forecasts of future economic conditions that could affect the expected collectability of the future cash flows available without undue cost or effort at the reporting date. Such allowance is measured according to whether there has been a significant increase in credit risk since initial recognition of an instrument.

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

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

Stage 3 includes financial instruments which are credit-impaired.

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

Measurement of expected credit losses

The Group / Company measures the ECL for financial assets that are individually significant and collectively for financial assets that are not individually significant and share similar credit risk characteristics.

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

The ECL are determined by projecting the PD, LGD and EAD for each future month over the expected lifetime of an exposure. The three parameters are multiplied together and adjusted for future information. This effectively calculates monthly ECL, which are discounted back to the reporting date using the original effective interest rate and summed. The sum of all months over the remaining expected lifetime results in the lifetime ECL and the sum of the next 12 months results in the 12-month ECL. The Group / Company uses single scenario expected cash flow method with overlays for alternative scenarios for macroeconomic factors such as year-on-year change in gross domestic product and real estate prices. PDs and LGDs are derived from historic performance of financial assets. 'Point in time' probabilities (PDs in the current economic conditions, as opposed to economic cycle-neutral 'through the cycle' PDs) are used for PDs.

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

Definition of default and credit-impaired financial assets

Default is an input to the PD and LGD, which affects the measurement of the ECL. Financial assets which are credit-impaired are included in Stage 3. Default and credit-impaired are triggered when an exposure (principal or interest payment) is more than 90 days past due, an exposure is declared in bankruptcy or similar order, a non-performing forbearance measure is applied towards the borrower or there is an assessment that the borrower is unlikely to pay its obligations as agreed. When assessing whether a borrower is unlikely to pay its obligations, the Group / Company takes into account both qualitative and quantitative factors including, but not limited to the overdue status or non-payment on other obligations of the same borrower, expected bankruptcy and breaches of financial covenants. An instrument is no longer considered to be in default or credit-

2 Accounting Policies (cont'd)

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

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

Determining a significant increase in credit risk since initial recognition

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.

The Group / Company assesses changes in credit risk at the individual financial instrument level. A financial instrument is no longer considered to have experienced a significant increase in credit risk when none of the indicators of SICR are present anymore.

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

Expected lifetime

The lifetime of a financial instrument is relevant for both the assessment of significant increase in credit risk, which considers changes in the probability of default over the expected lifetime, and the measurement of the lifetime ECL. The expected lifetime is limited to contractual period specified in respective agreement. All contractual terms are considered when determining the expected lifetime, including prepayment options and extension and rollover options that are binding to the Group / Company.

Modifications

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

Estimates

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

Presentation of credit impairments

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

For loan commitments, grant commitments and financial guarantee contracts, such allowance is presented as a liability (provisions) 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. Write-offs are recognised when the amount of loss is ultimately determined and represent the amount before the utilisation of any previous impairment allowances. Any subsequent recoveries of write-offs or credit loss allowance are recognised in profit or loss statement.

2 Accounting Policies (cont'd)

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

(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. The Group assesses whether the modification of contractual cash flows is substantial considering, among other, any new contractual terms that substantially affect the risk profile of the asset, significant change in interest rate, change in the currency denomination, new collateral or credit enhancement that significantly affects the credit risk associated with the asset or a significant extension of a loan when the borrower is not in financial difficulties.

If the modified terms are substantially different, the rights to cash flows from the original asset expire and the Group / Company derecognises the original financial asset and recognises a new asset at its fair value. The date of renegotiation is considered to be the date of initial recognition for subsequent impairment calculation purposes, including determining whether a SICR has occurred. The Group / Company also assesses whether the new asset meets the SPPI criterion. Any difference between the carrying amount of the original asset derecognised and fair value of the new substantially modified asset is recognised in profit or loss.

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 difference in present value of the expected cashflows is not significant, the modified asset is not substantially different from the original asset and the modification does not result in derecognition. The Group / Company recalculates the gross carrying amount by discounting the modified contractual cash flows by the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit impaired (POCI) financial assets), and recognises a modification gain or loss in profit or loss.

(x) Financial liabilities – measurement categories

Financial liabilities are classified as subsequently measured at AC, except for financial liabilities at FVTPL – this classification is applied to derivatives and support programme funding.

(xi) Financial liabilities – derecognition

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

(xii) Due from credit institutions and the Treasury

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

2 Accounting Policies (cont'd)

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

(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. Derivatives are recognized as assets when their fair value is positive and as liabilities when the their 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 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.

Investment 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 the funds issued. Direct lending products include Reverse rent transaction,
- indirect lending products, i.e., the Group / Company issues 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 the funds. The Group / Company recognizes expected credit loss either (i) resulting from solvency problems of the borrower / end beneficiary solely or (ii) resulting from both solvency problems of the intermediary and solvency problems of the borrower / 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.

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 (on off-balance sheet) of the amount at initial recognition plus the amount of the loss allowance (on-balance sheet) determined based on the ECL model, unless the commitment is to provide a loan at an interest rate below the market rate, in which case the measurement is at the higher of these two amounts.

The carrying amount of the loan commitments is presented as a liability within off-balance sheet.

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

2 Accounting Policies (cont'd)

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

Reverse rent

Reverse rent is agricultural land purchase transaction with rent and repurchase rights for the seller of the property established by agreement. It was concluded that the reverse rent transactions embraced the repurchase option for the lessee that could be exercised nearly always. From IFRS point of view it means that such a rent falls outside the definition of rent as, in essence, the usage rights of the asset are not transferred and remain with the lessee. The nature of reverse rent transaction corresponds to the definition of financial asset where the purchase price is a long-term loan issued to the lessee (right to get the money in the future), whereas land functions as a collateral. Following the same practice applied to the other loans the management assesses impairment at each reporting date. A part of the impairment assessment and calculation is linked to evaluation of the collateral.

Repossessed collateral

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

(xvi) Grants

The Group / Company acts as an agent when servicing grants. The Group / Company advances grants in instalments to the customers. The grant agreements between the Company and funding providers (grantors) stipulates that the Group / Company will provide grants to the customers in advance, and will submit quarterly reports to grantors on disbursed grants.

Grants that are advanced to the customers are recognized as non-financial assets at amortized cost. Upon approval by the grantor for the eligibility of the disbursed grants, the advanced grants are derecognized as non-financial assets and the related support programme funding balances are reduced by the approved amount. Grants committed to the customers, but not yet disbursed are accounted for on the Group's / Company's off-balance sheet.

Impairment allowances are made for expected credit losses for both advanced grants recognized as non-financial assets and grant commitments.

(xvii) Financial guarantees

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

The outstanding amount of the financial guarantees contracts is presented as a liability within off-balance sheet (Note 38).

Payments, which are made by the Group / Company, to reimburse the holder of the guarantee for a loss are included in Other assets (Note 25).

(xviii) Financial liabilities carried at amortised cost

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

(xix) Issued debt securities

The Group / Company recognises issued debt securities at the date when the respective funds are received. After initial recognition when these financial liabilities are initially recognised at fair value including direct transaction costs, those are subsequently carried at amortised cost using the effective interest method. When issued debt securities are sold at a discount or premium, the difference is amortised applying the effective interest method until the debt matures and charged to the statement of comprehensive income as interest expense.

2 Accounting Policies (cont'd)

(xx) Financial liabilities designated at FVTPL

The Group / Company designates liabilities, for example, support programme funding at FVTPL at initial recognition. Gains and losses on such liabilities are presented in profit or loss. See Note 2 (15) for details.

(6) Investments in venture capital funds

The Group's / Company's investments in venture capital funds (VCF) are treated as Investments in Associates, Investments in Baltic Innovation Fund, Investments in Subsidiaries and Other Investments. According to IFRS 9, the above investments become financial assets held either at fair value through other comprehensive income or at fair value through profit or loss. In neither case, there is an option of stating the said assets at cost, unless the cost is estimated to be close to its fair value. Consequently, in calculating net asset value (NAV) for the VCFs, fair values of these investments must be taken into account. The Group's / Company's financial statements present NAV taking account of the funds' fair value adjustments, i.e. fair values of investments in equity instruments. The details of the accounting treatment of each type of the investment are described below.

(i) Investments in Associates, except for Baltic Innovation Fund

The Group's / Company's investments in Associates that include investments in ventures capital funds and AIF "Altum capital fund" are stated under the equity method, except for investments in Baltic Innovation Fund.

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

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

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

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

The Group / Company use the Risk Coverage Reserve (see Note 2 (16) (i)) which is part of the support programme funding to compensate the change in the values of venture capital funds. The risk coverage mechanism is attributable to the 2nd and 3rd generation

venture capital funds, such as BaltCap Latvia Venture Capital Fund, Imprimatur Capital Technology Venture Fund, Imprimatur Capital Seed Fund, ZGI-3 fund, FlyCap Investment Fund I un Expansion Capital Fund, as well as to the part of 4th generation venture capital funds such as Overkill Ventures Fund II, Buildit Latvia Seed Fund, Commercialization Reactor Seed Fund, ZGI-4 fund and FlyCap Mezzanine Fund II.

The Group / Company use the Portfolio Loss Reserve (see Note 2 (16) (i)) to compensate the change in the values of AIF "Altum capital fund".

(ii) Investments in the Baltic Innovation Fund

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

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

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

The Group / Company use part of the support programme funding, i.e., the Risk Coverage Reserve (see Note 2 (16) (i)) to compensate the change in the values of venture capital funds. Since December 2017 the said risk coverage mechanism is attributable also to the Baltic Innovation Fund capped for amount of EUR 2 million.

2 Accounting Policies (cont'd)

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

(iii) Investments in subsidiaries

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

The carrying value of investment in Subsidiaries includes changes in the Company's NAV in the subsidiary since acquisition date. Changes in the NAV from operational results of the VCF are included in the Company's profit or loss statement as a share of gain or (loss) of investment in subsidiaries.

(iv) Investments of subsidiaries in underlying undertakings

Investments of subsidiaries in underlying undertakings 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 return on such investment.

(v) Other Investments

Other investments include investments in the Baltic Innovation Fund II and investments in the Three Seas Initiative Investment Fund.

Other investments initially are recognised at acquisition cost. Other investments are measured at FVTPL

(vi) Other accounting issues

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

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

- management fees of the financial intermediaries for implementation of the financial engineering instruments (see Notes 6, 7 and 31). This coverage mechanism is valid for the all generation VCFs (see Note 17) as well as for Baltic Innovation Fund from the December 2017.
- value impairment of the investments of the financial engineering instruments due to valuation or revaluation (see Note 17). This coverage mechanism is valid for the all generation VCFs (see Note 17).

(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, investments in alternative investment funds, and financial liabilities such as Support Programme funding, at fair value at each balance sheet date. The information about financial and non-financial assets and liabilities, which are measured at fair value or which values are disclosed, are summarised in the following notes:

Disclosures for valuation methods, significant estimates and assumptions	Note 2 (5), 2 (6), 2 (8), 2 (9), 2 (15), 2 (16)
Quantitative disclosures of fair value measurement hierarchy	Note 41
Investment property	Note 2 (9) item (iv)
Financial instruments including those carried at amortised cost	Note 2 (5)

(8) Off-setting financial instruments

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

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

(i) Intangible assets

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

(ii) Property, plant and equipment and depreciation

All property, plant and equipment are stated at historical cost less accumulated depreciation and impairment, if any.

Depreciation is provided using the straight-line method to write off the cost of each asset to its residual value over the estimated useful life of the asset. The assets' residual values and useful live are reviewed, and adjusted if appropriate, at each balance sheet date.

The annual depreciation rates applied are as follows:

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

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Property, plant and equipment are periodically reviewed for impairment.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the asset will flow to the Group / Company and the cost of the asset can be measured reliably.

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

2 Accounting Policies (cont'd)

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

(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.

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 it meets the definition of an investment property.

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

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

(v) Repossessed collateral (included in Other assets)

Repossessed collateral includes movable assets, land and buildings that have been acquired in the debt collection process for the purpose to hold them and sell in an ordinary course of business. Inventory is reported at the lower of cost or net realisable value. Net realizable value is a selling price during an ordinary course of business of the Group / Company less selling expenses.

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

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

(vi) Assets held for sale

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

2 Accounting Policies (cont'd)

(10) Leases

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

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

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

Company assesses whether:

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

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

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

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

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

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

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

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

Lease liabilities are subsequently measured when there is a change in future lease payments due to changes of an index or a rate, when the Group's / Company's estimate of expected payments changes, or when the Group / Company changes its estimate of the purchase option, lease term modification due to extension or termination. When a lease liability is subsequently

2 Accounting Policies (cont'd)

(10) Leases (cont'd)

measured, the corresponding adjustment is made to the carrying amount of the right–of–use asset or recognised in the statement of comprehensive income if the carrying amount of the right–of–use asset decreases to zero.

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

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

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

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

(11) Corporate income tax

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

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

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

In accordance with Paragraph 2 of Article 15 of the Development Finance Institution Law, the Group's / Company's profit for the period is transferred to reserves in order to ensure financial stability and sustainable operation of the Group / Company as well as to mitigate the risks of approved support programmes~~.~~

(12) Provisions

The Group's / Company's contingent liabilities and off-balance sheet items consist of financial guarantees, loan commitments, grant commitments as well as commitment to associates and other investments (see Note 32). Provisions include impairment allowances for expected credit losses for loan commitments, grant commitments and financial guarantees are presented in Note 2 (5) item (vi).

(13) Vacation reserve

Accruals for employee leaves are recognised on an accrual basis. The volume of accrued liabilities for leaves is calculated, based on the number of leave days earned, but unused by the staff members of the Group / Company, and following the principles listed below:

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

2 Accounting Policies (cont'd)

(14) Employee benefits

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

(15) Support programme funding

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

The fair value of the liability established in this manner as of 1 January 2018 consists of the already carried Support programme funding coupled with the state aid portion adjusted for the part of the future cash flow pertaining of additional payments / to reduction of additional payments due to value appreciation or impairment of the associated assets, i.e. the liability is recognised to the extent that corresponds to the liability's repayment amount established for the Group / Company.

When calculating the fair value of the liabilities of Support programme funding as at 1 January 2018, an adjustment of EUR (8,449) thousand was made. As a result, EUR (7,465) thousand were attributed to the amount of the liabilities and EUR (984) thousand – to the retained earnings of the previous years. Amount of EUR (7,465) thousand attributed to the amount of the liabilities consists of state aid portion reclassified back to Support programme funding in amount of EUR 4,877 thousand and fair value correction in amount of EUR (12,342) thousand as described above.

Support programme funding includes the Risk Coverage Reserve that can be used for covering the Group's / Company's credit risk losses. For accounting of Risk Coverage Reserve see Note 2 (16) item (i). See detailed information on Risk Coverage Reserve also in Note 2 (4) item (ii), Note 2 (5) item (i), Note 2 (6) items (i) and (ii) and Note 31.

(16) Critical accounting estimates and judgements

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

(i) Expected credit losses

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

2 Accounting Policies (cont'd)

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

(i) Expected credit losses (cont'd)

In assessment of expected loss for the programme the Group / Company evaluates incorporated credit risk considering the Group's / Company's activities in high-risk areas operational risk and other risks like market risks. Since the Group's / Company's client in majority of support programmes is not entitled to cover the full charge of expected credit risk in, then 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 and as such is earmarked for the credit risk loss coverage. before implementation of that programme. 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 Specific reserves for support programmes and classified as Portfolio Loss reserve (see Note 37), or accounted separately as provisions for risk coverage (Risk Coverage reserve) classified within the liabilities (see Note 31).

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.

(ii) 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 31. Further details disclosed in Note 2 (5) item (vi).

Covid-19 impact

The Group / Company participated in Covid-19 loan moratoria within which upon qualifying client request a deferral of loan principal repayment for a short period of time is allowed. For those clients who have got loan repayment relief by the Group / Company between March 12th, 2020 and the day the moratorium came into force (which was 5 May 2020), the Group / Company has applied the same conditions as in accordance with the moratorium by the Finance Latvia Association. Similarly, individual requests to defer principal repayment for short period of time which were not formally requested under Covid-19 moratoria after 30 September 2020, but were applied and in their nature were similar, were ~~also~~ excluded. Loan principal payment deferrals requested within Covid-19 moratoria framework are exempt from events triggering re-assessment of loan staging.. In all cases other risk parameters (including, but not limited to days past due and covenant breaches) were monitored and loan staging applied according to standard procedure.

The Group / Company has recognised uncertainty regarding duration and severity of Covid-19 situation and associated possible disruptions to the economy and customers of the Group / Company. Consequently, a prudent new impairment overlay for Stage 1 customer loan exposures was introduced. The impairment overlay represents an additional loss reserve over the modelled ECL amounts to account for other economic uncertainties. It addresses increased uncertainty regarding the forward-looking economic conditions in the current Covid-19 situation. Such future uncertainties which "Point in time" ECL models calibrated on historical data, despite being adjusted with forward looking information, might not be fully capturing in the current unusual environment. As of 31 December 2020, impairment overlay of EUR 309 thousand for the Group / Company has been recognised to address these modelling uncertainties.

2 Accounting Policies (cont'd)

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

(iii) Impairment losses of loans (cont'd)

The Group / Company has implemented forward-looking information in the measurement of expected credit losses. The forward-looking adjustment incorporates two economic scenarios with distinct economic consequences: a base case scenario which comprises most likely future economic development and a less likely adverse scenario. The GDP annual growth rates, which are derived from a combination of external macroeconomic forecasts and which are one of the key variables, are summarized below:

	2020	2021	2022
GDP annual growth rate, in %			
Base case scenario *	(5.85)	5.10	4.05
Adverse scenario **	(6.70)	1.30	4.80
Weigthed average ***	**(6.02)**	**4.34**	**4.20**

* Base case scenario incorporates combination of two external scenarios: (i) the Minsitry of Finance's macroeconomic development scenario (published on 28 August 2020), which is the basis for the state budget for 2021 and the medium-term budget framework for 2021-2023. year – GDP was forecasted to fall by 7.0% in 2020, while economic growth was projected to recover by 5.1% in 2021, with GDP growth stabilizing 3,1% in 2022 and 2023t, and (ii) the Bank of Latvia's forecast presented at press conference held on 29 September 2020 - GDP was forecasted to fall by 4.7% in 2020, while economic growth was projected to recover by 5.1% in 2021, with GDP growth stabilizing 5.0% in 2022. Weigthing of 50% was applied to each base case scenario forecasts – the Ministry of Finance and the Bank of Latvia.

** Adverse scenario includes the Bank of Latvia's forecast presented at press conference held on 29 September 2020 - GDP was forecasted to fall by 6.7% in 2020, while economic growth was projected to recover by 1.3% in 2021, with GDP growth stabilizing 4.8% in 2022

*** Weigthing of 80% was applied to base case scenario and 20% was applied to adverse case scenario. GDP growth rate forecast for 2020 is used in calculation of the 12-months ECL, while GDP growth rate forecast for 2021 and 2022 is used calculation of the life-time ECL

(iv) Fair value of investments in the VCF

The Group's / Company's management checks regularly that the value of the underlying investments of the VCFs is properly reflected. If the information about investments' evaluation is not sufficient or does not confirm the value, the management needs to make assumptions about the fair value of the VCFs.

(v) 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.

(vi) 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 2020 and 31 December 2019 for investment properties. Investment property consists of agricultural land.

2 Accounting Policies (cont'd)

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

(v) Revaluation of investment properties (cont'd)

Comparable transaction method is applied mostly for investment property. More information is provided in Notes 2 (9) item (iv) and Note 21.

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

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

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

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

(viii) Classification of the 4th generation VCFs

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

Upon assessment of all the factors, the rights and obligations arising under the agreements demonstrate that those VCFs over which the Group / Company exercises the sole right of dismissing the VCFs' managers without any additional reasons should be treated as the subsidiaries of the Group / Company as the Group / Company has power over the investment object. While the investments in these VCFs over which the Group / Company exercises no such right should be treated as associates over which the Group / Company has no control, but significant influence. The management of the Group / Company is aware that on most occasions the circumstances that point to the power of the Group / Company over the investment will cease to exist within two years once the amount of the minimum capital investment is reached. For this reason, once the term has expired, the management of the Group / Company will do a repeated assessment of the presence of the control indicators.

(ix) Monitoring value of investments in VCFs

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

2 Accounting Policies (cont'd)

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

(viii) Monitoring value of investments in VCFs (cont'd)

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

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

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

If there is evidence of value decrease, the Group / Company calculates decrease of the VCFs' NAV and recognises the loss in the profit or loss.

(x) 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.

(xi) 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.

2 Accounting Policies (cont'd)

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

(x) Agent vs Principal (cont'd)

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.

(xii) Loans below market rate

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

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

Further details on guarantees are disclosed in Notes 13 and 38.

The funding received from the state can be classified into three categories – equity financing (about guarantees see Note 2 (5) item (xviii), Notes 13 and 38), loans received from the State Treasury (see Notes 19 and 31) and support programmes funding (see Note 31).

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

(i) Initial application of new amendments to the existing standards effective for the current reporting period

The following amendments to the existing standards issued by the International Accounting Standards Board (IASB) and adopted by the EU are effective for the current reporting period:

- **Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"** - Definition of Material - adopted by the EU on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020),
- **Amendments to IFRS 3 "Business Combinations"** - Definition of a Business - adopted by the EU on 21 April 2020 (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period),
- **Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures"** - Interest Rate Benchmark Reform - adopted by the EU on 15 January 2020 (effective for annual periods beginning on or after 1 January 2020),
- **Amendments to IFRS 16 "Leases"** - Covid-19-Related Rent Concessions (adopted by the EU on 9 October 2020 and effective at the latest, as from 1 June 2020 for financial years starting on or after 1 January 2020),

(i) Initial application of new amendments to the existing standards effective for the current reporting period (cont'd)

Specific disclosures: In the reporting period in which a lessee first applies Covid-19-Related Rent Concessions, a lessee is required to disclose the information required by paragraph 28 of IAS 8 – except of point (f) [IFRS 16.C20B]. Additionally, if a lessee applies the practical expedient in IFRS 16.46A, the lessee shall disclose [IFRS 16.60A]:

(a) that it has applied the practical expedient to all rent concessions that meet the conditions in IFRS 16.46B or, if not applied to all such rent concessions, information about the nature of the contracts to which it has applied the practical expedient; and

2 Accounting Policies (cont'd)

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

(b) the amount recognised in profit or loss for the reporting period to reflect changes in lease payments that arise from rent concessions to which the lessee has applied the practical expedient in IFRS 16.46A.

- **Amendments to References to the Conceptual Framework in IFRS Standards** adopted by the EU on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020).

The adoption of amendments to the existing standards has not led to any material (where the implementation impact was or is expected to be reasonably material it is disclosed) changes in the Group's / Company's financial statements.

(iii) Standards and amendments to the existing standards issued by IASB and adopted by the EU but not yet effective

At the date of authorisation of these financial statements, the following amendments to the existing standards were issued by IASB and adopted by the EU and which are not yet effective:

- **Amendments to IFRS 4 Insurance Contracts "Extension of the Temporary Exemption from Applying IFRS 9"** adopted by the EU on 16 December 2020 (the expiry date for the temporary exemption from IFRS 9 was extended from 1 January 2021 to annual periods beginning on or after 1 January 2023),
- **Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement", IFRS 7 "Financial Instruments: Disclosures", IFRS 4 "Insurance Contracts" and IFRS 16 "Leases"** - Interest Rate Benchmark Reform — Phase 2 adopted by the EU on 13 January 2021 (effective for annual periods beginning on or after 1 January 2021).

Most of the Group's / Company's floating-rate loans to customers are indexed to Euribor interest rate. The reform of Euribor is now complete and consisted of a change to the underlying calculation methodology. The calculation methodology of Euribor changed during 2019. Market participants are allowed to continue to use Euribor for both existing and new contracts. The Group / Company expects that Euribor will continue to exist as a benchmark rate for the foreseeable future. Thus, the Group / Company does not consider contracts indexed to the Euribor benchmark interest rate to be directly affected by uncertainty about interbank offered rate (IBOR) reform. The Group / Company as of 31 December 2020 has no outstanding derivative exposures or liabilities which would be affected by IBOR reform

(iii) New standards and amendments to the existing standards issued by IASB but not yet adopted by the EU

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards and amendments to the existing standards, which were not endorsed for use in EU as at [date of publication of financial statements] (the effective dates stated below is for IFRS as issued by IASB):

- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- **Amendments to IAS 1 "Presentation of Financial Statements"** - Classification of Liabilities as Current or Non-Current (effective for annual periods beginning on or after 1 January 2023),
- **Amendments to IAS 1 "Presentation of Financial Statements"** - Disclosure of Accounting Policies (effective for annual periods beginning on or after 1 January 2023),
- **Amendments to IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"** - Definition of Accounting Estimates (effective for annual periods beginning on or after 1 January 2023),
- **Amendments to IAS 16 "Property, Plant and Equipment"** - Proceeds before Intended Use (effective for annual periods beginning on or after 1 January 2022),
- **Amendments to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"** - Onerous Contracts — Cost of Fulfilling a Contract (effective for annual periods beginning on or after 1 January 2022),
- **Amendments to IFRS 3 "Business Combinations"** - Reference to the Conceptual Framework with amendments to IFRS 3 (effective for annual periods beginning on or after 1 January 2022),

2 Accounting Policies (cont'd)

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

- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),
- **Amendments to various standards due to "Improvements to IFRSs (cycle 2018 -2020)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 9, IFRS 16 and IAS 41) primarily with a view to removing inconsistencies and clarifying wording (The amendments to IFRS 1, IFRS 9 and IAS 41 are effective for annual periods beginning on or after 1 January 2022. The amendment to IFRS 16 only regards an illustrative example, so no effective date is stated.).

The Group / Company makes further assessment on the impact of these new standards and amendments, but the Group / Company anticipates that the adoption of these new standards and amendments to the existing standards will have no material impact on the financial statements of the Group / Company in the period of initial application.

3 Risk Management

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

The following major risk management principles are followed:

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

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

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

(1) Credit Risk

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

(i) Credit Risk Governance

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

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

(ii) Credit Risk Assessment and Monitoring

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

To maintain a well-diversified credit portfolio with a low-risk profile and to find a favourable balance between risk and return, the Group / Company works continuously to understand the customers and their market conditions.

When the Group / Company considers a credit application, a thorough analysis is performed which includes the customer's or cooperation partner's capacity and willingness to repay the new credit as well as other credits.

3 Risk Management (cont'd)

(1) Credit Risk (cont'd)

A customer's or cooperation partner's cash flow and solvency are always key variables when deciding on credit and the Group / Company strives to obtain adequate collateral.

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

(iii) Credit Risk Mitigation

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

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

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

Internal rating categories	A	B	C	D	E	F	G	H	Withdrawn rating	Total
Total gross loans	166	25 773	32 949	55 825	48 562	32 890	13 785	2 905	27 557	240 412
Impairment allowances	(1)	(213)	(1 077)	(1 912)	(3 458)	(4 907)	(3 680)	(850)	(4 185)	(20 283)
Total net loans as at 31 December 2019	**165**	**25 560**	**31 872**	**53 913**	**45 104**	**27 983**	**10 105**	**2 055**	**23 372**	**220 129**
Total gross loans	1 339	37 997	44 937	80 624	94 630	29 491	13 219	2 415	29 329	333 981
Impairment allowances	(26)	(425)	(1 326)	(3 219)	(5 391)	(4 831)	(2 518)	(666)	(2 311)	(20 713)
Total net loans as at 31 December 2020	**1 313**	**37 572**	**43 611**	**77 405**	**89 239**	**24 660**	**10 701**	**1 749**	**27 018**	**313 268**

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

Internal rating categories	A	B	C	D	E	F	G	H	Withdrawn rating	Total
Total gross outstanding guarantees	913	17 025	37 806	35 370	26 933	12 157	8 580	1 617	143 831	284 232
Impairment allowances *	(10)	(1 405)	(3 422)	(3 231)	(2 213)	(2 902)	(1 220)	(729)	(15 475)	(30 607)
Total net outstanding guarantees as at 31 December 2019	**903**	**15 620**	**34 384**	**32 139**	**24 720**	**9 255**	**7 360**	**888**	**128 356**	**253 625**
Total gross outstanding guarantees	907	18 082	44 996	53 817	50 424	12 843	4 385	1 623	172 528	359 605
Impairment allowances *	(15)	(775)	(2 891)	(3 755)	(5 532)	(1 235)	(584)	(632)	(15 994)	(31 413)
Total net outstanding guarantees as at 31 December 2020	**892**	**17 307**	**42 105**	**50 062**	**44 892**	**11 608**	**3 801**	**991**	**156 534**	**328 192**

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

3 Risk Management (cont'd)

(1) Credit Risk (cont'd)

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

	Stage 1		Stage 2		Stage 3		Total	
	31.12.2020.	31.12.2019.	31.12.2020.	31.12.2019.	31.12.2020.	31.12.2019.	31.12.2020.	31.12.2019.
Financial assets at AC								
Due from credit institutions and the Treasury	359 949	181 201	-	-	-	-	359 949	181 201
Impairment allowances	-	(2)	-	-	-	-	-	(2)
Total net due from credit institutions and the Treasury	**359 949**	**181 199**	**-**	**-**	**-**	**-**	**359 949**	**181 199**
Investment securities	407	439	-	-	3 433	3 926	3 840	4 365
Impairment allowances	-	-	-	-	(3 399)	(3 887)	(3 399)	(3 887)
Total net investment securities	**407**	**439**	**-**	**-**	**34**	**39**	**441**	**478**
Loans and receivables	274 294	186 175	32 012	18 239	27 675	35 998	333 981	240 412
Impairment allowances *	(6 966)	(2 548)	(3 506)	(2 646)	(10 240)	(15 089)	(20 712)	(20 283)
Total net loans and receivables	**267 328**	**183 627**	**28 506**	**15 593**	**17 435**	**20 909**	**313 269**	**220 129**
Grants	31 282	17 198	-	-	-	-	31 282	17 198
Impairment allowances	(175)	(12)	-	-	-	-	(175)	(12)
Total net grants	**31 107**	**17 186**	**-**	**-**	**-**	**-**	**31 107**	**17 186**
Other financial assets	2 507	1 830	-	-	3 096	3 341	5 603	5 171
Impairment allowances	(34)	(113)	-	-	(1 926)	(2 769)	(1 960)	(2 882)
Total net other financial assets	**2 473**	**1 717**	**-**	**-**	**1 170**	**572**	**3 643**	**2 289**
Total financial assets at AC	**668 439**	**386 843**	**32 012**	**18 239**	**34 204**	**43 265**	**734 655**	**448 347**
Impairment allowances	(7 175)	(2 675)	(3 506)	(2 646)	(15 565)	(21 745)	(26 246)	(27 066)
Total net financial assets at AC	**661 264**	**384 168**	**28 506**	**15 593**	**18 639**	**21 520**	**708 409**	**421 281**
Financial assets at FVOCI								
Investment securities	36 958	47 941	-	-	-	-	36 958	47 941
Impairment allowances	-	-	-	-	-	-	-	-
Total net investment securities	**36 958**	**47 941**	**-**	**-**	**-**	**-**	**36 958**	**47 941**
Total financial assets at FVOCI	**36 958**	**47 941**	**-**	**-**	**-**	**-**	**36 958**	**47 941**
Impairment allowances	-	-	-	-	-	-	-	-
Total net financial assets at FVOCI	**36 958**	**47 941**	**-**	**-**	**-**	**-**	**36 958**	**47 941**
Off-balance sheet items and contingent liabilities								
Outstanding guarantees	348 115	274 989	6 995	2 098	4 495	7 145	359 605	284 232
Impairment allowances *	(27 769)	(24 711)	(817)	(356)	(2 827)	(5 540)	(31 413)	(30 607)
Total net outstanding guarantees	**320 346**	**250 278**	**6 178**	**1 742**	**1 668**	**1 605**	**328 192**	**253 625**
Loan commitments	36 514	18 867	2 834	84	-	-	39 348	18 951
Impairment allowances *	(949)	(455)	(65)	(3)	-	-	(1 014)	(458)
Total net loan commitments	**35 565**	**18 412**	**2 769**	**81**	**-**	**-**	**38 334**	**18 493**
Grant commitments	6 798	7 726	-	-	-	-	6 798	7 726
Impairment allowances	(74)	(11)	-	-	-	-	(74)	(11)
Total net grant commitments	**6 724**	**7 715**	**-**	**-**	**-**	**-**	**6 724**	**7 715**
Total off-balance items and contingent liabilities	**391 427**	**301 582**	**9 829**	**2 182**	**4 495**	**7 145**	**405 751**	**310 909**
Impairment allowances	(28 792)	(25 177)	(882)	(359)	(2 827)	(5 540)	(32 501)	(31 076)
Total net off-balance items and contingent liabilities	**362 635**	**276 405**	**8 947**	**1 823**	**1 668**	**1 605**	**373 250**	**279 833**

* Includes impairment allowances of EUR 6,244 thousand covered by Portfolio Loss Reserve (Special Reserve Capital) upon approval of the 2020 annual report. In the distribution of the 2020 profit, it will be directly attributed to the reduction of the Portfolio Loss Reserve, thus the 2020 result which will be allocated to Reserves will improve. Additional information available in Note 37.

3 Risk Management (cont'd)

(1) Credit Risk (cont'd)

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

	Stage 1		Stage 2		Stage 3		Total	
	31.12.2020.	31.12.2019.	31.12.2020.	31.12.2019.	31.12.2020.	31.12.2019.	31.12.2020.	31.12.2019.
Financial assets at AC								
Due from credit institutions and the Treasury	359 949	181 049	-	-	-	-	359 949	181 049
Impairment allowances	-	(2)	-	-	-	-	-	(2)
Total net due from credit institutions and the Treasury	**359 949**	**181 047**	**-**	**-**	**-**	**-**	**359 949**	**181 047**
Investment securities	407	439	-	-	3 433	3 926	3 840	4 365
Impairment allowances	-	-	-	-	(3 399)	(3 887)	(3 399)	(3 887)
Total net investment securities	**407**	**439**	**-**	**-**	**34**	**39**	**441**	**478**
Loans and receivables	274 294	186 175	32 012	18 239	27 675	35 998	333 981	240 412
Impairment allowances *	(6 966)	(2 548)	(3 506)	(2 646)	(10 240)	(15 089)	(20 712)	(20 283)
Total net loans and receivables	**267 328**	**183 627**	**28 506**	**15 593**	**17 435**	**20 909**	**313 269**	**220 129**
Grants	31 282	17 198	-	-	-	-	31 282	17 198
Impairment allowances	(175)	(12)	-	-	-	-	(175)	(12)
Total net grants	**31 107**	**17 186**	**-**	**-**	**-**	**-**	**31 107**	**17 186**
Other financial assets	2 363	1 830	-	-	3 205	3 341	5 568	5 171
Impairment allowances	(34)	(113)	-	-	(1 926)	(2 769)	(1 960)	(2 882)
Total net other financial assets	**2 329**	**1 717**	**-**	**-**	**1 279**	**572**	**3 608**	**2 289**
Total financial assets at AC	**668 295**	**386 691**	**32 012**	**18 239**	**34 313**	**43 265**	**734 620**	**448 195**
Impairment allowances	(7 175)	(2 675)	(3 506)	(2 646)	(15 565)	(21 745)	(26 246)	(27 066)
Total net financial assets at AC	**661 120**	**384 016**	**28 506**	**15 593**	**18 748**	**21 520**	**708 374**	**421 129**
Financial assets at FVOCI								
Investment securities	36 958	47 941	-	-	-	-	36 958	47 941
Impairment allowances	-	-	-	-	-	-	-	-
Total net investment securities	**36 958**	**47 941**	**-**	**-**	**-**	**-**	**36 958**	**47 941**
Total financial assets at FVOCI	**36 958**	**47 941**	**-**	**-**	**-**	**-**	**36 958**	**47 941**
Impairment allowances	-	-	-	-	-	-	-	-
Total net financial assets at FVOCI	**36 958**	**47 941**	**-**	**-**	**-**	**-**	**36 958**	**47 941**
Off-balance sheet items and contingent liabilities								
Outstanding guarantees	348 115	274 989	6 995	2 098	4 495	7 145	359 605	284 232
Impairment allowances *	(27 769)	(24 711)	(817)	(356)	(2 827)	(5 540)	(31 413)	(30 607)
Total net outstanding guarantees	**320 346**	**250 278**	**6 178**	**1 742**	**1 668**	**1 605**	**328 192**	**253 625**
Loan commitments	36 514	18 867	2 834	84	-	-	39 348	18 951
Impairment allowances *	(949)	(455)	(65)	(3)	-	-	(1 014)	(458)
Total net loan commitments	**35 565**	**18 412**	**2 769**	**81**	**-**	**-**	**38 334**	**18 493**
Grant commitments	6 798	7 726	-	-	-	-	6 798	7 726
Impairment allowances	(74)	(11)	-	-	-	-	(74)	(11)
Total net grant commitments	**6 724**	**7 715**	**-**	**-**	**-**	**-**	**6 724**	**7 715**
Total off-balance items and contingent liabilities	**391 427**	**301 582**	**9 829**	**2 182**	**4 495**	**7 145**	**405 751**	**310 909**
Impairment allowances	(28 792)	(25 177)	(882)	(359)	(2 827)	(5 540)	(32 501)	(31 076)
Total net off-balance items and contingent liabilities	**362 635**	**276 405**	**8 947**	**1 823**	**1 668**	**1 605**	**373 250**	**279 833**

* Includes impairment allowances of EUR 6,244 thousand covered by Portfolio Loss Reserve (Special Reserve Capital) upon approval of the 2020 annual report. In the distribution of the 2020 profit, it will be directly attributed to the reduction of the Portfolio Loss Reserve, thus the 2020 result which will be allocated to Reserves will improve. Additional information available in Note 37.

3 Risk Management (cont'd)

(1) Credit Risk (cont'd)

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

	Credit loss allowance				Gross carrying amount			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
As at 31 December 2019	**2 548**	**2 646**	**15 089**	**20 283**	**186 175**	**18 239**	**35 998**	**240 412**
Movements with impact on credit loss allowance charge for the period:								
Transfers between stages:								
from Stage 1 to Stage 2	(329)	1 016	-	687	(17 884)	16 834	-	(1 050)
to credit impaired (from Stage 1 and Stage 2 to Stage 3)	(22)	(275)	904	607	(2 341)	(2 185)	4 303	(223)
from Stage 3 to Stage 2	-	96	(728)	(632)	-	2 587	(2 972)	(385)
to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	233	(725)	(64)	(556)	5 642	(6 429)	(345)	(1 132)
New originated or purchased	2 316	229	286	2 831	124 328	4 733	522	129 583
Derecognised during the period	(165)	(7)	(856)	(1 028)	(14 100)	(809)	(3 358)	(18 267)
Changes to ECL measurement model assumptions (PD, LGD)	(160)	(56)	(263)	(479)	-	-	-	-
Changes to ECL measurement model assumptions (macroeconomic factors)	2 150	613	88	2 851	-	-	-	-
Other movements	657	261	(374)	544	7	-	-	7
Total movements with impact on credit loss allowance charge for the period:	**4 680**	**1 152**	**(1 007)**	**4 825**	**95 652**	**14 731**	**(1 850)**	**108 533**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	(3 664)	(3 664)	-	-	(3 664)	(3 664)
Foreign exchange gains and losses and other movements	-	-	-	-	-	-	-	-
Change of outstanding balance *	(262)	(292)	(178)	(732)	(7 533)	(958)	(2 809)	(11 300)
Total movements without impact on credit loss allowance charge for the period:	**(262)**	**(292)**	**(3 842)**	**(4 396)**	**(7 533)**	**(958)**	**(6 473)**	**(14 964)**
As at 31 December 2020	**6 966**	**3 506**	**10 240**	**20 712**	**274 294**	**32 012**	**27 675**	**333 981**

* Change of outstanding balnce includes cash flows from repayment of principal

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

	Credit loss allowance				Gross carrying amount			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
As at 31 December 2019	**24 711**	**356**	**5 540**	**30 607**	**274 989**	**2 098**	**7 145**	**284 232**
Movements with impact on credit loss allowance charge for the period:								
Transfers between stages:								
from Stage 1 to Stage 2	(456)	662	-	206	(5 668)	5 437	-	(231)
to credit impaired (from Stage 1 and Stage 2 to Stage 3)	(56)	(78)	1 356	1 222	(409)	(1 648)	1 891	(166)
from Stage 3 to Stage 2	-	1	(8)	(7)	-	7	(8)	(1)
to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	5	(7)	-	(2)	51	(51)	-	-
New originated or purchased	9 745	145	282	10 172	129 080	1 496	437	131 013
Derecognised during the period	(1 563)	(261)	(3 052)	(4 876)	(24 978)	(341)	(4 171)	(29 490)
Changes to ECL measurement model assumptions (PD, LGD)	8	(13)	(448)	(453)	-	-	-	-
Changes to ECL measurement model assumptions (macroeconomic factors)	(9)	15	47	53	-	-	-	-
Other movements	(2)	-	(686)	(688)	(32)	-	(798)	(830)
Total movements with impact on credit loss allowance charge for the period:	**7 672**	**464**	**(2 509)**	**5 627**	**98 044**	**4 900**	**(2 649)**	**100 295**
Movements without impact on credit loss allowance charge for the period:								
Foreign exchange gains and losses and other movements	-	-	-	-	-	-	-	-
Change of outstanding balance *	(4 614)	(3)	(204)	(4 821)	(24 918)	(3)	(1)	(24 922)
Total movements without impact on credit loss allowance charge for the period:	**(4 614)**	**(3)**	**(204)**	**(4 821)**	**(24 918)**	**(3)**	**(1)**	**(24 922)**
As at 31 December 2020	**27 769**	**817**	**2 827**	**31 413**	**348 115**	**6 995**	**4 495**	**359 605**

* Change of outstanding balance includes cash flows from repayment of principal of underlying loan

3 Risk Management (cont'd)

(1) Credit Risk (cont'd)

Aging analysis of the loans issued by the Group / Company, in thousands of euro:

	Group 31.12.2020.	Group 31.12.2019.	Company 31.12.2020.	Company 31.12.2019.
Performing	313 856	208 665	313 856	208 665
Past due up to 30 days	9 339	14 193	9 339	14 193
Past due from 31 to 60 days	445	2 278	445	2 278
Past due from 61 to 90 days	217	230	217	230
Past due over 90 days	10 124	15 045	10 124	15 045
Total gross loans, without interest accrued on the loans	**333 981**	**240 411**	**333 981**	**240 411**
Impairment allowances	(20 713)	(20 283)	(20 713)	(20 283)
Total net loans	**313 268**	**220 128**	**313 268**	**220 128**

The Group / Company has performed sensitivity analysis of the Group's / Company's credit loss allowance for loans and outstanding guarantees using two macro-economic factors in assessment of the ECL – change in real estate prices and change in GDP.

For the purpose of sensitivity analysis, the Group / Company applied the following upward and downward scenarios:

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

Results of the Group's / Company's sensitivity analysis of the Group's / Company's credit loss allowance for loans as at 31 December 2020, thousands of euro:

		Change in GDP		Change in real estate prices	
	Gross carrying amount	+ 1%	- 1%	+ 5%	- 5%
Credit loss allowance for loans	20 713	(381)	377	(331)	289
Total credit loss allowance for loans	**20 713**	**(381)**	**377**	**(331)**	**289**

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

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

Results of the Group's / Company's sensitivity analysis of the Group's / Company's credit loss allowance for outstanding guarantees as at 31 December 2020, thousands of euro:

		Change in GDP		Change in real estate prices	
	Gross carrying amount	+ 1%	- 1%	+ 5%	- 5%
Credit loss allowance for outstanding guarantees	31 413	(148)	155	(17)	18
Total credit loss allowance for loans	**31 413**	**(148)**	**155**	**(17)**	**18**

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

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

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

3 Risk Management (cont'd)

(1) Credit Risk (cont'd)

on the valuations performed by independent valuers.

Information on the value of collateral assessed at fair value and position against net loan portfolio, in thousands of euro :

	Group 31.12.2020.	Group 31.12.2019.	Company 31.12.2020.	Company 31.12.2019.
Real estate (loans)	178 614	155 057	178 614	155 057
Real estate (leaseback)	30 536	14 774	30 536	14 774
Movable property	52 619	25 659	52 619	25 659
Guarantees	3 048	1 672	3 048	1 672
Total collateral	**264 817**	**197 162**	**264 817**	**197 162**
Loan portfolio, gross	333 981	240 411	333 981	240 411
Impairment allowances	(20 713)	(20 283)	(20 713)	(20 283)
Loan portfolio, net	313 268	220 128	313 268	220 128
Exposed	**15.47%**	**10.43%**	**15.47%**	**10.43%**

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

	Group 31.12.2020.	Group 31.12.2019.	Company 31.12.2020.	Company 31.12.2019.
Assets exposed to credit risk				
Due from credit institutions and the Treasury	359 949	181 199	359 949	181 047
Financial assets at fair value through other comprehensive income - investment securities	36 958	47 941	36 958	47 941
Financial assets at amortised cost:				
Investment securities	441	478	441	478
Loans and receivables	313 268	220 129	313 268	220 129
Grants	31 107	17 186	31 107	17 186
Other investments	7 503	250	7 503	250
Investments in associates	47 988	52 293	47 988	52 293
Other assets	3 671	3 570	3 636	3 570
Total	**800 885**	**523 046**	**800 850**	**522 894**
Off-balance sheet items exposed to credit risk				
Contingent liabilities (Note 21)	359 605	284 232	359 605	284 232
Financial commitments (Note 21)	178 073	97 149	188 488	110 620
Total	**537 678**	**381 381**	**548 093**	**394 852**

Part of subitem "Loans and receivables" are loans to agriculture segment (see Note 19) that are secured by agricultural land with a cautious valuation. Loans to other segments are secured mostly by real estate, to a lesser extent – by other types of assets or commercial pledges. The expected cash flows from collateral are taken into account when estimating impairment allowances for expected credit losses. Risk Coverage Reserve and Specific Reserve Capital is available to the Group / Company to cover expected credit losses arising from deterioration of quality of loan portfolio. For more detailed information on Risk Coverage Reserve and Specific Reserve Capital see Note 31 and Note 37.

As at 31 December 2020, part of the Group's / Company's assets in amount of EUR 124,087 thousand (31 December 2019: EUR 117,222 thousand) were pledged. As at 31 December 2020, the Group / Company shall ensure that the Group's / Company's assets of its total assets at least in the amount of EUR 135 000 thousand are free from any pledge. Detailed information on the Group's / Company's outstanding loan agreement as at 31 December 2020 is provided in Note 29 and Note 30.

Article 37 of the Law on State Budget 2020 and Article 37 of the Law on State Budget 2021 provides that guarantees issued by Altum in amount of EUR 270 000 thousand is backed by the state according to Agriculture and Rural Development Law and Development Finance Institution Law. Since Altum issued guarantees are backed by state budget, the underlying loans with Altum guarantees are aligned as loans with state guarantee and the commercial banks for such loans can apply lower risk weight in capital adequacy calculation. This back up guarantee via state budget as well as received public funding for credit risk coverage in Risk Coverage Reserve (see Note 31) as well as Portfolio Loss Reserve (see Note 37) explicitly demonstrates the state position towards Altum with critical role undertaken in development of economy. Actual amount of issued guarantees as at 31 December 2020 was EUR 251,701 thousand (31 December 2019: EUR 250,144 thousand).

3 Risk Management (cont'd)

(2) Liquidity Risk

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

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

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

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

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

Maturity profile of the Group's expected undiscounted future cash flows of financial liabilities, off-balance liabilities and liquid assets as at 31 December 2020, in thousands of euro:

	Up to 1 year *	1 to 5 years	5 to 10 years	10 to 15 years	Over 15 years and w/o maturity	Total
Due to credit institutions	12 468	53 399	-	-	-	65 867
Due to general governments	311	4 741	9 544	-	89 553	104 149
Issued debt securities	824	68 107	-	-	-	68 931
Support programme funding **	3 444	46 655	63 006	26 521	52 337	191 963
Other liabilities	1 718	1 170	-	13	-	2 901
Total financial liabilities	**18 765**	**174 072**	**72 550**	**26 534**	**141 890**	**433 811**
Off-balance sheet items and contingent liabilities	349 731	171 663	16 284	-	-	537 678
Total financial liabilities, off-balance items and contingent liabilities ***	**368 496**	**345 735**	**88 834**	**26 534**	**141 890**	**971 489**
Due from credit institutions and the Treasury	359 949	-	-	-	-	359 949
Investment securities	22 991	14 408	-	-	-	37 399
Liquid assets	**382 940**	**14 408**	**-**	**-**	**-**	**397 348**

* 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". The exception is the housing guarantees for families with children and housing guarantees for young specialists – these guarantees with remaining contractual maturity exceeding 3 years, counting from the reporting date, are classified within maturity "1 to 5 years", because the compensation mechanism for housing guarantee for families with children and housing guarantee for young specialists stipulates that compensation for the declared guarantee cases is paid within 3 years from the date the guarantee case is declared. In turn, the housing guarantees for families with children and housing guarantees for young specialists with remaining contractual maturity shorter than 1 year, counting from the reporting date, are presented in accordance with the remaining contractual maturity.

Maturity profile of the Group's expected undiscounted future cash flows of financial liabilities, off-balance liabilities and liquid assets "Up to 1 year" as at 31 December 2020 and supporting analysis is presented in table below.

** After expiring of the support programme its funding remains on the Group's / Company's balance sheet since any repayment from the existing support programme accumulates and are used to finance new support programmes.

*** Since part of off-balance sheet items and contingent liabilities is backed by funding recognized as financial liabilities, EUR 49,053 thousand are included in both the Group's financial liabilities and the Group's off-balance sheet items and contingent liabilities.

3 Risk Management (cont'd)

(2) Liquidity Risk (cont'd)

Maturity profile of the Group's expected undiscounted future cash flows of financial liabilities, off-balance liabilities and liquid assets "Up to 1 year" as at 31 December 2020, in thousands of euro:

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	**Total up to 1 year**
Due to credit institutions	-	4 378	-	8 090	12 468
Due to general governments	123	-	140	48	311
Issued debt securities	-	564	260	-	824
Support programme funding	3 444	-	-	-	3 444
Other liabilities	1 693	-	-	25	1 718
Total financial liabilities	**5 260**	**4 942**	**400**	**8 163**	**18 765**
Off-balance sheet items and contingent liabilities *	286 738	13 777	14 532	34 684	349 731
Total financial liabilities, off-balance items and contingent liabilities	**291 998**	**18 719**	**14 932**	**42 847**	**368 496**
Due from credit institutions and the Treasury	359 949	-	-	-	359 949
Investment securities	2 090	20 436	-	465	22 991
Liquid assets	**362 039**	**20 436**	**-**	**465**	**382 940**

* Split of off-balance sheet items and contingent liabilities by type of financial instrument – outstanding financial guarantees, loan commitments and grant commitments as well as commitments to AIF "Altum capital fund", investments in associates and other investments, are presented in Note 38.

Contingent liabilities and financial commitments are funded from various funding sources available to the Group. Outstanding financial guarantees in amount of EUR 359,605 thousand (up to 1 year) – from respective guarantee support programme funding (see Note 31) and Specific reserve capital (see Note 37). 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.

Loan commitments in amount of EUR 39,348 thousand (up to 1 year) – from financial facilities (either received by the Group or available to the Group upon request) concluded with financial institutions and the Treasury (see Notes 29 and 30) and respective loan support programme funding (see Note 31).

Grant commitments in amount of EUR 6,798 thousand (up to 1 year) – from respective grant support programme funding (see Note 31).

Commitments to investments in associates in amount of EUR 7,639 thousand (up to 1 year) – from respective venture capital fund support programme funding (see Note 31).

Commitments to AIF "Altum capital fund" in amount of EUR 46,117 thousand (up to 1 year) – from specific reserve capital (see Note 37) and additional funding from shareholders expected in 2021.

Commitments to other investments in amount of EUR 9,235 thousand (up to 1 year) – for Baltic Innovation Fund 2 from support programme funding, repayments on different support programmes and the Group's / Company's own funding for Three Seas Initiatives Investment Fund.

As a consequence, the liquidity of the Group is not deteriorated.

3 Risk Management (cont'd)

(2) Liquidity Risk (cont'd)

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

	Up to 1 year *	1 to 5 years	5 to 10 years	10 to 15 years	Over 15 years and w/o maturity	**Total**
Due to credit institutions	8 761	20 828	-	-	-	29 589
Due to general governments	32	2 138	6 756	-	77 396	86 322
Issued debt securities	667	21 820	25 195	-	-	47 682
Support programme funding **	-	18 878	22 822	55 420	31 610	128 730
Other liabilities	2 079	707	-	-	-	2 786
Total financial liabilities	**11 539**	**64 371**	**54 773**	**55 420**	**109 006**	**295 109**
Off-balance sheet items and contingent liabilities	226 221	139 651	15 509	-	-	381 381
Total financial liabilities, off-balance items and contingent liabilities * **	**237 760**	**204 022**	**70 282**	**55 420**	**109 006**	**676 490**
Due from credit institutions and the Treasury	181 199	-	-	-	-	181 199
Investment securities	10 904	26 739	10 776	-	-	48 419
Liquid assets	**192 103**	**26 739**	**10 776**	**-**	**-**	**229 618**

* According to IAS 7 "Financial Instruments: Disclosures" requirements the major part of the guarantee portfolio issued by the Group has been classified within maturity "Up to 1 year". The exception is the housing guarantees for families with children and housing guarantees for young specialists – these guarantees with remaining contractual maturity exceeding 3 years, counting from the reporting date, are classified within maturity "1 to 5 years", because the compensation mechanism for housing guarantee for families with children and housing guarantee for young specialists stipulates that compensation for the declared guarantee cases is paid within 3 years from the date the guarantee case is declared. In turn, the housing guarantees for families with children and housing guarantees for young specialists with remaining contractual maturity shorter than 1 year, counting from the reporting date, are presented in accordance with the remaining contractual maturity.

Maturity profile of the Group's expected undiscounted future cash flows of financial liabilities, off-balance liabilities and liquid assets "Up to 1 year" as at 31 December 2019 and supporting analysis is presented in table below.

** After expiring of the support programme its funding remains on the Group's / Company's balance sheet since any repayment from the existing support programme accumulates and are used to finance new support programmes.

*** Since part of off-balance sheet items and contingent liabilities is backed by funding recognized as financial liabilities, EUR 43,549 thousand are included in both the Group's financial liabilities and the Group's off-balance sheet items and contingent liabilities.

3 Risk Management (cont'd)

(2) Liquidity Risk (cont'd)

Maturity profile of the Group's expected undiscounted future cash flows of financial liabilities, off-balance liabilities and liquid assets "Up to 1 year" as at 31 December 2019, in thousands of euro:

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	**Total up to 1 year**
Due to credit institutions	-	4 422	-	4 339	8 761
Due to general governments	32	-	-	-	32
Issued debt securities	-	325	-	342	667
Support programme funding	-	-	-	-	-
Other liabilities	2 060	-	-	19	2 079
Total financial liabilities	**2 092**	**4 747**	**-**	**4 700**	**11 539**
Off-balance sheet items and contingent liabilities *	214 826	1 798	2 406	7 191	226 221
Total financial liabilities, off-balance items and contingent liabilities	**216 918**	**6 545**	**2 406**	**11 891**	**237 760**
Due from credit institutions and the Treasury	176 197	-	2 001	3 001	181 199
Investment securities	90	1 149	1	9 664	10 904
Liquid assets	**176 287**	**1 149**	**2 002**	**12 665**	**192 103**

* Split of off-balance sheet items and contingent liabilities by type of financial instrument – outstanding financial guarantees, loan commitments and grant commitments as well as commitments to investments in associates and other investments, are presented in Note 38.

Contingent liabilities and financial commitments are funded from various funding sources available to the Group. Outstanding financial guarantees in amount of EUR 284,232 thousand (up to 1 year) – from respective guarantee support programme funding (see Note 31) and Specific reserve capital (see Note 37). 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.

Loan commitments in amount of EUR 18,951 thousand (up to 1 year) – from financial facilities (either received by the Group or available to the Group upon request) concluded with financial institutions and the Treasury (see Notes 29 and 30) and respective loan support programme funding (see Note 31).

Grant commitments in amount of EUR 7,701 thousand (up to 1 year) – from respective grant support programme funding (see Note 31).

Commitments to investments in associates in amount of EUR 7,646 thousand (up to 1 year) – from respective venture capital fund support programme funding (see Note 31).

Commitments to other investments in amount of EUR 4,349 thousand (up to 1 year) – for Baltic Innovation Fund 2 from support programme funding, repayments on different support programmes.

As a consequence, the liquidity of the Group is not deteriorated.

3 Risk Management (cont'd)

(2) Liquidity Risk (cont'd)

Maturity profile of the Company's expected undiscounted future cash flows of financial liabilities, off-balance liabilities and liquid assets as at 31 December 2020, in thousands of euro:

	Up to 1 year *	1 to 5 years	5 to 10 years	10 to 15 years	Over 15 years and w/o maturity	**Total**
Due to credit institutions	12 468	53 399	-	-	-	65 867
Due to general governments	311	4 741	9 544	-	89 553	104 149
Issued debt securities	824	68 107	-	-	-	68 931
Support programme funding **	3 444	46 655	63 006	26 521	52 337	191 963
Other liabilities	1 718	1 170	-	13	-	2 901
Total financial liabilities	**18 765**	**174 072**	**72 550**	**26 534**	**141 890**	**433 811**
Off-balance sheet items and contingent liabilities	353 898	176 870	17 325	-	-	548 093
Total financial liabilities, off-balance items and contingent liabilities * **	**372 663**	**350 942**	**89 875**	**26 534**	**141 890**	**981 904**
Due from credit institutions and the Treasury	359 949	-	-	-	-	359 949
Investment securities	22 991	14 408	-	-	-	37 399
Liquid assets	**382 940**	**14 408**	**-**	**-**	**-**	**397 348**

* 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". The exception is the housing guarantees for families with children and housing guarantees for young specialists – these guarantees with remaining contractual maturity exceeding 3 years, counting from the reporting date, are classified within maturity "1 to 5 years", because the compensation mechanism for housing guarantee for families with children and housing guarantee for young specialists stipulates that compensation for the declared guarantee cases is paid within 3 years from the date the guarantee case is declared. In turn, the housing guarantees for families with children and housing guarantees for young specialists with remaining contractual maturity shorter than 1 year, counting from the reporting date, are presented in accordance with the remaining contractual maturity.

Maturity profile of the Company's expected undiscounted future cash flows of financial liabilities, off-balance liabilities and liquid assets "Up to 1 year" as at 31 December 2020 and supporting analysis is presented in table below.

** After expiring of the support programme its funding remains on the Group's / Company's balance sheet since any repayment from the existing support programme accumulates and are used to finance new support programmes.

*** Since part of off-balance sheet items and contingent liabilities is backed by funding recognized as financial liabilities, EUR 49,053 thousand are included in both the Company's financial liabilities and the Company's off-balance sheet items and contingent liabilities.

3 Risk Management (cont'd)

(2) Liquidity Risk (cont'd)

Maturity profile of the Company's expected undiscounted future cash flows of financial liabilities, off-balance liabilities and liquid assets "Up to 1 year" as at 31 December 2020, in thousands of euro:

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	**Total up to 1 year**
Due to credit institutions	-	4 378	-	8 090	12 468
Due to general governments	123	-	140	48	311
Issued debt securities	-	564	260	-	824
Support programme funding	3 444	-	-	-	3 444
Other liabilities	1 693	-	-	25	1 718
Total financial liabilities	**5 260**	**4 942**	**400**	**8 163**	**18 765**
Off-balance sheet items and contingent liabilities *	287 155	14 194	15 365	37 184	353 898
Total financial liabilities, off-balance items and contingent liabilities	**292 415**	**19 136**	**15 765**	**45 347**	**372 663**
Due from credit institutions and the Treasury	359 949	-	-	-	359 949
Investment securities	2 090	20 436	-	465	22 991
Liquid assets	**362 039**	**20 436**	**-**	**465**	**382 940**

* Split of off-balance sheet items and contingent liabilities by type of financial instrument – outstanding financial guarantees, loan commitments and grant commitments as well as commitments to AIF "Altum capital fund", investments in associates and other investments, are presented in Note 38.

Contingent liabilities and financial commitments are funded from various funding sources available to the Company. Outstanding financial guarantees in amount of EUR 359,605 thousand (up to 1 year) – from respective guarantee support programme funding (see Note 31) and Specific reserve capital (see Note 37). 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.

Loan commitments in amount of EUR 39,348 thousand (up to 1 year) – from financial facilities (either received by the Company or available to the Company upon request) concluded with financial institutions and the Treasury (see Notes 29 and 30) and respective loan support programme funding (see Note 31).

Grant commitments in amount of EUR 6,798 thousand (up to 1 year) – from respective grant support programme funding (see Note 31).

Commitments to investments in subsidiaries in amount of EUR 4,167 thousand (up to 1 year) – from respective venture capital fund support programme funding (see Note 31).

Commitments to investments in associates in amount of EUR 7,639 thousand (up to 1 year) – from respective venture capital fund support programme funding (see Note 31).

Commitments to AIF "Altum capital fund" in amount of EUR 46,117 thousand (up to 1 year) – from specific reserve capital (see Note 37) and additional funding from shareholders expected in 2021.

Commitments to other investments in amount of EUR 9,235 thousand (up to 1 year) – for Baltic Innovation Fund 2 from support programme funding, repayments on different support programmes and the Group's / Company's own funding for Three Seas Initiatives Investment Fund.

As a consequence, the liquidity of the Company is not deteriorated.

3 Risk Management (cont'd)

(2) Liquidity Risk (cont'd)

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

	Up to 1 year *	1 to 5 years	5 to 10 years	10 to 15 years	Over 15 years and w/o maturity	**Total**
Due to credit institutions	8 761	20 828	-	-	-	29 589
Due to general governments	32	2 138	6 756	-	77 396	86 322
Issued debt securities	667	21 820	25 195	-	-	47 682
Support programme funding **	-	18 878	22 822	55 420	31 610	128 730
Other liabilities	2 079	694	-	-	-	2 773
Total financial liabilities	**11 539**	**64 358**	**54 773**	**55 420**	**109 006**	**295 096**
Off-balance sheet items and contingent liabilities	228 511	147 868	18 473	-	-	394 852
Total financial liabilities, off-balance items and contingent liabilities * **	**240 050**	**212 226**	**73 246**	**55 420**	**109 006**	**689 948**
Due from credit institutions and the Treasury	181 047	-	-	-	-	181 047
Investment securities	10 904	26 739	10 776	-	-	48 419
Liquid assets	**191 951**	**26 739**	**10 776**	**-**	**-**	**229 466**

* According to IAS 7 "Financial Instruments: Disclosures" requirements the major part of the guarantee portfolio issued by the Company has been classified within maturity "Up to 1 year". The exception is the housing guarantees for families with children and housing guarantees for young specialists – these guarantees with remaining contractual maturity exceeding 3 years, counting from the reporting date, are classified within maturity "1 to 5 years", because the compensation mechanism for housing guarantee for families with children and housing guarantee for young specialists stipulates that compensation for the declared guarantee cases is paid within 3 years from the date the guarantee case is declared. In turn, the housing guarantees for families with children and housing guarantees for young specialists with remaining contractual maturity shorter than 1 year, counting from the reporting date, are presented in accordance with the remaining contractual maturity.

Maturity profile of the Company's expected undiscounted future cash flows of financial liabilities, off-balance liabilities and liquid assets "Up to 1 year" as at 31 December 2019 and supporting analysis is presented in table below.

** After expiring of the support programme its funding remains on the Group's / Company's balance sheet since any repayment from the existing support programme accumulates and are used to finance new support programmes.

*** Since part of off-balance sheet items and contingent liabilities is backed by funding recognized as financial liabilities, EUR 43,549 thousand are included in both the Company's financial liabilities and the Company's off-balance sheet items and contingent liabilities.

3 Risk Management (cont'd)

(2) Liquidity Risk (cont'd)

Maturity profile of the Company's expected undiscounted future cash flows of financial liabilities, off-balance liabilities and liquid assets "Up to 1 year" as at 31 December 2019, in thousands of euro:

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	**Total up to 1 year**
Due to credit institutions	-	4 422	-	4 339	8 761
Due to general governments	32	-	-	-	32
Issued debt securities	-	325	-	342	667
Support programme funding	-	-	-	-	-
Other liabilities	2 060	-	-	19	2 079
Total financial liabilities	**2 092**	**4 747**	**-**	**4 700**	**11 539**
Off-balance sheet items and contingent liabilities *	214 940	2 141	2 864	8 566	228 511
Total financial liabilities, off-balance items and contingent liabilities	**217 032**	**6 888**	**2 864**	**13 266**	**240 050**
Due from credit institutions and the Treasury	176 045	-	2 001	3 001	181 047
Investment securities	90	1 149	1	9 664	10 904
Liquid assets	**176 135**	**1 149**	**2 002**	**12 665**	**191 951**

* Split of off-balance sheet items and contingent liabilities by type of financial instrument – outstanding financial guarantees, loan commitments and grant commitments as well as commitments to investments in associates and other investments, are presented in Note 38.

Contingent liabilities and financial commitments are funded from various funding sources available to the Company. Outstanding financial guarantees in amount of EUR 284,232 thousand (up to 1 year) – from respective guarantee support programme funding (see Note 31) and Specific reserve capital (see Note 37). 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.

Loan commitments in amount of EUR 18,951 thousand (up to 1 year) – from financial facilities (either received by the Company or available to the Company upon request) concluded with financial institutions and the Treasury (see Notes 29 and 30) and respective loan support programme funding (see Note 31).

Grant commitments in amount of EUR 7,701 thousand (up to 1 year) – from respective grant support programme funding (see Note 31).

Commitments to investments in subsidiaries in amount of EUR 2,290 thousand (up to 1 year) – from respective venture capital fund support programme funding (see Note 31).

Commitments to investments in associates in amount of EUR 7,636 thousand (up to 1 year) – from respective venture capital fund support programme funding (see Note 31).

Commitments to other investments in amount of EUR 4,349 thousand (up to 1 year) – for Baltic Innovation Fund 2 from support programme funding, repayments on different support programmes.

As a consequence, the liquidity of the Company is not deteriorated.

3 Risk Management (cont'd)

(2) Liquidity Risk (cont'd)

Breakdown of the Group's assets and liabilities by maturity profile as at 31 December 2020 based on the time remaining from the reporting date to their contractual maturity, in thousands of euro:

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years and w/o maturity	**Total**
Assets							
Due from credit institutions and the Treasury	359 949	-	-	-	-	-	359 949
Financial assets at fair value through profit or loss	-	-	-	-	-	5 425	5 425
Investment securities *	2 090	20 436	-	465	14 408	-	37 399
Loans *	10 563	13 112	16 717	35 212	152 416	85 248	313 268
Grants	64	66	18	7 121	18 524	5 314	31 107
Deferred expense and accrued income	1 521	-	-	-	-	-	1 521
Other investments	-	-	-	-	-	7 503	7 503
Investments in associates	-	-	7 587	16 375	5 366	18 660	47 988
Investment property	-	-	-	-	-	36 758	36 758
Property, plant and equipment	-	-	-	-	-	4 717	4 717
Intangible assets	-	-	-	-	-	1 398	1 398
Other assets	971	208	81	259	2 117	35	3 671
Total assets	**375 158**	**33 822**	**24 403**	**59 432**	**192 831**	**165 058**	**850 704**
Liabilities							
Due to credit institutions	-	4 367	-	8 090	53 398	-	65 855
Due to general governments	-	-	-	-	4 422	99 098	103 520
Issued debt securities	-	484	(2)	53	64 987	-	65 522
Deferred income and accrued expense	488	357	401	967	2 916	719	5 848
Provisions	32 501	-	-	-	-	-	32 501
Support programme funding	3 444	-	-	-	46 655	141 864	191 963
Other liabilities	1 693	-	-	25	1 170	13	2 901
Total liabilities	**38 126**	**5 208**	**399**	**9 135**	**173 548**	**241 694**	**468 110**
Net liquidity	**337 032**	**28 614**	**24 004**	**50 297**	**19 283**	**(76 636)**	**382 594**

* With regard to loans and advances to customers, the Group uses the same basis of expected repayment behaviour as used for estimating the effective interest rate. Investments in securities reflect their contractual coupon amortisations.

3 Risk Management (cont'd)

(2) Liquidity Risk (cont'd)

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

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years and w/o maturity	**Total**
Assets							
Due from credit institutions and the Treasury	176 197	-	2 001	3 001	-	-	181 199
Financial assets at fair value through profit or loss	-	-	-	-	-	4 217	4 217
Investment securities *	90	1 149	1	9 664	26 739	10 776	48 419
Loans *	11 296	9 812	8 897	20 732	94 055	75 337	220 129
Grants	-	-	-	-	13 792	3 394	17 186
Deferred expense and accrued income	2 343	-	-	-	-	-	2 343
Other investments	-	-	-	-	-	250	250
Investments in associates	1 508	-	7 051	-	27 236	16 498	52 293
Investment property	-	-	-	-	22 582	1 784	24 366
Property, plant and equipment	-	-	-	-	-	4 694	4 694
Intangible assets	-	-	-	-	-	1 395	1 395
Other assets	1 746	-	-	560	1 264	-	3 570
Total assets	**193 180**	**10 961**	**17 950**	**33 957**	**185 668**	**118 345**	**560 061**
Liabilities							
Due to credit institutions	-	4 375	-	4 339	20 828	-	29 542
Due to general governments	-	-	-	-	2 118	84 154	86 272
Issued debt securities	-	269	-	58	20 013	25 008	45 348
Deferred income and accrued expense	361	259	303	582	1 379	685	3 569
Provisions	31 076	-	-	-	-	-	31 076
Support programme funding	-	-	-	-	18 878	109 852	128 730
Other liabilities	2 060	-	-	19	707	-	2 786
Total liabilities	**33 497**	**4 903**	**303**	**4 998**	**63 923**	**219 699**	**327 323**
Net liquidity	**159 683**	**6 058**	**17 647**	**28 959**	**121 745**	**(101 354)**	**232 738**

* With regard to loans and advances to customers, the Group uses the same basis of expected repayment behaviour as used for estimating the effective interest rate. Investments in securities reflect their contractual coupon amortisations.

3 Risk Management (cont'd)

(2) Liquidity Risk (cont'd)

Breakdown of the Company's assets and liabilities by maturity profile as at 31 December 2020 based on the time remaining from the reporting date to their contractual maturity, in thousands of euro:

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years and w/o maturity	**Total**
Assets							
Due from credit institutions and the Treasury	359 949	-	-	-	-	-	359 949
Financial assets at fair value through profit or loss	-	-	-	-	-	-	-
Investment securities *	2 090	20 436	-	465	14 408	-	37 399
Loans *	10 563	13 112	16 717	35 212	152 416	85 248	313 268
Grants	64	66	18	7 121	18 524	5 314	31 107
Deferred expense and accrued income	1 521	-	-	-	-	-	1 521
Other investments	-	-	-	-	-	7 503	7 503
Investments in associates	-	-	7 587	16 375	5 366	18 660	47 988
Investments in subsidiaries	-	-	-	-	-	4 879	4 879
Investment property	-	-	-	-	-	36 758	36 758
Property, plant and equipment	-	-	-	-	-	4 717	4 717
Intangible assets	-	-	-	-	-	1 398	1 398
Other assets	971	208	81	259	2 117	-	3 636
Total assets	**375 158**	**33 822**	**24 403**	**59 432**	**192 831**	**164 477**	**850 123**
Liabilities							
Due to credit institutions	-	4 367	-	8 090	53 398	-	65 855
Due to general governments	-	-	-	-	4 422	99 098	103 520
Issued debt securities	-	484	(2)	53	64 987	-	65 522
Deferred income and accrued expense	488	357	401	967	2 916	799	5 928
Provisions	32 501	-	-	-	-	-	32 501
Support programme funding	3 444	-	-	-	46 655	141 864	191 963
Other liabilities	1 693	-	-	25	1 170	13	2 901
Total liabilities	**38 126**	**5 208**	**399**	**9 135**	**173 548**	**241 774**	**468 190**
Net liquidity	**337 032**	**28 614**	**24 004**	**50 297**	**19 283**	**(77 297)**	**381 933**

* With regard to loans and advances to customers, the Group uses the same basis of expected repayment behaviour as used for estimating the effective interest rate. Investments in securities reflect their contractual coupon amortisations.

3 Risk Management (cont'd)

(2) Liquidity Risk (cont'd)

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

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years and w/o maturity	**Total**
Assets							
Due from credit institutions and the Treasury	176 045	-	2 001	3 001	-	-	181 047
Financial assets at fair value through profit or loss	-	-	-	-	-	-	-
Investment securities *	90	1 149	1	9 664	26 739	10 776	48 419
Loans *	11 296	9 812	8 897	20 732	94 055	75 337	220 129
Grants	-	-	-	-	13 792	3 394	17 186
Deferred expense and accrued income	2 343	-	-	-	-	-	2 343
Other investments	-	-	-	-	-	250	250
Investments in associates	1 508	-	7 051	-	27 236	16 498	52 293
Investments in subsidiaries	-	-	-	-	832	2 980	3 812
Investment property	-	-	-	-	22 582	1 784	24 366
Property, plant and equipment	-	-	-	-	-	4 694	4 694
Intangible assets	-	-	-	-	-	1 395	1 395
Other assets	1 746	-	-	560	1 264	-	3 570
Total assets	**193 028**	**10 961**	**17 950**	**33 957**	**186 500**	**117 108**	**559 504**
Liabilities							
Due to credit institutions	-	4 375	-	4 339	20 828	-	29 542
Due to general governments	-	-	-	-	2 118	84 154	86 272
Issued debt securities	-	269	-	58	20 013	25 008	45 348
Deferred income and accrued expense	361	259	303	582	1 379	685	3 569
Provisions	31 076	-	-	-	-	-	31 076
Support programme funding	-	-	-	-	18 878	109 852	128 730
Other liabilities	2 060	-	-	19	694	-	2 773
Total liabilities	**33 497**	**4 903**	**303**	**4 998**	**63 910**	**219 699**	**327 310**
Net liquidity	**159 531**	**6 058**	**17 647**	**28 959**	**122 590**	**(102 591)**	**232 194**

* With regard to loans and advances to customers, the Group uses the same basis of expected repayment behaviour as used for estimating the effective interest rate. Investments in securities reflect their contractual coupon amortisations.

(3) Interest Rate Risk

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

Interest rate management principles are determined in the Risk Management Policy. Interest rate risk governance is performed by the Risk and Asset-Liability Management Committee, while daily interest rate analysis and management is performed by Planning and Financial Analysis Department.

The Group's / Company's interest rate sensitive assets (99.5%) and all interest rate sensitive liabilities are linked and priced at euro interest rate indices. To assess the interest rate risk the Group / Company analyses the maturity structure of interest rate sensitive assets, liabilities and off-balance sheet items, net position of interest rate risk and its sensitivity to changes in interest rates. The sensitivity is measured calculating the impact of probable interest rate changes by 100 bps on the Group's / Company's interest income and expenses, assuming that all other variables held constant. Scenarios floor the lowest possible interest rate at zero if at the rate fixing date it is with negative value and if such a condition arises from the actual agreements.

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

3 Risk Management (cont'd)

(3) Interest Rate Risk (cont'd)

All amounts in thousands of euro

	Group 31.12.2020.	Group 31.12.2019.	Company 31.12.2020.	Company 31.12.2019.
Change in interest rates by +100 bps	889	754	889	754
Change in interest rates by -100 bps	(305)	(281)	(305)	(281)

(4) Foreign Currency Risk

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Group's / Company's exposure to foreign currency risk is insignificant as the transactions are denominated in Euro. The Group / Company controls foreign currency risk by raising financing and issuing financial instruments in euro.

The Group's / Company's exposure to foreign currency risk, in thousands of euro:

	Group 31.12.2020.	Group 31.12.2019.	Company 31.12.2020.	Company 31.12.2019.
EUR				
Financial assets	800 290	522 479	800 255	522 187
Financial liabilities	429 761	292 678	429 761	292 665
Net position	**370 529**	**229 801**	**370 494**	**229 522**
USD				
Financial assets	594	565	594	705
Financial liabilities	-	-	-	-
Net position	**594**	**565**	**594**	**705**
GBP				
Financial assets	0	2	0	2
Financial liabilities	-	-	-	-
Net position	**0**	**2**	**0**	**2**

Based on the current positions of the Group / Company as at 31.12.2020 and 31.12.2019, if the exchange rate for the US dollar changes according to the scenario presented, the possible changes in the Group's / Company's total capital (excluding tax effects) would be as follows:

All amounts in thousands of euro

	Group 31.12.2020.	Group 31.12.2019.	Company 31.12.2020.	Company 31.12.2019.
Change in USD/EUR exchange rates by +5%	(29)	(34)	(29)	(34)
Change in USD/EUR exchange rates by -5%	28	34	28	34

(5) Operational Risk

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

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

3 Risk Management (cont'd)

(6) AML / CTF / sanctions risk

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

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

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

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

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

(7) Capital Management

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

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

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

(8) Covid-19 impact

(i) Effect on new products and new volumes issued

Since March, as delegated by the government, the Group has engaged actively in mitigating the adverse impact of Covid-19 pandemic on SME and Midcaps in Latvia by developing new financial support instruments in co-operation with the Ministry of Economics, The Group takes pillar role for providing Covid-19 financial instruments (excl. standstill grants) – loans and guarantees in Latvia. On 19 March 2020, having convened for an extraordinary meeting, with follow-up on 24 March 2020, the Cabinet of Ministers approved the regulations of the new financial instruments. Both financial instruments became effective as of 25 March 2020 being already co-ordinated with the European Commission.

In spring another financial instrument engine alternative investment fund "Altum Capital Fund" was created with the aim to support well-managed, perspective Mid-cap companies to overcome the effect of Covid-19 that as a result of the virus impact are ready to adjust their operations by changing their business model, adjusting product development, introducing new technology and expanding to new export markets. The Fund's committed capital was fully subscribed on September 16, 2020, reaching EUR 100 million, of which the majority (EUR 51.1 million or 51.1%) were largest private pension funds and EUR 48.9 million consists of public funding invested by the Company. The Company is also the manager of the Fund registered with the Financial and Capital Market Commission on 26 May 2020. As at 31 December 2020 there is active pipeline of potential investment deals with first investment deals completed in Q1 2021.

3 Risk Management (cont'd)

(8) COVID-19 impact (cont'd)

Covid-19 loan and guarantee portfolio as at 31 December 2020 was EUR 64,560 thousand and EUR 38,699 thousand respectively. For detailed information on full set of Covid-19 products see Management Report.

Total capital injection in Specific Reserve capital to ensure Covid-19 financial instruments to SME and Midcaps reached EUR 145 million during 2020 for respective funding needs and expected credit loss. Credit risk coverage in Portfolio loss reserve out of that reaches EUR 86 million as at 31 December 2020.

(ii) The Group's / Company's management estimates on macroeconomic scenarios effecting the calculation of credit loss allowances and provisions for guarantees.

The Group / Company has recognised uncertainty regarding duration and severity of Covid-19 situation and associated possible disruptions to the economy and customers of the Group / Company. The Group / Company participates in Covid-19 loan moratoria within which upon qualifying client request a deferral of loan principal repayment for a short period of time is allowed. Detailed information available in Note 2 (5) (vi).

(iii) Loan portfolio affected by Covid-19

Analysis of the Group's / Company's loan portfolio by client segments as at 31 December 2020, in thousands of euro:

	Stage 1		**Stage 2**		**Stage 3**		**Total gross loans**	**Total impairment allowance**
	Gross loans	Impairment allowance	Gross loans	Impairment allowance	Gross loans	Impairment allowance		
Financial Intermediaries	1 245	10	-	-	638	351	1 883	361
Agriculture	107 189	841	10 258	300	6 863	1 491	124 310	2 632
SME and Midcaps	129 745	5 755	21 007	3 195	17 509	7 443	168 261	16 393
of which,								
Covid-19 crisis related working capital loans	60 665	1 984	3 569	219	326	155	64 560	2 358
Daily loan products	69 081	3 771	17 438	2 976	17 183	7 288	103 702	14 035
Private individuals	5 224	34	490	10	2 311	953	8 025	997
Land Fund	30 889	17	256	-	355	2	31 500	19
Total segments, gross	**274 292**	**6 657**	**32 011**	**3 505**	**27 676**	**10 240**	**333 979**	**20 402**
Impairment overlay *	-	309	-	-	-	-	-	309
Total segments, net	**274 292**	**6 966**	**32 011**	**3 505**	**27 676**	**10 240**	**333 979**	**20 711**

* The impairment overlay represents an additional loss reserve over the modelled ECL amounts to account for other economic uncertainties. For detailed information see Note 2 (16) (ii).

Agriculture segment is heavily subsidized and loans to Agriculture segment (see Note 19) are secured by agricultural land with a cautious valuation. Therefore the Group / Company doesn't see deterioration in the quality of loan portfolio impacted by Covid-19 crisis.

The Group / Company do not grant new loans in segments Financial intermediaries and Private individuals. Existing portfolio is amortizing.

Loans issued by the Group / Company to SME and Midcap client segment are split between (i) specific COVID-19 related support instrument – working capital loans and (ii) daily (ordinary) loan product portfolio.

3 Risk Management (cont'd)

(8) COVID-19 impact (cont'd)

Split of specific COVID-19 related support instrument - working capital loans – portfolio for the SME and Midcap client segment by industries as at 31 December 2020, in thousands euro:

	Gross loans	of which, granted in 2020	Impairment allowance	Net loans	% of Total Gross loans, SME & Midcap
Covid-19 more exposed industries					
Hotels and restaurants	3 398	3 398	97	3 301	2.0%
Retail	4 714	4 714	186	4 527	2.8%
Land transport services	594	594	12	582	0.4%
Art, entertainment and leasure	1 139	1 139	29	1 110	0.7%
Beauty and sports	-	-	-	-	0.0%
Total Covid-19 more exposed industries	**9 845**	**9 845**	**324**	**9 520**	**5.9%**
Covid-19 less exposed industries					
Manufacturing	19 532	19 532	739	18 793	11.6%
Wholesale	13 178	13 178	490	12 688	7.8%
Construction	6 057	6 057	354	5 704	3.6%
Transport, warehousing and communications	3 602	3 602	110	3 492	2.1%
Municipal authorities	3 407	3 407	81	3 326	2.0%
Information technologies and communication	2 522	2 522	53	2 470	1.5%
Professional, science and technical services	2 295	2 295	80	2 214	1.4%
Forestry	2 002	2 002	63	1 939	1.2%
Electricity, gas and water utilities	1 460	1 460	50	1 410	0.9%
Real estate	432	432	10	422	0.3%
Health and social care	163	163	3	159	0.1%
Other industries	65	65	1	64	0.0%
Total Covid-19 less exposed industries	**54 715**	**54 715**	**2 034**	**52 681**	**32.5%**
Total Covid-19 crisis related working capital loans	**64 560**	**64 560**	**2 358**	**62 201**	**38.4%**

Split of daily (ordinary) loan product portfolio for the SME and Midcap client segment by industries as at 31 December 2020, in thousands euro:

	Gross loans	of which, granted in 2020	Impairment allowance	Net loans	% of Total Gross loans, SME & Midcap
Covid-19 more exposed industries					
Hotels and restaurants	4 724	1 021	598	4 127	2.8%
Retail	2 014	194	136	1 878	1.2%
Land transport services	347	71	61	286	0.2%
Art, entertainment and leasure	1 926	398	378	1 548	1.1%
Beauty and sports	710	116	255	455	0.4%
Total Covid-19 more exposed industries	**9 721**	**1 800**	**1 428**	**8 294**	**5.8%**
Covid-19 less exposed industries					
Manufacturing	48 602	9 075	6 762	41 839	28.9%
Wholesale	6 539	1 474	870	5 669	3.9%
Construction	3 220	1 592	254	2 967	1.9%
Transport, warehousing and communications	683	121	186	497	0.4%
Municipal authorities	4 921	3 005	185	4 736	2.9%
Information technologies and communication	551	91	44	508	0.3%
Professional, science and technical services	3 660	810	250	3 411	2.2%
Forestry	2 452	910	87	2 365	1.5%
Electricity, gas and water utilities	6 220	366	995	5 225	3.7%
Real estate	9 841	1 657	2 088	7 753	5.8%
Health and social care	4 316	711	514	3 802	2.6%
Other industries	1 329	479	225	1 101	0.8%
Fishing	1 647	281	146	1 501	1.0%
Total Covid-19 less exposed industries	**93 981**	**20 572**	**12 606**	**81 374**	**55.9%**
Total daily (ordinary) loan products	**103 702**	**22 372**	**14 034**	**89 668**	**61.6%**

3 Risk Management (cont'd)

(8) COVID-19 impact (cont'd)

For daily (ordinary) loan product portfolio the loan application assessment process, including, accepted credit risk level, eligible credit rating of the client, expected debt service capacity, collateral has not been lowered by Covid-19 situation in 2020. The same loan application assessment process applies to specific COVID-19 related support instrument – working capital loans.

(iv) Guarantee portfolio effected by Covid-19

Analysis of the Group's / Company's guarantees portfolio by client segments as at 31 December 2020, in thousands of euro:

	Stage 1		Stage 2		Stage 3		Total outstanding guarantees	Total impairment allowance
	Outstanding guarantees	Impairment allowance	Outstanding guarantees	Impairment allowance	Outstanding guarantees	Impairment allowance		
Agriculture	14 305	2 118	39	5	486	311	14 830	2 434
SME and Midcaps	178 094	12 124	6 761	775	3 879	2 389	188 734	15 288
of which,								
*Covid-19 crisis related guarantees **	37 005	3 001	1 437	127	257	160	38 699	3 288
Daily guarantees products	141 089	9 123	5 324	649	3 622	2 229	150 035	12 001
Private individuals	155 717	13 528	194	36	130	127	156 041	13 691
Total segments, gross	**348 116**	**27 770**	**6 994**	**816**	**4 495**	**2 827**	**359 605**	**31 413**

* Includes SME loan credit holiday guarantees, portfolio guarantees and SME and Midcap companies loan holiday guarantees

Agriculture segment is heavily subsidized. To help farmers overcome the negative effects of the Covid-19 pandemic, the additional financial support in amount of EUR 45.5 million was provided as direct aid to agricultural producers and processors (dairy farming, cattle production, pig farming, food producers, school caterers). This support acts as an 'airbag' that has guaranteed and continues to guarantee support to agri-food businesses in the event of a reduction in revenue or turnover and an increase in stocks as a result of the negative effects of Covid-19. The unadjusted PDs of the guarantee portfolio for agriculture decreased from 2.71% to 2,16% compared to the 30.11.2019. and 30.11.2020. However, adjusted for macroeconomic factors, in particular changes in GDP, PD rates have increased significantly compared to 30.06.2020. and 30.11.2020. PD rates, thus reflecting the economic impact of Covid-19.

Approximately 40% of the SME and Midcap segment consists of guarantees to manufacturing. The impact of the Covid-19 crisis on the manufacturing has varied depending on the sub-industry. For example, year 2020 for metalworking, equipment / mechanical engineering and food industry companies has been quite successful and for a larger part the turnover indicators and profitability have even improved compared to 2019. Covid-19 has had the greatest impact on companies whose industry has been affected in parallel by other factors. For example, support for Covid-19 has been particularly active in woodworking and furniture companies, whose problems have been challenged by BREXIT alongside the challenges of Covid-19. In the second half of 2020, most of the manufacturing companies had already adapted to the new conditions, and in general, the risk level of the industry has not significantly increased compared to 2019. The sufficiently good results of the manufacturing industry in 2020 are also shown by the macroeconomic indicators - a record of exported goods has been achieved and the growth of the sector's output has been achieved. It can therefore be concluded that the operations of the companies in the Covid-19 sector were not significantly affected, mainly at the very beginning of the Covid-19 crisis.

The second largest industry (approximately 22%) in the SME and Midcap segment is wholesale. In wholesale similar as in the manufacturing, the impact of the Covid-19 crisis has varied across sub-sectors. For example, wholesalers of various raw materials and equipment have closed 2020 with very good results and have been able to improve their performance due to the growth of the manufacturing sector. Timber wholesalers did less well, having to cope with the fall in demand caused by BREXIT in addition to the breaks in logistics chains caused by Covid-19. However, at the end of 2020, a large number of timber wholesalers had found new outlets in Asian countries, as well as the ability to close the year without significant losses due to rising timber prices worldwide. Finally, 2020 has been a really difficult year for fuel and fuel wholesalers, as the price of these raw materials fell significantly in February and March 2020, causing additional losses in line with falling demand. According to the indicators of the companies in the sector, the demand for fuel and fuels has not really recovered by the end of 2020, but the positive thing is that most of the companies in this sector have sufficiently high equity ratios and owners with the ability to financially support companies.

The third largest industry (approximately 18%) in the SME and Midcap segment is construction. The Covid-19 crisis affected this industry both directly and indirectly. Due to travel restrictions and illness of employees, the construction process was delayed in many companies and the company's cash flow suffered accordingly. In addition, suppliers changed the delivery terms by

3 Risk Management (cont'd)

(8) COVID-19 impact (cont'd)

switching to prepayment and upsetting the usual project financing balance. Many of the industries directly affected by Covid-19 abandoned construction projects or postponed them. However, in general, 2020 was not financially difficult for the industry, as expected, as the implementation of production buildings and other long-term projects replaced the suspended projects.

Approximately ¾ of the guarantee portfolio for private individuals consists of housing guarantees – housing guarantees for a bank loan for the purchase or construction of a home for families with children and housing guarantees for a bank loan for the purchase or construction of a home for young specialists. The PD of the guarantee portfolio for private individuals has not changed compared to the unadjusted PD rates on 30.11.2019. and 30.11.2020. However, adjusted for macroeconomic factors, in particular changes in GDP, PD rates have increased significantly compared to 30.06.2020. and 30.11.2020. PD rates, thus reflecting the economic impact of Covid-19. No requests for guarantee compensation have been received regarding the impact of Covid-19 or the Covid-19 moratorium, as banks are not required to disclose payment reliefs applied to their customers. However, If such reliefs would be applied by banks in relation to the impact of Covid-19, this would be done within the framework of the Covid-19 moratorium and in all cases other risk parameters (including, but not limited to days past due and covenant breaches) were monitored and loan staging applied according to standard procedure. An additional risk mitigating factor is the guarantee compensation disbursement mechanism, which provides that compensation for declared guarantee events is paid within 3 years from the moment the guarantee event (default) is reported, and the bank recovers the debt either from the borrower's or guarantor's cash flow or collateral cash flows. Additional analysis of some of the factors that could affect the housing guarantee portfolio, such as a significant rise in unemployment, which would affect the ability of the households to service their mortgage liabilities, a sharp fall in real estate prices similar to 2008 or an increase in the EURIBOR index. which would significantly increase the cost of servicing mortgage loans, it can be seen that the actual unemployment rate, comparing data of January 2020 with data of January 2021, has increased from 7.4% to 8.8%, real estate prices in 2020 were stable, with a slight upward trend and the negative 6-month EURIBOR, comparing the beginning of 2020 to the end of 2020, remained even more negative.

Guarantees issued by the Group / Company to SME and Midcap client segment are split between (i) specific COVID-19 related support instrument – SME loan credit holiday guarantees, portfolio guarantees and SME and Midcap companies loan holiday guarantees and (ii) daily (ordinary) guarantee product portfolio.

Split of specific COVID-19 related support guarantee instruments for the SME and Midcap client segment guarantee portfolio by industries as at 31 December 2020, in thousands euro:

	Gross outstanding guarantees	of which, issued in 2020	Impairment allowance	Net outstanding guarantees	% of Total gross outstanding guarantees, SME & Midcap
Covid-19 more exposed industries					
Hotels and restaurants	5 190	5 190	640	4 550	2.7%
Retail	2 872	2 872	91	2 782	1.5%
Land transport services	2 899	2 899	490	2 409	1.5%
Art, entertainment and leasure	84	84	9	75	0.0%
Total Covid-19 more exposed industries	**11 045**	**11 045**	**1 230**	**9 816**	**5.9%**
Covid-19 less exposed industries					
Manufacturing	11 270	11 270	709	10 561	6.0%
Wholesale	8 882	8 882	910	7 972	4.7%
Construction	750	750	26	724	0.4%
Municipal authorities	4 378	4 378	216	4 162	2.3%
Information technologies and communication	63	63	1	62	0.0%
Professional, science and technical services	-	-	-	-	0.0%
Forestry	447	447	58	389	0.2%
Electricity, gas and water utilities	458	458	48	410	0.2%
Real estate	366	366	41	325	0.2%
Health and social care	500	500	12	488	0.3%
Other industries	540	540	39	501	0.3%
Total Covid-19 less exposed industries	**27 654**	**27 654**	**2 060**	**25 594**	**14.7%**
Total specific COVID-19 related guarantee products *	**38 699**	**38 699**	**3 290**	**35 410**	**20.5%**

* Includes SME loan credit holiday guarantees, portfolio guarantees and SME and Midcap companies loan holiday guarantees

3 Risk Management (cont'd)

(8) COVID-19 impact (cont'd)

Split of daily (ordinary) guarantee product portfolio of the SME and Midcap client segment by industries as at 31 December 2020, in thousands euro:

	Gross outstanding guarantees	of which, issued in 2020	Impairment allowance	Net outstanding guarantees	% of Total gross outstanding guarantees, SME & Midcap
Covid-19 more exposed industries					
Hotels and restaurants	865	-	98	767	0.5%
Retail	5 717	917	447	5 270	3.0%
Land transport services	2 921	612	358	2 563	1.5%
Art, entertainment and leasure	305	96	21	284	0.2%
Total Covid-19 more exposed industries	**9 808**	**1 625**	**924**	**8 884**	**5.2%**
Covid-19 less exposed industries					
Manufacturing	46 109	12 365	3 778	42 330	24.4%
Wholesale	32 744	12 060	1 737	31 007	17.3%
Construction	34 406	8 288	3 471	30 936	18.2%
Municipal authorities	2 110	405	249	1 861	1.1%
Information technologies and communication	2 847	201	150	2 697	1.5%
Professional, science and technical services	5 247	2 788	309	4 939	2.8%
Forestry	8 511	5 891	515	7 996	4.5%
Electricity, gas and water utilities	2 952	280	521	2 431	1.6%
Real estate	3 773	869	174	3 599	2.0%
Health and social care	703	100	75	628	0.4%
Other industries	825	179	95	729	0.4%
Total Covid-19 less exposed industries	**140 227**	**43 426**	**11 074**	**129 153**	**74.3%**
Total daily (ordinary) guarantee products	**150 035**	**45 051**	**11 998**	**138 037**	**79.5%**

For daily (ordinary) guarantee product portfolio the guarantee application assessment process, including, accepted credit risk level, eligible credit rating of the client, expected debt service capacity has not been lowered by Covid-19 situation in 2020. The same guarantee application assessment process applies to specific COVID-19 related support instruments.

(v) Investments in venture capital funds

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

The Covid-19 crisis still hinders new investments for the managers of the 4th generation venture capital funds thus challenging the selection of new projects and attraction of investors, implementing the Accelerator Programme and operations of start-ups. However that does not negatively impact any Group's / Company's undertaken commitments.

4 Interest income

All amounts in thousands of euro

	Group 01.01.2020.-31.12.2020.	Group 01.01.2019.-31.12.2019.	Company 01.01.2020.-31.12.2020.	Company 01.01.2019.-31.12.2019.
Interest on loans and guarantees	14 777	11 786	14 777	11 786
Interest on securities at fair value	1 628	1 529	1 628	1 529
Interest on securities at amortised cost	22	12	22	12
Other interest income	15	17	15	17
Total interest income	**16 442**	**13 344**	**16 442**	**13 344**

The Group's / Company's sub-item Interest income on loans and guarantees does not include interest income from loans and premium income on issued guarantees as well as commissions which, in accordance with the program agreements concluded with the Ministry of Economics, stipulates that the funding allocated by the Ministry of Economics (recognized in balance sheet item Support Programs Funding) must be increased by the respective program income. Accordingly, this type of income is not recognized as interest income, but is recognized as an increase in Support Programs Funding which in 2020 amounts to EUR 1,307 thousand (2019: EUR 1,167 thousand).

5 Interest expense

All amounts in thousands of euro

	Group 01.01.2020.-31.12.2020.	Group 01.01.2019.-31.12.2019.	Company 01.01.2020.-31.12.2020.	Company 01.01.2019.-31.12.2019.
Interest on balances due to credit institutions	585	446	585	446
Interest on issued debt securities	745	495	745	495
Allocation of state support programmes' profit to support programme funding *	503	804	503	804
Other commission expense	37	30	37	30
Total interest expense	**1 870**	**1 775**	**1 870**	**1 775**

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

6 Income for implementation of state support programmes

All amounts in thousands of euro

	Group 01.01.2020.-31.12.2020.	Group 01.01.2019.-31.12.2019.	Company 01.01.2020.-31.12.2020.	Company 01.01.2019.-31.12.2019.
Compensation of expenses for management of state support programmes	2 183	2 335	2 183	2 335
Compensation of venture capital fund management fees	3 447	3 247	3 447	3 247
Compensation of expenses for management of state support programmes of the previous years	602	274	602	274
Compensation of expenses of capital congestion	294	309	294	309
Total income from implementation of state support programmes	**6 526**	**6 165**	**6 526**	**6 165**

7 Expenses to be compensated for implementation of state support programmes

All amounts in thousands of euro

	Group 01.01.2020.-31.12.2020.	Group 01.01.2019.-31.12.2019.	Company 01.01.2020.-31.12.2020.	Company 01.01.2019.-31.12.2019.
Compensated staff costs	1 813	1 883	1 813	1 883
Compensated administrative expense	370	452	370	452
Compensated venture capital fund management fees	3 767	3 249	3 767	3 249
Total compensated expense for implementation of state support programmes	**5 950**	**5 584**	**5 950**	**5 584**

8 Gains from debt securities and foreign exchange transactions

All amounts in thousands of euro

	Group 01.01.2020.-31.12.2020.	Group 01.01.2019.-31.12.2019.	Company 01.01.2020.-31.12.2020.	Company 01.01.2019.-31.12.2019.
Gain from disposal of securities measured at FVOCI	-	92	-	92
(Loss) on currency exchange and trade and revaluation of other financial instruments, net	(56)	(2)	(56)	(2)
Total gain from debt securities and foreign exchange transactions	**(56)**	**90**	**(56)**	**90**

9 Other income

All amounts in thousands of euro

	Group 01.01.2020.-31.12.2020.	Group 01.01.2019.-31.12.2019.	Company 01.01.2020.-31.12.2020.	Company 01.01.2019.-31.12.2019.
Income from lease payments for operating leases	1 046	579	1 046	579
Income from payments for financial leases	324	112	324	112
Income from investment property revaluation	738	535	738	535
Income from sale of investment property	27	76	27	76
Income from sale of repossessed collateral	18	15	18	15
Other commission income	20	3	20	3
Income from mangement of the AIF "Altum capital fund" and compensation of set-up costs	269	-	269	-
Other operating income	611	848	611	848
Total other income	**3 053**	**2 168**	**3 053**	**2 168**

10 Other expense

All amounts in thousands of euro

	Group 01.01.2020.-31.12.2020.	Group 01.01.2019.-31.12.2019.	Company 01.01.2020.-31.12.2020.	Company 01.01.2019.-31.12.2019.
Maintenance and service costs of Land Fund	400	208	400	208
Debt collection costs	159	153	159	153
Maintenance costs of repossessed collateral	3	19	3	19
Revaluation of repossessed collateral	26	45	26	45
Depreciation of right-of-use assets	138	124	138	124
Commission expense on investments in securities	91	83	91	83
AIF "Altum capital fund" management costs	247	-	247	-
Loss from investments in subsidiaries	-	-	80	-
Other commission expense	1	2	1	2
Total other expense	**1 065**	**634**	**1 145**	**634**

11 Staff Costs

All amounts in thousands of euro

	Group 01.01.2020.-31.12.2020.	Group 01.01.2019.-31.12.2019.	Company 01.01.2020.-31.12.2020.	Company 01.01.2019.-31.12.2019.
Remuneration to the Supervisory Council and the Management Board *	459	568	459	568
to the Supervisory Council	*74*	*81*	*74*	*81*
to the Management Board	*385*	*487*	*385*	*487*
Remuneration to staff	5 309	4 674	5 309	4 674
Social security contributions	1 461	1 281	1 461	1 281
Total staff costs	**7 229**	**6 523**	**7 229**	**6 523**
Compensated staff costs (Note 7)	(1 813)	(1 883)	(1 813)	(1 883)
Net staff costs	**5 416**	**4 640**	**5 416**	**4 640**

* Remuneration to the Supervisory Council and the Management Board includes only short-term employee benefits.

In 2020, the Group / Company employed 215 persons on average, incl. 5 members of the Supervisory Board and the Audit Committee (2019: 208). Number of employees engaged in implementation of support programmes as at 31 December 2020 was 205 (31 December 2019: 196).

12 Administrative expenses

All amounts in thousands of euro

	Group 01.01.2020.-31.12.2020.	Group 01.01.2019.-31.12.2019.	Company 01.01.2020.-31.12.2020.	Company 01.01.2019.-31.12.2019.
Information system and communication expense	488	452	488	452
Premises and equipment maintenance expense	681	733	681	733
Advertising and public relations	238	298	238	298
Training and other staff expense	193	300	193	300
Professional services *	361	285	361	285
Other expense	69	73	69	73
Real estate tax	171	132	171	132
Total administrative expenses	**2 201**	**2 273**	**2 201**	**2 273**
Compensated administrative expense (Note 7)	(370)	(452)	(370)	(452)
Net administrative expenses	**1 831**	**1 821**	**1 831**	**1 821**

* The Group's / Company's sub-item Professional services includes audit services in amount of EUR 60.0 thousand, which were received during 2020 from the Group's / Company's sworn auditor Deloitte Audits Latvia Ltd.

13 Impairment losses, net

All amounts in thousands of euro

	Group 01.01.2020.- 31.12.2020.	Group 01.01.2019.- 31.12.2019.	Company 01.01.2020.- 31.12.2020.	Company 01.01.2019.- 31.12.2019.
Impairment losses on:	17 089	9 998	17 009	9 998
Loans, net	8 585	6 667	8 585	6 667
impairment losses	*12 225*	*8 793*	*12 225*	*8 793*
impairment losses covered by risk coverage reserve	*(3 640)*	*(2 126)*	*(3 640)*	*(2 126)*
Disbursed guarantee compensations	-	-	-	-
impairment losses	*57*	*-*	*57*	*-*
impairment losses covered by risk coverage reserve	*(57)*	*-*	*(57)*	*-*
Grants	169	11	169	11
Other assets	80	247	-	247
Due from credit institutions and the Treasury	-	2	-	2
Financial assets related to loan agreements	137	161	137	161
Debt securities	-	7	-	7
Guarantees, net	6 484	2 641	6 484	2 641
impairment losses	*14 442*	*15 752*	*14 442*	*15 752*
impairment losses covered by risk coverage reserve	*(7 958)*	*(13 111)*	*(7 958)*	*(13 111)*
Loan commitments, net	1 564	253	1 564	253
impairment losses	*1 953*	*608*	*1 953*	*608*
impairment losses covered by risk coverage reserve	*(389)*	*(355)*	*(389)*	*(355)*
Grant commitments	70	9	70	9
Reversal of impairment on:	(12 721)	(9 952)	(12 721)	(9 952)
Loans, net	(6 348)	(4 718)	(6 348)	(4 718)
reversal of impairment	*(8 130)*	*(5 897)*	*(8 130)*	*(5 897)*
reversal of impairment covered by risk coverage reserve	*1 782*	*1 179*	*1 782*	*1 179*
Disbursed guarantee compensations	(188)	(1 788)	(188)	(1 788)
reversal of impairment	*(323)*	*(1 902)*	*(323)*	*(1 902)*
reversal of impairment covered by risk coverage reserve	*135*	*114*	*135*	*114*
Grants	(5)	(13)	(5)	(13)
Other assets	(358)	-	(358)	-
Due from credit institutions and the Treasury	(2)	(5)	(2)	(5)
Financial assets related to loan agreements	(60)	(44)	(60)	(44)
Debt securities	(177)	(43)	(177)	(43)
Guarantees, net	(4 566)	(3 126)	(4 566)	(3 126)
reversal of impairment	*(13 060)*	*(6 692)*	*(13 060)*	*(6 692)*
reversal of impairment covered by risk coverage reserve	*8 494*	*3 566*	*8 494*	*3 566*
Loan commitments, net	(1 010)	(208)	(1 010)	(208)
reversal of impairment	*(1 398)*	*(1 369)*	*(1 398)*	*(1 369)*
reversal of impairment covered by risk coverage reserve	*388*	*1 161*	*388*	*1 161*
Grant commitments	(7)	(7)	(7)	(7)
Total impairment losses / (reversal), net	4 368	46	4 288	46
Recovery of loans written off in previous periods	(888)	(1 745)	(888)	(1 745)
Total impairment losses and (income) from recovery of loans written-off	**3 480**	**(1 699)**	**3 400**	**(1 699)**

Additional information Including on impairment allowances covered by Portfolio Loss Reserve (Special Reserve Capital) upon approval of the 2020 annual report available in Note 3.1.

14 Due from credit institutions and the Treasury

All amounts in thousands of euro

	Group 31.12.2020.	Group 31.12.2019.	Company 31.12.2020.	Company 31.12.2019.
Due from credit institutions and State Treasury	359 949	181 201	359 949	181 049
cash and cash equivalent	*359 949*	*176 199*	*359 949*	*176 047*
Impairment allowances	-	(2)	-	(2)
Net due from credit institutions and State Treasury	**359 949**	**181 199**	**359 949**	**181 047**

Placing the funds within the Treasury of the Republic of Latvia and credit institutions, the external credit ratings assigned to these credit institutions are evaluated. The evaluation of the credit 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 monitors the credit institutions and follows that the assigned limits comply with credit risk assessment. All balances due from credit institutions and State Treasury represent Stage 1 for the ECL calculation purposes. There were no changes in staging during the reporting period, but there were changes in the calculated ECL during the reporting period due to term deposit that expired in 2020.

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

Ratings	Aaa	Aa1-Aa3	A1-A3	Baa1-Baa3	Ba1-Ba3	B1-B3	Caa-C	Withdrawn rating (*WR*)	Total
Due from credit institutions registered in the Republic of Latvia and the Treasury	-	12 435	138 364	23 973	6 427	-	-	-	181 199
Total gross as at 31 December 2019	**-**	**12 435**	**138 364**	**23 973**	**6 427**	**-**	**-**	**-**	**181 199**
Due from credit institutions registered in the Republic of Latvia and the Treasury	-	3 965	336 739	9 561	9 684	-	-	-	359 949
Total gross as at 31 December 2020	**-**	**3 965**	**336 739**	**9 561**	**9 684**	**-**	**-**	**-**	**359 949**

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

Ratings	Aaa	Aa1-Aa3	A1-A3	Baa1-Baa3	Ba1-Ba3	B1-B3	Caa-C	Withdrawn rating (*WR*)	Total
Due from credit institutions registered in the Republic of Latvia and the Treasury	-	12 435	138 364	23 821	6 427	-	-	-	181 047
Total gross as at 31 December 2019	**-**	**12 435**	**138 364**	**23 821**	**6 427**	**-**	**-**	**-**	**181 047**
Due from credit institutions registered in the Republic of Latvia and the Treasury	-	3 965	336 739	9 561	9 684	-	-	-	359 949
Total gross as at 31 December 2020	**-**	**3 965**	**336 739**	**9 561**	**9 684**	**-**	**-**	**-**	**359 949**

As at 31 December 2020, the Group/Company held accounts with 4 banks and the Treasury of the Republic of Latvia. The increase in balances Due from credit institutions and the Treasury is due to the financing from the Ministry of Economics and European Investment Bank for implementation of the state aid programmes for companies in order to mitigate the negative impact of Covid-19, the average interest rate on balances due from credit institutions was 0.0% (31 December 2019: -0.02%).

15 Investment Securities

All amounts in thousands of euro

	Group 31.12.2020.	Group 31.12.2019.	Company 31.12.2020.	Company 31.12.2019.
Investment securities valued at amortised cost				
Latvian Treasury bills and government bonds	407	439	407	439
OECD corporate bonds	3 433	3 926	3 433	3 926
Total investment securities valued at amortised cost	**3 840**	**4 365**	**3 840**	**4 365**
Impairment allowances	(3 399)	(3 887)	(3 399)	(3 887)
Net investment securities valued at amortised cost	**441**	**478**	**441**	**478**
Investment securities valued at fair value through other comprehensive income				
Latvian Treasury bills and government bonds	36 958	47 941	36 958	47 941
Total investment securities valued at fair value through other comprehensive income	**36 958**	**47 941**	**36 958**	**47 941**
Total gross investment securities	**40 798**	**52 306**	**40 798**	**52 306**
Total net investment securities	**37 399**	**48 419**	**37 399**	**48 419**

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

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

Ratings	Aaa	Aa1-Aa3	A1-A3	Baa1-Baa3	Ba1-Ba3	B1-B3	Caa-C	Withdrawn rating (*WR*)	Total
Investment securities valued at fair value through other comprehensive income	-	-	47 941	-	-	-	-	-	47 941
Investment securities valued at amortised cost	-	-	439	-	-	-	-	3 926	4 365
Total gross as at 31 December 2019	**-**	**-**	**48 380**	**-**	**-**	**-**	**-**	**3 926**	**52 306**
Investment securities valued at fair value through other comprehensive income	-	-	36 958	-	-	-	-	-	36 958
Investment securities valued at amortised cost	-	-	407	-	-	-	-	3 433	3 840
Total gross as at 31 December 2020	**-**	**-**	**37 365**	**-**	**-**	**-**	**-**	**3 433**	**40 798**

The information about classification of investment securities is available in Note 2 (5) item (iv). All securities are quoted. The average yield on debt securities was 4.54% as at 31 December 2020 (2019: 2.09%)

16 Financial assets at fair value through profit or loss

All amounts in thousands of euro

	Group 31.12.2020.	Group 31.12.2019.
Investments of subsidiaries in underlying undertakings	5 425	4 217
Total financial assets at fair value through profit or loss - investments of subsidiaries in underlying undertakings	**5 425**	**4 217**

In 2020, the Company made disbursements to the 4nd generation venture capital funds. Some of these funds are classified as investments in subsidiaries. At the Group level the equity investments made by the subsidiaries are consolidated. None of these equity investments represent a controlling stake. For more information on the classification see Note 22, for accounting policy Note 2 (6) item (iv).

17 Investments in Associates

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

		Equity of venture capital fund		Carrying Amount	
Company or venture capital fund generation	**Country of incorporation**	31.12.2020.	31.12.2019.	31.12.2020.	31.12.2019.
The 1st generation VCFs	LV	-	2 387	-	1 508
The 2nd generation VCFs	LV	19 652	18 227	12 953	12 990
The 3rd generation VCFs	LV	16 974	21 493	16 376	21 308
The 4th generation VCFs	LV	6 459	8 622	3 640	2 636
AIF "Altum capital fund"	LV	138	-	-	-
Baltic Innovation Fund *	LU	79 570	72 190	15 019	13 851
Total investments in associates		**122 793**	**122 919**	**47 988**	**52 293**

* Investments in Associates are stated under the equity method, except for investments in Baltic Innovation Fund that are valued at fair value through profit or loss.

As at 31 December 2020 the total venture capital funds' portfolio value at cost value was EUR 73,165 thousand (as at 31 December 2019: EUR 68,331 thousand).

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

	Investments in venture capital ffunds		**Investments in AIF "Altum capital fund"**		**Investments in Baltic Innovation Fund**		**Total**	
	01.01.2020.-31.12.2020.	01.01.2019.-31.12.2019.	01.01.2020.-31.12.2020.	01.01.2019.-31.12.2019.	01.01.2020.-31.12.2020.	01.01.2019.-31.12.2019.	01.01.2020.-31.12.2020.	01.01.2019.-31.12.2019.
Carrying amount at the beginning of period	38 442	39 252	-	-	13 851	10 988	52 293	50 240
Invested	1 546	2 616	-	-	3 129	3 708	4 675	6 324
Refunded	(6 196)	(3 290)	-	-	(2 499)	(778)	(8 695)	(4 068)
Reclassified	-	-	-	-	-	(250)	-	(250)
Mezzanine interest received and realised gain on exit	1 271	1 133 *	-	-	250	165	1 521	1 298
Share of net loss of investment in associate	(2 094)	(1 269) *	-	-	-	-	(2 094)	(1 269)
Remeasurement gain of investment in associate at fair value through profit or loss	-	-	-	-	288	18	288	18
Net carrying amount at the period ended at 31 December	**32 969**	**38 442**	**-**	**-**	**15 019**	**13 851**	**47 988**	**52 293**

* Comparatives for the year ended 31 December 2019 disclosed separately instead of netting off.

In 2020, the Group's / Company's expenses that were compensated by support programme funding (see Note 31) included:

- Management fees for the 2nd and 3rd generation venture capital funds amounted EUR 921 thousand (2019: EUR 825 thousand) which were compensated from the risk coverage reserve;
- Management fees for the 4th generation venture capital funds amounted EUR 807 thousand (2019: EUR 481 thousand) which were compensated from the risk coverage reserve;
- Management fees for the Baltic Innovation Fund amounted EUR 236 thousand (2019: EUR 94 thousand) which were compensated from the risk coverage reserve;
- Management fees for the AIF "Altum capital fund" amounted EUR 207 thousand (2019: 0).

Part of disbursements made into the 4th generation venture capital funds are classified as Investments in subsidiaries (detailed information is available in Note 1) and management fees of such funds amounted EUR 1,317 thousand (2019: EUR 1,219 thousand) which were compensated from the Risk Coverage reserve.

18 Other Investments

All amounts in thousands of euro

	Group 31.12.2020.	Group 31.12.2019.	Company 31.12.2020.	Company 31.12.2019.
Baltic Innovation Fund II	806	250	806	250
Three Seas Initiatives Investment Fund	6 696	-	6 696	-
Total other investments	**7 502**	**250**	**7 502**	**250**

Baltic Innovation Fund 2 (BIF 2) is a EUR 156,000 thousand Fund-of-Funds initiative launched by the European Investment Fund (EIF) in co-operation with the Baltic national promotional institutions – KredEx (Estonia), Altum (Latvia) and Invega (Lithuania). BIF 2 continues to sustain investments into private equity and venture capital funds focused on the Baltic States to boost equity investments into SMEs with high growth potential. The Group / Company signed agreement on BIF 2 on 16 August 2019. The total capital committed by the Group / Company to the BIF2 is EUR 26,500 thousand thus arriving at the ownership rate 16.99% of the total committed capital of the BIF 2 (EUR 156,000 thousand).

The Three Seas Initiative Investment Fund is a new financial instrument for financing and developing infrastructure projects in 12 countries, including Latvia, aimed at reducing infrastructure development gaps between different European regions. The Three Seas Initiative Investment Fund is a new financial instrument to support transport, energy and digitalization infrastructure projects in Central and Eastern Europe. The Group / Company signed the subscription agreement on 16 September 2020. The total capital committed by the Group / Company to the Three Seas Initiative Investment Fund is EUR 20,000 thousand thus arriving at the ownership rate 3.57% of the total committed capital the Three Seas Initiative Investment Fund (EUR 560,000 thousand).

Accounting policies of other investments are described in Note 2 (6)

19 Loans

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

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

	Group 31.12.2020.	Group 31.12.2019.	Company 31.12.2020.	Company 31.12.2019.
SME and Midcaps	168 262	99 282	168 262	99 282
Agriculture	124 297	113 711	124 297	113 711
Private individuals	8 025	9 578	8 025	9 578
Financial Intermediaries	1 897	2 573	1 897	2 573
Land Fund	31 500	15 268	31 500	15 268
Total gross loans	**333 981**	**240 412**	**333 981**	**240 412**
Impairment allowances	(20 713)	(20 283)	(20 713)	(20 283)
Total net loans	**313 268**	**220 129**	**313 268**	**220 129**

19 Loans (cont'd)

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

	Group 31.12.2020.	Group 31.12.2019.	Company 31.12.2020.	Company 31.12.2019.
Agriculture and forestry	155 682	123 413	155 682	123 413
Manufacturing	67 807	50 035	67 807	50 035
Retail and wholesale	32 378	15 272	32 378	15 272
Real estate	10 273	7 543	10 273	7 543
Construction	9 328	2 358	9 328	2 358
Municipal authorities	8 328	1 562	8 328	1 562
Hotels and restaurants	8 214	4 375	8 214	4 375
Electricity, gas and water utilities	7 097	7 266	7 097	7 266
Transport, warehousing and communications	5 227	1 045	5 227	1 045
Professional, science and technical services	4 878	2 649	4 878	2 649
Health and social care	4 479	3 684	4 479	3 684
Information technologies and communication	3 073	579	3 073	579
Fishing	1 647	1 786	1 647	1 786
Other industries	7 545	5 936	7 545	5 936
Private individuals	8 025	12 909	8 025	12 909
Total gross loans	**333 981**	**240 412**	**333 981**	**240 412**
Impairment allowances	(20 713)	(20 283)	(20 713)	(20 283)
Total net loans	**313 268**	**220 129**	**313 268**	**220 129**

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

	Group 31.12.2020.	Group 31.12.2019.	Company 31.12.2020.	Company 31.12.2019.
Number of customers	36	29	36	29
Total credit exposure of customers (EUR '000)	62 821	42 623	62 821	42 623
Percentage of total gross portfolio of loans	18.81%	17.73%	18.81%	17.73%

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

	Group 01.01.2020.-31.12.2020.	Group 01.01.2019.-31.12.2019.	Company 01.01.2020.-31.12.2020.	Company 01.01.2019.-31.12.2019.
Impairment allowances at the beginning of the period	20 283	19 376	20 283	19 376
Increase in impairment allowances (Note 13)	12 225	8 793	12 225	8 793
Decrease in impairment allowances (Note 13)	(8 130)	(5 897)	(8 130)	(5 897)
Write-off of loans	(3 665)	(1 989)	(3 665)	(1 989)
Currency change	-		-	
Impairment allowances at the end of the period ended 31 December	**20 713**	**20 283**	**20 713**	**20 283**
Group's / Company's share of impairment allowances	*14 219*	*14 917*	*14 219*	*14 917*
Impairment allowances covered by risk coverage	*6 494*	*5 367*	*6 494*	*5 367*

As at 31 December 2020 the average annual interest rate for the loan portfolio of the Group / Company was 4.05% (31 December 2019: 4.19%).

20 Grants

All amounts in thousands of euro

	Group 31.12.2020.	Group 31.12.2019.	Company 31.12.2020.	Company 31.12.2019.
Energy Efficiency Programme for Multi-apartment Buildings	30 053	16 826	30 053	16 826
Social Entrepreneurship Programme	1 065	371	1 065	371
Grants for development of energy efficiency projects	-	1	-	1
Housing grant programme "Balsts"	164	-	164	-
Total grants, gross	**31 282**	**17 198**	**31 282**	**17 198**
Impairment allowances	(175)	(12)	(175)	(12)
Total grants, net	**31 107**	**17 186**	**31 107**	**17 186**

Movement in the Group's / Company's net book value of grants in 2020, in thousands of euro:

	Group 01.01.2020.-31.12.2020.	Group 01.01.2019.-31.12.2019.	Company 01.01.2020.-31.12.2020.	Company 01.01.2019.-31.12.2019.
Grants				
At the beginning of period	17 198	22 575	17 198	22 575
Changes	14 084	(5 377)	14 084	(5 377)
At the end of period ended 31 December	31 282	17 198	31 282	17 198
Impairment allowances				-
At the beginning of period	(12)	(14)	(12)	(14)
Changes	(163)	2	(163)	2
At the end of period ended 31 December	(175)	(12)	(175)	(12)
Grants net book at the beginning of the period	**17 174**	**22 561**	**17 174**	**22 561**
Grants net book value at the end of the period ended 31 December	**31 107**	**17 186**	**31 107**	**17 186**

21 Investment Properties

All amounts in thousands of euro

	Group 31.12.2020.	Group 31.12.2019.	Company 31.12.2020.	Company 31.12.2019.
Carrying amount at the beginning of period	24 366	14 794	24 366	14 794
Acquired during the reporting period	11 695	9 145	11 695	9 145
Disposals during the reporting period	(40)	(98)	(40)	(98)
Net gain from fair value adjustment	737	525	737	525
Carrying amount at the end of the period	**36 758**	**24 366**	**36 758**	**24 366**

All acquisitions of investment properties made in 2020 were related to the activities of the Land Fund programme.

The Land Fund was established on 1 July 2015. According to the Cabinet of Ministers decree dated March 11, 2015, the Group / Company is the manager of the Land Fund. The Law "On Land Privatisation in Rural Areas" stipulated establishment of the Land Fund. The Land Fund of Latvia is one of the tools used to ensure that agricultural land is preserved and used for agricultural purposes.

The accounting policy for investment properties is described in Note 2 (9) item (iv).

22 Investments in Subsidiaries

In 2020, disbursements were made to the 4nd generation venture capital funds, some of which are classified as investments in subsidiaries, but some as investments in associates. All these investments are made into newly established venture capital funds with payments made upon call for funds. The Company has the right to appoint fund manager and fund manager is governing each particular venture capital fund. The Company also has ability to unconditionally remove fund manager. This ability expires within two years after certain date determined in each separate agreement with fund manager.

At the Group level the investments in subsidiaries are consolidated. For more information on the structure of the Group see Note 1. Accounting policies of investments in subsidiaries are described in Note 2 (2) and Note 2 (6) item (iii).

22 Investments in Subsidiaries (cont'd)

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

	Company 31.12.2020.	Company 31.12.2019.
KS Overkill Ventures Fund I	817	550
KS Buildit Latvia Pre-Seed Fund	753	608
KS Commercialization Reactor Pre-seed Fund	750	510
KS INEC 1	1 696	1 312
KS INEC 2	863	832
Total investments in the share capital of subsidiaries	**4 879**	**3 812**

Breakdown of subsidiaries' net assets value and profit or loss volume in 2020, which is based on audited venture capital funds' financial statements for the year ended 31 December 2020, in thousands of euro:

	Net assets value		Profit or loss	
	31.12.2020.	31.12.2019.	01.01.2020.-31.12.2020.	01.01.2019.-31.12.2019.
KS Overkill Ventures Fund I	-	569	-	(331)
KS Buildit Latvia Pre-Seed Fund	1 017	723	(343)	(359)
KS Commercialization Reactor Pre-seed Fund	-	622	-	(303)
KS INEC 1	2 845	1 772	(282)	(197)
KS INEC 2	1 118	925	(381)	(148)
Total	**4 980**	**4 611**	**(1 006)**	**(1 338)**

23 Intangible Assets

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

	Group 31.12.2020.	Group 31.12.2019.	Company 31.12.2020.	Company 31.12.2019.
Computer software	1 398	1 395	1 398	1 395
Total intangible assets	**1 398**	**1 395**	**1 398**	**1 395**

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

	Group 31.12.2020.	Group 31.12.2019.	Company 31.12.2020.	Company 31.12.2019.
Original cost				
At the beginning of period	4 393	5 111	4 393	5 111
Additions	392	323	392	323
Disposals	-	(1 041)	-	(1 041)
At the end of period ended at December 31	4 785	4 393	4 785	4 393
Accumulated depreciation				
At the beginning of period	2 998	3 764	2 998	3 764
Depreciation charge	389	275	389	275
Disposals	-	(1 041)	-	(1 041)
At the end of period ended at December 31	3 387	2 998	3 387	2 998
Net book value at the beginning of period	**1 395**	**1 347**	**1 395**	**1 347**
Net book value as at 31 December	**1 398**	**1 395**	**1 398**	**1 395**

24 Property, Plant and Equipment

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

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

	Group 31.12.2020.	Group 31.12.2019.	Company 31.12.2020.	Company 31.12.2019.
Property, plant and equipment	4 298	4 191	4 298	4 191
Right-of-use assets	419	503	419	503
Total property, plant and equipment	**4 717**	**4 694**	**4 717**	**4 694**

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

	Land and buildings	Vehicles	Office equipment *	Leasehold improvements	Total
Cost at 31 December 2018	4 609	427	5 494	380	10 910
Accumulated depreciation	(1 340)	(427)	(4 538)	(331)	(6 636)
Impairment allowances	-	-	-	(46)	(46)
Carrying amount at 31 December 2018	**3 269**	**-**	**956**	**3**	**4 228**
Transfers upon adoption of IFRS 16	-	-		(380)	(380)
Additions	180	-	298	-	478
Disposals	-	(295)	(280)	-	(575)
Depreciation charge	(170)		(329)	-	(499)
Change in depreciation from disposals	-	295	267	331	893
Change in impairment allowances	-	-	-	46	46
Carrying amount at 31 December 2019	**3 279**	**-**	**912**	**-**	**4 191**
Cost at 31 December 2019	4 789	132	5 512	-	10 433
Accumulated depreciation	(1 510)	(132)	(4 600)	-	(6 242)
Carrying amount at 31 December 2019	**3 279**	**-**	**912**	**-**	**4 191**
Additions	317	-	439	-	756
Disposals	(130)	(88)	(887)	-	(1 105)
Depreciation charge	(187)	-	(341)	-	(528)
Change in depreciation from disposals	14	88	882		984
Change in impairment allowances	-	-	-	-	-
Carrying amount at 31 December 2020	**3 293**	**-**	**1 005**	**-**	**4 298**
Cost at 31 December 2020	4 976	44	5 064	-	10 084
Accumulated depreciation	(1 683)	(44)	(4 059)	-	(5 786)
Impairment allowances	-	-	-	-	-
Carrying amount at 31 December 2020	**3 293**	**-**	**1 005**	**-**	**4 298**

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

25 Property, Plant and Equipment (cont'd)

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

	Land and buildings	Vehicles	Office equipment *	Leasehold improvements	Total
Cost transferred upon adoption of IFRS 16	-	-	-	380	380
Accumulated depreciation	-	-	-	(331)	(331)
Impairment allowances	-	-	-	(46)	(46)
Carrying amount at 31 December 2018	**-**	**-**	**-**	**3**	**3**
Additions	555	183	-	-	738
Disposals	(121)	-	-	-	(121)
Depreciation charge	(81)	(33)	-	(3)	(117)
Carrying amount at 31 December 2019	**353**	**150**	**-**	**-**	**503**
Cost at 31 December 2019	434	183	-	380	997
Accumulated depreciation	(81)	(33)	-	(334)	(448)
Impairment allowances	-	-	-	(46)	(46)
Carrying amount at 31 December 2019	**353**	**150**	**-**	**-**	**503**
Additions	-	45	-	-	45
Disposals	-	-	-	(380)	(380)
Depreciation charge	(86)	(43)	-	334	205
Change in depreciation from disposals	-	-	-		-
Change in impairment allowances	-	-	-	46	46
Carrying amount at 31 December 2020	**267**	**152**	**-**	**-**	**419**
Cost at 31 December 2020	434	228	-	-	662
Accumulated depreciation	(167)	(76)	-	-	(243)
Carrying amount at 31 December 2020	**267**	**152**	**-**	**-**	**419**

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

26 Other Assets

All amounts in thousands of euro

	Group 31.12.2020.	Group 31.12.2019.	Company 31.12.2020.	Company 31.12.2019.
Financial assets	5 603	6 095	5 568	6 095
Other assets (repossessed collateral)	28	503	28	503
Total other assets, gross	**5 631**	**6 598**	**5 596**	**6 598**
Impairment allowances for financial assets	(1 960)	(3 028)	(1 960)	(3 028)
Group's / Company's share of provisions	*(1 078)*	*(2 204)*	*(1 078)*	*(2 204)*
Provisions covered by risk coverage	*(882)*	*(824)*	*(882)*	*(824)*
Total financial assets, net	**3 643**	**3 067**	**3 608**	**3 067**
Total other assets, net	**3 671**	**3 570**	**3 636**	**3 570**

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

26 Other Assets (cont'd)

Movement in the Group's net book value of financial assets in 2020, in thousands of euro:

	Disbursed guarantee compensations	Financial assets related to loan agreements	Other financial assets	Total
Financial assets				
At the beginning of period	2 361	164	3 571	6 096
Changes	(737)	116	128	(493)
As at 31 December 2020	1 624	280	3 699	5 603
Impairment provision				
At the beginning of period	(2 361)	(142)	(525)	(3 028)
Changes in impairment allowances	737	(27)	358	1 068
As at 31 December 2020	(1 624)	(169)	(167)	(1 960)
Net book value at the beginning of period	**-**	**22**	**3 046**	**3 068**
Net book value as at 31 December 2020	**-**	**111**	**3 532**	**3 643**

Movement in the Company's net book value of financial assets in 2020, in thousands of euro:

	Disbursed guarantee compensations	Financial assets related to loan agreements	Other financial assets	Total
Financial assets				
At the beginning of period	2 361	164	3 571	6 096
Changes	(737)	116	93	(528)
As at 31 December 2020	1 624	280	3 664	5 568
Impairment provision				
At the beginning of period	(2 361)	(142)	(525)	(3 028)
Changes in impairment allowances	737	(27)	358	1 068
As at 31 December 2020	(1 624)	(169)	(167)	(1 960)
Net book value at the beginning of period	**-**	**22**	**3 046**	**3 068**
Net book value as at 31 December 2020	**-**	**111**	**3 497**	**3 608**

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

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

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

	Group 31.12.2020.	Group 31.12.2019.	Company 31.12.2020.	Company 31.12.2019.
At the beginning of period	503	820	503	820
Additions	53	1 502	53	1 502
Disposals	(528)	(1 138)	(528)	(1 138)
Reclassified	-	(636)	-	(636)
Revaluation	-	(45)	-	(45)
Total other assets at the end of period ended 31 December	**28**	**503**	**28**	**503**

27 Deferred Expense

All amounts in thousands of euro

	Group 31.12.2020.	Group 31.12.2019.	Company 31.12.2020.	Company 31.12.2019.
Management fees paid in advance to venture capital funds' managers	495	490	495	490
Other deferred expense	254	204	254	204
Total deferred expense	**749**	**694**	**749**	**694**

28 Accrued Income

All amounts in thousands of euro

	Group 31.12.2020.	Group 31.12.2019.	Company 31.12.2020.	Company 31.12.2019.
Compensation for management expenses of state support programs	772	1 649	772	1 649
Other accrued income	-	-	-	-
Total accrued income	**772**	**1 649**	**772**	**1 649**

29 Assets Held for Sale

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

	Group 01.01.2020.-31.12.2020.	Group 01.01.2019.-31.12.2019.	Company 01.01.2020.-31.12.2020.	Company 01.01.2019.-31.12.2019.
(Loss) on the revaluation of assets held for sale	-	(105)	-	(105)
Total (loss) on the revaluation of assets held for sale	**-**	(105)	**-**	(105)

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

30 Due to Credit Institutions

All amounts in thousands of euro

	Group 31.12.2020.	Group 31.12.2019.	Company 31.12.2020.	Company 31.12.2019.
Due to credit institutions registered in OECD countries	65 855	29 542	65 855	29 542
Total due to credit institutions	**65 855**	**29 542**	**65 855**	**29 542**

Subitem Balances due to credit institutions registered in the OECD countries include loan received by the Group / Company from the European Investment Bank (EIB) of EUR 65,855 thousand (31.12.2019: EUR 29,542 thousand), of which EUR 22 thousand constitutes accrued interest expenses (31.12.2019: EUR 28 thousand). In the reporting period, the Group / Company repaid the principal in amount of EUR 8,680 thousand. The Ministry of Finance of the Republic of Latvia has issued a guarantee for the loan of EUR 20,855 thousand (31.12.2019: EUR 29,542 thousand), which is considered a parent guarantee on behalf of the Group / Company.

In December 2019, Altum signed a loan agreement with the European Investment Bank for EUR 18,000 thousand for funding sustainable climate change mitigation projects. In addition to funds raised by green bonds, this funding will allow for offering loans to enterprises and ESCO with a considerably longer maturity up to 15 years aligning it with the investment project payback period. The drawdown of the loan still has not started. The loan is unsecured.

On July 8, 2020, Altum signed an agreement with the European Investment Bank for a loan of EUR 80,000 thousand to finance working capital loans to small and medium-sized enterprises affected by the Covid-19. In July the first tranche of the loan in the amount of EUR 30,000 thousand was received and its final repayment date is May 20, 2025, but in December the next tranche in the amount of EUR 15,000 thousand was received, which final repayment date is November 20, 2025. The loan is unsecured.

As at 31 December 2020, the average interest rate for the balances due to credit institutions was 0.11% (31.12.2019: 0.31%).

30 Due to General Governments

All amounts in thousands of euro

	Group 31.12.2020.	Group 31.12.2019.	Company 31.12.2020.	Company 31.12.2019.
Loans received from Rural Support Service	4 046	5 565	4 046	5 565
Loans received from the Treasury	99 474	80 707	99 474	80 707
Total due to general governments	**103 520**	**86 272**	**103 520**	**86 272**

Subitem Loans from Rural Support Service includes the financing to the Loan Fund, which was established in 2010 for the purpose to issue the loans to the agricultural and fisheries beneficiaries via financial intermediaries. As at 31 December 2020 the Group/Company liabilities to Rural Support Service consist of the principal amount of EUR 3,829 thousand (31.12.2019: EUR 5,337 thousand) and accrued interest – EUR 217 thousand (31.12.2019: EUR 228 thousand). The final repayment date is 31 December 2025. The loan from Rural Support Service is unsecured.

Subitem Loans received from the Treasury includes the loans received by the Group/Company for the implementation the following loan programmes:

- Agricultural land acquisition programme: as at 31 December 2020 the principal amount of the loan EUR 72,513 thousand (31.12.2019: EUR 67,399 thousand), the final repayment date 31 December 2050. As a collateral serves the commercial pledge to the right of the Company's claims resulting from loans granted by the Group/Company under the programme. As at 31 December 2020, according to the loan agreement the Company is available the financing in the amount of EUR 11,353 thousand, the size and pace of its drawdown relates to the further volume of new loan transactions. As at 31 December 2020, the amount of the secured claim was EUR 72,514 thousand (31December 2019: EUR 67,400 thousand).
- SME development programme: as at 31 December 2020 the principal amount of the loan EUR 17,040 thousand (31.12.2019: EUR 9,997 thousand), the final repayment date 31 December 2040. As a collateral serves the commercial pledge to the right of the Company's claims resulting from loans granted by the Group/Company under the programme. As at 31 December 2020, according to the loan agreement the Company still is available the financing in the amount of EUR 37,960 thousand, the size and pace of its drawdown relates to the further volume of new loan transactions As at 31 December 2020, the amount of the secured claim was EUR 20,449 thousand (31December 2019: EUR 11,996 thousand).
- Latvian Land Fund (the financing for the Fund's transactions): as at 31 December 2020 the loan amount has been used and the principal amount of the loan EUR 9,919 thousand (31.12.2019: EUR 3,309 thousand), the final repayment date 29 December 2028. As a collateral serves the mortgage on the real estate purchased with the financing received under the loan. As at 31 December 2020, the amount of registered mortgage was EUR 10,269 thousand (31 December 2019: EUR 8,284 thousand).

As at 31 December 2020 the accrued interest on the loans received from the Treasury amounts to EUR 1,743 (31.12.2019: EUR 1,302).

The Company has also concluded the following loan agreements with the Treasury, the acquisition of which has not been started until December 31, 2020:

- Micro Loans and Star-up Loans programme: the amount of the loan agreement EUR 23,000 thousand, the final repayment date 31 December 2028, commercial pledge on the Company's claims for the loans under the programme. The size and pace of the drawdown the loan relates to the further volume of new loan transactions. The maximum amount of the secured claim is EUR 27,600 thousand.
- Parallel Loan programme: the amount of the loan agreement EUR 20,000 thousand, the final repayment date 31 January 2036, commercial pledge on the Company's claims for the loans under the programme. The size and pace of the drawdown the loan relates to the further volume of new loan transactions. The maximum secured claim is EUR 24,000 thousand.
- Working capital loan programme for farmers: the amount of the loan agreement EUR 25,612 thousand, the final repayment date 30 June 2025, commercial pledge on the Company's claims for the loans under the programme. The size and pace of the drawdown the loan relates to the further volume of new loan transactions. The maximum secured claim is EUR 30,734 thousand.

31 Support programme funding

The Group's / Company's information on the risk coverage reserve included in the support programme funding and state aid, which can be used for covering the Group's / Company's credit risk losses as at 31 December 2020, in thousands of euro:

Financial Instrument / Programme	Programme funding *	Credit risk coverage	Provisions covered by risk coverage	Net programme funding
Loans				
ERDF II	2 038	1 866	(467)	1 571
ESF II	998	193	(86)	912
Microcredits of Swiss programme	3 456	268	(12)	3 444
ERDF I	116	99	(9)	107
ESF I	324	40	(31)	293
ERDF II (second round)	5 751	425	(75)	5 676
Incubators (from ESF II)	82	7	-	82
ERAF II 2 Public fund	285	58	(14)	271
Fund of Funds programme – Start-up loans	2 730	2 730	(314)	2 416
Fund of Funds programme – Microcredits	298	298	(26)	272
Fund of Funds programme – Parallel loans	3 861	3 861	(2 736)	1 125
Energy Efficiency Programme for Multi-apartment Buildings Loans	3 748	3 548	(42)	3 706
Start-up State Aid Cumulation Lending Programme	1 972	1 988	(266)	1 706
Other loans to start-ups	1 483	274	(67)	1 416
Mezzanine Programme – Loans	3 201	2 817	(2 352)	849
Guarantees and interest grants programme	4 251	4 251	-	4 251
SME energy efficiency loans	3 723	3 723	-	3 723
Parallel loans	2 000	2 000	(238)	1 762
Loans for enterprises in rural territories	7 810	1 709	(86)	7 724
Loans to Midcaps for mitigation of the COVID-19 effect	2 435	-	-	2 435
Start-up loans to innovative entrepreneurs	500	100	-	500
Total loans	**51 062 ****	**30 255**	**(6 821)**	**44 241**
Guarantees				
Fund of Funds programme - Guarantees	26 907	26 906	(6 288)	20 619
Energy Efficiency Programme for Multi-apartment Buildings Guarantees	6 217	5 875	(991)	5 226
Housing Guarantee Programme	14 005	14 005	(9 669)	4 336
Guarantee Programme for Clients of State Aid Accumulation, Grace Period and Large Economic Operators	7 753	7 753	(1 078)	6 675
Mezzanine Programme - Guarantees	1 190	1 047	(734)	456
Portfolio Guarantee Fund	4 005	3 685	(1 722)	2 283
Export guarantees	2 477	2 477	(570)	1 907
Study and student portfolio guarantees	77	-	-	77
Agricultural Guarantees	1 000	1 000	(324)	676
Total guarantees	**63 631**	**62 748**	**(21 376)**	**42 255**
Grants				
Energy Efficiency Programme for Multi-apartment Buildings Grants	40 538	-	-	40 538
Social Entrepreneurship Programme	3 266	-	-	3 266
Grants for development of energy efficiency projects	1 564	-	-	1 564
Housing grant programme "Balsts"	172	-	-	172
Total grants	**45 540**	**-**	**-**	**45 540**
Venture Capital Funds				-
Fund of Funds and venture capital funds	26 654	14 967	-	26 654
Investment Fund Activity	5 272	3 173	-	5 272
Baltic Innovation Fund	2 000	700	-	2 000
Baltic Innovation Fund II	2 359	724	-	2 359
Total venture capital funds	**36 285**	**19 564**	**-**	**36 285**

* The IFRS 9 implementation adjustment of EUR (7,645) thousand incorporated in 2018 (for details see Note 2 (15)) consisting of Accrued liabilities of state aid and Fair value correction previously disclosed in this note as separate columns reconciling Programme funding and Net programme funding are netted off vs Programme funding as at 31 December 2020. That disclosure treatment is the same as was presented in the audited financial statements for the year ended 31 December 2018.

** Support programme funding includes funding that is planned to be reallocated to other support programmes. Funding is planned to be reallocated at the beginning of 2021.

31 Support programme funding (cont'd)

The Group's / Company's information on the risk coverage reserve included in the support programme funding and state aid, which can be used for covering the Group's / Company's credit risk losses as at 31 December 2020, in thousands of euro (cont'd):

Financial Instrument / Programme	Programme funding *	Credit risk coverage	Provisions covered by risk coverage	Net programme funding
Other Activities				
Energy Efficiency Fund	433	-	-	433
Regional Creative Industries Alliance	-	-	-	-
Total other activities	**433**	**-**	**-**	**433**
Funding allocated to increase reserve capital ***	23 209	-	-	23 209
Total support programme funding	**220 160 ********	**112 567**	**(28 197)**	**191 963**

*** In December 2020, the Ministry of Economics transferred financing in the amount of EUR 22,565 thousand to the program Loans and their interest rate subsidies to enterprises for the promotion of the competitiveness (Cabinet Regulation No. 677 of 10 November 2020 "Regulations on Loans and Their Interest Rate Subsidies to enterprises for the promotion of the competitiveness"). In December 2020, the Ministry of Education and Science transferred financing in the amount of EUR 644 thousand to the program of Study and Student lending for studies in Latvia from the funds of credit institutions guaranteed from the State budget (Cabinet Regulation No. 231 of 21 April 2020 "Regulations on Granting Study Loans and Student Loans from the Funds of Credit Institutions Guaranteed from the State Budget"). It is expected that the financing will be transferred to the Group's reserve capital following the decision of the shareholders' meeting, which is planned in the first quarter of 2021.

**** Support programme funding contains EUR 21,921 thousand allocated for management costs of the Group / Company to be compensated from support programme funding.

31 Support programme funding (cont'd)

The Group's / Company's information on the risk coverage reserve included in the support programme funding and state aid, which can be used for covering the Group's / Company's credit risk losses as at 31 December 2019, in thousands of euro:

Financial Instrument / Programme	Programme funding *	Credit risk coverage	Provisions covered by risk coverage	Net programme funding
Loans				
ERDF II	7 928	4 318	(902)	7 026
ESF II	974	478	(132)	842
Microcredits of Swiss programme	5 458	718	(24)	5 434
ERDF I	586	138	(17)	569
ESF I	317	58	(37)	280
ERDF II (second round)	5 709	745	(124)	5 585
Incubators (from ESF II)	80	11	-	80
ERAF II 2 Public fund	285	129	(15)	270
Fund of Funds programme – Start-up loans	2 623	2 623	(355)	2 268
Fund of Funds programme – Microcredits	309	309	(29)	280
Fund of Funds programme – Parallel loans	3 425	3 425	(1 907)	1 518
Energy Efficiency Programme for Multi-apartment Buildings Loans	3 751	3 751	(14)	3 737
Start-up State Aid Cumulation Lending Programme	1 978	1 994	(277)	1 701
Other loans to start-ups	1 418	487	(91)	1 327
Mezzanine Programme – Loans	3 148	2 518	(1 626)	1 522
Guarantees and interest grants programme	4 184	4 184	-	4 184
SME energy efficiency loans	1 723	1 723	-	1 723
Parallel loans	2 000	2 000	(114)	1 886
Loans for enterprises in rural territories	6 304	599	(29)	6 275
Parallel loans to large entrepreneurs	-	-	-	-
Total loans	**52 200 ****	**30 208**	**(5 693)**	**46 507**
Guarantees				
Fund of Funds programme - Guarantees	21 566	21 566	(8 591)	12 975
Energy Efficiency Programme for Multi-apartment Buildings Guarantees	6 163	4 917	(1 007)	5 156
Housing Guarantee Programme	14 005	14 005	(8 093)	5 912
Guarantee Programme for Clients of State Aid Accumulation, Grace Period and Large Economic Operators	7 753	7 753	(1 225)	6 528
Mezzanine Programme - Guarantees	1 363	1 090	(1 341)	22
Portfolio Guarantee Fund	4 069	4 069	(1 235)	2 834
Export guarantees	2 007	2 007	(292)	1 715
Agricultural Guarantees	1 058	1 058	(352)	706
Total guarantees	**57 984**	**56 465**	**(22 136)**	**35 848**
Grants				
Energy Efficiency Programme for Multi-apartment Buildings Grants	25 567	-	-	25 567
Social Entrepreneurship Programme	1 084	-	-	1 084
Grants for development of energy efficiency projects	341	-	-	341
Total grants	**26 992**	**-**	**-**	**26 992**
Venture Capital Funds				
Fund of Funds and venture capital funds	13 412	10 730	-	13 412
Investment Fund Activity	2 646	2 375	-	2 646
Baltic Innovation Fund	2 000	-	-	2 000
Baltic Innovation Fund II	833	-	-	833
Total venture capital funds	**18 891**	**13 105**	**-**	**18 891**
Other Activities				
Energy Efficiency Fund	492	-	-	492
Regional Creative Industries Alliance	-	-	-	-
Total other activities	**492**	**-**	**-**	**492**
Total support programme funding	**156 559 *****	**99 778**	**(27 829)**	**128 730**

* The IFRS 9 implementation adjustment of EUR (7,645) thousand incorporated in 2018 (for details see Note 2 (15)) consisting of Accrued liabilities of state aid and Fair value correction previously disclosed in this note as separate columns reconciling Programme funding and Net programme

31 Support programme funding (cont'd)

funding are netted off vs Programme funding as at 31 December 2019. That disclosure treatment is the same as was presented in the audited financial statements for the year ended 31 December 2018.

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

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

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

Movement in the Group's / Company's support programme funding in 2020, in thousands of euro:

Financial Instrument / Programme	Financing, net 31.12.2019.	Financing received	Reallocated funding between programmes	Compensated grants	Compensated income and expense	Revaluation of liabilities	Programmes' income/ profit distribution	Other changes	Changes in provisions covered by risk coverage	Financing, net 31.12.2020.
Loans										
ERDF II	7 026	-	(5 700)	-	-	-	22	(212)	435	1 571
ESF II	842	-	-	-	-	-	28	(4)	46	912
Microcredits of Swiss programme	5 434	-	(2 000)	-	-	-	10	(12)	12	3 444
ERDF I	569	-	(470)	-	-	-	-	-	8	107
ESF I	280	-	-	-	-	-	13	(6)	6	293
ERDF II (second round)	5 585	-	-	-	-	-	64	(22)	49	5 676
Incubators (from ESF II)	80	-	-	-	-	-	1	1	-	82
ERAF II 2 Public fund	270	-	-	-	-	-	-	-	1	271
Fund of Funds programme – Start-up loans	2 268	-	117	-	-	-	-	(10)	41	2 416
Fund of Funds programme – Microcredits	280	-	-	-	-	-	-	(11)	3	272
Fund of Funds programme – Parallel loans	1 518	-	436	-	-	-	-	-	(829)	1 125
Energy Efficiency Programme for Multi-apartment Buildings – Loan Fund	3 737	-	-	-	(47)	-	44	-	(28)	3 706
Start-up State Aid Cumulation Lending Programme	1 701	-	-	-	-	-	-	(6)	11	1 706
Other loans to start-ups	1 327	-	-	-	(20)	-	67	18	24	1 416
Mezzanine Programme – Loans	1 522	-	238	-	(50)	-	242	(377)	(726)	849
Guarantees and interest grants programme	4 184	-	-	-	-	-	-	67	-	4 251
SME energy efficiency loans	1 723	-	2 000	-	-	-	-	-	-	3 723
Parallel loans	1 886	-	-	-	-	-	-	-	(124)	1 762
Loans for enterprises in rural territories	6 275	1 506	-	-	-	-	-	-	(57)	7 724
Loans to Midcaps for mitigation of the COVID-19 effect	-	2 435	-	-	-	-	-	-	-	2 435
Start-up loans to innovative entrepreneurs	-	-	500	-	-	-	-	-	-	500
Total loans	**46 507 ***	**3 941**	**(4 879)**	**-**	**(117)**	**-**	**491**	**(574)**	**(1 128)**	**44 241**
Guarantees										-
Fund of Funds programme - Guarantees	12 975	-	5 000	-	-	-	-	341	2 303	20 619
Energy Efficiency Programme for Multi-apartment Buildings - Guarantees	5 156	-	-	-	(116)	-	170	-	16	5 226
Housing Guarantee Programme	5 912	-	-	-	-	-	-	-	(1 576)	4 336
Guarantee Programme for Clients of State Aid Accumulation, Grace Period and Large Economic Operators	6 528	-	-	-	-	-	-	-	147	6 675
Mezzanine Programme - Guarantees	22	-	(238)	-	(19)	-	110	(26)	607	456
Portfolio Guarantee Fund	2 834	-	-	-	(64)	-	-	-	(487)	2 283

31 Support programme funding (cont'd)

Financial Instrument / Programme	Financing, net 31.12.2019.	Financing received	Reallocated funding between programmes	Compensated grants	Compensated income and expense	Revaluation of liabilities	Programmes' income / profit distribution	Other changes	Changes in provisions covered by risk coverage	Financing, net 31.12.2020.
Export guarantees	1 715	-	470	-	-	-	-	-	(278)	1 907
Study and student portfolio guarantees	-	106	-	-	(29)	-	-	-	-	77
Agricultural Guarantees	706	-	-	-	-	-	-	(58)	28	676
Total guarantees	**35 848**	**106**	**5 232**	**-**	**(228)**	**-**	**280**	**257**	**760**	**42 255**
Grants										
Energy Efficiency Programme for Multi-apartment Buildings – Grants	25 567	19 327	-	(2 978)	(1 378)	-	-	-	-	40 538
Social Entrepreneurship Programme	-	3 510	-	(244)	-	-	-	-	-	3 266
Grants for development of energy efficiency projects	1 084	1 505	-	(881)	(144)	-	-	-	-	1 564
Housing grant programme "Balsts"	341	-	-	(81)	(88)	-	-	-	-	172
Total grants	**26 992**	**24 342**	**-**	**(4 184)**	**(1 610)**	**-**	**-**	**-**		**45 540**
Venture Capital Funds										
Fund of Funds and venture capital funds	13 412	23 311	(6 053)	-	(3 874) **	(1 241)	1 019	80	-	26 654
Investment Fund Activity	2 646	-	4 000	-	(1 036) ***	(1 609)	1 271 *****	-	-	5 272
Baltic Innovation Fund	2 000	-	-	-	(250) ****	-	250 ******	-	-	2 000
Baltic Innovation Fund II	833	-	1 700	-	(174)	-	-	-	-	2 359
Total venture capital funds	**18 891**	**23 311**	**(353)**	**-**	**(5 334)**	**(2 850)**	**2 540**	**80**	**-**	**36 285**
Other Activities										
Energy Efficiency Fund	492	16	-	-	(75)	-	-	-	-	433
Regional Creative Industries Alliance	-	38	-	-	(38)	-	-	-	-	-
Total other activities	**492**	**54**	**-**	**-**	**(113)**	**-**	**-**	**-**	**-**	**433**
Funding allocated to increase reserve capital *******	-	23 209	-	-	-	-	-	-	-	23 209
Total support programme funding	**128 730**	**74 963**	**-**	**(4 184)**	**(7 402)**	**(2 850)**	**3 311**	**(237)**	**(368)**	**191 963**

* Support programme funding includes funding that is planned to be reallocated to other support programmes. Funding is planned to be reallocated at the beginning of 2021.

** include EUR 2,124 thousand management fees for the 4th generation venture capital funds (see Note 17).

*** include EUR 921 thousand management fees for the 2nd and 3rd generation venture capital funds (see Note 17).

**** include EUR 236 thousand management fees for the Baltic Innovation Fund (see Note 17).

***** include EUR 1,203 thousand mezzanine interest received and EUR 67 thousand realised gain on investments in 2nd and 3rd generation venture capital funds in 2020 (see Note 17).

****** include EUR 200 thousand mezzanine interest received and EUR 50 thousand realised gain on investment in Baltic Innovation Fund in 2020 (see Note 17).

******* In December 2020, the Ministry of Economics transferred financing in the amount of EUR 22,565 thousand to the program Loans and their interest rate subsidies to enterprises for the promotion of the competitiveness (Cabinet Regulation No. 677 of 10 November 2020 "Regulations on Loans and Their Interest Rate Subsidies to enterprises for the promotion of the competitiveness"). In December 2020, the Ministry of Education and Science transferred financing in the amount of EUR 644 thousand to the program of Study and Student lending for studies in Latvia from the funds of credit institutions guaranteed from the State budget (Cabinet Regulation No. 231 of 21 April 2020 "Regulations on Granting Study Loans and Student Loans from the Funds of Credit Institutions Guaranteed from the State Budget"). It is expected that the financing will be transferred to the Group's reserve capital following the decision of the shareholders' meeting, which is planned in the first quarter of 2021.

32 Provisions

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

	Group 31.12.2020.	Group 31.12.2019.	Company 31.12.2020.	Company 31.12.2019.
Provisions for financial guarantees	31 413	30 606	31 413	30 606
Group's / Company's share of provisions	*10 919*	*9 294*	*10 919*	*9 294*
Provisions covered by risk coverage	*20 494*	*21 312*	*20 494*	*21 312*
Provisions for loan commitments	1 014	458	1 014	458
Group's / Company's share of provisions	*687*	*132*	*687*	*132*
Provisions covered by risk coverage	*327*	*326*	*327*	*326*
Provisions for grant commitments	74	12	74	12
Group's / Company's share of provisions	*74*	*12*	*74*	*12*
Provisions covered by risk coverage	-	-	-	-
Total provisions	**32 501**	**31 076**	**32 501**	**31 076**
Group's / Company's share of provisions	*11 680*	*9 438*	*11 680*	*9 438*
Provisions covered by risk coverage	*20 821*	*21 638*	*20 821*	*21 638*

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

	Group 01.01.2020.-31.12.2020.	Group 01.01.2019.-31.12.2019.	Company 01.01.2020.-31.12.2020.	Company 01.01.2019.-31.12.2019.
Provisions at the beginning of the period	30 606	24 144	30 606	24 144
Increase in provisions (Note 13)	14 442	15 752	14 442	15 752
Decrease in provisions (Note 13)	(13 060)	(6 692)	(13 060)	(6 692)
Reclassification (Disbursed guarantee)	(575)	(2 597)	(575)	(2 597)
Currency change	-	(1)	-	(1)
Provisions at the end of the period ended 31 December	**31 413**	**30 606**	**31 413**	**30 606**
Group's / Company's share of provisions	*10 919*	*9 294*	*10 919*	*9 294*
Provisions covered by risk coverage	*20 494*	*21 312*	*20 494*	*21 312*

33 Other Liabilities

All amounts in thousands of euro

	Group 31.12.2020.	Group 31.12.2019.	Company 31.12.2020.	Company 31.12.2019.
Due to customers	1 612	1 465	1 612	1 465
Other liabilities	1 289	1 321	1 289	1 308
Total other liabilities	**2 901**	**2 786**	**2 901**	**2 773**

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

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

34 Accrued Expense

All amounts in thousands of euro

	Group 31.12.2020.	Group 31.12.2019.	Company 31.12.2020.	Company 31.12.2019.
Other accrued expense	819	459	899	459
Audit services	37	18	37	18
Bonuses of the employees and the Management Board	1	1	1	1
Total accrued expense	**857**	**478**	**937**	**478**

35 Issued Debt Securities

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

All amounts in thousands of euro

	Currency	Number of initially issued securities	Par Value	Date of issuance	Maturity Date	Discount / Coupon Rate	Group 31.12.2020.	Group 31.12.2019.	Company 31.12.2020.	Company 31.12.2019.
LV0000802353	EUR	20 000	1 000	17.10.2017	17.10.2024	1.37%	19 941	19 912	19 941	19 912
LV0000880037	EUR	10 000	1 000	07.03.2018	07.03.2025	1.30%	10 456	10 229	10 456	10 229
LV0000880037	EUR	15 000	1 000	05.06.2019	07.03.2025	1.30%	15 125	15 207	15 125	15 207
LV0000880037	EUR	20 000	1 000	15.04.2020	07.03.2025	1.30%	20 000	-	20 000	-
Total issued debt securities at the end of period ended 31 December							**65 522**	**45 348**	**65 522**	**45 348**

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

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

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

	Group 31.12.2020.	Group 31.12.2019.	Company 31.12.2020.	Company 31.12.2019.
At the beginning of period	45 348	29 943	45 348	29 943
Bond issue	20 000	15 000	20 000	15 000
Accrued coupon	803	550	803	550
Coupon pay-out	(585)	(390)	(585)	(390)
Discount amortisation	(50)	264	(50)	264
Commission amortisation	6	(19)	6	(19)
Total issued debt securities at the end of period ended 31 December	**65 522**	**45 348**	**65 522**	**45 348**

36 Share capital

All amounts in thousands of euro

	Quantity		Carrying amount	
	31.12.2020.	31.12.2019.	31.12.2020.	31.12.2019.
Fully paid share capital				
Ordinary shares	204 862	204 862	204 862	204 862
Total fully paid share capital	**204 862**	**204 862**	**204 862**	**204 862**

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

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

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

For more information see Note 1 (1).

In accordance with Paragraph 2 of Article 15 of the Development Finance Institution Law, the Group's / Company's profit for the period is transferred to reserves in order to ensure financial stability and sustainable operation of the Group / Company as well as to mitigate the risks of approved support programmes.

37 Reserves

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

	Specific reserves for support programmes			Other specific reserves	General reserve capital	Revaluation reserve of financial assets measured at fair value through other comprehensive income	Total reserves
	Reserve capital for non-Covid-19 guarantees programmes	Reserve capital for AIF "Altum capital fund"	Reserve capital for mitigating of impact of Covid-19	Difference recognised in Group's reorganisation reserve			
Reserves as of 31 December 2018	**11 807**	**-**	**-**	**(15 580)**	**11 738**	**3 597**	**11 562**
(Decrease) in revaluation reserve of financial assets measured at fair value through other comprehensive income	-	-	-	-	-	(959)	(959)
Distribution of previous profit	-	-	-	-	808	-	808
Distribution of 2018 year profit of the Company	-	-	-	-	4 092	-	4 092
Increase of reserve capital	3 700	-	-	-	-	-	3 700
Reserves as of 31 December 2019	**15 507**	**-**	**-**	**(15 580)**	**16 638**	**2 638**	**19 203**
(Decrease) in revaluation reserve of financial assets measured at fair value through other comprehensive income	-	-	-	-	-	(1 425)	(1 425)
Distribution of 2019 year profit of the Company	-	-	-	-	8 131	-	8 131
Increase of reserve capital	626	25 000	120 000	-	-	-	145 626
Reserves as of 31 December 2020	**16 133**	**25 000**	**120 000**	**(15 580)**	**24 768**	**1 213**	**171 534**

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

	Specific reserves for support programmes			Other specific reserves	General reserve capital	Revaluation reserve of financial assets measured at fair value through other comprehensive income	Total reserves
	Reserve capital for non-Covid-19 guarantees programmes	Reserve capital for AIF "Altum capital fund"	Reserve capital for mitigating of impact of Covid-19	Difference recognised in Group's reorganisation reserve			
Reserves as of 31 December 2018	**11 807**	**-**	**-**	**(15 935)**	**11 738**	**3 597**	**11 207**
(Decrease) in revaluation reserve of financial assets measured at fair value through other comprehensive income	-	-	-	-	-	(959)	(959)
Distribution of previous profit	-	-	-	-	791	-	791
Distribution of 2018 year profit of the Company	-	-	-	-	4 462	-	4 462
Increase of reserve capital	3 700	-	-	-	-	-	3 700
Reserves as of 31 December 2019	**15 507**	**-**	**-**	**(15 935)**	**16 991**	**2 638**	**19 201**
(Decrease) in revaluation reserve of financial assets measured at fair value through other comprehensive income	-		-	-	-	(1 425)	(1 425)
Distribution of 2019 year profit of the Company	-		-	-	8 131	-	8 131
Increase of reserve capital	626	25 000	120 000	-	-	-	145 626
Reserves as of 31 December 2020	**16 133**	**25 000**	**120 000**	**(15 935)**	**25 121**	**1 213**	**171 532**

Breakdown of "Specific reserves for support programmes":

	Reserve capital for non-Covid-19 guarantees programmes		Reserve capital for mitigating of impact of Covid-19		Reserve capital for AIF "Altum capital fund"	Total specific reserves for support programmes
	Housing Guarantee Programme	Study and student portfolio guarantees	Working capital loans	Loan holiday guarantees		
Specific reserves as of 31 December 2018	**11 807**	**-**	**-**	**-**	**-**	**11 807**
Increase of specific reserve capital	3 700	-	-	-	-	3 700
Specific reserves as of 31 December 2019	**15 507**	**-**	**-**	**-**	**-**	**15 507**
Increase of specific reserve capital	-	626	50 000	70 000	25 000	145 626
Specific reserves as of 31 December 2020	**15 507**	**626**	**50 000**	**70 000**	**25 000**	**161 133**
of which:						
Portfolio loss reserve (Special Reserve Capital)	15 507	626	29 000	50 000	7 131	102 264
Portfolio Loss Reserve (Special Reserve Capital) to be used to cover credit loss and management fees upon approval of the annual report	-	(392)	(2 668)	(3 184)	(185)	(6 429)

37 Reserves (cont'd)

Item "Reserve capital for mitigation of impact of Covid-19" includes the following increases in the Specific Reserve capital.

An increase of EUR 100,000 thousand in accordance with the decision of the Extraordinary General Meeting of Shareholders of the Group of 6 April 2020, adopted on the basis of the Cabinet of Ministers Order No. 122 "On the increase of the reserve capital" of 25 March 2020. An increase in the specific reserve capital is aimed for:

- EUR 50,000 thousand for funding the granting of support in the form of working capital loans to SME economic operators whose activities have been affected by the spread of Covid-19, in accordance with the Cabinet of Ministers Regulations No. 149 "Regulations on Working Capital Loans to Economic Operators Affected by the Spread of Covid-19".
- EUR 25,000 thousand funding for SME loan credit holiday guarantees (for existing investment loans, financial leasing, loans for working capital financing, including credit lines) and a guarantees for new loans for working capital loans financing to ensure the availability of financing for economic operators affected by the spread of Covid-19 coronavirus disease, in accordance with the Cabinet of Ministers Regulations No. 150 "Provisions on guarantees for economic operators affected by the spread of Covid-19".
- EUR 25,000 thousand to mitigate impact of the Covid-19 crisis through a portfolio guarantee program, in accordance with Cabinet Regulation No. 537 of 5 September 2017 "Regulations on Portfolio Guarantees for the Promotion of Lending to Small (Micro), Small and Medium-Sized Enterprises".

An increase of EUR 20,000 thousand in accordance with the decision of the Extraordinary General Meeting of Shareholders of the Group of 6 November 2020, adopted on the basis of the Cabinet of Ministers Regulation No. 454 "Regulations on Guarantees for Midcap Companies Affected by the Spread of Covid-19" of 14 July 2020. An increase in the specific reserve capital is aimed for to support viable large SME and Midcap companies loan holiday guarantees for existing and new investment loans, financial leasing as well as working capital loans, including credit lines. Eligible for viable large SME and Midcap companies, which operations, due to the spread of Covid-19, requires financing in order to restore, maintain and promote their competitiveness, as well as increase the turnover, including exports.

Item "Reserve capital for AIF "Altum capital fund" includes an increase in the Special Reserve capital of EUR 25,000 thousand in accordance with the decision of the Extraordinary General Meeting of Shareholders of the Group of 11 September 2020, adopted on the basis of the Cabinet of Ministers Order No. 389 "On the increase of the reserve capital" of 31 July 2020. An increase in the specific reserve capital is intended to finance the AIF "Altum capital fund". The AIF "Altum capital fund" was registered in the Register of Enterprises of the Republic of Latvia on July 31, 2020. For more information on AIF "Altum capital fund" (see Note 1 General information and Note 17).

The funds included in the Specific Reserve Capital will be used to cover the expected credit losses of the programes at full extent as well as management fees for AIF Altum Capital Fund and as such are disclosed separately as Portfolio Loss Reserve within respective reserve capital.

38 Off-balance sheet items and contingent liabilities

All amounts in thousands of euro

	Group 31.12.2020.	Group 31.12.2019.	Company 31.12.2020.	Company 31.12.2019.
Contingent liabilities:				
Outstanding guarantees	359 605	284 232	359 605	284 232
Financial commitments:				
Loan commitments	39 348	18 951	39 348	18 951
Grant commitments	6 798	7 701	6 798	7 701
Commitments to investments in subsidiaries	-	-	10 415	13 471
Commitments to AIF "Altum capital fund"	48 772	-	48 772	-
Commitments to investments in associates	44 935	44 914	44 935	44 914
Commitments to other investments	38 220	25 583	38 220	25 583
Total contingent liabilities and financial commitments	**537 678**	**381 381**	**548 093**	**394 852**

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

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

	Group 31.12.2020.	Group 31.12.2019.	Company 31.12.2020.	Company 31.12.2019.
Unutilised loan facilities	39 348	18 951	39 348	18 951
Impairment allowances	(1 014)	(458)	(1 014)	(458)
Total unutilized loan facilities, net	**38 334**	**18 493**	**38 334**	**18 493**

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

	Group 31.12.2020.	Group 31.12.2019.	Company 31.12.2020.	Company 31.12.2019.
Grant commitments	6 798	7 701	6 798	7 701
Impairment allowances	(74)	(12)	(74)	(12)
Total grant commitments, net	**6 724**	**7 689**	**6 724**	**7 689**

Breakdown of the Group's off-balance sheet assets and contingent liabilities by remaining contractual maturities as at 31 December 2020, in thousands of euro:

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years and w/o maturity	**Total**
Contingent liabilities							
Outstanding guarantees	359 605 *	-	-	-	-	-	359 605
Financial commitments							
Loan commitments	39 348	-	-	-	-	-	39 348
Grant commitments	6 798	-	-	-	-	-	6 798
Commitments to AIF "Altum capital fund"	-	11 996	12 157	21 964	2 040	615	48 772
Commitments to investments in associates	-	1 146	1 528	4 965	27 411	9 885	44 935
Commitments to other investments	-	635	847	7 753	23 201	5 784	38 220
Total financial commitments	46 146	13 777	14 532	34 682	52 652	16 284	178 073
Total contingent liabilities and financial commitments	**405 751**	**13 777**	**14 532**	**34 682**	**52 652**	**16 284**	**537 678**

* Outstanding financial guarantees are presented "Up to 1 month" as these guarantees can be claimed on demand and the Group / Company has to make a decision on payment of guarantee claim within one month.

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

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years and w/o maturity	**Total**
Contingent liabilities							
Outstanding guarantees	284 232 *	-	-	-	-	-	284 232
Financial commitments							
Loan commitments	18 951	-	-	-	-	-	18 951
Grant commitments	7 701	-	-	-	-	-	7 701
Commitments to investments in associates	382	1 146	1 527	4 581	27 397	9 881	44 914
Commitments to other investments	218	652	870	2 609	15 606	5 628	25 583
Total financial commitments	27 252	1 798	2 397	7 190	43 003	15 509	97 149
Total contingent liabilities and financial commitments	**311 484**	**1 798**	**2 397**	**7 190**	**43 003**	**15 509**	**381 381**

* Outstanding financial guarantees are presented "Up to 1 month" as these guarantees can be claimed on demand and the Group / Company has to make a decision on payment of guarantee claim within one month.

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

Breakdown of the Company's off-balance sheet assets and contingent liabilities by remaining contractual maturities as at 31 December 2020, in thousands of euro:

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years and w/o maturity	**Total**
Contingent liabilities							
Outstanding guarantees	359 605	-	-	-	-	-	359 605
Financial commitments							
Loan commitments	39 348	-	-	-	-	-	39 348
Grant commitments	6 798	-	-	-	-	-	6 798
Commitments to investments in subsidiaries	417	417	833	2 500	5 207	1 041	10 415
Commitments to AIF "Altum capital fund"	-	11 996	12 157	21 964	2 040	615	48 772
Commitments to investments in associates	-	1 146	1 528	4 965	27 411	9 885	44 935
Commitments to other investments	-	635	847	7 753	23 201	5 784	38 220
Total financial commitments	46 563	14 194	15 365	37 182	57 859	17 325	188 488
Total contingent liabilities and financial commitments	**406 168**	**14 194**	**15 365**	**37 182**	**57 859**	**17 325**	**548 093**

* Outstanding financial guarantees are presented "Up to 1 month" as these guarantees can be claimed on demand and the Group / Company has to make a decision on payment of guarantee claim within one month.

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

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years and w/o maturity	**Total**
Contingent liabilities							
Outstanding guarantees	284 232	-	-	-	-	-	284 232
Financial commitments							
Loan commitments	18 951	-	-	-	-	-	18 951
Grant commitments	7 701	-	-	-	-	-	7 701
Commitments to investments in subsidiaries	114	343	458	1 375	8 217	2 964	13 471
Commitments to investments in associates	382	1 146	1 527	4 581	27 397	9 881	44 914
Commitments to other investments	218	652	870	2 609	15 606	5 628	25 583
Total financial commitments	27 366	2 141	2 855	8 565	51 220	18 473	110 620
Total contingent liabilities and financial commitments	**311 598**	**2 141**	**2 855**	**8 565**	**51 220**	**18 473**	**394 852**

* Outstanding financial guarantees are presented "Up to 1 month" as these guarantees can be claimed on demand and the Group / Company has to make a decision on payment of guarantee claim within one month.

Subitem *Commitments to AIF "Altum capital fund"* are contingent liabilities based on a limited partnership agreement between the Company as a general partner and the members of the AIF "Altum capital fund" as limited partners which put an obligation on the Group / Company to allocate financial resources to the fund.

Subitem *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.

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

Committed funding for investments in subsidiaries, associates and other investments, in thousands of euro:

		Committed funding		Uncalled committed funding	
	Contract period	31.12.2020.	31.12.2019.	31.12.2020.	31.12.2019.
Investments in Subsidiaries					
KS Overkill Ventures Fund I	09.05.2026	3 200	3 200	1 387	2 114
KS Buildit Latvia Pre-Seed Fund	20.06.2026	3 200	3 200	1 340	1 914
KS Commercialization Reactor Pre-seed Fund	24.07.2026	3 200	3 200	1 648	2 149
KS INEC 1	29.11.2028	5 250	5 250	3 034	3 770
KS INEC 2	29.11.2028	4 500	4 500	3 006	3 523
Investments in Associates					
KS Overkill Ventures Fund II	09.08.2026	1 800	1 800	1 553	1 630
KS Buildit Latvia Seed Fund	30.06.2026	1 800	1 800	1 515	1 600
KS Commercialization Reactor Seed Fund	22.08.2026	1 800	1 800	1 694	1 739
KS ZGI-4	14.08.2028	19 500	15 000	15 002	12 028
KS Baltcap Latvia Venture Capital Fund	22.01.2021	20 000	20 000	3 841	3 841
KS Imprimatur Capital Technology Venture Fund	11.06.2021	4 966	4 966	248	332
KS Imprimatur Capital Seed Fund	11.06.2021	10 000	10 000	561	646
KS ZGI-3	31.12.2021	11 800	11 800	931	1 048
KS FlyCap investment Fund	31.12.2021	15 000	15 000	1 090	1 292
FlyCap Mezzanine Fund II	28.08.2029	11 053	-	10 486	-
KS Expansion Capital fund	31.12.2021	15 000	15 000	267	299
AIF "Altum capital fund"	02.09.2027	48 910	-	48 772	-
Baltic Innovation Fund I	01.01.2029	26 000	26 000	7 747	11 067
Other investments					
Baltic Innovation Fund II	12.07.2036	26 500	26 500	24 917	25 583
Three Seas Initiatives Investment Fund	27.02.2035	20 000	-	13 303	-
Total funding		**253 479**	**169 016**	**142 342**	**74 575**

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

All amounts in thousands of euro

	Group 31.12.2020.	Group 31.12.2019.	Company 31.12.2020.	Company 31.12.2019.
At the beginning of period	2 639	3 597	2 639	3 597
(Loss) from changes in fair value	(1 413)	(851)	(1 413)	(851)
(Loss) from sales	-	(94)	-	(94)
Impairment loss*	(13)	(14)	(13)	(14)
Other comprehensive income (Note 35)	(1 426)	(959)	(1 426)	(959)
Revaluation reserve of financial assets measured at fair value through other comprehensive income at the end of period ended December 31	**1 213**	**2 638**	**1 213**	**2 638**

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

40 Related party transactions

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

In accordance with International Accounting Standard (IAS) 24 "Related Party Disclosures", the key management personnel, directly or indirectly authorised and responsible for planning, management and control of the Group's / Company's operations are treated as related parties to the Group / Company. The powers granted to the heads of the structural units of the Group / Company do not entitle them to manage the operations of the Group / Company and decide on material transactions that could affect the Group's / Company's operations and/or result in legal consequences.

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

40 Related party transactions (cont'd)

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

	People with significant control (PSC)		Transactions with shareholders		Associates		Other companies owned by the Group's shareholders	
	31.12.2020.	31.12.2019.	31.12.2020.	31.12.2019.	31.12.2020.	31.12.2019.	31.12.2020.	31.12.2019.
Investments in venture capital funds	-	-	-	-	47 988	51 160	-	-
Investments in AIF "Altum capital fund"	-	-	-	-	-	-		
Due to general governments	-	-	-	-	-	-	4 047	5 565
Support programme funding	-	-	192 243	128 480	-	-	35 317	35 480
Off-balance sheet financial liabilities for venture capital funds	-	-	-	-	44 935	44 914	-	-
Off-balance sheet financial liabilities for AIF "Altum capital fund"	-	-	-	-	48 772	-	-	-

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

	Transactions with shareholders		Associates		Other companies owned by the Group's shareholders		Investments in subsidiaries	
	31.12.2020.	31.12.2019.	31.12.2020.	31.12.2019.	31.12.2020.	31.12.2019.	31.12.2020.	31.12.2019.
Investments in venture capital funds	-	-	47 988	51 160	-	-	-	-
Investments in AIF "Altum capital fund"	-	-	-	-	-	-	-	-
Investments in subsidiaries	-	-	-	-	-	-	4 879	3 812
Due to general governments	-	-	-	-	4 047	5 565	-	-
Support programme funding	192 243	128 480	-	-	35 317	35 480	-	-
Off-balance sheet financial liabilities for venture capital funds	-	-	44 935	44 914	-	-	-	-
Off-balance sheet financial liabilities for AIF "Altum capital fund"	-	-	48 772	-	-	-	-	-
Off-balance sheet financial liabilities for investments in subsidiaries	-	-	-	-	-	-	10 415	13 471

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

	Received State aid funding		Issued State aid funding or funding paid back	
	01.01.2020.-31.12.2020.	01.01.2019.-31.12.2019.	01.01.2020.-31.12.2020.	01.01.2019.-31.12.2019.
Transactions with shareholders				
Ministry of Finance of the Republic of Latvia	42 077	42 491	423	-
Ministry of Economics of the Republic of Latvia	173 526	7 156	-	(732)
Associates				
Venture capital funds	-	6 324	-	(5 303)
Other companies owned by the Group's shareholders				
Rural Support Service	-	-	-	-
Central Finance and Contracting Agency of the Republic of Latvia	19 327	-	-	(27)
Ministry of Wealth Fair of the Republic of Latvia	1 375	-	-	-
Ministry of Education and Science of the Republic of Latvia	1 399	2 140	-	-

In the reporting period, the remuneration of the members of the Supervisory Council, Audit Committee and the Management Board of the Company amounted to EUR 629 thousand (12 months of 2019: EUR 766 thousand), incl. social insurance contributions.

41 Fair values of assets and liabilities

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

	Carrying Amount		Fair Value	
	31.12.2020.	31.12.2019.	31.12.2020.	31.12.2019.
Assets				
Due from credit institutions and the Treasury	359 949	181 199	359 949	181 198
Financial assets at fair value through profit or loss	5 425	4 217	5 425	4 217
Financial assets at fair value through other comprehensive income - investment securities	36 958	47 941	36 958	47 941
Financial assets at amortised cost:				
Investment securities	441	478	1 142	1 140
Individuals	313 268	220 129	304 292	216 113
Companies	*30 370*	*11 820*	*22 023*	*8 417*
Loans	*282 898*	*208 309*	*282 270*	*207 696*
Grants	31 107	17 186	31 107	17 186
Investments in associates (investments in Baltic Innovation Fund)	15 019	13 851	15 019	13 851
Investment properties	36 758	24 366	36 758	24 366
Other assets	3 643	3 067	3 643	3 067
Total assets	**802 568**	**512 434**	**794 293**	**509 079**
Liabilities				
Due to credit institutions	65 855	29 542	65 855	29 542
Due to general governments	103 520	86 272	101 838	86 272
Financial liabilities at amortised cost - Issued debt securities	65 522	45 348	65 522	45 348
Support programme funding	191 963	128 730	191 963	128 730
Total liabilities	**426 860**	**289 892**	**425 178**	**289 892**

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

	Carrying Amount		Fair Value	
	31.12.2020.	31.12.2019.	31.12.2020.	31.12.2019.
Assets				
Due from credit institutions and the Treasury	359 949	181 047	359 949	181 046
Financial assets at fair value through profit or loss	-	-	-	-
Financial assets at fair value through other comprehensive income - investment securities	36 958	47 941	36 958	47 941
Financial assets at amortised cost:				
Investment securities	441	478	1 133	1 140
Individuals	313 268	220 129	304 292	216 113
Companies	*30 370*	*11 820*	*22 023*	*8 417*
Loans	*282 898*	*208 309*	*282 270*	*207 696*
Grants	31 107	17 186	31 107	17 186
Investments in associates (investments in Baltic Innovation Fund)	15 019	13 851	15 019	13 851
Investments in subsidiaries	4 879	3 812	4 879	3 812
Investment properties	36 758	24 366	36 758	24 366
Other assets	3 608	3 067	3 608	3 067
Total assets	**801 987**	**511 877**	**793 703**	**508 522**
Liabilities				
Due to credit institutions	65 855	29 542	65 855	29 542
Due to general governments	103 520	86 272	101 838	86 272
Financial liabilities at amortised cost - Issued debt securities	65 522	45 348	65 522	45 348
Support programme funding	191 963	128 730	191 963	128 730
Total liabilities	**426 860**	**289 892**	**425 178**	**289 892**

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

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

	Level 1		**Level 2**		**Level 3**		**Total**	
	31.12.2020.	31.12.2019.	31.12.2020.	31.12.2019.	31.12.2020.	31.12.2019.	31.12.2020.	31.12.2019.
Assets measured at fair value								
Financial assets at fair value through profit or loss	-	-	-	-	5 425	4 217	5 425	4 217
Financial assets at fair value through other comprehensive income - investment securities	24 035	35 021	12 923	12 920	-	-	36 958	47 941
Investments in associates (investments in BIF)	-	-	-	-	15 019	13 851	15 019	13 851
Investment properties	-	-	-	-	36 758	24 366	36 758	24 366
Assets with fair values disclosed								
Due from credit institutions and the Treasury	-	-	316 631	181 198	43 318	-	359 949	181 198
Financial assets at amortised cost:								
Investment securities	-	-	1 142	1 140	-	-	1 142	1 140
Loans	-	-	-	-	304 292	216 113	304 292	216 113
Grants	-	-	-	-	31 107	17 186	31 107	17 186
Other assets	-	-	-	-	3 643	3 067	3 643	3 067
Total assets	**24 035**	**35 021**	**330 696**	**195 258**	**439 562**	**278 800**	**794 293**	**509 079**
Liabilities measured at fair value								
Support programme funding	-	-	-	-	191 963	128 730	191 963	128 730
Liabilities with fair value disclosed								
Due to credit institutions	-	-	-	-	65 855	29 542	65 855	29 542
Due to general governments	-	-	-	-	101 838	86 272	101 838	86 272
Financial liabilities at amortised cost - Issued debt securities	-	-	-	-	65 522	45 348	65 522	45 348
Total liabilities	**-**	**-**	**-**	**-**	**425 178**	**289 892**	**425 178**	**289 892**

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

	Level 1		**Level 2**		**Level 3**		**Total**	
	31.12.2020.	31.12.2019.	31.12.2020.	31.12.2019.	31.12.2020.	31.12.2019.	31.12.2020.	31.12.2019.
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	24 035	35 021	12 923	12 920	-	-	36 958	47 941
Investments in subsidiaries	-	-	-	-	4 879	3 812	4 879	3 812
Investments in venture capital funds – associates (investments in BIF)	-	-	-	-	15 019	13 851	15 019	13 851
Investment properties	-	-	-	-	36 758	24 366	36 758	24 366
Assets with fair values disclosed								
Due from credit institutions and the Treasury	-	-	316 631	181 046	43 318	-	359 949	181 046
Financial assets at amortised cost:								
Investment securities	-	-	1 133	1 140	-	-	1 133	1 140
Loans	-	-	-	-	304 292	216 113	304 292	216 113
Grants	-	-	-	-	31 107	17 186	31 107	17 186
Other assets	-	-	-	-	3 608	3 067	3 608	3 067
Total assets	**24 035**	**35 021**	**330 687**	**195 106**	**438 981**	**278 395**	**793 703**	**508 522**
Liabilities measured at fair value								
Support programme funding	-	-	-	-	191 963	128 730	191 963	128 730
Liabilities with fair value disclosed								
Due to credit institutions	-	-	-	-	65 855	29 542	65 855	29 542
Due to general governments	-	-	-	-	101 838	86 272	101 838	86 272
Financial liabilities at amortised cost - Issued debt securities	-	-	-	-	65 522	45 348	65 522	45 348
Total liabilities	**-**	**-**	**-**	**-**	**425 178**	**289 892**	**425 178**	**289 892**

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

Assets

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

Liabilities

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

Fair value hierarchy of financial assets and liabilities

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

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

Debt securities

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

Derivatives

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

Investments in venture capital funds

The Group / Company have a number of investments in venture capital funds. The Group's and Company's investments in venture capital funds are classified as Associates or Investments in subsidiaries depending on existence of significant influence or control.

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

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

Investment properties

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

Investments in property are measured at fair value applying one or complex of the following three methods: (a) ,market approach, (b) income approach and (c) cost approach.

The appropriate valuation method is selected depending on the nature of property and acquisition purpose. Investment property represents agricultural land, which average selling price per hectare is 2,5 thousand 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.

42 Segment Information

Taking into account constant increase in operational volumes of the Land Fund over the last 3 years as well as significance of portfolio of the Land Fund in the Altum's financial and non-financial instrument portfolio, the Group's management has allocated as a separate segment the Land Fund services starting from the 1st quarter of 2020. The comparatives for the 2019 for the Land Fund services have been reclassified accordingly following the new segmentation in order to ensure comparability of information.

In 2nd quarter of 2020, AIF "Altum capital fund" was set up and registered with the Finance and Capital Market Commission and the Company was registered as a manager of this fund. Therefore the Group's management allocated this new activity of the Group as a separate segment.

Thus the Group's management considers that the Group's operations are performed in 7 operational segments:

- Loan service
- Guarantee service,
- Venture capital fund service,
- Grant service,
- Land Fund service,
- Management of AIF "Altum capital fund"
- Other services.

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

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

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

42 Segment Information (cont'd)

Analysis of the operating segments of the Group for the period from 1 January 2020 till 31 December 2020, in thousands of euro:

	Loan service	Guarantee service	Venture capital fund service	Grant service	Land Fund service	Management of AIF "Altum capital fund"	Other services	Total
Interest income	11 881	2 975	42	-	1 536	-	8	16 442
of which, interest on loans and guarantees (Note 4)	*11 169*	*2 095*	-	-	*1 505*	-	*7*	*14 776*
Interest expense	(1 288)	(35)	-	-	(547)	-	-	(1 870)
Net interest income	10 593	2 940	42	-	989	-	8	14 572
Income for implementation of state aid programmes	478	742	4 063	1 173	-	-	70	6 526
Expenses to be compensated for implementation of state aid programmes	(119)	(452)	(4 120)	(1 173)	-	-	(86)	(5 950)
Net income for implementation of state aid programmes	359	290	(57)	-	-	-	(16)	576
Gains from debt securities and foreign exchange translation	(24)	(28)	(1)	-	(3)	-	-	(56)
Share of (losses) of investment in associates	-	-	(2 094)	-	-	-	-	(2 094)
Share of gain of investment in associates at fair value through profit or loss	-	-	288	-	-	-	-	288
Gains less losses from liabilities at fair value through profit or loss	-	-	1 908	-	-	-	-	1 908
Other income	-	-	566	7	1 811	282	387	3 053
Other expense	(266)	(42)	(4)	(33)	(436)	(247)	(37)	(1 065)
Operating income / (loss) before operating expenses	**10 662**	**3 160**	**648**	**(26)**	**2 361**	**35**	**342**	**17 182**
Staff costs	(3 417)	(694)	(71)	(595)	(270)	-	(369)	(5 416)
Administrative expense	(988)	(282)	(39)	(370)	(77)	(4)	(71)	(1 831)
Amortisation of intangible assets and depreciation of property, plant and equipment	(452)	(179)	(32)	(179)	(38)	-	(36)	(916)
(Impairment) gain, net	(2 238)	(1 521)	8	(228)	219	-	280	(3 480)
Profit or (loss) from assets held for sale revaluation	-	-	-	-	-	-	-	-
Total segment profit/(loss)	**3 567**	**484**	**514**	**(1 398)**	**2 195**	**31**	**146**	**5 539**
Financial assets at fair value through profit or loss	-	-	5 425	-	-	-	-	5 425
Other investments	-	-	7 503	-	-	-	-	7 503
Investments in associates	-	-	47 988	-	-	-	-	47 988
Additions of property and equipment, intangible assets and investment property	582	167	33	275	11 660	-	41	12 758
Total segment assets	**425 054**	**156 837**	**126 265**	**50 485**	**68 590**	**-**	**23 473**	**850 704**
Total segment liabilities	**251 157**	**76 321**	**36 525**	**47 715**	**55 645**	**-**	**747**	**468 110**

42 Segment Information (cont'd)

Analysis of the operating segments of the Group for the period from 1 January 2019 till 31 December 2019, in thousands of euro:

	Loan service	Guarantee service	Venture capital fund service	Grant service	Land Fund service	Other services	Total
Interest income	10 151	2 263	125	2	803	-	13 344
of which, interest on loans and guarantees (Note 4)	*9 548*	*1 410*	*-*	*-*	*796*	*-*	*11 754*
Interest expense	(1 518)	(22)	-	-	(235)	-	(1 775)
Net interest income	8 633	2 241	125	2	568	-	11 569
Income for implementation of state aid programmes	469	784	3 611	1 200	-	101	6 165
Expenses to be compensated for implementation of state aid programmes	(270)	(484)	(3 641)	(1 074)	-	(115)	(5 584)
Net income for implementation of state aid programmes	199	300	(30)	126	-	(14)	581
Gains from debt securities and foreign exchange translation	10	70	10	-	-	-	90
Share of (losses) of investment in associates	-	-	(1 546)	-	-	-	(1 546)
Share of gain of investment in associates at fair value through profit or loss	-	-	18	-	-	-	18
Gains less losses from liabilities at fair value through profit or loss	-	-	1 539	-	-	-	1 539
Other income	-	-	762	2	1 181	223	2 168
Other expense	(257)	(45)	(8)	(30)	(226)	(68)	(634)
Operating income / (loss) before operating expenses	**8 585**	**2 566**	**870**	**100**	**1 523**	**141**	**13 785**
Staff costs	(2 910)	(655)	(72)	(605)	(227)	(171)	(4 640)
Administrative expense	(972)	(281)	(84)	(334)	(104)	(46)	(1 821)
Amortisation of intangible assets and depreciation of property, plant and equipment	(397)	(153)	(29)	(165)	(22)	(21)	(787)
(Impairment) gain, net	(1 061)	3 002	6	-	(1)	(247)	1 699
Profit or (loss) from assets held for sale revaluation	-	-	-	-	-	(105)	(105)
Total segment profit/(loss)	**3 245**	**4 479**	**691**	**(1 004)**	**1 169**	**(449)**	**8 131**
Financial assets at fair value through profit or loss	-	-	-	-	-	(959)	(959)
Other investments	-	-	250	-	-	-	250
Investments in associates	-	-	2 616	-	-	-	2 616
Additions of property and equipment, intangible assets and investment property	408	124	26	190	9 175	24	9 947
Total segment assets	**343 368**	**49 316**	**68 687**	**40 183**	**40 128**	**18 379**	**560 061**
Total segment liabilities	**173 392**	**67 778**	**17 867**	**28 971**	**38 382**	**933**	**327 323**

43 Events after the reporting date

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

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Independent Auditors' Report

To the shareholder of JCS Finance Development Institution Altum

Our Opinion on the Consolidated and Separate Financial Statements

We have audited consolidated and separate financial statements of JSC Finance Development Institution Altum ("the Company") and its subsidiaries (together - "the Group") set out on pages 3 to 96 of the accompanying annual report, which comprise:

- the consolidated and separate statement of financial position as at 31 December 2020,
- the consolidated and separate statement of comprehensive income for the year then ended,
- the consolidated and separate statement of changes in equity for the year then ended,
- the consolidated and separate statement of cash flows for the year then ended, and
- the notes to the consolidated and separate financial statements, which include a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying consolidated and separate financial statements give a true and fair view of the financial position of the Group and the Company as at 31 December 2020, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

In accordance with the Law on Audit Services of the Republic of Latvia 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 Consolidated and Separate Financial Statements* section of our report.

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) and independence requirements included in the Law on Audit Services of the Republic of Latvia that are relevant to our audit of the financial statements in the Republic of Latvia. We have also fulfilled our other professional ethics responsibilities and objectivity requirements in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) and Law on Audit Services of the Republic of Latvia.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our report.

<table>
<tr><th>Key audit matter</th><th>How the matter was addressed in the audit</th></tr>
<tr><td colspan="2">Expected credit losses on loans and measurement of guarantees</td></tr>
<tr><td>
Refer to Notes 2 (16), 13 and 32 to the financial statements
The assessment of loan loss provisions for loans provided to customers and valuation of financial guarantee contracts requires management to exercise a significant level of judgment, especially with regards to identifying impaired loans, quantifying amount of impairment and estimating the payments expected to be made under the financial guarantees. The level of uncertainty and level of subjectivity of judgments applied significantly increased in 2020 due to the COVID-19 pandemic.
To assess the amount of provisions for expected credit losses, the Company applies comprehensive statistical models with a number of input parameters obtained from internal and external sources. If necessary, historical input parameters are adjusted so they can be used for a more appropriate estimation of losses in the future.
In accordance with the requirements of IFRS 9 Financial Instruments, the Company distinguishes three stages of impairment, with the criteria for classification to individual stages being based on an assessment of the objective evidence about the loans and debtors and subjective evaluation of other relevant information available to the Company.
The Company measures estimated credit losses for financial assets either on an individual basis for those assets that are individually significant or on a collective basis for groups of financial assets that share similar credit risk characteristics.
Financial guarantee contracts are initially recognized at fair value and subsequently measured at a 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 initially recognised.
As of 31 December 2020, the total impairment allowances for loans amount to EUR 20 713 thousand and the value of financial guarantee contracts reported in the statement of the financial position in line “Provisions” amounts to EUR 31 413 thousand.
</td><td>
Our procedures included, but were not limited to:
We assessed the appropriateness of the methodology used by the Company to identify impairment and quantify provisions for selected significant portfolios.
We assessed the correctness of classification and recognition of credit losses for loans with payments deferred as a result of measures introduced to mitigate the negative consequences of the COVID-19 pandemic in Latvia.
We tested the design and operating effectiveness of key controls which the Company’s management has implemented in connection with the impairment assessment processes, including key controls for approval, recording and monitoring loans, input of contractual data and accuracy, completeness and approval of loss provisions.
Our credit risk specialists assessed the appropriateness of management judgments regarding the determination of loan losses by considering the selection and application of appropriate models to the selected significant portfolios, and by comparing the inputs used in the Company’s models to the actual level of losses experienced by the Company in the past.
With regards to macroeconomic parameters, we reviewed the analysis prepared by the Company of the expected macroeconomic developments and related parameters used in the IFRS 9 models.
On a sample of loans and guarantees, we evaluated the correctness of IFRS 9 staging and appropriateness of provisioning levels.
For a sample of loans assessed on an individual basis, we examined the loan exposures and evaluated the Company’s assessment of future recoveries, including the values of existing collaterals.
The overall conclusion was supported by an analysis performed at an overall portfolio level using analytical methods to identify anomalies in classification of loans to IFRS 9 impairment stages and in the levels of loan loss provision.
</td></tr>
</table>

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Accounting for investments in venture capital funds	
Refer to Notes 2 (16), 16, 17, 18 and 22 to the financial statements The Company has made investments in a number of venture capital funds ("the VCFs"). The Company assesses whether it has control or significant influence over the VCFs and accordingly classifies each investment as either a subsidiary, an associate or as other investment. In the separate financial statements, the investments in subsidiaries are accounted for using the equity method. Subsidiaries are fully consolidated in the consolidated financial statements. Investments in associates, in both separate and consolidated financial statements, are accounted for using the equity method, except for the specific investments designed as 'at fair value through profit and loss'. Other investments are accounted 'at fair value through profit and loss'. Due to specific and complex nature of arrangements related to investments into VCFs and their management, significant judgment is applied in classifying VCFs into one of the abovementioned categories and selecting the appropriate accounting treatment. The values of the investments in VCFs are primary determined using information about fair values of the underlying investments held by the VCFs ("the VCF Assets"). The VCF Assets represent a combination of debt and equity instruments that are rarely traded in an active and liquid market. Often, VCFs invest into start-up companies. Consequently, significant amount of judgment needs to be applied when determining the valuation of carrying amount of VCFs. As of 31 December 2020, the total value of investments in VCFs reported by the Company amounts to EUR 60 370 thousand.	Our procedures included, but were not limited to: We evaluated key judgments made by management when classifying investments in VCFs as subsidiaries, associates or other investments. For a sample of the VCFs, we reviewed the contractual terms of the agreements related to management of the VCFs to evaluate the level of control that the Company holds over the VCF. We obtained the calculations of net asset values of the VCFs and the available information about the fair values of the underlying VCF Assets. For a sample of the VCFs, we assessed appropriateness of the calculation of its net assets. We discussed with the responsible employees of the Company the performance of the VCFs and VCF Assets to understand their current performance and Company's expectations regarding the exit values for the VCF Assets. We assessed the relevance of adjustments made by the Company to the net asset values reported by the VCF's.

Other matter

Consolidated and separate financial statements for the year ended 31 December 2019 were audited by other auditors whose report dated 31 March 2020 expressed an unqualified opinion on those statements.

Reporting on Other Information

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

- the Management Report, as set out on pages 3 to 10 of the accompanying Annual Report,
- the Statement on Management's Responsibilities, as set out on page 12 of the accompanying Annual Report,
- the Statement of Corporate Governance, as set out on pages 111 to 122 of the accompanying Annual Report.

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

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

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

Other reporting responsibilities in accordance with the legislation of the Republic of Latvia related to other information

In addition, in accordance with the Law on Audit Services of the Republic of Latvia with respect to the Management Report, our responsibility is to consider whether the Management Report is prepared in accordance with the requirements of the 'Law On the Annual Reports and Consolidated Annual Reports' of the Republic of Latvia.

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

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

In accordance with the Law on Audit Services of the Republic of Latvia with respect to the Statement of Corporate Governance, our responsibility is to consider whether the Statement of Corporate Governance includes the information required in section 56.1, section 1, clauses 3, 4, 6, 8, and 9, as well as article 56.2, section 2, clauses 1, 2, 3, 5, 6, 7 and 8 of the Financial Instruments Market Law.

In our opinion, the Statement of Corporate Governance includes the information required in section 56.1, section 1, clauses 3 ,4, 6, 8, and 9, as well as article 56.2, section 2, clauses 1, 2, 3, 5, 6, 7 and 8 of the Financial Instruments Market Law.

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

Management is responsible for the preparation of the consolidated and separate 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 consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibility for the Audit of the Consolidated and Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 consolidated and separate financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated and separate 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 auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves a fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and objectivity, 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 consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other reporting responsibilities and confirmations required by the legislation of the Republic of Latvia and the European Union when providing audit services to public interest entities

We were first appointed as auditors on 8 December 2020. This is our first year of appointment as auditors.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit committee of the Company;

- as referred to in the paragraph 37.6 of the Law on Audit Services of the Republic of Latvia we have not provided to the Group and the Company the prohibited non-audit services (NASs) referred to of EU Regulation (EU) No 537/2014. We also remained independent of the audited entity in conducting the audit.

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

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Licence No.43

Inguna Stasa
Member of the Board
Certified Auditor of Latvia
Certificate No.145

Riga, Latvia
March 31, 2021

OTHER NOTES TO THE ANNUAL REPORT

OTHER NOTES TO THE ANNUAL REPORT

KEY FINANCIAL AND PERFORMANCE INDICATORS

Based on data from audited financial statements for the respective years

	2020	2019	2018	2017 (corrected) *	2016 (corrected) *	2015 (corrected) *
Key financial data						
Net interest income (EUR '000) **	14 572	11 569	11 302 **	11 602	11 024	16 419
Profit for the period (EUR '000)	5 539	8 131	4 092	8 709 *	2 170	4 924
Cos to income ratio (CIR) ***	47.51%	52.58%	74.84% ***	50.30% *	88.40%	55.80%
Employees	211	203	222	230	242	282
Total assets (EUR '000)	850 704	560 061	495 939	453 668 *	443 400 *	406 918
Tangible common equity (TCE) / Total tangible managed assets (TMA) ****	**33.56%**	**29.40%**	**31.70%**	**35.10% ***	**36.50%**	**37.30%**
Equity and reserves (EUR '000)	382 594	232 738	221 590	222 848 *	210 406 *	199 610
Total risk coverage: (EUR '000)	**180 205**	**87 456**	**77 815**	**67 593 ***	**66 508 ***	**41 021**
Risk coverage reserve	112 567	99 778	85 276	62 651	63 636 *	40 662
Risk coverage reserve used for provisions	(28 197)	(27 829)	(19 268)	(4 753)	(4 323)	(1 276)
Portfolio loss reserve (specific reserve capital)	102 264	15 507	11 807	9 695	7 195	1 635
Portfolio loss reserve used to compensate provisions upon approval of the annual report	(6 429)	-	-	-	-	-
Liquidity ratio for 180 days *****	464%	582%	227%	482% *	449%	352%
Financial instruments (gross value)						
Outstanding (EUR '000) (by financial instrument)						
Loans (excluding sales and leaseback transactions)	302 481	225 144	210 208	207 065	217 429	218 562
Guarantees	359 605	284 232	236 895	182 376	147 175	131 120
Venture capital funds	73 165	68 331	59 698	62 299	64 785	44 378
Land Fund, of which:	68 258	39 634	21 717	11 328	4 635	991
- sales and leaseback transactions	31 500	15 268	6 923	520	-	-
- investment properties	36 758	24 366	14 794	10 808	4 635	991
Total	**803 509**	**617 341**	**528 518**	**463 068**	**434 024**	**395 051**
Number of transactions	26 578	22 437	18 603	14 655	11 561	8 940
Volumes issued (EUR '000) (by financial instrument)						
Loans (excluding sales and leaseback transactions)	138 238	64 320	59 608	51 349	59 465	52 329
Guarantees	137 425	98 240	88 765	68 615	56 109	50 065
Venture capital funds	14 014	9 022	4 149	2 638	21 356	18 798
Land Fund, of which: ******	28 191	16 384	10 823	6 359	3 704	991
- sales and leaseback transactions	16 796	7 239	6 835	520	-	-
- investment properties	11 395	9 145	3 988	5 839	3 704	991
Total	**317 868**	**187 966**	**163 345**	**128 961**	**140 634**	**122 183**
Number of transactions	6 147	5 559	5 590	4 839	4 537	2 841
Total contribution to the economy, including the contribution of the final recipients (tEUR)	696 305	531 661	460 045	370 560	359 706	248 665
Leverage for raised private funding	114%	142%	162%	185%	162%	104%
Volume of support programmes funding per employee (EUR '000)	3 808	3 041	2 381	2 013	1 793	1 401
Long-term rating assigned by Moody's Investors Service	Baa1	Baa1	Baa1	Baa1	-	-

* Due to change of accounting policy on investments in venture capital funds and adoption of IFRS 9 requirements that effects the accounting of public funding risk coverage the comparatives for 2017, 2016 and 2015 have been restated.
** Due to reclassification of fees and commission related to lending activities following the industry practise, excludes fees and commission not related to lending activities, the comparatives for 2018 have been reclassified with subsequent ratio recalculation.
*** Due to reclassification of staff and administrative costs to be compensated as well as respective income on compensation, the comparatives for 2018 have been reclassified with subsequent ratio recalculation.
**** TMA includes off-balance sheet item outstanding guarantees.
***** Liquidity ratio calculation takes into account the previous experience and management estimate of expected amount and timing of guarantees claims
****** Taking into account the significance of the volume, the Land Fund portfolio, which consists of sales and leaseback transactions and investment properties, is also presented in the outstanding volumes and in volumes issued in the period. Since according to the accounting principles and IFRS the sales and leaseback transactions are accounted for under the loans, the volume of loans presented in this table has been reduced for the volume of the sales and leaseback transactions as it is recorded under the Land Fund portfolio.

Definitions of ratios

Net income from interest, fees and commission	"Net income from interest, fees and commission" is equal to the item "Net interest income" in the Statement of Comprehensive Income. Until 2018 this ratio included the following items of the Statement of Comprehensive Income: "Net interest income" and "Net income from fees and commissions". In 2019 following the industry practise Fee and commission income from lending activities is reclassified to Interest income from "Net income from fees and commissions". Subsequently the fee and commission income not related to lending activities is reclassified within Other income and as such is not included in this ratio. The item "Net income from fees and commissions" is not applicable in The Statement of Comprehensive Income anymore. The comparatives have been reclassified accordingly. ALTUM uses this indicator as the key financial metric for profitability by evaluating ALTUM Group's net income amount generated by the portfolio of financial instruments and recognised in the Statement of Comprehensive income. ALTUM management measures and monitors the actual performance of this indicator on a quarterly basis compared to the approved level in ALTUM Group's budget.
Cost to income ratio (CIR)	"Cost to income ratio" (CIR) is calculated by dividing the amount of "Staff costs", "Administrative expense", "Amortisation of intangible assets and depreciation of property, plant and equipment" by "Operating income before operating expenses" included in the Statement of Comprehensive Income. ALTUM uses CIR to evaluate the operational efficiency. This is one of the measures of operational efficiency which ALTUM management assesses on a quarterly basis in the management reports to evaluate the outputs from different operational activities and efficiency improving measures.
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 "Assets held for sale". Data for the calculation of both indicators (TCE, TMA) are obtained from ALTUM Group's Financial statements: Statement of Financial Position and Consolidated Statement of Changes in Equity, notes - Off balance sheet items and contingent liabilities and Provisions. ALTUM uses the ratio "TCE/TMA" to evaluate ALTUM Group's capital position adequacy and to measure ALTUM Group's tangible common equity in terms of ALTUM Group's tangible managed assets including the off-balance sheet item Guarantee portfolio. The Risk and Liquidity Management Committee of ALTUM monitors its level on a quarterly basis.
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 "Risk Coverage Reserve" and "Portfolio Loss Reserve" (Specific Capital Reserves) less "Risk Coverage Reserve Used for Provisions" and "Portfolio loss reserve used to compensate provisions upon approval of the annual report". The expected losses are estimated before implementation of the respective State aid programme and part of the public funding received under respective State aid programme for coverage of expected losses on credit risk is transferred either to "Portfolio Loss Reserve" as ALTUM Group's specific capital reserve or accounted separately as provisions for risk coverage under liabilities item "Risk Coverage Reserve". "Portfolio Loss Reserve" (specific capital reserve) is disclosed in the Note on Reserves to the Financial statements of the ALTUM Group. "Risk Coverage Reserve" is disclosed in the Note on Support Programme Funding to the Financial statements of ALTUM Group. "Risk Coverage Reserve Used for Provisions" is the amount of "Risk Coverage Reserve" allocated to and used for provisioning for impairment loss on loan portfolio and guarantees which in its turn is disclosed in the Note on Support Programme Funding to the Financial statements of ALTUM Group. "Portfolio loss reserve used to compensate provisions upon approval of the annual report" is disclosed in the Note on Reserves to the Financial statements of the ALTUM Group. "Total Risk Coverage" is key indicator to be used for assessment of ALTUM's risk coverage on implemented programmes and long-term financial stability.
180-day liquidity ratio	"180-days-liquidity ratio" is calculated by dividing the amount of the balances "Due from other credit institutions and the Treasury" with a maturity of up to 1 month and "Financial assets at fair value through other comprehensive income and Investment securities" by the amount of the total liabilities maturing within 6 months and total financial commitments maturing within 6 months (off-balance sheet items). The data required for the calculation of the "180-days liquidity ratio" is disclosed in the following ALTUM Group's Financial statements: Statement of Financial Position and notes – Maturity profile of assets and liabilities under the section of Risk Management, Off-balance sheet items and contingent liabilities. ALTUM uses the "180-days-liquidity ratio" to assess and monitor ALTUM Group's ability to fulfil ALTUM Group's contractual and/or contingent liabilities during 6 (six) month with the currently available liquidity resources. "180-days-liquidity ratio" helps to manage ALTUM Group's liquidity risk in line with ALTUM Group's/ALTUM's funding management objectives and risk framework. Risk and Liquidity Management Committee of ALTUM monitors its level on a quarterly basis.
Total contribution to the economy, including the participation of the final recipients, by volumes issued in the period	The 'Total contribution to the economy, including the participation of the final recipients, by volumes issued in the period' is calculated by adding to the volumes issued by ALTUM the financing provided by the private co-financier and the project promoter.

Definition of ratios (cont'd)

Leverage for raised private funding	"Leverage for raised private funding" indicates the amount of additional private funds invested in a project in addition to ALTUM's financing. "Leverage for raised private funding" is determined considering the financing invested by a private co-financier and a project's implementer, which, on average, makes up to 50 per cent for loans, up to 70 per cent for guarantees and venture capital (except for housing loan guarantees' programme for the first instalment with a ratio of 795 per cent) in addition to ALTUM's funding.
Employees	Average number of employees in the period excluding members of the Council and the Audit Committee.
Volume of support programmes funding per employee	"Support programmes funding per employee" is calculated by dividing the gross value of the Financial Instruments Portfolio by the average number of employees during the period, excluding members of the Supervisory Council and the Audit Committee.
Venture capital	The Venture Capital Funds presented at their gross value.

Corporate Governance Report 2020

The statement of joint-stock company Attīstības Finanšu Institūcija Altum (Development Finance Institution Altum, hereinafter – Altum), unified registration No. 50103744891, *On corporate governance in 2020* is prepared in accordance with the requirements of Section 56.2 Paragraph three of the *Financial Instruments Market Law* and based on the good corporate governance recommendations for capital companies in Latvia, developed by the Corporate Governance Advisory Council (*Corporate Governance Code*, January 2021). The recommendations have been developed taking into consideration the requirements set for companies in the laws and regulations of the Republic of Latvia, as well as good governance recommendations of the Organization for Economic Co-operation and Development. The Corporate Governance Report also covers ESG aspects based on the Nasdaq ESG Reporting Guide 2.0 (May 2019).

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.

Strategy 2019 - 2021

On 30 May 2019, Altum Council approved Altum's *Medium-Term Operational Strategy 2019-2021*.

Since March 2020, as delegated by the government, Altum has engaged actively in mitigating the adverse impact of Covid-19 pandemic on SME and Midcaps in Latvia by developing new financial support instruments. Altum takes pillar role for providing Covid-19 financial instruments (excl. standstill grants) – loans and guarantees in Latvia. In co-operation with the Ministry of Economics new financial support instruments were developed effective as of 25 March 2020 and already co-ordinated with the European Commission.

In spring another financial instrument alternative investment fund "Altum Capital Fund" was created with the aim to support well-managed, perspective Mid-cap companies to overcome the effect of Covid-19 that as a result of the virus impact are ready to adjust their operations by changing their business model, adjusting product development, introducing new technology and expanding to new export markets.

Total capital injection in Specific Reserve capital to ensure Covid-19 financial instruments to SME and Midcaps reached EUR 145 million during 2020 for respective funding needs and expected credit loss.

Therefore the *Medium-Term Operational Strategy 2019-2021* was amended to determine new projected performance indicators by implementing additional state aid programmes to mitigate the impact of Covid-19 on SME and Midcap in Latvia, which were not previously included in the strategy. Furthermore, the risk coverage for these financial instruments is arranged by transferring funds to Altum's special reserve capital, which provides for an increase in equity, while programme expenses, including credit risk provisions in accordance with IFRS requirements, as well as programme revenues affect the financial results for the reporting period. On 11 March this year, Altum Council approved these amendments to Altum's *Medium-Term Operational Strategy 2019-2021*.

The following strategic development directions and long-term objectives are set in the approved JSC Development Finance Institution Altum *Medium-Term Operational Strategy 2019-2021*:

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

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Detailed information on implementation of financial objectives is disclosed in the Consolidated and Separate Annual Report for the year ended 31 December 2020 (hereinafter - the Annual Report), Management Report and in the Annual Report Other Notes. On achievement of non-financial objectives set in the Strategy for 2020, which were included in the original version of the *Medium-Term Operational Strategy 2019-2021* and in the amended Strategy, taking into consideration the additional financial instruments utilized by Altum to mitigate the effects of Covid-19 on the SME and Midcap segment in Latvia, see below.

- **Contribution to economy by Altum volumes issued** in 2020 reaches **EUR 696 million** (+EUR 73 million/+12% vs original projection in the Strategy (30.05.2019); +EUR 11 million/+2% vs projection in the amended Strategy (11.03.20211); +EUR 164 million/+31% vs 2019).

- **Volume of support programmes funding (excl. grants) per employee** is **EUR 3.8 million** (+EUR 0.3 million/+9% vs original projection in the Strategy; +EUR 0.2 million/+6% vs projection in the amended Strategy ;+EUR 0.8 million/+27% vs 2019).

- **Employee turnover** is **3%**, which is less than projected in the original and the amended versions of the Strategy (<10%), -4% vs 2019.

- Annual **number of trained employees** reaches **95%**, which is more than projected in the original and the amended versions of the Strategy (>60%), +11% vs 2019.

- **Volumes issued (excl. grants)** in 2020 reaches **EUR 318 million** (+EUR 111 million/+54% vs original projection in the Strategy, with minor deviation of -EUR 17 million/-5% vs projection in the amended Strategy, +EUR 130 million/+69% vs 2019).

- **Gross portfolio** as at end of 2020 is **EUR 804 million** (+EUR 147 million/+22% vs original projection in the Strategy, with minor deviation of -EUR 24 million/-3% vs projection in the amended and enhanced Strategy, +EUR 187/+30% vs 2019).

- **Credit rating assigned by Moody's** projected, both in the original and in the amended and enhanced Strategy, not more than two niches below the sovereign rating of Latvia (A3 by Moody's), actual for 2020 (same for 2019) is **Baa1** (one niche below the sovereign rating of Latvia), better than projected.

The achieved non-financial targets' deviations from the original projections in the Strategy (30.05.2019) are positive. Deviations of individual indicators from the projections in the amended and enhanced Strategy (11.03.2021) are insignificant, and they have not adversely affected implementation of the key objectives and strategy of Altum.

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,

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(cont'd)

monitors the efficiency of the internal control and risk management system, in as much as it pertains to maintaining the credibility and impartiality of annual reports and consolidated annual reports. The Audit Committee, in line with the requirements of Law on the Financial Instruments Market, monitors the process of the preparation of financial statements of Altum and the Group, and performs other duties assigned to it by laws and regulations. The Internal Audit Division performs its duties in accordance with the applicable laws and regulations, the international standards for the professional practice in internal auditing and the internal regulations of Altum and the Group.

An Accounting Policy and Policy on Establishment of Provisions have been developed in Altum and the Group, the purpose of which is to define principles, methods and rules for the accounting, assessment and disclosure of transactions, facts, events and items in financial statements. The management of Altum and the Group has established an accounting policy that ensures that the financial statements provide information that is reliable and useful for the users of such statements in decision-making. The applied Accounting Policy and Policy on Establishment of Provisions ensure that the information disclosed in the statements of Altum and the Group is true, comparable, timely, significant, explicit, relevant and complete. Altum and the Group have developed internal regulatory documents defining the procedure of preparing the financial statements.

Risk management

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

The following major risk management principles are followed:

- Risk management is a component of every-day functions;
- Altum and the Group identify and assess the probable risks before launching of new products or services;
- While assuming the risks, Altum and the Group are capable of long-term pursuit of the delegated aims and assignments;
- Altum and the Group do not enter into transactions, operations, etc. entailing risks that endanger their operational stability or may result in substantial damage to their reputation.

In their risk management Altum and the Group make use of various risk analysis methods and instruments as well as establish risk limits and restrictions.

Information about the key elements of the risk management system of enterprises involved in consolidation, applied in preparation of consolidated financial statements, is provided in Annual Report.

Annual Report is publicly available in the premises of Altum at 4 Dome Square, Riga and in electronic form – on the website www.altum.lv, in INVESTORS section under FINANCIAL INFORMATION sub-section and in ABOUT ALTUM section under FINANCIAL INFORMATION sub-section.

Independent audit

An independent audit of the financial statements of Altum and the Group is performed by independent auditors who provide their opinion stating whether the financial statements of Altum and the Group give a true and fair view of the financial position, financial performance and cash flows of Altum and the Group in accordance with the International Financial Reporting Standards as adopted by the European Union. SIA Deloitte Audits Latvija has been approved the auditor of the financial statements of Altum and Group for years 2020-2022. Pursuant to the requirements of EU Regulation No 537/2014 regarding the appointment of statutory auditors or audit firms at public-interest entities, Altum Audit Committee was involved in the auditor selection process. 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 (2017, 2018, 2019 and 2020 until the submission of the proposal) has had experience of at least 3 (three) audits performed on the annual reports of credit institutions, provided that the balance sheet value of the credit institution's loan portfolio is not less than EUR 200 million;

- 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 tenderer as well as any cooperation partner of the tenderer's network of audit firms (if the tenderer is a cooperation

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partner of a network of audit firms) has not provided Altum or companies it controls in the European Union with non-audit services prohibited under second subparagraph of paragraph 1 of Article 5 of EU Regulation No 537/2014 in the period referred to in first subparagraph of paragraph 1 of Article 5, and the tenderer meets the requirements referred to in Articles 4 and 5 of EU Regulation No 537/2014.

The following criteria were applied to selection of the auditor:

- the most economically feasible offer with the lowest price;

- performance of the contract involves an expert on International Financial Reporting.

ESG aspects - environmental, social and corporate governance.

In its day-to-day operations in implementing State-delegated functions to foster development of the national economy and

voluntarily taking the responsibility for its impact on society and the environment, Altum acts in compliance with the organization's strategy and values (Team, Excellence, Responsibility).

Altum uses support financial instruments – loans, guarantees and investments in venture capital funds - to foster development of the national economy in areas defined as important and to be supported by the state, enhancing mobilization of private capital and financial resources. Altum has a long-term vision to attract financing for the purpose of ensuring the availability of resources to finance business projects important for the national economy.

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

The efficiency of Altum operations in the long term can only be ensured by adhering to the principle of sustainable business, which consists of three interrelated and equally important aspects of ESG – environmental, social and corporate governance.

Environmental aspect

Altum consistently pursues a continuous cycle of **environmental management** and performance improvement, including by revising long- and short-term environmental performance targets. Our environmental policy expresses our goals and commitment to implementing our activities with the least possible direct and indirect impact on the environment. Altum provides a broad range of support for citizens and businesses to improve energy efficiency. We profoundly believe that sustainability is the future for the people of Latvia, entrepreneurs and ourselves. Altum defines business sustainability as the creation of long-term value, taking into account economic, ethical, social and environmental considerations. Proper environmental management is a good business practice that must be implemented by Altum, our customers and cooperation partners.

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

Already In 2017 Altum issued bonds as series of notes quoted on Nasdaq Riga for the total face value of EUR 20 million being in compliance with the Green Bond Framework, becoming the first national development institution of the Central and Eastern European countries that has issued the green bonds. In order to assure investors that funding raised by green bonds will be used by ALTUM to invest in environment-friendly projects and help to reach specific environmental objectives, CICERO (Centre for International Climate and Environmental Research, Oslo) prepared an independent opinion on the Green Bond Framework of ALTUM. CICERO recognised that the system of financial management and reporting of the funds acquired as a result of the issue of the notes complied with high standards.

The funding attracted from the issue of the Green Bonds is used to fund sustainable business projects in the fields of energy efficiency, energy generation from renewable energy resources, green buildings and sustainable transportation, including energy service companies (ESCO) that provide services to the companies in these fields. In 2020 the loan volume issued to those projects was EUR 5.4 million, a decrease of EUR 1.3 million as compared to 2019. As the implementation of projects in all these four segments is very time consuming, financing is issued in 9-12 months after a decision is taken on granting the financing. 2020 was a special year because funding was allotted for the first projects in the sustainable transport segment – development of a car sharing fleet of electric vehicles in Latvia and conversion of passenger minibuses from fossil fuels to electric batteries for passenger transportation in one of the largest cities in Latvia. Also in 2020, funding was provided to the first ESCO in the field of renewable energy for the installation of solar panels. The largest share of loans is still issued in the energy efficiency segment that, in terms of the number of projects and financing, is ahead of the renewable energy, sustainable

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transport and green buildings segments, but as the activity in the three latter segments continues to increase, a better balance is likely to be struck. Energy efficiency investment projects are being implemented not only by companies but also in the municipal sector, where solutions for heating systems are mainly implemented. Several ESCO projects in the field of lighting and technology should also be highlighted as the number of such projects continued to rise in 2020. Slowly but irreversibly, Latvian companies are beginning to realize the need for green and sustainable investments, considering not only gains these investments bring to the mitigation of climate change but also to immediate financial benefits of the company by decreased consumption of energy resources and maintenance.

As the development finance institution of Latvia, Altum's impact on the environment is mostly indirect and arises from implementation of customer support programmes. As a state capital company and a financial sector participant, Altum is aware of its important role in achieving the ambitious objectives of the National Energy and Climate Plan 2021-2030. Altum's credit policy, as well as cooperation with other players in the financial sector, is reviewed in line with these challenges.

Even though Altum, as a development finance institution, has a relatively small direct impact on the environment, Altum aims

to further reduce its direct impact on the environment. In 2020, we generated 36.1% less CO2 emissions than in 2018 and 22.4% less than in 2019. We achieved this by improving the energy efficiency of Altum offices, electricity consumption of appliances, renewing the ageing car fleet, as well as improving the daily work schedule so that increasingly more tasks could be performed remotely.

Altum pursues a continuous cycle of environmental management and performance improvement, including by revising long- and short-term environmental performance targets. Environmental management principles and performance in 2020 are available on the Altum website https://www.altum.lv//lv/par-altum/vides-parvaldibas-principi/.

Corporate governance

Adherence to the principles of **corporate governance** contributes to value growth of the company in the long term, effective management and transparency. The principles are applicable at all Altum levels, creating a successful system of mutual relations between the Shareholder, the Council, the Board, employees, customers and society. In its day-to-day operations, Altum is engaged in open and trustworthy communication with all involved parties, as well as ensures compliance with Latvian and international legal norms and ethical standards.

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.

Effective 2021, Altum follows the Corporate Governance Recommendations included in the *Corporate Governance Code* (hereinafter – the Code), endorsed by the Corporate Governance Advisory Board of the Ministry of Justice. The Code is available on website https://www.tm.gov.lv/sites/tm/files/media_file/korporativas-parvaldibas-kodekss_0.pdf.

In assessing the compliance of Altum's corporate governance system with the corporate governance principles set out in the Code and observance of these principles in Altum's operations, Altum observes the main aspects of corporate governance principles applicable to its operations, except for the principle "Independent members of the company's council".

Pursuant to Section 7 of the *Law on Development Finance Institution*, the members of Altum Council and Board are subject to the requirements as are provided in the Credit Institution Law for the members of the council and of the board of a credit institution.

The composition and period of operation of Altum Council and Board are determined by the Law on Development Finance Institution. Altum Council is composed of three members. Each shareholder has the right to nominate one candidate for the position of a Council member. Chairperson of the Council is a member of the Council nominated by the Ministry of Finance. Altum Board may not have more than five members. The Council appoints the chairperson of the Board from among the members of the Board. The term of office for the members of the Council and the Board is three years.

The procedure for nominating members of the Board and the Council is provided in the Law on Governance of Capital Shares of a Public Person and Capital Companies.

The holder of State capital shares or the Council of the capital company establishes a nomination committee to evaluate the candidates for members of the Board or the Council. The nomination committee includes representatives nominated by the holder of State capital shares or the Council and the Cross-sectoral Coordination Centre, as well as independent experts and, if necessary, observers with advisory rights.

Potential candidates for Board and Council members are selected by organizing a public application procedure for

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candidates. Exceptions are allowed only in cases provided for by the law if a member of the Council or the Board is elected for a new term or the candidate cannot be nominated in a time period that would ensure the Council or the Board's capacity to act.

If a candidate cannot be nominated in a time period that would ensure the Council or the Board's capacity to act, such candidate is appointed as a member of the Council or the Board who complies with the relevant criteria of professionalism and competence. A person elected in accordance with this procedure fulfils the official duties until the moment when a Council or Board member is elected pursuant to the nomination procedure laid down in the law, but not longer than for one year.

The remuneration of the Council and the Board members is determined by the laws and regulations of the Republic of Latvia – *Law on Governance of Capital Shares of a Public Person and Capital Companies* and the Cabinet regulations issued on the basis thereof. The legal acts establish a unified regulation for the remuneration of members of the Council and the Board of a capital company of a public person. The Cross-sectoral Coordination Centre's *Guidelines for Determining the Remuneration of Members of the Board and Council of a Capital Company of a Public Person and a Public Private Capital Company* define the procedure for paying bonuses or variable remuneration to the Board after approving the annual account and evaluating the performance of the company, its Board and Council in the reporting year.

Altum maintains social dialogue with employees and their representatives. The Collective Agreement provides additional guarantees for Altum employees, regulates rest time, remuneration, and matters that deal with occupational safety, as well as ensures the principles of fairness, mutual trust, understanding and transparency. The Collective Agreement applies to all Altum employees with an employment contract signed for an indefinite term or for a period of not less than twelve months, and whose probation period specified in the employment contract has expired. At the end of 2020, the Collective Agreement did not apply to 4.6% or 10 employees with fixed-term contracts shorter than 12 months and 1.4% or 3 employees who had not yet completed the probation period provided in their employment contracts.

Altum has zero tolerance for bribery and corruption and they are prohibited in any form, either direct or indirect. Altum does not engage in corrupt transactions and fully condemns such transactions. In order to ensure proper management of risks of corruption, bribery and conflicts of interest, Altum has established an internal control system that ensures preventive risk management and a control environment aimed at preventing corruption risks by precluding conflicts of interest, corrupt practices and bribery in decision-making and the work environment as a whole. By improving the professional competence of Altum employees and drawing their attention to the risks of corruption in the work environment, in 2020 Altum organized training of all employees concerning bribery and corruption prevention. Altum's ethical principles are laid down in the Ethical Code and are binding on all Altum employees.

Altum provides a number of secure and protected channels, including for whistleblowing, https://www.altum.lv/lv/trauksmes-celsana/, in order to detect any possible bribery or corruption activity, or any violation of anti-corruption laws and regulations. No complaints about corruption or whistleblower reports were received in 2020.

The principles of personal data processing implemented by Altum, including in personnel selection procedures, provide information on how Altum handles personal data through its internal resources, including information systems. Personal data means any information relating to an identified or identifiable natural person. Information about the processing of personal data is provided on the website https://www.altum.lv/lv/privatuma-politika/ in accordance with Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data.

At the Nasdaq Baltic stock exchanges' initiative *Nasdaq Baltic Awards 2021*, Altum scored 81.47 out of 100 in terms of transparency, sound corporate governance and excellence in investor relations. The awards honour the companies with the best investor relations and the best shareholder return as well as the best performing stock exchange member. They also highlight the most significant stock exchange events – those with the most impact on the Baltic capital market's development. Assessment of companies and members of the Baltic stock exchanges is done by local and international corporate governance and investor relations experts.

Social aspect

The social aspect refers to the trust and support of shareholders, employees, cooperation partners, customers and the public.

Altum cares for the well-being of its employees by providing opportunities for growth, adequate working conditions, as well as social guarantees and social security measures set out in the collective agreement. Altum pursues an organizational culture that values mutual respect, diversity, inclusive environment and the principle of equality, as well as creates conditions in which these values are respected, maintained and developed. The work environment and processes are designed so as to prevent

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the possibility of human rights being infringed upon or violated.

In order to attract qualified, professional and motivated personnel, Altum has been implementing and continues to implement personnel selection procedures based on clear principles. The laws and regulations of the Republic of Latvia contain extensive provisions that regulate non-discriminatory treatment, and Altum fully complies with these provisions. The existing staff has been built by matching professional competencies required by Altum with the labour market offer.

Employee turnover in 2020 was 3.3%, or comparatively low. Last year, applications for 19 vacancies were announced. All employees had the opportunity to participate in personnel selection competitions, and 42% of vacancies were filled by Altum employees. In 2020, there were no long-term vacancies, which points to a positive image of Altum as an employer and quality recruitment process.

Altum has observed that employees with different experiences and attitudes are able to respond more effectively to customers' needs, find innovative solutions, thereby increasing productivity and efficiency. Working with employees of different age groups, we successfully combine the enthusiasm of youth with many years of experience and knowledge.

The average number of employees in 2020 was 210 – 66% were women and 34% men. 9% of employees are younger than 30, 66.7% are between the ages of 31 and 50, 24.3% employees are over the age of 51. The average age of Altum employees was 42 years in 2020.

In 2020, Altum had 43 top and medium-level managers, of which 56% were women and 44% men. 2.3% of managers are 20 to 30 years old, 67.4% of managers are 31 to 50 years old, 30.3% of managers are older than 51 years. Altum employed 167 specialists in 2020, of which 68.3% were women and 31.7% men. 2.3% of these employees are aged 20 to 30, 67.4% of employees are aged 31 to 50, and 30.3% are older than 51 years.

Altum's Ethical Code prohibits discrimination. An Ethics Commission has been set up at the company and procedures have been introduced for reviewing ethical violations, complaints and proposals. No complaints of discrimination in the workplace were received in 2020.

All Altum employees have written employment contracts and official registration of employment relationships is provided to ensure that the relevant state institutions receive all the necessary information. In 2020, Altum employed an average of 186 employees with an open-ended employment contract and 24 employees with a fixed-term employment contract. In cooperation with higher education institutions, in 2020 Altum provided internships for students from 8 higher education institutions.

Working conditions, remuneration, benefits and other conditions are designed to ensure equal opportunities for all employees and also to facilitate the work-life balance and parental responsibilities. In 2020, Altum did not receive any complaints about violations of working hours, remuneration or absence that would constitute human rights violations.

In early 2020, Altum developed a *Diversity, Equality and Inclusion Policy*, supporting diversity and equal rights in the selection, growth and development of personnel, without supporting or encouraging in any way discrimination against individuals on the grounds of race, religion, age, origin, sexual orientation, disability and other aspects.

In November, Altum joined *Latvian Diversity Charter*, becoming one of the official ambassadors for diversity in business and the workplace. *Latvian Diversity Charter* is a voluntary declaration striving for respect and inclusion of diversity groups. Altum strives for respect for diversity both in the workplace and in Latvian society as a whole. Involvement in the diversity movement is the next step in improving Altum employees' understanding of diversity management issues, promoting a positive attitude towards diversity and encouraging the ability of society to see diversity as an opportunity rather than a disadvantage.

Staff training and development is an important part of the staff management system. Altum, in accordance with its strategic goals, is involved in raising the qualification of employees, continuous development of their skills and knowledge, and the opportunity to gain diverse experience within the company. The aim of staff training is to improve job performance and efficiency, develop the skills needed for the job, provide additional skills for professional growth and prepare employees for new positions and responsibilities. The most suitable solutions for increasing professional development and competence are used in the organization of the training process.

Employee training and professional development in 2020 was organized in accordance with Altum's strategic goals and training needs identified in the annual professional assessment. In order to improve their professional competencies, 30% of employees participated in 36 outsourced seminars and courses, and 50% of employees improved their competencies at Altum's internal seminars. For the improvement and development of professional skills, employees were offered to participate in 29 different training activities (courses, seminars, training with tests, conferences), which were attended by 95% of employees, including 16 training activities for the development of leadership and management skills of department heads.

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In 2020, an annual competency-based job performance assessment system was introduced. An in-depth assessment of employees' competencies was carried out in Altum's regional customer service network, and individual employee development plans were created. An internal competency development model based on the employees' mutual experience transfer/mentoring within Competency Teams has been successfully introduced.

Altum's remuneration policy provides for uniform and fair principles for all employees, based on the strategic goals and performance indicators, which promotes employee development and loyalty to the company. Altum has implemented a financial motivation system for employees, which ensures that employees are systematically evaluated and remunerated in accordance with the quality of work they do, initiative, work intensity, and contribution.

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.

Altum participates in the financial sector remuneration survey on a regular basis in order to ensure effective application of the remuneration policy, to balance the remuneration level with the remuneration level in the labour market, and to improve Altum's competitiveness in the labour market.

In the TOP Employer 2020 survey that the online recruitment company CV-Online Latvia carried out for the tenth year in a row in 2020, the title of TOP Employer in the financial sector was awarded to JSC Swedbank for the ninth consecutive year, while Altum was a newcomer to the Top 5. The TOP Employer survey traditionally identifies the best and most popular employers of the past year that employees would like to work for the most. In 2020, a record number of respondents, almost 15,000 people, took part in the survey.

Altum strengthens the team spirit and maintains a positive work atmosphere through internal communication fostering cooperation and team-building activities, encouraging active involvement of employees in areas of common interest. Due to the restrictions on gatherings, no traditional events were organized for the company's employees in 2020, but team-building and recreational events strengthening the team spirit were organized remotely in a virtual environment, and there were outdoor team-building events for different individual departments of Altum.

Tidy, comfortable and aesthetic work environment and working conditions suited to the condition of each employee are important to Altum. Altum promotes employees' awareness of occupational health and safety and preventive care for their health. Based on the opinions of employees, the work environment and technical equipment are constantly being improved with the aim of providing all workplaces with ergonomic equipment. In order to promote employee responsibility for the environment, Altum educates and informs employees about topics related to environmental protection and the company's environmental goals.

In 2020, Altum paid special attention to measures for safe and healthy work environment in connection with the spread of the Covid-19 virus. By taking timely and well-thought-out measures to limit the spread of the virus, including by providing teleworking opportunities, Altum has avoided an epidemic in the workplace and has been able to ensure uninterrupted and full-fledged work of the employees. Work organization at Altum and measures to prevent the spread of Covid-19 in the workplace are aimed at minimizing meetings between employees and third parties (both when travelling and meeting with customers or partners), providing for remote work opportunities, limiting in-person meetings, introducing distancing requirements and requirements for the use of respiratory protective equipment in the workplace, taking employees and visitors' temperature, not allowing employees who have returned from countries with mandatory self-isolation requirement upon arrival, sick employees, contacts of sick persons and employees with any typical symptoms to come to work.

Altum employees are provided with the necessary collective and individual protective equipment in their daily work, premises and workplaces are regularly disinfected. In order to support the emotional health and well-being of employees amidst the Covid-19 crisis, employees were offered educational online lectures on stress management and work-life balance.

In 2020, there were no accidents at work at Altum and no occupational diseases were detected, as well as no complaints about occupational safety were received.

Altum operates in full compliance with Latvia's laws and regulations, which are in line with the UN standards on forced and child labour, and does not engage in forced or illegal child labour. The Ethical Code sets out the basic principles of fair treatment and prohibition of harassment, as well as provides the guidelines for the development of employment relationships between employees, the desired attitude and conduct, as well as the course of action in case of possible violations. In 2020, Altum received no complaints about forced or illegal child labour, harassment in the workplace, violations of employees' human rights or other ethical issues.

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By organizing customer satisfaction surveys and evaluating the results thereof, the service availability process is improved every year.

At the beginning of 2020, significant changes were made in the regional customer service structure, increasing the specialization of employees within different customer segments. These changes made it possible to increase the productivity of the existing staff twofold as crisis programmes were launched in March.

The improved customer service process proved efficient in a particularly challenging time from March to May when demand for loans under the crisis support programmes increased significantly, while the strict quarantine restrictions made the traditional customer service far more complicated. Recognizing Altum's important role in supporting entrepreneurship during the crisis, loan servicing under the Covid-19 support programme takes 5 days (from the moment an application is received to the moment a decision is taken), including weekends and public holidays.

Efficient and successful customer service during the crisis greatly depends on the ability to serve customers remotely. Altum offers fully remote customer service from consulting and loan applications to making a decision.

In promoting cooperation between science and business, youth involvement in research, quality of research and commercialization of innovative ideas, Altum cooperates with Latvian University of Life Sciences and Technologies, fostering the emergence and implementation of innovative agricultural solutions, and with BA School of Business and Finance to achieve more meaningful connection between studies and the development of the financial sector.

Altum's operations are very important for the country's economic growth. That is why, by engaging in community support

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

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

Initiatives supported in 2020:

<table>
<tr><td rowspan="4">Innovation, infrastructure</td><td>5G Techritory</td><td>Promoting the Baltic Sea Region countries' cooperation in digital infrastructure</td></tr>
<tr><td>Three Seas Initiative Investment Fund (3SIIF)</td><td>Promoting a new financing initiative to support transport, energy and digital infrastructure projects in Central and Eastern Europe, contributing to the region's economic development and quality infrastructure</td></tr>
<tr><td>Investor of the Year</td><td>Popularization of venture capital investments and their positive effect on the national economy of Latvia, highlighting the most successful private and corporate investment deals</td></tr>
<tr><td>Techcill</td><td>Fostering the development of the Baltic start-up ecosystem</td></tr>
<tr><td rowspan="2">Development of business environment</td><td>Employers and business support leaders' think tanks Business Trends 2020</td><td>Promoting an exchange of views on matters important to the business environment by joining forces with partners – Latvian Employers' Confederation and the European Commission</td></tr>
<tr><td>Business experience days</td><td>Promoting sharing of knowledge among entrepreneurs for successful business development in cooperation with partners – LCCI and Swedbank</td></tr>
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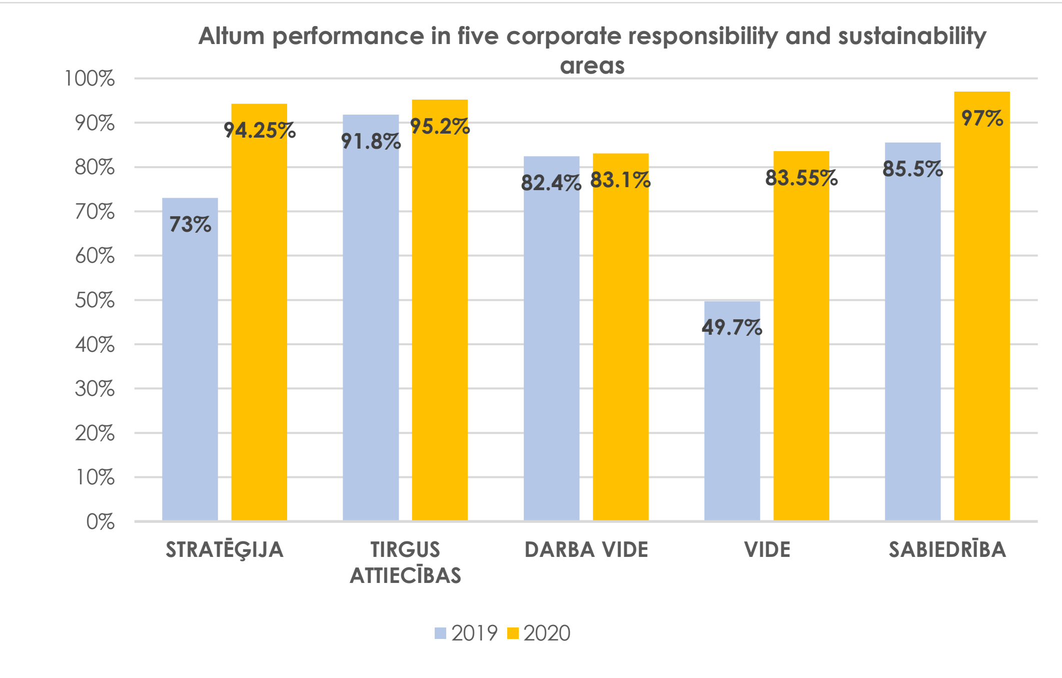
	Seminar A Practical Guide to Taxation and Securing Financing for Newcomers to Business	In order to reduce potential risks related to inadequate tax and financial planning, Altum in cooperation with the State Revenue Service
	Countryside Will Be! competition (Laukiem būt)	Promotion of entrepreneurial activity in rural areas by involving young people, fostering the development of their competencies and involvement in rural entrepreneurship in cooperation with the Latvian Rural Advisory and Training Centre, while promoting a more balanced regional development in Latvia
Effect upon environment, green thinking	*Living Warmer campaign and Most Energy Efficient Building in Latvia project*	Promoting energy-efficient practices in households and business environment, emphasizing both financial and environmental benefits thereof
	Forum What Happens After We Get Through Covid? Company Survival Kit for the Next 3 Years	The forum is organized by the Ministry of Economics and Altum in cooperation with newspaper Dienas Bizness. Industry experts comment on a variety of practical solutions to improve energy efficiency and make business more effective.
Education	*Higher education (Latvia University of Life Sciences and Technologies, BA School of Business and Finance)*	Promoting cooperation between science and business, youth involvement in research, commercialization of research quality and innovative ideas
	Discussion of BA School of Business and Finance graduates on challenges at a time of change in higher education	A series of discussions about the development strategy and future objectives of BA School of Business and Finance, as well as improving and diversifying cooperation between BA School of Business and Finance and graduates. Participating in the discussions were the heads of BA School of Business and Finance and Altum, graduates, students and representatives of the Senate.
Education	*Latvian student companies' events #CitsBazārs*	Educating a new generation of entrepreneurs and industry experts by linking, in the learning process, theoretical knowledge with practice, through participation in the Junior Achievement Latvia programme Student Company (Skolēnu mācību uzņēmums - SMU)
Public welfare, demography	*Social Entrepreneurship Association*	Promotion of the idea of social entrepreneurship so that Latvia would have increasingly more enterprises with a clear social purpose and positive social impact
	Competition And Grow It Will (Tam labam būs augt)	The aim is to promote the development of the existing social enterprises and new social entrepreneurship ideas, as well as to tell about these ideas and show them to the people of Latvia. The competition is organized by the Social Entrepreneurship Association of Latvia in cooperation with the British Council in Latvia. The competition is supported by SEB Banka, Development Finance Institution Altum, newspaper Dienas Bizness and RISEBA Architecture and Media Centre H2O6.
	Think tank on remigration issues	The objective of the think tank is to bring together the parties involved in the remigration process in order to jointly analyze the current situation and consider proposals on how to improve the the remigration process. Promoting the availability of information on state support for starting a business by remigrants and support for housing purchases by residents returning to Latvia.

Corporate Governance Report 2021 (cont'd)

Financial sector development	*Finance Latvia association*	Promotion of sustainable development of the financial sector by focusing, in cooperation with commercial banks, on the development of lending, personnel, communication, legal and other matters, and encouraging exchange of opinions and decision making in Latvia's public interest;
Export	*The Red Jackets*	Popularization of export-viable companies' experience and excellence in promoting export culture and positive economic impact;
	Competition Export and Innovation Award	Promotion of the production of new products with high export potential by popularizing the performance of Latvian companies and commending the manufacture of quality domestic products for the market, introduction of innovations and development of industrial design

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

In 2019 for the first time Altum applied for the Sustainability Index maintained by the Institute for Corporate Sustainability and Responsibility and scored Silver Category, while already in 2020, Altum significantly improved its positions, scoring Gold Category. The Sustainability Index is a strategic management tool that helps companies assess their performance in five key areas: strategic planning, market relations, work environment, environment and local community. The assessment methodology has been developed by experts from the Institute for Corporate Sustainability and Responsibility, and the criteria are based on international experience and principles so as to provide an objective view of companies' approach to risk and process management. Further information about the leading experts in each assessment category is available on the website of the Institute for Corporate Sustainability and Responsibility, www.incsr.eu/par-mums/eksperti.



Corporate Governance Report 2021 (cont'd)

Corporate Governance Report 2020 is publicly available at Altum's premises at 4 Dome Square, Riga and in electronic form – on the website www.altum.lv, in INVESTORS section under FINANCIAL INFORMATION sub-section.

Reinis Bērziņš
Chairman of the Board

31 March 2021