



## Akciju sabiedrība "Attīstības finanšu institūcija Altum"

(incorporated in the Republic of Latvia as a public limited company with registration number 50103744891)

### Third Programme for the Issuance of Notes in the Amount of up to EUR 75,000,000

Under this Third Programme for the Issuance of Notes in the Amount of up to EUR 75,000,000 (the "**Programme**") described in this base prospectus (the "**Base Prospectus**") Akciju sabiedrība "Attīstības finanšu institūcija Altum", a public limited company (in Latvian – *akciju sabiedrība*) incorporated in and operating under the laws of the Republic of Latvia, registered with the Commercial Register of the Republic of Latvia under registration number: 50103744891, legal entity identifier (LEI code): 5493007HPQSSX8BJ4315, legal address: Doma laukums 4, Rīga, LV-1050, Latvia (the "**Issuer**" or "**ALTUM**"), may issue and offer from time to time in one or several series (the "**Series**") non-convertible unsecured and unguaranteed notes denominated in EUR, having maturity up to 10 years and with fixed interest rate (the "**Notes**"). Each Series may comprise one or more tranches of Notes (the "**Tranches**"). The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme will not at any time exceed EUR 75,000,000.

To the extent not set forth in this Base Prospectus, the specific terms of any Notes will be included in the relevant final terms (the "**Final Terms**") (a form of which is contained herein). This Base Prospectus should be read and construed together with any supplement hereto and with any other documents incorporated by reference herein, and, in relation to any Tranche of Notes and with the Final Terms of the relevant Tranche of Notes.

This Base Prospectus has been prepared in connection with the offering and listing of the Notes pursuant to the requirements of the Regulation (EU) 2017/1129 (the "**Prospectus Regulation**"), the Financial Instruments Market Law (in Latvian - *Finanšu instrumentu tirgus likums*) and the Commission Delegated Regulation No 2019/980/EU (the "**Delegated Regulation**"), in particular the Annexes 6 and 14 thereof. The Financial and Capital Market Commission (in Latvian - *Finanšu un kapitāla tirgus komisija*), as competent authority under the Prospectus Regulation, has approved this Base Prospectus and has notified the approval of the Base Prospectus to the competent authority in Lithuania (the Bank of Lithuania (in Lithuanian - *Lietuvos Bankas*)). The Financial and Capital Market Commission only approves this Base Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the Prospectus Regulation. Such approval should not be considered as an endorsement of the Issuer nor as an endorsement of the quality of any Notes that are the subject of this Base Prospectus. Investors should make their own assessment as to the suitability of investing in the Notes.

This Base Prospectus is valid for a period of twelve months from the date of approval. The obligation to supplement the Base Prospectus in the event of significant new factors, material mistakes or material inaccuracies does not apply when the Base Prospectus is no longer valid.

Application will be made to Akciju sabiedrība "Nasdaq Rīga", registration number: 40003167049, legal address: Valņu 1, Rīga, LV-1050, Latvia ("**Nasdaq Rīga**") for admitting each Tranche to listing and trading on the official bond list (the Baltic Bond List) of Nasdaq Rīga according to the requirements of Nasdaq Rīga not later than within 3 (three) months after the Issue Date of the respective Tranche. Nasdaq Rīga is a regulated market for the purposes of the Markets in Financial Instruments Directive 2014/65/EU, as amended ("**MiFID II**").

The Notes shall be issued in the bearer dematerialised form and registered with Nasdaq CSD SE, registration number: 40003242879, legal address: Valņu 1, Rīga, LV-1050, Latvia (the "**Depository**") in book-entry form. Investors may hold the Notes through participants of the Depository, including credit institutions and investment brokerage firms.

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

Investment in the Notes to be issued under the Programme involves certain risks. Prospective investors should carefully acquaint themselves with such risks before making a decision to invest in the Notes. The principal risk factors that may affect the Issuer's ability to fulfil its obligations under the Notes are discussed in Section "**Risk Factors**" below.

Arranger and Dealer

**Luminor Bank AS**

The date of this Base Prospectus is 15 September 2021

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## RESPONSIBILITY STATEMENT

This Base Prospectus comprises a base prospectus for the purposes of Article 8 of the Prospectus Regulation and for the purpose of giving information with regard to the Issuer, the Issuer and its subsidiaries taken as a whole (“**ALTUM Group**”) and the Notes which, according to the particular nature of the Issuer and the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position and profit and losses of the Issuer.

The Issuer, represented by the members of its Management Board, accepts responsibility for the information contained in this Base Prospectus and in any Final Terms which complete this Base Prospectus for each Tranche of Notes issued hereunder and declares that, to the best of its knowledge, the information contained in this Base Prospectus is in accordance with the facts and that the Base Prospectus does not omit anything likely to affect the import of such information.

Management Board of Akciju sabiedrība “Attīstības finanšu institūcija Altum”:

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Chairman of the Management Board  
Rēinis Bērziņš

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Member of the Management Board  
Aleksandrs Bimbirulis

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Member of the Management Board  
Ieva Buka-Jansone

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Member of the Management Board  
Jēkabs Krieviņš

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Member of the Management Board  
Inese Zīle

*This document is electronically signed with secure electronic signatures containing the time stamps.*

## IMPORTANT INFORMATION

To the fullest extent permitted by law, the Arranger and Dealer accepts no responsibility whatsoever for the contents of this Base Prospectus. The Arranger and Dealer accordingly disclaims all and any liability which it might otherwise have in respect of this Base Prospectus.

Neither the Arranger and Dealer nor any of its respective affiliates have authorised the whole or any part of this Base Prospectus and none of them make any representation or warranty or accepts any responsibility as to the accuracy or completeness of the information contained in this Base Prospectus or any responsibility for any acts or omissions of the Issuer or any other person in connection with issue and offering of the Notes.

No person is authorised to give any information or to make any representation not contained in this Base Prospectus and any information or representation not so contained must not be relied upon as having been authorised by or on behalf of the Issuer, the Arranger or the Dealer. Neither the delivery of this Base Prospectus nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer since the date hereof or the date upon which this Base Prospectus has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Issuer since the date hereof or the date upon which this Base Prospectus has been most recently amended or supplemented or that the information contained in it or any other information supplied in connection with the Notes is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

Neither this Base Prospectus, any Final Terms nor any other information supplied in connection with the offering of the Notes (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Issuer or any of the Arranger or Dealer that any recipient of this Base Prospectus, any Final Terms or any other information supplied in connection with the offering of the Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Base Prospectus nor any other information supplied in connection with the offering of the Notes constitutes an offer or invitation by or on behalf of the Issuer or the Arranger or Dealer, to any person to subscribe for or to purchase any Notes.

Each potential investor in the Notes must make their own assessment as to the suitability of investing in the Notes. In particular, each potential investor should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in this Base Prospectus;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or interest payments is different from the potential investor's currency;
- (iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant financial markets; and
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) Notes are legal investments for it, (ii) Notes can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

The Notes are governed by Latvian law and any disputes arising in relation to the Notes shall be settled exclusively by the courts of the Republic of Latvia in accordance with Latvian law.

## DISTRIBUTION OF THE BASE PROSPECTUS AND SELLING RESTRICTIONS

The distribution of this Base Prospectus and any Final Terms may in certain jurisdictions be restricted by law, and this Base Prospectus and any Final Terms may not be used for the purpose of, or in connection with, any offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such offer or solicitation. No actions have been taken to register or qualify the Notes, or otherwise to permit a public offering of the Notes, in any jurisdiction other than the Republic of Latvia and the Republic of Lithuania. The Issuer, the Arranger and the Dealer expect persons into whose possession this Base Prospectus or any Final Terms comes to inform themselves of and observe all such restrictions. Neither the Issuer nor the Arranger or Dealer accept any legal responsibility for any violation by any person, whether or not a prospective purchaser of the Notes is aware of such restrictions. In particular, this Base Prospectus and any Final Terms may not be sent to any person in the United States, Australia, Canada, Japan, Hong Kong, South Africa, Singapore or any other jurisdiction in which it would not be permissible to deliver the Notes, and the Notes may not be offered, sold, resold, transferred or delivered, directly or indirectly, in or into any of these countries.

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

The Financial and Capital Market Commission (in Latvian - *Finanšu un kapitāla tirgus komisija*), as competent authority under the Prospectus Regulation, has approved this Base Prospectus and has notified the approval of the Base Prospectus to the competent authority in Lithuania (the Bank of Lithuania (in Lithuanian - *Lietuvos Bankas*)). However, in relation to each member state of the European Economic Area (the "**EEA**") (except the Republic of Latvia and the Republic of Lithuania), the Dealer has represented and agreed that it has not made and will not make any public offer of Notes prior to that EEA member state's authority receiving a certificate of approval of the Financial and Capital Market Commission attesting that the Base Prospectus has been drawn up in accordance with the Prospectus Regulation together with a copy of the Base Prospectus.

Accordingly, any person making or intending to make an offer within the EEA of Notes which are the subject of an offering contemplated by this Base Prospectus and the relevant Final Terms (other than the offer of Notes in the Republic of Latvia and in the Republic of Lithuania) may only do so in circumstances in which no obligation arises for the Issuer or the Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Regulation or supplement a prospectus pursuant to Article 23 of the Prospectus Regulation, in each case, in relation to such offer.

**MIFID II PRODUCT GOVERNANCE/TARGET MARKET:** A determination will be made in relation to each issue about whether, for the purpose of the MiFID Product Governance rules under EU Delegated Directive 2017/593 (the "**MiFID Product Governance Rules**"), the Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arranger nor the Dealer nor any of their respective affiliates will be a manufacturer for the purpose of the MiFID Product Governance Rules.

The Final Terms in respect of any Notes will include a legend entitled "MiFID II Product Governance" which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending

the Notes (a "**distributor**") should take into consideration the target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

**IMPORTANT – EEA RETAIL INVESTORS** – The Notes are not intended to be offered, sold or otherwise made available to, and should not be offered, sold or otherwise made available to, any retail investor in the EEA. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II or; (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended or superseded), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently, no key information document required by Regulation (EU) No 1286/2014 (the "**PRIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIPs Regulation.

## PRESENTATION OF FINANCIAL AND OTHER INFORMATION

### Historical Financial Statements

With the exception of certain alternative performance measures (“**APMs**”), the financial information included in this Base Prospectus has been derived from:

- ALTUM Group's consolidated annual report, representing audited consolidated and standalone financial statements for the financial year ending 31 December 2020 prepared in accordance with the International Financial Reporting Standards as adopted by the E.U. (“**IFRS**”) (the “**2020 Financial Statements**”);
- ALTUM Group's consolidated annual report, representing audited consolidated and standalone financial statements for the financial year ending 31 December 2019 prepared in accordance with IFRS (the “**2019 Financial Statements**”, and together with the 2020 Financial Statements, the “**Audited Financial Statements**”);
- ALTUM's unaudited interim condensed financial report for the six months period ended 30 June 2021 (the “**2021 Interim Financial Statements**”);
- ALTUM's unaudited interim condensed financial report for the six months period ended 30 June 2020 (the “**2020 Interim Financial Statements**”, and together with the 2021 Interim Financial Statements and the Audited Financial Statements, the “**Financial Statements**”).

### Auditors and unaudited information

SIA “Deloitte Audits Latvia” audited the 2020 Financial Statements and issued an unqualified auditor's report on the aforementioned financial statements.

PricewaterhouseCoopers SIA audited the 2019 Financial Statements and issued an unqualified auditors' report on the aforementioned financial statements.

The Interim Financial Statements have not been subject to any audit or review by independent auditors. Certain other financial information in this Base Prospectus identified as such is unaudited financial information which has been extracted without material adjustment from the accounting records of the Issuer which form the underlying basis of the Financial Statements.

### Alternative performance measures

This Base Prospectus includes certain references to APMs derived from the Financial Statements such as Net income from interest, fees and commission, Profit, Cost to income ratio, Tangible common equity (TCE) / Tangible managed assets (TMA), Total Risk Coverage and 180-days-liquidity ratio. ALTUM Group uses these APMs to evaluate its performance, and this additional financial information is presented in this Base Prospectus. This information should be viewed as supplemental to the Financial Statements. Investors are cautioned not to place undue reliance on this information and should note that the APMs, as calculated by ALTUM Group, may differ materially from similarly titled measures reported by other companies, including ALTUM Group's competitors.

The APMs presented in the Base Prospectus are not IFRS measures. An APM should not be considered in isolation from, or as substitute for any analysis of, financial measures defined according to IFRS. Investors are advised to review these APMs in conjunction with the Financial Statements contained in this Base Prospectus. None of the APMs is subject to any audit or review by independent auditors.



The APMs should not be used instead of, or considered as alternatives to, ALTUM Group's consolidated historical financial results based on IFRS. The APMs relate to the reporting periods and are not meant to be predictive of future results.

These measures are presented for purposes of providing investors with a better understanding of ALTUM Group's financial performance, cash flows or financial position as they are used by ALTUM Group when managing its business.

### **Rounding**

Certain figures included in this Base Prospectus have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

### **Currencies**

In this Base Prospectus, financial information is presented in euro (EUR), the official currency of the European Union Member States in the Eurozone.

### **Date of information**

This Base Prospectus is drawn up based on information which was valid as of the date of the Base Prospectus. Where not expressly indicated otherwise, all information presented in this Base Prospectus (including the consolidated financial information of ALTUM Group, the facts concerning its operations and any information on the markets in which it operates) must be understood to refer to the state of affairs as of the aforementioned date. Where information is presented as of a date other than the date of the Base Prospectus, this is identified by specifying the relevant date.

### **Certain publicly available information**

Certain statistical data and other information appearing in this Base Prospectus have been extracted from public sources identified in this Base Prospectus. None of the Arranger, the Dealer or the Issuer accepts responsibility for the factual correctness of any such statistics or information, but the Issuer accepts responsibility for accurately extracting and transcribing such statistics and information and believes, after due inquiry, that such statistics and information represent the most current publicly available statistics and information from such sources at the dates and for the periods with respect to which they have been presented. The Issuer confirms that all such third-party information has been accurately reproduced and, so far as the Issuer is aware and has been able to ascertain from that published information, no facts have been omitted which would render the reproduced information inaccurate or misleading.

### **Websites**

Information contained in any website referred to herein does not form part of this Base Prospectus, other than the Issuer's Green Bond Framework, which is available for viewing on the following website: [www.altum.lv](http://www.altum.lv) and is incorporated by reference to this Base Prospectus and forms a part of the Base Prospectus.

## FORWARD-LOOKING STATEMENTS

This Base Prospectus includes statements that are, or may be deemed to be, “forward-looking statements”. These forward-looking statements may be identified by the use of forward-looking terminology, including the terms “believes”, “estimates”, “plans”, “projects”, “anticipates”, “expects”, “intends”, “may”, “will” or “should” or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this Base Prospectus and include, but are not limited to, statements regarding ALTUM Group’s or the Issuer’s intentions, beliefs or current expectations concerning, among other things, ALTUM Group’s results of operations, financial condition, liquidity, prospects, growth, strategies and the industry in which ALTUM Group operates.

By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances. Forward-looking statements are not guarantees of future performance and the financial position and results of operations of ALTUM Group, and the development of the markets and the industries in which members of ALTUM Group operate, may differ materially from those described in, or suggested by, the forward-looking statements contained in this Base Prospectus. In addition, even if ALTUM Group’s results of operations and financial position, and the development of the markets and the industries in which ALTUM Group operates, are consistent with the forward-looking statements contained in this Base Prospectus, those results or developments may not be indicative of results or developments in subsequent periods. A number of risks, uncertainties and other factors could cause results and developments to differ materially from those expressed or implied by the forward-looking statements. See Section “*Risk Factors*” below.

These forward-looking statements are made only as of the date of this Base Prospectus. Except to the extent required by law, the Issuer is not obliged to, and does not intend to, update or revise any forward-looking statements made in this Base Prospectus whether as a result of new information, future events or otherwise. All subsequent written or oral forward-looking statements attributable to the Issuer, or persons acting on the Issuer’s behalf, are expressly qualified in their entirety by the cautionary statements contained throughout this Base Prospectus. As a result of these risks, uncertainties and assumptions, a prospective purchaser of the Notes should not place undue reliance on these forward-looking statements.

## OVERVIEW OF THE PROGRAMME

The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Base Prospectus and, in relation to the General Terms and Conditions of any particular Tranche of Notes, the applicable Final Terms. This overview must be read as an introduction in conjunction with the other parts of the Base Prospectus (including any documents incorporated therein). Any decision to invest in the Notes should be based on a consideration by the investor of the Base Prospectus as a whole.

Words and expressions defined in the General Terms and Conditions of the Notes below or elsewhere in this Base Prospectus have the same meanings in this overview.

This overview constitutes a general description of the Programme for the purposes of Article 25(1) of the Delegated Regulation.

<b>Issuer:</b>	Akciju sabiedrība "Attīstības finanšu institūcija Altum"
<b>Legal Entity Identifier (LEI):</b>	5493007HPQSSX8BJ4315
<b>Programme Limit:</b>	Up to EUR 75,000,000 aggregate nominal amount of Notes outstanding at any one time.
<b>Risk Factors:</b>	Investing in Notes issued under the Programme involves certain risks. The principal risk factors that may affect the ability of the Issuer to fulfil its obligations under the Notes are discussed in Section "Risk Factors" below.
<b>Arranger of the Programme:</b>	Luminor Bank AS
<b>Dealer:</b>	Luminor Bank AS
<b>Method of Issue:</b>	The Notes shall be issued in Series. Each Series may comprise one or more Tranches of Notes. The Notes of each Tranche will all be subject to identical terms, except that the Issue Dates and the Issue Prices thereof may be different in respect of different Tranches.
<b>Form of the Notes:</b>	The Notes will be issued in dematerialized form and book-entered with Nasdaq CSD SE.
<b>Status and Security:</b>	The Notes constitute direct, unsecured and unguaranteed obligations of the Issuer ranking <i>pari passu</i> without any preference among each other and with all other unsecured, unguaranteed and unsubordinated indebtedness of the Issuer, save for such obligations as may be preferred by mandatory provisions of law.
<b>Currency:</b>	EUR
<b>Denomination:</b>	The nominal amount of each Note shall be specified in the Final Terms.
<b>Issue Price:</b>	The Notes may be issued at their nominal amount or at a discount or a premium to their nominal amount.
<b>Minimum Investment Amount:</b>	The Notes will be offered for subscription for a minimum investment amount EUR 100,000 (one hundred thousand euro).
<b>Interest:</b>	The Notes will bear interest at a fixed annual interest rate.

<b>Maturity:</b>	The Notes shall be repaid in full at their nominal amount on the date which will be specified in the Final Terms. Each Series of Notes may have a maturity up to 10 years.
<b>Early Redemption:</b>	The Issuer is entitled to redeem each Series of Notes, in whole but not in part, at any time during the period of 3 (three) month prior to their maturity at a price equal to the nominal amount of the Notes together with the accrued interest, as more fully set out in Clauses 9.3 and 9.4 of the General Terms and Conditions of the Notes.
<b>Redemption for tax reasons:</b>	The Issuer is entitled to redeem the Notes, in whole but not in part, at a price equal to the nominal amount of the Notes together with the accrued interest for tax reasons as described in Clause 11 of the General Terms and Conditions of the Notes.
<b>Change of Control:</b>	Following the occurrence of a Change of Control the Noteholders will be entitled to request the Issuer to redeem or, at the Issuer's option, procure the purchase of their Notes, as more fully set out in Clause 14 of the General Terms and Conditions of the Notes.
<b>Negative Pledge:</b>	The Notes will have the benefit of a negative pledge as described in Clause 15 of the General Terms and Conditions of the Notes.
<b>Cross Default:</b>	The Notes will have the benefit of a cross default provision as described in Clause 16 of the General Terms and Conditions of the Notes.
<b>Listing:</b>	Application will be made to Nasdaq Riga for admitting each Tranche to listing and trading on the official bond list (the Baltic Bond List) according to the requirements of Nasdaq Riga not later than within 3 (three) months after the Issue Date of the respective Tranche.
<b>Taxation:</b>	All payments in respect of the Notes by the Issuer shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature (" <b>Taxes</b> "), unless the withholding or deduction of the Taxes is required by the laws of the Republic of Latvia. In such case, the Issuer shall pay such additional amounts as will result in receipt by the Noteholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Note held by or on behalf of a Noteholder which is liable to such Taxes in respect of such Note by reason of its having some connection with the Republic of Latvia other than the mere holding of the Note.
<b>Rating:</b>	<p>As of the date of this Base Prospectus, the Issuer has a credit rating Baa1 by Moody's. The outlook is stable. A Series of Notes to be issued under the Programme may be rated or unrated.</p> <p>A rating is not a recommendation to buy or sell or hold Notes and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. Up-to-date information should always be sought by direct reference to the relevant rating agency.</p>
<b>Governing Law:</b>	Latvian law.

**Dispute Resolution:**

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

**Selling Restrictions:**

For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of the Base Prospectus in the United States of America, the EEA (with respect to retail investors), the Republic of Latvia, the Republic of Lithuania and other jurisdictions, see Section "*Distribution of the Base Prospectus and Selling Restrictions*".

## RISK FACTORS

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

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

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

Most of these risk factors are contingencies which may or may not occur and the Issuer is not in a position to assess or express a view on the likelihood of any such contingency occurring.

The most material risk factors have been presented at the beginning in each category. The order of presentation of the remaining risk factors in each category in this Base Prospectus is not intended as an indication of the probability of their occurrence or of their potential effect on the Issuer's ability to fulfil its obligations under the Notes.

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

### **Macroeconomic and Political Risks**

**The outbreak of COVID-19 has negatively affected the global and Latvian economies and financial markets and might continue to disrupt and/or otherwise negatively impact the operations of the ALTUM Group and/or its clients**

The COVID-19 pandemic has caused significant disruption in the economy and financial markets globally, as well as in Latvia. Within Latvia and many of its important trading partners, the spread of COVID-19 has caused illness, quarantines, cancellation of events and travel, business shutdowns, reduction in business activity and financial transactions, labour shortages, supply chain interruptions and overall economic and financial market instability. The ongoing COVID-19 pandemic continues to evolve as different variants are identified and, to date, has resulted in the implementation of significant measures by the Latvian Government intended to control and mitigate the economic impact of the outbreak.

Latvia's economy contracted by 3.6 per-cent in 2020. The gradual lifting of containment measures as a result of progression made in the implementation of vaccination programmes is expected to result in the recovery of economic activity during 2021 and onwards. In the second quarter of 2021, GDP in Latvia returned to pre COVID-19 levels as GDP grew by 10.3 per-cent compared to corresponding period of the previous year (according to preliminary data). However, the recovery in the global economy is uneven and incomplete, and significant uncertainty remains. Economic recovery is dependent on the successful implementation of vaccine programmes, and vaccine resistant strains of COVID-19 not emerging, while economies generally are less stable as public debt

in Latvia and globally has increased significantly due to support and spending measures implemented by government authorities to mitigate the impact of the measures taken to control COVID-19 outbreaks.

Furthermore, the current COVID-19 pandemic and any potential future outbreaks may also have a material adverse effect on ALTUM Group's clients, which could result in increased default risk in the performance of their obligations towards ALTUM Group and thus negatively affect quality of credit portfolio of ALTUM Group.

Further measures implemented by the Latvian Government or adopted by ALTUM Group at its own initiative in order to mitigate the impact of the ongoing outbreak may affect ALTUM Group and it is not possible at this stage to assess all the specific measures that may be implemented to contain the effects of the COVID-19 pandemic.

Any of these factors, whether resulting from the current or any further outbreaks of COVID-19, including as a result of the unsuccessful implementation of vaccine programmes or the emergence of vaccine resistant strains of COVID-19, may have a material adverse effect on ALTUM Group's business, prospects, financial condition, results of operations or cash flows, and may limit ALTUM Group's ability to implement its business strategy.

ALTUM Group's estimate for the COVID-19 risk profile is medium.

#### ***Risks related to macroeconomic conditions***

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

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

- Large-scale downturn in the Latvian economy or one of its main sectors;
- Steep economic slowdown in Latvia's main export markets – weakening of economic conditions in the EU, reflecting the fact that many EU Member States are major trading partners of Latvia. In 2020, the EU Member States accounted for 66.1 per-cent of Latvia's goods exports and 75.9 per-cent of its goods imports;
- An unexpected or significant reduction of EU funds that could have an adverse impact on Latvia's economic growth;
- Material deterioration of Latvia's fiscal stance (given ALTUM's high level of dependence on state funding);
- Emergence of macroeconomic imbalances that could adversely affect Latvia's economic stability (e.g., in the real estate market);
- A significant amount of the total banking sector assets are held by foreign banks, mostly of Nordic origin. Accordingly, a significant downturn in the Nordic real estate market and the impact that this would have on the Nordic economies may increase the cost of the parent banks' wholesale funding and, consequently, have an adverse impact on the economic growth and lending volumes in Latvia.

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

ALTUM Group's estimate for the macroeconomic conditions risk profile is medium.

### **Political risk**

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

ALTUM Group's estimate for the political risk profile is low.

### **Risks Related to Business Operations**

#### ***Risks related to access and absorption of financing from the EU funds – the EU Cohesion Policy and Recovery and Resilience Facility***

Within the framework of the new EU Cohesion Policy programming period 2021-2027, investments funded under EU Cohesion Policy will be topped-up by additional financing from the Recovery and Resilience Facility (the “**RRF**”) plan for Latvia. The RRF is aimed to mitigate negative economic and social impacts caused by COVID-19 pandemic. Total EU originated public contribution to financial instruments to be implemented through ALTUM is estimated to be at least EUR 700 million within period until 2029.

Notwithstanding the foregoing, availability of public funding depends on ALTUM's co-funding capacity from the reflows under the existing programmes, new funding raised in the capital markets and obtaining loans from the Treasury of the Republic of Latvia, the European Investment Bank, the European Bank for Reconstruction and Development and the Nordic Investment Bank. Although, there is strong intention that, if needed, equity of ALTUM will be increased accordingly to ensure adequate leverage level in light of upcoming financial liabilities, there is a risk that co-funding is not ensured at the necessary level and accordingly ALTUM's access to EU funds deriving from the EU Cohesion Policy and/or the RRF – which is planned as core public funding source for ALTUM – may be decreased.

Furthermore, there is a risk that new legal requirements on eligibility for public funding available from the EU Cohesion Policy and/or the RRF contributing to Sustainable Europe Investment Plan/Green Deal Investment Plan may be introduced. In case the relevant projects are not compliant with the requirements related to the EU taxonomy for sustainable activities, ALTUM's access to the EU funds deriving from the EU Cohesion Policy and/or the RRF may be impaired.

As a result, the scope of ALTUM's programmes may be reduced, with larger portion of reflows from the programmes consumed by administrative costs, and part of the new programmes discarded.

In the event funding sources, other than public funding, are not available and the funding provided by the Cohesion Policy and/or the RRF is decreased, the scope of ALTUM's programmes may be reduced. This may have an adverse effect on the liquidity, business operations and financial position of ALTUM Group.



The programmes financed by the EU Cohesion Policy and the RRF for the programming period 2021-2027 stipulate that ALTUM has to achieve progress as measured by monitoring indicators, including sustainability indicators for the RRF funding (e.g., energy savings, reduction of greenhouse gas emissions per ton of CO<sub>2</sub>e) and specific financial volumes set already for interim period ending 2024. There is a risk that the data quality and accuracy of sustainability indicators reported by the customers may not be sufficient to satisfy the necessary monitoring indications under the programmes financed by the EU Cohesion Policy and the RRF. As a result, given that the projects funded under the RRF require higher focus on sustainability, certain customer applications may not qualify for receipt of such funding, leading to a slower pace of investments as estimated. If ALTUM fails to reach the estimated interim indicators and financial volumes by the end of 2024 (including due to inappropriate data quality and accuracy on sustainability indicators reported by the customers), respective funding available to the financial instruments from the EU Cohesion Policy and/or the RRF could be reduced or even terminated. This may have a material adverse effect on the business operations, financial position and reputation of ALTUM Group.

ALTUM Group's estimate for the absorption of funding from the EU funds – the EU Cohesion Policy and the RRF risk profile is medium.

***Risk related to potential change of EU agricultural funding policy***

Changes in the EU agricultural funding policy decreasing direct payments to the Latvian farmers may affect ALTUM's financial performance.

Since the amount of direct payments to the Latvian farmers under the EU agricultural policy is one of the drivers for setting the market value of agricultural land and the current loan-to-value ratio is set at 100 per-cent level, any decrease of direct payments to the Latvian farmers may have an adverse effect on the market value of agricultural land and the collateral value of loan portfolios to farmers. Decreased market value may also result in lower investment returns of investment properties (agricultural land) acquired by ALTUM within the activities of the Land Fund managed by ALTUM. Another potential trigger upon market value of agricultural land are new legal requirements on eligibility for public funding contributing to Sustainable Europe Investment Plan/Green Deal Investment Plan that may be introduced and as such may affect the market value both in a positive (for instance, if fits to sustainable agriculture criteria), and in a negative way.

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

Since the direct payments to the Latvian (and also Lithuanian and Estonian) farmers are amongst the lowest in the Eastern Europe, the risk that amount of direct payments to Latvian farmers would decrease as a result of change in the EU agricultural funding policy is remote. Furthermore, the current market value of agricultural land value in Latvia, irrespective of the region within the country, is substantially lower than the market value of comparable land plots in such countries as Poland, Finland and Sweden. In addition, such factors as actual demand, limited supply and expected returns of the respective land plots are the key drivers of the market value of the agricultural land in Latvia, and lower direct payments should not much negatively affect the market value of agricultural land in Latvia. However, the risk that market value of agricultural land may be negatively affected by new legal requirements on eligibility for public funding contributing to Sustainable Europe Investment Plan / Green Deal Investment Plan that may be introduced is moderate.

In the event that the amount of direct payments to the Latvian farmers would decrease as a result of change in the EU agricultural funding policy or new legal requirements on eligibility for public funding contributing to Sustainable Europe Investment Plan/Green Deal Investment Plan are introduced that negatively affect the market value of agricultural land, ALTUM will reset the loan to value ratio for agricultural land as collateral to loans to farmers at more conservative level, reconsider the debt service capacity of the farmers in the light of the adjusted income, thus minimizing losses on new portfolio volume, and redraft the Land Fund's investment strategy to ensure the adequate pricing for acquisition of properties as well as exit terms for sales and leaseback deals. In respect of the existing loan portfolio for customers that might face debt service challenges ALTUM will offer other state support products for stressed working capital and revise the payment terms of the respective loans, if necessary. In case of negative trend upon the market value of agricultural land kept within ALTUM's investment properties the exit of respective investment properties will be prolonged until favourable market situation thus leading to unrealised loss on change of fair value when market value decreases.

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

ALTUM Group's estimate for the potential change of EU agricultural funding policy risk profile is medium.

#### ***Risks related to access and absorption of financing from the EU funds – InvestEU***

Within the framework of the 2021-2027 programming period of the EU funds ALTUM considers to apply and undertake an implementing partner role within the InvestEU Programme in Latvia, thus increasing the scope of respective InvestEU Programme's financial products (including, direct loans and guarantees) to the corporates in Latvia. However, should ALTUM undertake the implementing partner role within the InvestEU Programme in Latvia, there is a risk of competing with other implementing partners (commercial banks) which may be in a better position in offering certain products and serving higher number of customers. This may result in lower demand for ALTUM products and decreased volume of InvestEU funding managed by ALTUM. Due to strict ESG compliance requirements for InvestEU eligible products the pace of investments in Latvia may be relatively slow.

In the event ALTUM fails to reach the estimated interim indicators and financial volumes (including due to competition with other implementing partners (commercial banks) in Latvia and/or inappropriate data quality and accuracy on sustainability indicators reported by the customers) within 1-2 year period as of signing the agreement on InvestEU implementing partner role, there is a risk that the available InvestEU funding may be reduced or even terminated. This may have a material adverse effect on the business operations, financial position and reputation of ALTUM Group.

ALTUM Group's estimate for the access and absorption of financing from the EU funds – InvestEU risk profile is low.

#### ***Risks related to absorption of funding for the 2014-2020 programming period of the EU funds***

The programmes financed from the funding of the 2014-2020 programming period of the EU funds stipulate that ALTUM has to achieve progress as measured by monitoring indicators (e.g., a certain number of supported entrepreneurs) and specific financial volumes by 2023. Although, there is a possibility to shift the funding from less popular programmes to more demanded ones in view of the

market situation and assessment of the needs for particular instruments, if ALTUM fails to reach the estimated financial volumes by 2023, the funding available to the financial instruments could be reduced and/or eligible management fee for the period could be decreased by 2 per-cent.

For example, due to COVID-19 outbreak (impacting, e.g., adoption of decisions of the general meeting of apartment owners) and increase of construction costs in 2021, the construction companies often refuse to enter into agreements and implement the projects. This leads to re-start of the tendering for new construction companies that is time consuming process, and in certain instances not even possible due to timing constrains. Therefore, it is possible that not all applicants will be in a position to complete the envisaged projects, which is expected to create deviation on required volumes by the end of 2023 at the Energy Efficiency Programme for Multi-Apartment Buildings programme. This may result in decrease of eligible management fee for the Energy Efficiency Programme for Multi-Apartment Buildings by 2 per-cent (amounting to approximately EUR 150,000) that is not material to ALTUM Group.

ALTUM Group's estimate for the absorption of funding for the 2014-2020 programming period of the EU funds risk profile is low.

### ***Risk related to public funding reflows***

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

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

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

ALTUM Group's estimate for the public funding reflows risk profile is low.

### ***Insufficient state-backed guarantee risk***

According to the Development Finance Institution Law (in Latvian - *Attīstības finanšu institūcijas likums*) and Agriculture and Rural Development Law (in Latvian - *Lauksaimniecības un lauku attīstības likums*), the Latvian government is accountable for the guarantees issued by ALTUM in the amount specified each year by the respective law on the State Budget. As of 30 June 2021, up to EUR 270 million of ALTUM issued guarantees were backed by the State, while actual amount of guarantees issued by ALTUM was EUR 250,1 million. Since the issued guarantees are backed by the State budget, the underlying loans with ALTUM guarantees are aligned as loans with State guarantees, and the commercial banks for such loans may apply lower risk weight in capital adequacy calculation.

ALTUM may issue guarantees above the limits stipulated by the annual State budget, however, in such event the Latvian government would not be accountable for guarantees exceeding the permitted limit. If the issued guarantee portfolio exceeds the amount backed by the State, there is appropriate coverage of expected losses to be taken by Risk coverage reserve/Portfolio loss reserve originated by public funding.

Although, ALTUM is taking all the appropriate measures to meet its short-to long-term guarantee obligations, there is a risk that the maximum total guarantee exposure having the status of state-backed guarantees could possibly be reduced or even revoked, as a result of which ALTUM's respective guarantees not backed by the State would decrease from the perspective of the commercial banks. This may have an adverse effect on business operations and financial position of ALTUM Group.

ALTUM Group's estimate for the insufficient state-backed guarantee risk profile is low.

### ***Business environment and competitive risks***

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

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

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

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

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

ALTUM Group's estimate for the business environment and competitive risk profile is low.

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

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

The European Commission has granted approval for ALTUM's business operations until 31 December 2022. The approval may be prolonged, following a reassessment by the European Commission. In case ALTUM is assigned with other responsibilities and/or functions outside the agreed remit in the future, approval by the European Commission has to be received. It is intended that the prior notification process with the European Commission for the extension of the decision of the European Commission allowing to operate after 31 December 2022 will be commenced in September 2021.

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

ALTUM Group's estimate for the limitation of the scope of ALTUM's business operations by the European Commission risk profile is low.

## **Legal and Regulatory Risks**

### ***Compliance risk***

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

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

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

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

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

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

ALTUM Group's estimate for the compliance risk profile is low.

### **Money laundering, terrorism and proliferation financing and national and international sanctions risk**

Money laundering, terrorism and proliferation financing and national and international sanctions risk is a probability for ALTUM to incur losses or a probability for its reputation to deteriorate in case ALTUM engages in business with customers conducting or being involved in money laundering, terrorism or proliferation financing and/or are subject to Latvian national sanctions or sanctions of international organizations.

ALTUM is an obliged entity within the meaning of the Law on the Prevention of Money Laundering and Terrorism and Proliferation Financing (in Latvian - *Noziedzīgi iegūtu līdzekļu legalizācijas un terorisma un proliferācijas finansēšanas novēršanas likums*) and the Law on International Sanctions and National Sanctions of the Republic of Latvia (in Latvian - *Starptautisko un Latvijas Republikas nacionālo sankciju likums*), and takes all the measures necessary to reduce the probability of conducting business with customers involved in or allegedly involved in money laundering, terrorism and proliferation financing by adhering to the requirements of the applicable laws and regulations, and by implementing the "know your customer" principles in its business operations.

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

ALTUM Group's estimate for the money laundering, terrorism and proliferation financing and national and international sanctions risk profile is low.

### **General Data Protection Regulation compliance risk**

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

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

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

ALTUM Group's estimate for the General Data Protection Regulation compliance risk profile is low.

## **Financial Risks**

### ***Credit risk***

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

Notwithstanding the foregoing, there is a risk to incur losses in the event ALTUM's customers, including COVID-19 products portfolio, or business partners are not able or refuse to comply with their liabilities towards ALTUM pursuant to the terms and conditions of the concluded agreements and respective risk coverage funded by public funding is not sufficient.

ALTUM Group's estimate for the credit risk profile is medium.

### ***Decrease of specific reserve capital***

The public funding received as of 2020 for the purposes of implementation of COVID-19 programmes, including both funding component and portion to cover expected credit risk, was injected in the specific reserve capital of ALTUM.

If a particular COVID-19 programme is not in demand or is implemented at a lower scale due to minimal demand by the market, including by commercial banks, the respective public funding originally earmarked for respective COVID-19 programme either partly or in full may be (i) shifted to other State support programmes within the specific reserve capital of ALTUM, or (ii) excluded from the specific reserve capital of ALTUM and transferred to liabilities of ALTUM Group for funding of another State support programme (e.g., in respect to financial instruments, combined support or grants), or (iii) excluded from the specific reserve capital of ALTUM and transferred to the shareholders of ALTUM if there are no State support programmes to be implemented by ALTUM Group where respective funding is needed.

Although, ALTUM generally practises allocation of the respective public funding for its most appropriate use, there is a risk that such allocation may be interpreted by the counterparties of ALTUM as negative trend on performance and/or corporate governance of ALTUM Group. This may have an adverse effect on the business operations, financial position and reputation of ALTUM Group.

ALTUM Group's estimate for decrease of specific reserve capital is medium.

### ***Eligibility of public funds expenditure risk***

The EU and national legislation have an established procedure for determining eligibility for funding under the state support programmes financed from the EU's structural funds and national budget. ALTUM implements a number of such programmes, in some of which it is acting as an intermediary

(grant programmes, venture capital), where ALTUM does not exercise full control over the funds' expenditure (they are granted in advance).

This entails a risk that the Central Finance and Contracting Agency of the Republic of Latvia may regard part of the expenditure as not eligible for funding. In such case ALTUM would have to cover the costs from the reflows under the programmes' and seek recovery of funds from the debtor or the responsible fund manager by enforced collection. As a consequence, these expenses may result in decrease of the amount of available reflows that may be used to fund ALTUM Group's product on more attractive terms. To preclude adverse effect of such situations, ALTUM, when reasonably necessary, negotiates with relevant ministries of the Republic of Latvia on a compensatory mechanism from the national funds.

ALTUM Group's estimate for the eligibility of public funds expenditure risk profile is low.

### ***Risks related to compensation payments***

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

ALTUM Group's estimate for the compensation payments risk profile is low.

### ***Liquidity risk***

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

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

ALTUM Group's estimate for the liquidity risk profile is low.

### ***Foreign exchange risk***

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

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



ALTUM Group's estimate for the foreign exchange risk profile is low.

***Misinterpretation of risk coverage component - portfolio loss reserve within the specific reserve capital of ALTUM***

As of 2020, the public funding for implementation of the COVID-19 products to cover expected credit risk was injected in the specific reserve capital of ALTUM and recognised within the portfolio loss reserve, being one of the two components for risk coverage. The portfolio loss reserve would be used to cover credit losses of the respective programme and as such would decrease over the time. However, there is a risk that such recognition might be incorrectly treated as a negative performance of ALTUM Group, thus creating a material adverse effect on the reputation of ALTUM Group.

ALTUM Group's estimate for misinterpretation of risk coverage component – portfolio loss reserve within the specific reserve capital of ALTUM risk profile is low.

***Interest rate risk***

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

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

ALTUM Group's estimate for the interest rate risk profile is low.

***Risks related to the Notes***

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

***Possibility to forfeit interest and principal amount invested***

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

***No guarantee or security***

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

The Notes are unsecured debt instruments and the Noteholders would be unsecured creditors in the event of ALTUM's insolvency. The secured creditors of ALTUM are the Treasury of the Republic of Latvia (outstanding amount of debt as of 30 June 2021 was EUR 106,595 million) and the European Investment Bank (outstanding amount of debt as of 30 June 2021 was EUR 16,493 million). In the event of insolvency, ALTUM's assets will be used for settling the Noteholders' claims only after the claims of the Treasury of the Republic of Latvia, the European Investment Bank and other preferential creditors are satisfied.

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

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

***No limitation on issuing additional debt***

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

***Adverse change in the financial condition or prospects of ALTUM***

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

***In respect of any Notes issued as Green Bonds, there can be no assurance that such use of proceeds will be suitable for the investment criteria of an investor. Any failure to use the net proceeds of any Tranche of Notes issued as Green Bonds in connection with green projects, and/or any failure to meet, or to continue to meet, the investment requirements of certain environmentally focused investors with respect to such Green Bonds may affect the value and/or trading price of the Green Bonds, and/or may have consequences for certain investors with portfolio mandates to invest in green assets***

The Issuer may issue Notes under the Base Prospectus where the use of proceeds is specified in the applicable Final Terms to be for the financing and/or refinancing of projects and activities that

promote transition to low carbon economy and climate resilience, in accordance with certain prescribed eligibility criteria set out in the Issuer's Green Bond Framework (as defined below) (any Notes which have such a specified use of proceeds are referred to as "**Green Bonds**").

In respect of any Notes issued as Green Bonds, there can be no assurance that such use of proceeds will be suitable for the investment criteria of an investor. The Final Terms relating to any specific Tranche of Notes may provide that it will be the Issuer's intention to apply the proceeds from an offer of those Notes specifically for one or more Eligible Green Projects (as defined under the Issuer's Green Bond Framework available on its website from time to time (the "**Green Bond Framework**")). Prospective investors should have regard to the information set out on the Issuer's website and must determine for themselves the relevance of such information for the purpose of any investment in the Notes together with any other investigation such investor deems necessary.

In particular, no assurance is given by the Issuer that the use of such proceeds for any Eligible Green Projects will satisfy, whether in whole or in part, any present or future investor expectations or requirements as regards any investment criteria or guidelines with which such investor or its investments are required to comply, whether by any present or future applicable law or regulations or by its own by-laws or other governing rules or investment portfolio mandates, in particular with regard to any direct or indirect environmental, sustainability or social impact of any projects or uses, the subject of or related to, any Eligible Green Projects.

Furthermore, a basis for the determination of the definitions of "green" and "sustainable" has been established in the EU with the publication in the Official Journal of the EU on 22 June 2020 of Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 (the "**Sustainable Finance Taxonomy Regulation**") on the establishment of a framework to facilitate sustainable investment (the "**EU Sustainable Finance Taxonomy**"). The EU Sustainable Finance Taxonomy is subject to further development by way of the implementation by the European Commission through delegated regulations of technical screening criteria for the environmental objectives set out in the Sustainable Finance Taxonomy Regulation. While the intention is that the applicable green projects would be in alignment with the relevant objectives for the EU Sustainable Finance Taxonomy, until the technical screening criteria for such objectives have been developed it is not known whether the Eligible Green Projects will satisfy those criteria. Accordingly, alignment with the EU Sustainable Finance Taxonomy, once the technical screening criteria are established, is not certain.

No assurance or representation is given as to the suitability or reliability for any purpose whatsoever of any opinion or certification of any third party (whether or not solicited by the Issuer) which may be made available in connection with the issue of any Notes and in particular with any Eligible Green Projects to fulfil any environmental, sustainability, social and/or other criteria. For the avoidance of doubt, any such opinion or certification is not, nor shall be deemed to be, incorporated in and/or form part of this Base Prospectus. Any such opinion or certification is not, nor should be deemed to be, a recommendation by the Issuer or any other person to buy, sell or hold any such Notes. Any such opinion or certification is only current as of the date that opinion was initially issued. Prospective investors must determine for themselves the relevance of any such opinion or certification and/or the information contained therein and/or the provider of such opinion or certification for the purpose of any investment in such Notes. Currently, the providers of such opinions and certifications are not subject to any specific regulatory or other regime or oversight.

While it is the intention of the Issuer to apply the proceeds of any Notes so specified for Eligible Green Projects in, or substantially in, the manner described in this Base Prospectus, there can be no assurance that the relevant project(s) or use(s) the subject of, or related to, any Eligible Green Projects will be capable of being implemented in or substantially in such manner and/or accordance with any timing schedule and that accordingly such proceeds will be totally or partially disbursed for

such Eligible Green Projects. None of the Arranger or the Dealer will verify or monitor the proposed use of proceeds of the Notes issued under the Base Prospectus. Nor can there be any assurance that such Eligible Green Projects will be completed within any specified period or at all or with the results or outcome (whether or not related to the environment) as originally expected or anticipated by the Issuer. Any such event or failure by the Issuer will not constitute an Event of Default under the Notes.

Any such event or failure to apply the proceeds of any issue of Notes for any Eligible Green Projects as aforesaid and/or withdrawal of any such opinion or certification or any such opinion or certification attesting that the Issuer is not complying in whole or in part with any matters for which such opinion or certification is opining or certifying on may have a material adverse effect on the value of such Notes and also potentially the value of any other Notes which are intended to finance Eligible Green Projects and/or result in adverse consequences for certain investors with portfolio mandates to invest in securities to be used for a particular purpose.

### ***Refinancing risk***

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

### ***Since the Notes bear interest at a fixed interest rate, movements in market interest rates can adversely affect the value of the Notes***

The Notes bear interest on their outstanding principal amount at a fixed interest rate. A holder of a security with a fixed interest rate is exposed to the risk that the value of such security could fall as a result of changes in the market interest rate. While the nominal compensation rate of the Notes is fixed during the life of the Notes, the current interest rate on the capital market (market interest rate) typically changes on a daily basis. If the market interest rate increases, the value of a security such as the Notes typically falls, until the yield of such security is approximately equal to the market interest rate. If the market interest rate falls, the value of a security such as the Notes typically increases, until the yield of such a security is approximately equal to the market interest rate. Consequently, Noteholders should be aware that movements of the market interest rate can adversely affect the value of the Notes and can lead to losses for the Noteholders if they sell their Notes.

### ***The market price of the Notes may be volatile***

The market price of the Notes could be subject to significant fluctuations in response to actual or anticipated variations in the ALTUM Group's operating results and those of its competitors, adverse business developments, changes to the regulatory environment in which the ALTUM Group operates, changes in financial estimates by securities analysts and the actual or expected sale of a large number of the Notes, as well as other factors. In addition, in recent years the global financial markets have experienced significant price and volume fluctuations, which, if repeated in the future, could adversely affect the market price of the Notes without regard to the ALTUM Group's results of operations, prospects or financial condition. Factors including increased competition or the ALTUM Group's operating results, the regulatory environment, general market conditions, natural disasters, pandemics, terrorist attacks and war may have an adverse effect on the market price of the Notes.

### ***An active market for the Notes may not develop***

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

### ***Exchange rate risk***

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

### ***Credit ratings***

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

### ***No assurance on change of laws or practices***

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

Notes, as well as taxation of the Notes, and the market price of the Notes. Such events may also result in material financial losses or damage to the Noteholders.

### ***Redemption prior to maturity***

The Notes are redeemable at the Issuer's option at a price equal to the nominal amount of the Notes together with the accrued interest (as more fully set out in Clauses 9.3 and 9.4 of the General Terms and Conditions of the Notes). The Notes are also redeemable due to tax reasons at a price equal to the nominal amount of the Notes together with the accrued interest (as more fully set out in Clause 11 of the General Terms and Conditions of the Notes). In addition, the Notes are redeemable on the occurrence of a Change of Control at a price equal to the nominal amount of the Notes together with the accrued interest (as more fully set out in in Clause 14 of the General Terms and Conditions of the Notes). Furthermore, if 75 (seventy-five) per-cent or more in principal amount of the Notes then outstanding have been redeemed based on a Change of Control, the Issuer is entitled to redeem the remaining Notes at a price equal to the nominal amount of the Notes together with the accrued interest. It is possible that the Notes are redeemed at a time when the prevailing interest rates may be relatively low. In such circumstances an investor may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as that of the Notes. It is further possible that the Issuer will not have sufficient funds at the time of the occurrence of a Change of Control to make the required redemption of Notes.

### ***No voting rights***

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

### ***Amendments to the Notes bind all Noteholders***

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

### ***Certain material interests***

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

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

The Notes will be affiliated to the account-based system of the Depository, and no physical notes will be issued. Clearing and settlement relating to the Notes will be carried out within the Depository's

book-entry system as well as payment of interest and repayment of the principal. Investors are therefore dependent on the functionality of the Depository's account-based system.

## GENERAL TERMS AND CONDITIONS OF THE NOTES

### 1. Principal amount and issuance of the Notes

- 1.1. Under this third programme for the issuance of notes (the "**Programme**") the Issuer may issue notes up to an aggregate principal amount of up to EUR 75,000,000 (seventy-five million euro) (the "**Notes**").
- 1.2. The Notes shall be issued in series (the "**Series**").
- 1.3. Each Series may comprise one or more tranches of Notes (the "**Tranches**"). The Notes of each Tranche will all be subject to identical terms, except that the Issue Dates (as defined below) and the Issue Prices (as defined below) thereof may be different in respect of different Tranches.
- 1.4. In order to identify each Series and Tranches, the Final Terms (as defined below) shall stipulate a serial number of the respective Series and a serial number of the respective Tranche.
- 1.5. The terms and conditions of each Tranche shall consist of these general terms and conditions of the Notes (the "**General Terms and Conditions**") and the final terms (the "**Final Terms**"). The General Terms and Conditions shall apply to each Tranche.
- 1.6. Each Final Terms will be approved by the Management Board of the Issuer, published on the Issuer's website [www.altum.lv](http://www.altum.lv) and submitted to the Financial and Capital Market Commission, which will forward them to the Bank of Lithuania (in Lithuanian - *Lietuvos Bankas*).
- 1.7. The aggregate principal amount of a Tranche shall be specified in the Final Terms.
- 1.8. The nominal amount of each Note shall be specified in the Final Terms.
- 1.9. The Notes will be offered for subscription for a minimum investment amount EUR 100,000 (one hundred thousand euro) (the "**Minimum Investment Amount**").

### 2. Form of the Notes and ISIN

- 2.1. The Notes are freely transferable non-convertible debt securities, which contain payment obligations of the Issuer towards the holders of the Notes (the "**Noteholders**").
- 2.2. The Notes are dematerialized debt securities in bearer form which are disposable without any restrictions and can be pledged. However, the Notes cannot be offered, sold, resold, transferred or delivered in such countries or jurisdictions or otherwise in such circumstances in which it would be unlawful or require measures other than those required under Latvian laws, including the United States, Australia, Japan, Canada, Hong Kong, South Africa, Singapore and certain other jurisdictions. In addition, the Noteholders are prohibited to resell, transfer or deliver the Notes to any person in a manner that would constitute a public offer of securities.
- 2.3. The Notes shall be book-entered with Nasdaq CSD SE (registration number: 40003242879, legal address: Valņu 1, Rīga, LV-1050, Latvia) (the "**Depository**").
- 2.4. A separate ISIN will be assigned to each Series, which will be different from ISIN of other Series.
- 2.5. Before commencement of the offering of the Notes of the first Tranche of each Series, the Depository upon request of the Issuer will assign ISIN to the respective Series. Where a further Tranche is issued, which is intended to form a single Series with an existing Tranche at any point after the Issue Date of the existing Tranche, a temporary ISIN may be assigned to the Notes of



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

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

### 3. Status and security

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

### 4. Currency of the Notes

The Notes will be issued in EUR.

### 5. Issue price and yield

- 5.1. The Notes may be issued at their nominal amount or at a discount or a premium to their nominal amount (the "**Issue Price**"). The Issue Price shall be determined by the Issuer and specified in the Final Terms.
- 5.2. The yield of each Tranche set out in the applicable Final Terms will be calculated as of the relevant Issue Date on an annual basis using the relevant Issue Price. It is not an indication of future yield.

### 6. Underwriting

None of the Tranches will be underwritten.

### 7. Issue date

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

### 8. Interest

- 8.1. The Notes shall bear interest at a fixed annual interest rate (the "**Interest Rate**") which shall be determined by the Issuer and specified in the Final Terms.
- 8.2. The interest on the Notes will be paid annually on the dates specified in the Final Terms ("**Interest Payment Date**") until the Maturity Date (as defined below) and will be calculated on the aggregate outstanding principal amount of the Notes of the respective Series.
- 8.3. Interest shall accrue for each interest period from and including the first day of the interest period to (but excluding) the last day of the interest period on the principal amount of the Notes of the respective Series outstanding from time to time. The first interest period commences on the Issue Date and ends on a day preceding the first Interest Payment Date (the "**First Interest Period**"). Each consecutive interest period begins on the previous Interest Payment Date and ends on a day preceding the following Interest Payment Date. The last interest period ends on the Maturity Date (as defined below).
- 8.4. Interest in respect of the Notes will be calculated on the basis of the actual number of days elapsed in the relevant interest period divided by 365 (or, in the case of a leap year, 366), i.e. a day count convention Act/Act (ICMA) will be used.

- 8.5. When interest is required to be calculated in respect of a period of less than a full year (other than in respect of the First Interest Period) it shall be calculated on the basis of (i) the actual number of days in the period from and including the date from which interest begins to accrue (the "**Accrual Date**") to but excluding the date on which it falls due, divided by (ii) the actual number of days from and including the Accrual Date to, but excluding the next following Interest Payment Date.
- 8.6. Interest on the Notes shall be paid through the Depository in accordance with the applicable rules of the Depository. The Noteholders list eligible to receive the interest on the Notes will be fixed at the end of the 8<sup>th</sup> (eighth) Business Day immediately preceding the Interest Payment Date.
- 8.7. Should any Interest Payment Date fall on a date which is not a Business Day, the payment of the interest due will be postponed to the next Business Day. The postponement of the payment date shall not have an impact on the amount payable.

"**Business Day**" means a day on which the Depository system is open and operational.

## **9. Redemption**

- 9.1. The Notes shall be redeemed in full at their nominal amount on the date which will be specified in the Final Terms (the "**Maturity Date**"), unless the Issuer has redeemed the Notes in accordance with Clauses 9.3 and 9.4, Clause 14 (*Change of control*) or Clause 16 (*Events of Default*) below or in case the Noteholders, upon proposal of the Issuer, pursuant to Clause 22 (*Decisions of the Noteholders*) have decided that the Notes shall be redeemed prior to the Maturity Date.
- 9.2. Each Series of Notes may have a maturity up to 10 (ten] years.
- 9.3. The Issuer may redeem each Series of Notes, in whole but not in part, at any time during the period commencing on the first Business Day falling 3 (three) months prior to the Maturity Date (such Business Day included) and ending on the Maturity Date (the Maturity Date excluded) (the "**Voluntary Redemption Period**"), at an amount equal to 100 (one hundred) per-cent of their nominal amount together with any accrued but unpaid interest to, but excluding, the date of voluntary redemption (the "**Voluntary Redemption Date**").
- 9.4. Redemption in accordance with Clause 9.3 shall be made by the Issuer giving not less than 30 (thirty) but no more than 60 (sixty) calendar days' irrevocable notice specifying the Voluntary Redemption Date, which shall be a Business Day within the Voluntary Redemption Period, to the Noteholders in accordance with Clause 20 (*Notices*).
- 9.5. The principal of the Notes shall be paid through the Depository in accordance with the applicable rules of the Depository. The Noteholders list eligible to receive the principal of the Notes will be fixed at the end of the Business Day immediately preceding the payment of the principal of the Notes.
- 9.6. Should the payment date fall on a date which is not a Business Day, the payment of the amount due will be postponed to the next Business Day. The postponement of the payment date shall not have an impact on the amount payable.

## **10. Taxation**

All payments in respect of the Notes by the Issuer shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or

governmental charges of whatever nature ("**Taxes**"), unless the withholding or deduction of the Taxes is required by the laws of the Republic of Latvia. In such case, the Issuer shall pay such additional amounts as will result in receipt by the Noteholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Note held by or on behalf of a Noteholder which is liable to such Taxes in respect of such Note by reason of its having some connection with the Republic of Latvia other than the mere holding of the Note.

## **11. Redemption for tax reasons**

11.1. The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time on giving 30 (thirty) but no more than 60 (sixty) calendar days' irrevocable notice to the Noteholders at an amount equal to 100 (one hundred) per-cent of their nominal amount together with any accrued but unpaid interest to, but excluding, the date of redemption, if:

- (i) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Clause 10 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of the Republic of Latvia or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date of issue of the first Tranche of the Notes; and
- (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it,

**provided, however, that** no such notice of redemption shall be given earlier than 90 (ninety) days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Notes were then due.

11.2. Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall obtain an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment.

11.3. Upon the expiry of any such notice as is referred to in this Clause 11, the Issuer shall be bound to redeem the Notes in accordance with this Clause 11.

## **12. Placement of the Notes**

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

12.2. The placement period for each Tranche (the "**Placement Period**") will be specified in the Final Terms. The Issuer may decide on shortening or lengthening the Placement Period.

12.3. The investors wishing to purchase the Notes shall submit their orders to the Dealer to purchase the Notes (the "**Purchase Orders**") at any time during the Placement Period.

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

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

- 12.6. All Purchase Orders are binding and irrevocable commitment to acquire the allotted Notes.
- 12.7. On the same Business Day following the Placement Period the Issuer will decide whether to proceed with the issuance of the Notes of a respective Tranche or cancel the issuance. In case the issuance of the Notes of a respective Tranche is cancelled, the Issuer will publish an announcement on the Issuer's website [www.altum.lv](http://www.altum.lv).
- 12.8. The Issuer in consultation with the Dealer will decide on allotment of the Notes to the Investors. The Issuer reserves a right to reject any Purchase Order, in whole or in part, at its sole discretion.
- 12.9. The Dealer shall send to each investor by way of e-mail or through Bloomberg system a confirmation which will contain information on the extent of satisfaction or rejection of the Purchase Order submitted by the investor, the number of Notes allotted to the investor and the amount (price) payable for the Notes.
- 12.10. The settlement for the Notes will take place on the Issue Date and will be carried out by the Dealer in accordance with the DVP (*Delivery vs Payment*) principle pursuant to the applicable rules of the Depository.
- 12.11. All paid up Notes shall be treated as issued. The Notes which are not paid up shall be cancelled.
- 12.12. Information about the placement results of the Notes will be published on the Issuer's website [www.altum.lv](http://www.altum.lv) within 1 (one) Business Day following the Placement Period.

### **13. Admission to trading**

- 13.1. The Issuer shall submit an application regarding inclusion of each Tranche in the Baltic Bond List of Akciju sabiedrība "Nasdaq Riga", registration number: 40003167049, legal address: Valņu 1, Riga, LV-1050, Latvia ("**Nasdaq Riga**"). An application shall be prepared according to the requirements of Nasdaq Riga and shall be submitted to Nasdaq Riga within 3 (three) months after the Issue Date of the respective Tranche.
- 13.2. The Issuer shall use its best efforts to ensure that the Notes remain listed in the Baltic Bond List of Nasdaq Riga or, if such listing is not possible, to obtain or maintain, listed or traded on another regulated market. The Issuer shall, following a listing or admission to trading, take all reasonable actions on its part required as a result of such listing or trading of the Notes.
- 13.3. The Issuer will cover all costs which are related to the admission of the Notes to the relevant regulated market.

### **14. Change of control**

- 14.1. If at any time while any Note remains outstanding: (i) there occurs a Change of Control (as defined below), and (ii) within the Change of Control Period (as defined below), a Rating Event (as defined below) in respect of that Change of Control occurs (such Change of Control and Rating Event not having been cured prior to the expiry of the Change of Control Period, together, a "**Change of Control Put Event**"), each Noteholder will have the option (the "**Change of Control Put Option**") (unless, prior to the giving of the Change of Control Put Event Notice (as defined below), the Issuer gives notice to redeem the Notes according to Clauses 9.3 and 9.4) to require the Issuer to redeem or, at the Issuer's option, to procure the purchase of, all or part of its Notes, on the Optional Redemption Date (as defined below) at an amount equal to 100 (one hundred) per-cent of their nominal amount together with any accrued but unpaid interest to, but excluding, the Optional Redemption Date.

A “**Change of Control**” shall be deemed to have occurred if at any time following the Issue Date of the first Tranche of the Notes, the Republic of Latvia ceases to own, directly or indirectly, at least 51 (fifty-one) per-cent of the issued share capital of the Issuer or ceases to have the power, directly or indirectly, to cast, or control the casting of, at least 51 (fifty-one) per-cent of the maximum number of votes that might be casted at a Shareholders’ Meeting of the Issuer.

“**Change of Control Period**” means the period beginning on the date of the first public announcement by or on behalf of the Issuer by any bidder or any designated advisor, of the relevant Change of Control and ending 90 (ninety) days after completion of the relevant Change of Control.

A “**Rating Event**” shall be deemed to have occurred in respect of a Change of Control if (within the Change of Control Period) either:

- (i) (A) the rating previously assigned to the Issuer by any Rating Agency solicited by the Issuer is (x) withdrawn or (y) changed from an investment grade rating (Baa3/BBB- or its equivalent for the time being, or better) to a non-investment grade rating (Ba1/BB+ or its equivalent for the time being, or worse) or (z) (if the rating previously assigned to the Issuer by any Rating Agency solicited by the Issuer was below an investment grade rating (as described above)), lowered by at least one full rating notch (for example, from Ba1 to Ba2, or their respective equivalents) and (B) such rating is not subsequently upgraded (in the case of a downgrade) or reinstated (in the case of a withdrawal) within the Change of Control Period either to an investment grade credit rating (in the case of (x) and (y)) or to its earlier credit rating or better (in the case of (z)) by such Rating Agency; or
- (ii) the Issuer has not been previously assigned a credit rating solicited by the Issuer, and no Rating Agency assigns the Issuer an investment grade rating solicited by the Issuer within the Change of Control Period;

provided that the Rating Agency making the reduction in rating or deciding not to assign an investment grade rating announces or publicly confirms or, having been so requested by the Issuer, informs the Issuer in writing that the lowering or failure to assign an investment grade rating was the result, in whole or in part, of any event or circumstance comprised in or arising as a result of, or in respect of, the applicable Change of Control (whether or not the applicable Change of Control shall have occurred at the time of the Rating Event).

“**Rating Agency**” means Moody’s Investor Services, S&P Global Ratings Europe Limited, Fitch Ratings Ireland Limited or any of their affiliates.

- 14.2. Promptly upon the Issuer becoming aware that a Change of Control Put Event has occurred, the Issuer shall give notice (a “**Change of Control Put Event Notice**”) to the Noteholders in accordance with Clause 20 (*Notices*) specifying the nature of the Change of Control Put Event and the circumstances giving rise to it, and the procedure for exercising the Change of Control Put Option.
- 14.3. To exercise the Change of Control Put Option, a Noteholder within the period (the “**Change of Control Put Period**”) of 45 (forty-five) days after a Change of Control Put Event Notice is given must provide to the Issuer in writing a notice on exercise of the Change of Control Put Option (a “**Change of Control Put Option Notice**”).
- 14.4. A Change of Control Put Option Notice once given shall be irrevocable. The Issuer shall redeem or, at the option of the Issuer procure the purchase of, the Notes in respect of which the Change of Control Put Option has been validly exercised as provided above by the date which

is the 5<sup>th</sup> (fifth) Business Day following the end of the Change of Control Put Period (the “**Optional Redemption Date**”).

- 14.5. For the avoidance of doubt, the Issuer shall have no responsibility for any cost or loss of whatever kind (including breakage costs) which the Noteholder may incur as a result of or in connection with such Noteholder’s exercise or purported exercise of, or otherwise in connection with, any Change of Control Put Option (whether as a result of any purchase or redemption arising therefrom or otherwise).
- 14.6. If 75 (seventy-five) per-cent or more in principal amount of the Notes then outstanding have been redeemed pursuant to this Clause 14, the Issuer may, on not less than 30 (thirty) nor more than 60 (sixty) days’ irrevocable notice to the Noteholders in accordance with Clause 20 (Notices) given within 30 (thirty) days after the Optional Redemption Date, redeem on a date to be specified in such notice at its option, all (but not some only) of the remaining Notes at 100 (one hundred) per-cent of their nominal amount, together with interest accrued to, but excluding, the date of redemption.

## 15. **Negative pledge**

So long as any Note remains outstanding, the Issuer shall not, and shall procure that none of its Material Subsidiaries create or permit to subsist mortgage, pledge or any other security interest (each a “**Security Interest**”), other than a Permitted Security Interest, upon the whole or any part of its present or future business, undertaking, assets or revenues to secure any Relevant Indebtedness or Guarantee of Relevant Indebtedness without (a) at the same time or prior thereto securing the Notes equally and rateably therewith, or (b) providing such other security for the Notes or other arrangement (whether or not it includes the granting of a security) as may be approved by the Noteholders pursuant to Clause 22 (*Decisions of the Noteholders*).

“**Subsidiary**” means a company:

- (i) whose affairs and policies the Issuer controls or has the power to control, whether by ownership of share capital, contract, the power to appoint or remove members of the governing body or otherwise; or
- (ii) whose financial statements are, in accordance with applicable law and generally accepted accounting principles, consolidated with those of the Issuer.

“**Material Subsidiary**” means at any time any Subsidiary:

- (i) whose total consolidated (or, if applicable, unconsolidated) assets (excluding intercompany loans, intercompany payables, intercompany receivables and intercompany unrealised gains and losses in inventories) represent not less than 10 (ten) per-cent of the total consolidated assets of the Issuer, or whose gross consolidated EBITDA (or, if applicable, unconsolidated) represents not less than 10 (ten) per-cent of the gross consolidated EBITDA of the Issuer, in each case as determined by reference to the most recent publicly available annual or interim financial statements of the Issuer prepared in accordance with IFRS and the latest financial statements of the Subsidiary determined in accordance with IFRS; or
- (ii) to which is transferred the whole or substantially all of the assets and undertakings of a Subsidiary which, immediately prior to such transfer, is a Material Subsidiary.

**“EBITDA”** means (i) the consolidated operating profit of the Group or (ii) in the case of a Material Subsidiary, the consolidated or unconsolidated operating profit of such Material Subsidiary, in the case of both (i) and (ii) before taking into account:

- (a) depreciation and amortisation;
- (b) finance income and finance costs;
- (c) revaluation of property, plant and equipment, and investment property;
- (d) impairment of property, plant and equipment;
- (e) current year income tax expense and deferred income tax (expense)/benefit;
- (f) any revaluation of non-current assets; and
- (g) exceptional items, as defined by IFRS or separately identified as such within the most recent publicly available annual or interim financial statements of the Issuer or the relevant Material Subsidiary (as the case may be), prepared in accordance with IFRS.

**“Group”** means the Issuer and its Subsidiaries from time to time.

**“IFRS”** means the International Financial Reporting Standards as adopted by the European Union.

**“Permitted Security Interest”** means any Security Interest created over any asset of any company which becomes a Subsidiary after the Issue Date of the first Tranche of the Notes, where such Security Interest is created prior to the date on which the company becomes a Subsidiary, provided that:

- (i) such Security Interest was not created in contemplation of the acquisition of such company; and
- (ii) the principal amount secured was not increased in contemplation of or since the acquisition (or proposed acquisition) of that company.

**“Indebtedness”** means any indebtedness (whether principal, premium, interest or other amounts) in respect of any bonds, notes or other debt securities or borrowed money by the Issuer or any of its Subsidiaries (other than from the Issuer to any of its wholly-owned Subsidiaries and from any of the Issuer’s wholly-owned Subsidiaries to the Issuer or to another wholly-owned Subsidiary).

**“Relevant Indebtedness”** means any Indebtedness which is in the form of, or represented by any bond, note or other debt security which is, or is capable of being, quoted, listed or traded on any stock exchange or in any securities market (including, without limitation, any over-the-counter market).

**“Guarantee”** means, in relation to any Indebtedness, any obligation to pay such Indebtedness including (without limitation):

- (i) any obligation to purchase such Indebtedness;
- (ii) any obligation to lend money, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness;

- (iii) any indemnity against the consequences of a default in the payment of such Indebtedness; and
- (iv) any other agreement to be responsible for such Indebtedness.

## 16. Events of Default

- 16.1. If an Event of Default (as defined below) occurs, any Noteholder may by written notice to the Issuer declare any Note held by it and the interest accrued on such Note to be prematurely due and payable at the earliest on the 10<sup>th</sup> (tenth) Business Day from the date such notice was received by the Issuer, provided that an Event of Default is continuing on the date of receipt of the notice by the Issuer and on the early repayment date (the "**Early Repayment Date**"). Interest on such Note accrues until the Early Repayment Date (excluding the Early Repayment Date).
- 16.2. The Issuer shall notify the Noteholders about the occurrence of an Event of Default (and the steps, if any, taken to remedy it) in accordance with Clause 20 (*Notices*) promptly upon becoming aware of its occurrence.
- 16.3. Each of the following events shall constitute an event of default (an "**Event of Default**"):
- (i) **Non-payment:** the Issuer fails to pay any amount of principal in respect of the Notes on the due date for payment thereof or fails to pay any amount of interest in respect of the Notes on the due date for payment thereof and the default continues for a period of 5 (five) days in the case of principal and for a period of 14 (fourteen) days in the case of interest;
  - (ii) **Breach of other obligations:** the Issuer defaults in the performance or observance of any of its other obligations in respect of the Notes, and such default is not capable of remedy or remains unremedied for at least 30 (thirty) days after written notice thereof, addressed to the Issuer by any Noteholder, has been received by the Issuer;
  - (iii) **Cross-default:**
    - (a) any Indebtedness of the Issuer or any of its Material Subsidiaries is not paid when due or (as the case may be) within any originally applicable grace period;
    - (b) any such Indebtedness becomes due and payable prior to its stated maturity otherwise than at the option of the Issuer or (as the case may be) the relevant Material Subsidiary or (**provided that** no event of default, howsoever described, has occurred) any person entitled to such Indebtedness;
    - (c) the Issuer or any of its Material Subsidiaries fails to pay when due any amount payable by it under any Guarantee of any Indebtedness;  
**provided that** the amount of Indebtedness referred to in sub-paragraph (a) and/or sub-paragraph (b) above and/or the amount payable under any Guarantee referred to in sub-paragraph (c) above individually or in the aggregate exceeds EUR 10,000,000 (ten million euro) (or its equivalent in any other currency or currencies);
  - (iv) **Security enforced:** a secured party enforces a security over the whole or any substantial part of the undertaking, assets and revenues of the Issuer or any of its Material Subsidiaries;
  - (v) **Cessation of business:** the Issuer or any of its Material Subsidiaries cease to carry on its current business in its entirety or a substantial part thereof, other than:



- (a) pursuant to any sale, disposal, demerger, amalgamation, reorganization or restructuring or any cessation of business in each case on a solvent basis and within the Group; or
  - (b) for the purposes of, or pursuant to any terms approved by the Noteholders in accordance with Clause 22 (*Decisions of the Noteholders*);
- (vi) **Liquidation:** an effective resolution is passed for the liquidation of the Issuer or any of its Material Subsidiaries other than, in case of a Material Subsidiary:
- (a) pursuant to an amalgamation, reorganization or restructuring in each case within the Group; or
  - (b) for the purposes of, or pursuant to any terms approved by the Noteholders in accordance with Clause 22 (*Decisions of the Noteholders*);
- (vii) **Insolvency:**
- (a) the Issuer or any of its Material Subsidiaries is declared insolvent or bankrupt by a court of competent jurisdictions or admits inability to pay its debts; or
  - (b) the Issuer or any of its Material Subsidiaries enters into any arrangement with majority of its creditors by value in relation to restructuring of its debts or any meeting is convened to consider a proposal for such arrangement; or
  - (c) an application to initiate insolvency, restructuring (including proceedings such as legal protection proceedings and out-of-court legal protection proceedings) or administration of the Issuer or any of its Material Subsidiaries or any other proceedings for the settlement of the debt of the Issuer or of any of its Material Subsidiaries is submitted to the court by the Issuer or any of its Material Subsidiaries.

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

## 17. Further Issues

The Issuer may from time to time, without the consent of and notice to the Noteholders, create and issue further Notes whether such further Notes form a single Series with already issued Notes or not. For the avoidance of doubt, this Clause 17 shall not limit the Issuer's right to issue any other notes.

## 18. Purchases

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

## 19. Time bar

In case any payment under the Notes has not been claimed by the respective Noteholder entitled to this payment within 10 (ten) years from the original due date thereof, the right to

such payment shall be forfeited by the Noteholder and the Issuer shall be permanently released from such payment.

## 20. Notices

Noteholders shall be advised of matters relating to the Notes by a notice published in English and Latvian in the Central Storage of Regulated Information, on the website of Nasdaq Riga and on the Issuer's website [www.altum.lv](http://www.altum.lv). Any such notice shall be deemed to have been received by the Noteholders when published in the manner specified in this Clause 20.

## 21. Representation of the Noteholders

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

## 22. Decisions of the Noteholders

### 22.1. General provisions

- (i) The decisions of the Noteholders (including decisions on agreement with the Issuer on amendments to these General Terms and Conditions or the Final Terms of the Tranches of the relevant Series or granting of consent or waiver) shall be passed at a meeting of the Noteholders (the **"Noteholders' Meeting"**) or in writing without convening the Noteholders' Meeting (the **"Written Procedure"**) at the choice of the Issuer. However, the Issuer shall have a right to amend the technical procedures relating to the Notes in respect of payments or other similar matters without the consent of the Noteholders, if such amendments are not prejudicial to the interests of the Noteholders.
- (ii) The Issuer shall have a right to convene the Noteholders' Meeting or instigate the Written Procedure at any time and shall do so following a written request from the Noteholders who, on the day of the request, represent not less than one-tenth of the principal amount of the Notes outstanding or the principal amount of the Notes of the relevant Series outstanding (as applicable) (excluding the Issuer and its Subsidiaries).
- (iii) In case convening of the Noteholders' Meeting or instigation of the Written Procedure is requested by the Noteholders, the Issuer shall be obliged to convene the Noteholders' Meeting or instigate the Written Procedure within 1 (one) month after receipt of the respective Noteholders' written request.
- (iv) Only those who were registered as the Noteholders by the end of the 6<sup>th</sup> (sixth) Business Day prior to the date of the Noteholders' Meeting or the first date when the Noteholder must reply to the request pursuant to the Written Procedure or proxies authorised by such Noteholders, may exercise their voting rights at the Noteholders' Meeting or in the Written Procedure.
- (v) Quorum at the Noteholders' Meeting or in respect of the Written Procedure only exists if one or more Noteholders holding 50 (fifty) per-cent in aggregate or more of the principal amount of the Notes outstanding or the principal amount of the Notes of relevant Series outstanding (as applicable):
  - (a) if at the Noteholders' Meeting, attend the meeting; or
  - (b) if in respect of the Written Procedure, reply to the request.

- (vi) If the Issuer and/or its Subsidiaries are the Noteholders, their principal amount of the Notes will be excluded when a quorum is calculated.
- (vii) If quorum does not exist at the Noteholders' Meeting or in respect of the Written Procedure, the Issuer shall convene a second Noteholders' Meeting (in accordance with Clause 22.2) or instigate a second Written Procedure (in accordance with Clause 22.3), as the case may be. The quorum requirement in paragraph (iv) above shall not apply to such second Noteholders' Meeting or Written Procedure, except for exclusion of Issuer and its Subsidiaries from calculation of a quorum.
- (viii) Consent of the Noteholders holding at least 75 (seventy-five) per-cent of the aggregate principal amount of the outstanding Notes attending the Noteholders' Meeting or participating in the Written Procedure (i.e. replying to the request) is required for agreement with the Issuer to amend Clause 3 (*Status and security*), Clause 14 (*Change of control*), Clause 15 (*Negative pledge*), Clause 16 (*Events of Default*), Clause 22 (*Decisions of the Noteholders*) or Clause 23 (*Governing law and dispute resolution*).
- (ix) Consent of at least 75 (seventy-five) per-cent of the aggregate principal amount of the outstanding Notes of the respective Series attending the Noteholders' Meeting or participating in the Written Procedure (i.e. replying to the request) is required for the following decisions:
  - (a) agreement with the Issuer to change the date, or the method of determining the date, for the payment of principal, interest or any other amount in respect of the relevant Series, to reduce or cancel the amount of principal, interest or any other amount payable on any date in respect of the relevant Series or to change the method of calculating the amount of interest or any other amount payable on any date in respect of the relevant Series;
  - (b) agreement with the Issuer to change the currency of the relevant Series;
  - (c) agreement with the Issuer on any exchange or substitution of the Notes of relevant Series for, or the conversion of the Notes of relevant Series into, any other obligations or securities of the Issuer or any other person;
  - (d) in connection with any exchange, substitution or conversion of the type referred to in paragraph (c) agreement with the Issuer to amend any of the provisions of the relevant Series describing circumstances in which the relevant Series may be redeemed or declared due and payable prior to their scheduled maturity.
- (x) Consent of simple majority of all Noteholders or the Noteholders of the respective Series (as applicable) attending the Noteholders' Meeting or participating in the Written Procedure (i.e. replying to the request) is required to the decisions not covered in paragraph (viii) or (ix) above (as applicable).
- (xi) The Issuer shall have a right to increase the aggregate principal amount of the Notes to be issued under the Programme without the consent of the Noteholders.
- (xii) Information about decisions taken at the Noteholders' Meeting or by way of the Written Procedure shall promptly be provided to the Noteholders in accordance with Clause 20 (*Notices*), provided that a failure to do so shall not invalidate any decision made or voting result achieved.

- (xiii) Decisions passed at the Noteholders' Meeting or in the Written Procedure shall be binding on all Noteholders irrespective of whether they participated at the Noteholders' Meeting or in the Written Procedure.
- (xiv) All expenses in relation to the convening and holding the Noteholders' Meeting or a Written Procedure shall be covered by the Issuer.

## **22.2. Noteholders' Meetings**

- (i) If a decision of the Noteholders is intended to be passed at the Noteholders' Meeting, then a respective notice of the Noteholders' Meeting shall be provided to the Noteholders in accordance with Clause 20 (*Notices*) no later than 10 (ten) Business Days prior to the meeting. Furthermore, the notice shall specify the time, place and agenda of the meeting, as well as any action required on the part of the Noteholders that will attend the meeting. No matters other than those referred to in the notice may be resolved at the Noteholders' Meeting.
- (ii) The Noteholders' Meeting shall be held physically in Riga, Latvia. At the choice of the Issuer the Noteholders' Meeting can be held also remotely by use of a videoconference platform. Requirements for the identification of the Noteholders at the Noteholders' Meeting that is held remotely will be set by the Issuer and communicated upon convening the Noteholders' Meeting.
- (iii) The Noteholders' Meeting shall be organised by the chairman of the Noteholders' Meeting, who will be the Issuer's representative appointed by the Issuer.
- (iv) The Noteholders' Meeting shall be held in English with translation into Latvian, unless the Noteholders present in the respective Noteholders' Meeting unanimously decide that the respective Noteholders' Meeting shall be held only in Latvian or English.
- (v) Representatives of the Issuer and persons authorised to act for the Issuer may attend and speak at the Noteholders' Meeting.
- (vi) Minutes of the Noteholders' Meeting shall be kept, recording the day and time of the meeting, attendees, their votes represented, matters discussed, results of voting, and resolutions which were adopted. The minutes shall be signed by the keeper of the minutes, which shall be appointed by the Noteholders' Meeting. The minutes shall be attested by the chairman of the Noteholders' Meeting, if the chairman is not the keeper of the minutes, as well as by one of the persons appointed by the Noteholders' Meeting to attest the minutes. The minutes from the relevant Noteholders' Meeting shall at the request of a Noteholder be sent to it by the Issuer.

## **22.3. Written Procedure**

- (i) If a decision of the Noteholders is intended to be passed by the Written Procedure then a respective communication of the Written Procedure shall be provided to the Noteholders in accordance with Clause 20 (*Notices*).
- (ii) Communication in paragraph (i) above shall include:
  - (a) each request for a decision by the Noteholders;
  - (b) a description of the reasons for each request;

- (c) a specification of the Business Day on which a person must be registered as a Noteholder in order to be entitled to exercise voting rights;
  - (d) instructions and directions on where to receive a form for replying to the request (such form to include an option to vote "yes" or "no" for each request), as well as a form of a power of attorney; and
  - (e) the stipulated time period within which the Noteholder must reply to the request (such time period to last at least 10 (ten) Business Days from the communication pursuant to paragraph (i) above) and a manner of a reply.
- (iii) When the requisite majority consents pursuant to paragraphs (viii), (ix) or (x) (as applicable) of Clause 22.1 have been received in a Written Procedure, the relevant decision shall be deemed to be adopted pursuant to paragraphs (viii), (ix) or (x) (as applicable) of Clause 22.1 even if the time period for replies in the Written Procedure has not yet expired.

### **23. Governing law and dispute resolution**

23.1. The Notes are governed by the laws of the Republic of Latvia.

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

## FORM OF FINAL TERMS

Set out below is the form of Final Terms which will be completed for each Tranche of Notes issued under the Base Prospectus

### PROHIBITION OF SALES TO RETAIL INVESTORS IN THE EUROPEAN ECONOMIC AREA

The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("EEA"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended) ("MiFID II") or; (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended or superseded), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently, no key information document required by Regulation (EU) No 1286/2014 (the "PRIIPs Regulation") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

### MiFID II Product Governance / Eligible Counterparties and Professional Clients Only Target Market

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

#### Final Terms dated [●]

**Akciju sabiedrība "Attīstības finanšu institūcija Altum"**

**Legal entity identifier (LEI): 5493007HPQSSX8BJ4315**

**Issue of [●] Notes due [●]**

**under the Third programme for the Issuance of Notes in the Amount of up to EUR 75,000,000**

**[to be consolidated and form a single series with [●]]**

Terms used herein shall be deemed to be defined as such for the purposes of the General Terms and Conditions set forth in the Base Prospectus dated 15 September 2021 [and the supplement(s) to it dated [●] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Regulation] (the "Base Prospectus") for the purposes of Regulation (EU) 2017/1129 (the "Prospectus Regulation").

This document constitutes the Final Terms of the Notes described herein for the purposes of the Prospectus Regulation and must be read in conjunction with the Base Prospectus. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus.

The Base Prospectus has been published on the Issuer's website [www.altum.lv](http://www.altum.lv).

A summary of the individual issue is annexed to these Final Terms.

1. Issuer: Akciju sabiedrība "Atfīstības finanšu institūcija Altum"
2. Series Number: [●]
3. Tranche Number: [●]
4. ISIN: [[●]]/[Temporary ISIN: [●]. Upon admission of the Notes to the regulated market the Notes will be consolidated and form a single series with [●] and will have a common ISIN [●]]
5. Aggregate principal amount: [EUR [●] [in addition to [●]]]
6. Nominal amount of the Note: EUR [●]
7. Issue Date: [●]
8. Annual Interest Rate: [●]
9. Interest Payment Date: [●] each year
10. Maturity Date: [●]
11. Minimum Investment Amount: [●]
12. Issue Price: [●]
13. Yield: [●]  
The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield
14. Placement Period: [●]
15. Rating: the Notes to be issued [are not/have been/are expected to be] rated [by:[●]]
16. Use of Proceeds: [General Corporate Purposes]/[Green Bonds].
17. Information about the securities of the Issuer that are already admitted to trading: [●]

These Final Terms have been approved by the Management Board of the Issuer at its meeting on [date] [month] [year].

Riga, [date] [month] [year]

[●]

## **USE OF PROCEEDS**

The net proceeds from the issue of each Series of Notes will, unless otherwise specified in the applicable Final Terms, be used by the Issuer as follows:

- (i) where "General Corporate Purposes" is specified in the applicable Final Terms, for its general corporate purposes; or
- (ii) where "Green Bonds" is specified in the applicable Final Terms, the Issuer will apply an amount equivalent to the net proceeds from such issue of Notes specifically to finance and/or refinance the projects and activities that promote transition to low carbon economy and climate resilience, as set out in the Green Bond Framework available on the Issuer's website [www.altum.lv](http://www.altum.lv).



## INFORMATION ABOUT ALTUM GROUP

### General information

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

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

ALTUM is one of the few state-owned companies operating in accordance with a special law adopted by the Parliament of the Republic of Latvia – the Development Finance Institution Law (in Latvian - *Attīstības finanšu institūcijas likums*).

### Basic information

Registration number: 50103744891  
Legal Entity Identifier (LEI): 5493007HPQSSX8BJ4315  
Registered address: Doma laukums 4, Rīga, LV-1050, Latvia  
Website: [www.altum.lv](http://www.altum.lv)  
Telephone number: +371 67 774 010  
E-mail: [altum@altum.lv](mailto:altum@altum.lv)

The information on ALTUM's website [www.altum.lv](http://www.altum.lv) does not form part of the Base Prospectus, other than the Issuer's Green Bond Framework, which is available on the ALTUM's website [www.altum.lv](http://www.altum.lv) and is incorporated by reference to this Base Prospectus and forms a part of the Base Prospectus.

### History and development of ALTUM

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

The merged enterprises were:

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

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

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

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

Latvian Guarantee Agency was established in 1998 to provide support to entrepreneurs in raising funds in case of insufficient loan security. Latvian Guarantee Agency implemented the following state support programmes: credit guarantees, short-term export credit guarantees, mezzanine loans, venture capital and microloans, support to start-ups for creating start-up ecosystem.

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

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

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

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

## **Investments**

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

## INFORMATION ABOUT ALTUM GROUP'S BUSINESS OPERATIONS

### Principal Activities

ALTUM provides support to specific target groups by various means of financial instruments. The main purpose for ALTUM's business operations is to provide access to the financing in areas identified as inefficiently supplied with financial resources on the private market. ALTUM operates only in the market of the Republic of Latvia and does not distort competition.

The operations and areas of ALTUM's business operations are governed by the Development Finance Institution Law (in Latvian - *Attīstības finanšu institūcijas likums*) and in line with the European Commission's decision of 9 June 2015 on the creation and activity of the Latvian single development institution, as well as in accordance with the European Commission's Temporary Framework for State aid measures to support the economy in the current COVID-19 outbreak.

It is intended that the prior notification process with the European Commission for the extension of the decision of the European Commission allowing to operate after 31 December 2022 will be commenced in September 2021.

A comprehensive *ex-ante* assessment has to be carried out to assess the existence of a market gap and develop investment strategy in order to correct the deficiencies discovered. The assessment of market gap and design of the investment strategy in close cooperation with ALTUM is carried out by the Ministry of Finance of the Republic of Latvia, the Ministry of Economics of the Republic of Latvia and the Ministry of Agriculture of the Republic of Latvia, the Ministry of Science and Education of the Republic of Latvia, the Ministry of Culture of the Republic of Latvia and the Ministry Welfare of the Republic of Latvia setting the policy in the particular field. Before starting to provide new support programmes or new products, they must be approved by the Cabinet of Ministers of the Republic of Latvia.

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

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

The core business lines of ALTUM Group include lending, issuing of guarantees, investments in venture capital funds, transactions of the Land Fund activities that form ALTUM's financial instruments portfolio, as well as management of AIF Altum Capital Fund.

With immediate reaction towards COVID-19 in mid-March 2020 and a sharp downturn of economic situation ALTUM Group has been actively involved in mitigating the adverse impact of COVID-19 in

the business sector. ALTUM Group takes pillar role for providing COVID-19 support financial instruments (excl. standstill grants) – loans and guarantees in Latvia. AIF Altum Capital Fund was quickly set up as a special fund for Mid-caps to get over the COVID-19 crisis. The credit risk for the COVID-19 products is covered by public funding injected in Specific Reserves (Portfolio Loss Reserve) for respective COVID-19 programme.

As of 30 June 2021, ALTUM's portfolio of the financial instruments issued within the state support programmes was for the total value of EUR 859 million consisting of 28,951 projects, including:

- guarantee portfolio of EUR 380 million (the total number of transactions – 21,336);
- loan portfolio of EUR 323 million (the total number of transactions – 6,557);
- investments into venture capital funds for the total value of EUR 84 million (the total number of projects financed by venture capital funds – 286);
- Land Fund of EUR 72 million (the total number of transactions – 772).

### **Management of “fund of funds”**

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

### **AIF Altum Capital Fund**

In spring 2020, another financial instrument - alternative investment fund Altum Capital Fund (in Latvian – AIF “*Altum kapitāla fonds*”) - was created with an aim to support well-managed, perspective Mid-cap companies to overcome the negative effects of COVID-19 outbreak 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. AIF Altum Capital Fund was registered with the Register of Enterprises of the Republic of Latvia on 31 July 2020 with its operations expiry date 3 September 2027, including the possibility of extending its operations for another year, namely, until 3 September 2028. Committed capital of AIF Altum Capital Fund was fully subscribed in September 2020, reaching EUR 100 million, of which the majority (EUR 51.1 million or 51.1 per-cent) were private investors - investment management companies of the state funded pension schemes and pension 3<sup>rd</sup> pillar investment plans. EUR 48.9 million consists of public funding to be invested by ALTUM Group.

ALTUM is registered by the Financial Capital and Market Commission as the manager of AIF Altum Capital Fund.

### **Main Customer Segments and Services**

#### **SMEs and Mid-caps**

The main target for ALTUM's business operations is the improvement of access to financing of investments and working capital by small and medium enterprises (the “**SMEs**”) and Mid-cap

companies, innovations, expansion and promotion of beginner entrepreneurs and start-ups in order to facilitate their growth and expansion.

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

- lack of collateral – to provide guaranty or special loan;
- lack of sufficient track record – to provide special start-up loan, micro loan or loan for enterprises in rural areas, as well as risk capital instrument;
- lack of capital – to provide risk capital or mezzanine loan;
- new economy sectors – to provide special loan.

The main services provided by ALTUM to SMEs are loans, export credit guarantees, loan guarantees (in form of individual and portfolio guarantees), mezzanine loans, venture capital investments, start-up loans, micro-loans, as well as COVID-19 outbreak related products – loans and guarantees. For Mid-caps the core products are loans for sustainable projects, loan guarantees, as well as COVID-19 outbreak related products – loans, guarantees and investment products by Altum Capital Fund.

According to ALTUM's strategy for the years 2019-2021, ALTUM has expanded its business of loan guarantees for promotion of entrepreneurship and access to the funding by offering both – new guarantee products and improving the existing products. Along with COVID-19 outbreak related products the scope of daily (ordinary) business products has been improved.

### **Agriculture companies**

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

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

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

The main services provided by ALTUM are loans and guarantees for financing of the agricultural activities, working capital and investments needs for business development of rural areas, long term financing for acquisition of agricultural land, as well as COVID-19 outbreak-related products – loans and guarantees.

In addition, in accordance with the decree issued by the Cabinet of Ministers of the Republic of Latvia, ALTUM is the administrator (operator) of the Land Fund of Latvia. ALTUM conducts economically effective transactions with agricultural land in accordance with the aim of the Land Fund of Latvia defined in the Law on Land Privatization in Rural Areas (in Latvian – *likums "Par zemes privatizāciju lauku apvidos"*) – to ensure protection and access to agricultural land resources at national level, their rational, effective and sustainable use, as well as preservation of agricultural land areas. The Land Fund of Latvia operates in two main directions: agricultural land as investment

property leased out to farmers, and sale and lease back of agricultural land as working capital funding for farmers operating respective land plots.

### **Energy efficiency, renewables and sustainable transportation related projects**

The aim of ALTUM is to support the implementation of energy efficient technologies, promotion of renewable energy, sustainable transportation and green buildings concept, including renovation of residential, public and industrial buildings.

ALTUM loans are available for the energy service companies (ESCOs) operating in the corporate segment, as well as to general corporates for investments ensuring improved energy efficiency, promotion of renewable energy, passive housing and sustainable transportation. Investments in green and sustainable projects have not only benefited from the mitigation of the climate change, but also give immediate financial benefits to the ESCOs themselves by decreasing consumption of energy resources and maintenance costs. ALTUM provides long-term funding for the ESCOs and the owners of residential buildings by supporting:

- energy efficiency projects - investments in non-fossil technologies and processes, as well as product manufacturing, investments in non-fossil energy reduction technologies and infrastructure, including lighting, investments in district heating technologies using renewable energy and infrastructure, investments in energy recovery systems, renovation measures for non-residential buildings, resulting in reduction of energy consumption;
- sustainable transport solutions / systems based on non-fossil fuels and supporting infrastructure projects;
- renewable energy projects - investments in solar panels and related infrastructure, investments in wind turbines and related infrastructure, investments in bio-energy technologies and infrastructure (including equipment and construction);
- green buildings - construction of new commercial or residential buildings, which are almost "zero-energy" buildings or with an energy use per year on a m<sup>2</sup> basis of at least 25 per-cent lower than that required by applicable national regulatory framework, major renovation of commercial or residential buildings leading to reduced energy use (per year on m<sup>2</sup> basis) of at least 35 per-cent.

ALTUM holds special relevance for companies where energy consumption is a significant position of operational costs and exceeds EUR 20 thousand annually, for example: supermarkets and sports centres, warehouses, hotels, office buildings, food producers, woodworking and metalworking companies or large companies and large energy consumers affected by the Energy Efficiency Law (in Latvian – *Energoefektivitātes likums*). By investing in energy efficiency measures, the companies can reduce their energy consumption up to 50 per-cent.

To increase the number of target customers for energy efficiency ALTUM provides small grants for drafting the energy efficiency project documentation, that is supported by the European Local Energy Assistance – a joint initiative of the European Investment Bank and the European Commission.

The first pipeline of these sustainable projects is dating back to 2017 when ALTUM raised funding in the capital markets under its Green Bond Framework in the amount of EUR 20 million.

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

### **Households**

Support for households (special target groups) by ALTUM contains housing loan guarantees for families with children, housing loan guarantees to young professionals, financial support (guarantees, loans, grants and consultations) on the energy efficiency improvement measures of multi-apartment residential buildings provided to owners of the apartments of multi-apartment buildings. In spring 2021, ALTUM also launched financial support programme (guarantees, grants and consultations) on the energy efficiency improvement measures in individual (single-family) houses. Since autumn 2020, non-refundable state subsidy "Balsts" is available for the purchase or construction of housing for families with three or more children.

### **Students**

In August 2020, ALTUM started the implementation of student and study loan guarantee programme. The major advantage of the new lending model consists of revoking the requirement for another guarantor and simplification of some procedures (digitalisation of the services, remote conclusion of the agreements using e-signature) that would provide for receipt of a loan within the shortest time possible. The program is implemented in the form of a portfolio guarantee, which ensures low program implementation and administration costs.

On December 2020, the European Investment Fund approved ALTUM's application for Skills & Education Guarantee Pilot. The guarantee will allow to increase the available financing, as well as to expand the range of products with loans also for studies abroad.

### **Coordination of activities of the European Fund for Strategic Investments**

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

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

### **Main support programmes by products**

#### **Direct loans**

ALTUM provides the following direct loans:

- **Loans for growth to SMEs:** provision of loans for investments and working capital with reduced collateral requirements and an option to receive interest rate subsidies or guarantee for a loan;

- **Loans to corporates for energy efficiency improvement, promotion of renewable energy, sustainable transportation and green buildings:** provision of loans both to corporates and ESCO companies;
- **Start-up loans:** provision of loans to facilitate engagement of Latvian residents in business;
- **Loans for acquisition of agricultural land:** provision of loans with favourable conditions for the purchase of agricultural land for production of agricultural products;
- **Loans to enterprises in rural areas:** this loan product not exceeding EUR 100 thousand is intended for investments and working capital, attractive for new agricultural entrepreneurs, small-scale and bio-farmers, as well as service providers in rural territories. The advantages of the loan product can be used also by fishery companies irrespective of turnover and location;
- **Working capital loans to farmers:** provision of different size loans for primarily agricultural production, co-operatives and the fruit and vegetable producer groups;
- **Microloans:** provision of small loans for investment and working capital at favourable conditions;
- **Loans for energy efficiency improvement of multi-apartment residential buildings:** provision of financial support for energy efficiency improvement measures of multi-apartment residential buildings provided to apartment owners of multi-apartment buildings;
- **Mezzanine loans:** provision of loans for entrepreneur's co-financing in cases when commercial banks require larger amount than the entrepreneur is able to provide;
- **Working capital loans to SMEs and Mid-caps (COVID-19 product):** liquidity support for businesses, farmers and those in the fishing industry, whose activities have been affected by COVID-19;
- **Support loans to companies in the cultural sector (COVID-19 product):** loans to companies, that organize public art, entertainment and recreation events and whose operations have been affected by the restrictions due to the spread of COVID-19.

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

### **Guarantees**

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



In order to promote availability of funding for feasible projects, ALTUM offers individual guarantees for SMEs and Mid-caps segment. By a way of ensuring access to the funding for a broader range of clients, ALTUM constantly improves eligibility requirements and terms and conditions relating to the SMEs loans for new entrepreneurs.

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

- **Loan guarantees:** provision of guarantees to entrepreneurs for receipt of bank loans for business development, if their own collateral is not sufficient to receive funding from a bank;
- **Loan guarantees to farmers:** provision of guarantees to entrepreneurs operating in the field of agricultural and rural development for receipt of bank loans for business development, if their collateral is not sufficient to receive funding from a bank;
- **Housing loan guarantees for the first instalment:** provision of housing loan guarantees to families with children and to young professionals with steady income, having insufficient savings for the first instalment;
- **Short-term export credit guarantees:** provision of guarantees to exporters to secure themselves against the insolvency of a foreign customer or long-term non-payment when selling goods or providing services with a deferred payment. In 2020 and 2021, as a COVID-19 product, the range of beneficiaries has been significantly expanded and restrictions on availability of guarantees for Mid-caps to EU and OECD countries have been lifted. However, that will be shifted back to ordinary product as soon as the special terms for COVID-19 product will expire;
- **Guarantees for improvement of energy efficiency of multi-apartment residential buildings and individual (single-family) houses;**
- **COVID-19 guarantees for SME's and Mid-caps** on restructure of investment loans and finance lease, as well as on restructure or new working capital loans and overdrafts to be issued to companies whose activities have been affected by COVID-19. Guarantees are available in both formats – individual and portfolio.

### **Venture capital**

ALTUM investments in venture capital (the “VC”) funds of 2<sup>nd</sup>, 3<sup>rd</sup> and 4<sup>th</sup> generations funded by public funding are managed by professional external fund managers. Currently, the VC funds of 2<sup>nd</sup> and 3<sup>rd</sup> generation are facing the exit period, while active investment period is carried out by the recent, the 4<sup>th</sup> generation funds.

The fund managers for Stage 4 (the 4<sup>th</sup> generation) VC funds - acceleration, seed, venture and growth funds have been selected via public procurement process similar as with prior generation funds. In 2018, the selection of managers for Stage 4 VC funds was finalised leading to commencement of the fund's investment period in late 2018/2019. The investment period is set 3 years with a possible extension up to 1 year for acceleration pre-seeds funds, and 5 years with a possible extension up to 2 years for all other funds. A term for the Stage 4 acceleration funds is 8 years with a possible extension up to 2 years, and 10 years with a possible extension up to 2 years for seed, venture and growth funds.

ALTUM investments in the VC funds are well leveraged with private capital depending on the maturity stage of the fund. The credit risk of ALTUM's investment share is fully covered by public funding. The ticket

size is up to 15 per-cent of respective venture and growth fund's actual capital raised. The ticket size for pre-seed funds and seed funds is capped at EUR 50 thousand and EUR 250 thousand, respectively. The total public funding for ALTUM investments in Stage 4 funds is EUR 75 million with investment stake of 80-100 per-cent in acceleration funds, 90 per-cent in seed funds, 75 per-cent in venture funds and 60 per-cent in growth funds.

ALTUM also holds investments in Baltic Innovation Fund, Baltic Innovation Fund 2 and Three Seas Initiative Investment Fund.

The Baltic Innovation Fund (BIF) is a "fund-of-funds" initiative of EUR 130 million launched by the European Investment Fund in close co-operation with the Baltic national promotional institutions – ALTUM, KredEx (Estonia) and Invega (Lithuania) to improve equity investments made into Baltic SMEs with high growth potential. BIF was launched in 2012 and is fully committed. The total capital committed by ALTUM is EUR 20 million.

The Baltic Innovation Fund 2 (BIF 2) is a EUR 156 million "fund-of-funds" initiative launched by the European Investment Fund in co-operation with the Baltic national promotional institutions – ALTUM, KredEx (Estonia) and Invega (Lithuania). It is building on the success of its predecessor programme BIF. BIF 2 aims to build a balanced portfolio of growth and later stage venture funds with an investment focus on the Baltic States. The total capital committed by ALTUM is EUR 26.5 million.

Three Seas Initiative Investment Fund (3SIIF) 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. 3SIIF is a new financial instrument to support transport, energy and digitalization infrastructure projects in Central and Eastern Europe. ALTUM signed the subscription agreement in September 2020. The total capital committed by ALTUM is EUR 20 million, thus arriving at the ownership rate 2.19 per-cent of the total currently committed capital of 3SIIF of EUR 913 million.

### **AIF Altum Capital Fund**

AIF Altum Capital Fund (in Latvian – AIF "*Altum kapitāla fonds*") managed by ALTUM can make the following investments or a combination of the latter for meeting Mid-cap's financing needs up to EUR 10 million per company – (i) equity investments, (ii) convertible loans, (iii) mezzanine loans, and (iv) acquisition of corporate bonds on Nasdaq alternative First North Bond market or Baltic Regulated market. Although, AIF Altum Capital Fund was formed as an instrument to mitigate the effects of COVID-19 outbreak, it operates as growth fund rather than rescue fund for well-managed and perspective Mid-caps in Latvia.

Since the Fund's investment period expires on 31 December 2021, then very intense investment opportunities appraisal and investment process is carried out.

### **Non-financial instruments**

In order to make the access to the support instruments more convenient for its clients, apart from the financial instruments, ALTUM Group issues grants supplementary to respective financial instruments (guarantee) programmes, namely, supplementary grants issued under:

- **Energy Efficiency Programme for Multi-apartment Buildings (EEPMB):** as of December 2020, EEPMB was suspended and no new applications were accepted, and currently the evaluation of the projects, awarding of grants and implementation of projects are carried

out. Over 5 years in total 989 applications were submitted to the EEPMB programme;

- **European Local Energy Assistance (ELENA):** in order to promote and support planning of the energy efficiency projects, ALTUM 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;
- **Energy efficiency for individual (single-family) houses:** grant for preparation of technical documentation supplementary to guarantee for improvement of energy efficiency in individual (single-family) houses;
- **Balsts:** non-refundable state subsidy for the first instalment to a bank on the purchase or construction of housing for families with three or more children. The amount of the subsidy depends on the number of children in the family and the level of energy efficiency of the building. Available as supplement to housing guarantee for families with children or on isolated basis.

ALTUM Group services also Social Entrepreneurship grant programme.

### **New products and activities**

ALTUM continues to strengthen its pillar role to the government in implementation of financial instruments to SMEs in Latvia co-funded by the EU. Active preparation work has already been started to ensure swift take-off of the new EU Cohesion Policy programming period 2021-2027. Furthermore, investments funded under EU the Cohesion Policy (Operational programme) will be topped-up by additional financing from the Recovery and Resilience Facility (the “RRF”) plan for Latvia. The RRF is aimed to mitigate negative economic and social impacts caused by the COVID-19 pandemic. Total EU originated public contribution to financial instruments to be implemented through ALTUM is estimated to be at least EUR 700 million in the period until 2029. Financial instruments are envisaged for both, investments under Cohesion policy and the RRF plan. Particularly, significant part of funding dedicated for new financial instruments will be earmarked for the sustainable and digital transition projects.

An important change in the 2021-2027 EU Cohesion Policy programming period regulation is the enlargement of the possible options to combine financial instruments and grants in one deal structure, provided that the grant part of investment is directly linked and necessary for the financial instrument and shall not exceed the value of the investments supported by the financial product (combined support). While designing new generation of financial instruments sectoral ministries are planning to make use of this extended combination option which allows disbursement/payment of the combined support directly to final recipients (i.e., combination of financial instruments and grants/capital rebate or discount) and promoting single point of entry for applicants. In such cases, the rules applicable to financial instruments shall apply.

According to the market gap assessment for the new programming period 2021-2027 recommended financial products are loans, combined support, guarantees, venture capital (VC) (including acceleration funds). Projects will be supported in several areas of particular focus, e.g., entrepreneurship and social entrepreneurship, renewable energy sources and energy efficiency, science, research and innovation, infrastructure, agriculture, rural development, forestry and fisheries.

On 13 July 2021, the European Union's Economic and Financial Affairs Council approved Latvia's plan for the absorption of EUR 1.82 billion from the RRF. The measures planned by Latvia as part of its

recovery plan are expected to promote the sustainable and digital transition, including four financial instruments which will be implemented by ALTUM in amount of EUR 226 million from the RRF between 1 January 2022 and 31 August 2026:

- energy efficiency for business;
- digital transformation for business;
- energy efficiency in multi-apartment buildings and transition to renewable energy technologies;
- construction of low-rent dwellings.

Financial instruments under the EU Cohesion Policy 2021-2027 (total EU funds contribution at least EUR 424 million) will be provided to continue or add-on to the financial instrument programmes created under the RRF plan for Latvia and will address other investment areas not covered by the RRF. Financial instrument programmes will be developed in five policy directions and shall be implemented through a “fund of funds” indicatively from 1 January 2022 (after Operational programme for Latvia is adopted) until 31 December 2029:

- financial instruments to promote productivity for SMEs (a large part of funding for VC funds);
- energy efficiency for business;
- digital transformation for business;
- energy efficiency in multi-apartment buildings & private housing and transition to renewable energy technologies;
- research & development.

In addition, deployment of financial instruments is considered and will be further assessed in support measures for development of infrastructure, promotion of renewable energy production, transition to a circular economy and climate neutrality, climate change mitigation and adaptation, including, interregional, cross-border and transnational activities and cooperation options with ESCOs, as well as specific measures or facilities to support SMEs in capital markets.

**Energy efficiency in multi-apartment buildings and transition to renewable energy technologies** (the RRF contribution to the instrument amounts to EUR 57 million, however, Cohesion policy 2021-2027 contribution to the instrument amounts to EUR 163 million).

Energy consumed in buildings accounts for up to 40 per-cent of the final energy consumption. The measure is expected to reduce negative impact on the environment and contribute to climate change mitigation. Another aim is to reduce energy bills for residents and decrease the level of energy poverty. The support will take the form of a combined financial instrument (loan) with a capital discount.

**Energy efficiency for businesses** (the RRF contribution to the instrument amounts to EUR 81 million; Cohesion policy 2021-2027 contribution to the instrument amounts to EUR 42 million).

Investments in energy efficiency for businesses aim to promote optimal use of energy resources, reduce negative impacts on the environment and climate, as well as improve productivity,

competitiveness, and export capacities of enterprises concerned. The support will take the form of a combined financial instrument (a loan with a capital rebate/ capital discount) and will be available for introduction of renewable energy technologies, related research and development activities, energy audits, investing in sustainable transport, and for new energy-efficient technologies for production.

**Digital transformation for businesses** (the RRF contribution to the instrument amounts to EUR 45 million; Cohesion policy 2021-2027 contribution to the instrument amounts to EUR 5 million).

Investments shall promote digital transformation and facilitate introduction of so called "Industry 4.0" solutions (e.g., internet of things, artificial intelligence, machine learning, block chain, big data, cloud computing/ high performance computing) to the core production processes of the companies. The support will take the form of a combined financial instrument (a loan with a capital rebate/ capital discount) and will be available for projects making significant changes to the overall production or service development process.

**Financing fund for the construction of low-rent dwellings** (the RRF contribution to the instrument amounts to EUR 43 million).

Investments shall promote "affordable housing" policy, aiming to provide low-rent housing. The approved projects shall meet high quality requirements: the building shall be close to "zero-energy" building and appropriate quality tests (e.g., acoustic, air permeability tests) shall be carried out for the building before its entry into rental service.

**Financial instruments to promote productivity for businesses** (Cohesion policy 2021-2027 contribution amounts to EUR 164 million (including, EUR 75 million for venture capital investments)).

Productivity enhancing investments will ensure promotion of growth, competitiveness, and job creation in SMEs. Support will be provided via set of several financial instruments adjusted to business maturity and risk profile - venture capital, seed and growth stage venture capital and mezzanine investments, acceleration fund multi-tier venture capital funds, productivity loans and start-up loans, including co-financing of investments in start-ups in cooperation with qualified venture capital investors, portfolio guarantees and individual guarantees.

**Financial instrument for research & development (R&D) for businesses** (Cohesion policy 2021-2027 contribution to the instrument amounts to EUR 50 million).

Support to business R&D projects resulting in introduction of advanced technologies and equipment for companies or development of innovative or high-value added products or services is an important driver of national innovation capabilities. Under this programme combined financial instrument support will be provided (i.e., with a capital rebate) for innovative equipment, R&D activities (technology development, prototyping) and loans for modern technology transfer.

In the second half of 2021 the sectoral ministries in cooperation with ALTUM will develop detailed terms for the new financial instruments.

### **Cooperation with partners**

To expand the reach of various customer segments, ALTUM intends to increase the involvement of its cooperation partners (various government institutions, associations, international financial institutions and business bodies) into the project implementation process, as well as introduction of new financial

instruments, such as portfolio guarantees and acceleration funds, also maintaining direct and indirect implementation of state support programmes.

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

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

### **Principal Markets**

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

In accordance with the Development Financial Institution Law (in Latvian - *Attīstības finanšu institūcijas likums*) and in line with the European Commission's decision ALTUM operates only in the Latvian market and does not distort competition. Rather, ALTUM's co-lending, co-investment, and risk-sharing instruments anticipate co-operation with other market players and encourages their activity in the respective segments. These co-operations have been and continue to be pivotal in the advancement of the Latvian start-up ecosystem within lending, leasing and factoring, export credit financing, technology transfer and venture capital markets.

## ORGANISATIONAL STRUCTURE

ALTUM is a parent company of ALTUM Group. The below listed subsidiaries and associates in which ALTUM has significant influence (investments in venture capital funds) are treated as subsidiaries or associates only for purposes of financial accounting.

ALTUM Group holds investment in the alternative investment fund Altum Capital Fund (in Latvian - AIF "Altum kapitāla fonds"), an alternative investment fund, registered in July 2020.

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

The management of ALTUM is aware that on most occasions the circumstances that point to the power of ALTUM over the investment in particular venture capital fund will cease to exist within two years after the amount of the minimum capital investment is reached. For this reason, when the term expired, the management of ALTUM has carried out re-assessment of the presence of the control indicators, that will be repeated regularly on annual basis

ALTUM Group includes ALTUM and a number of venture capital funds, treated as subsidiaries for purposes of the 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 the financial accounting.

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

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

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

- KS "BaltCap Latvia Venture Capital Fund" (67 per-cent investment in capital);
- KS "AIF Imprimatur Capital Technology Venture Fund" (67 per-cent investment in capital);
- KS "AIF Imprimatur Capital Seed Fund" (100 per-cent investment in capital);
- KS "ZGI-3" (95 per-cent investment in capital);
- KS "FlyCap Investment Fund" (95 per-cent investment in capital);

- KS “Expansion Capital Fund” (95 per-cent investment in capital);
- “Baltic Innovation Fund” (20 per-cent investment in capital);
- KS “Buildit Latvia Seed Fund” (80 per-cent investment in capital), Stage 4 venture capital fund;
- KS “Overkill Ventures Fund II AIF” (80 per-cent investment in capital), Stage 4 venture capital fund;
- KS “Commercialization Reactor Seed Fund” (80 per-cent investment in capital), Stage 4 venture capital fund;
- KS “ZGI-4” (60 per-cent investment in capital), Stage 4 venture capital fund;
- KS “FlyCap Mezzanine Fund II” (60 per-cent investment in capital), Stage 4 venture capital fund;
- KS AIF “Altum Capital Fund” (in Latvian – AIF “*Altum kapitāla fonds*”) (48.9 per-cent investment in capital).



## ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES

In accordance with the Commercial Law (in Latvian – *Komerclikums*), the Development Finance Institution Law (in Latvian – *Attīstības finanšu institūcijas likums*), the Law on the Management of Public Persons' Capital Shares and Capital Companies (in Latvian – *Publiskas personas kapitāla daļu un kapitālsabiedrību pārvaldības likums*) and the Financial Instruments Market Law (in Latvian – *Finanšu instrumentu tirgus likums*), ALTUM has the following corporate governance structure:

- Shareholder's Meeting;
- Supervisory Board;
- Audit Committee; and
- Management Board.

### Shareholder's Meeting

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

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

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

According to the Law on the Management of Public Persons' Capital Shares and Capital Companies (in Latvian - *Publiskas personas kapitāla daļu un kapitālsabiedrību pārvaldības likums*), the Shareholders' Meeting takes decisions on, *inter alia*, approval of the annual report of ALTUM, distribution of profits, election and revocation of the members of the Supervisory Board, election and revocation of auditors, bringing a claim or withdrawing a claim brought against a member of the Supervisory Board or the Management Board of ALTUM or an auditor, the amount of remuneration to be paid to auditors and members of the Supervisory Board and the Management Board of ALTUM, increasing or decreasing of ALTUM's equity capital, reorganisation of ALTUM, and election and revocation of a liquidator. The Management Board of ALTUM also needs a prior consent of the Shareholders' Meeting for taking a decision on the acquisition or alienation of an undertaking and termination of specific kinds of business operations and commencement of new kinds of business operations.

In addition to the tasks provided in the Law on the Management of Public Persons' Capital Shares and Capital Companies (in Latvian - *Publiskas personas kapitāla daļu un kapitālsabiedrību pārvaldības likums*), at the Shareholders' Meeting decisions shall be taken on:

- the amount of reserve capital and a policy for accumulation of savings;

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

In addition to the rights and obligations provided in the Law on the Management of Public Persons' Capital Shares and Capital Companies (in Latvian - *Publiskas personas kapitāla daļu un kapitālsabiedrību pārvaldības likums*) and the Commercial Law (in Latvian – *Komerclikums*), the representative of a shareholder has a right to convene meetings of the Supervisory Board of ALTUM by indicating the necessity and purpose of convening the meeting.

The Shareholders' Meeting shall be chaired by the representative of a shareholder – the Ministry of Finance of the Republic of Latvia. Each shareholder has the right to nominate one candidate for a position of the Supervisory Board of ALTUM.

### **Supervisory Board**

The same requirements that are prescribed in the Credit Institution Law (in Latvian – *Kredītiestāžu likums*) for the members of supervisory board of credit institution apply also to the members of the Supervisory Board of ALTUM. Therefore, all members of the Supervisory Board of ALTUM must:

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

According to the law, all members of the Supervisory Board of ALTUM are state officials.

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

In addition to the tasks provided in the Law on the Management of Public Person's Shares and Capital Companies (in Latvian - *Publiskas personas kapitāla daļu un kapitālsabiedrību pārvaldības likums*), the Supervisory Board of ALTUM has the following tasks:

- to provide the development, approval of ALTUM's operational plan and to supervise its implementation;

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

If the Supervisory Board of ALTUM does not have a power of decision, the Shareholders' Meeting has a right to examine the matters to be addressed at the meeting of the Supervisory Board of ALTUM.

As of the date of this Base Prospectus, the members of the Supervisory Board of ALTUM are:

- **Līga Kļaviņa**, chairman of the Supervisory Board (deputy state secretary on Financial Policy Issues of the Ministry of Finance of the Republic of Latvia). She has significant experience in working with international financial institutions. She holds a master's degree in law. Līga Kļaviņa has been working in many positions within the Ministry of Finance of the Republic of Latvia and has represented the interests of the Latvian government and the Ministry of Finance of the Republic of Latvia in directly and indirectly state-owned enterprises;
- **Jānis Šnore**, member of the Supervisory Board, with 15 years of experience in finance and budgeting. The current position of Jānis Šnore is Deputy State Secretary of the Ministry of Agriculture of the Republic of Latvia. Jānis Šnore graduated from the Institute of International Affairs of the University of Latvia. In addition, he holds a degree in agricultural sciences;
- **Ilze Baltābola** - member of the Supervisory Board with experience in coordinating improvement of business environment and implementation of business support programmes in Latvia. Deputy director of the Department of Entrepreneurship Competitiveness of the Ministry of Economics of the Republic of Latvia. She has a Master's Degree in European Studies from the Faculty of Business Management and Economics of the University of Latvia. Ilze Baltābola has been appointed as member of the Supervisory Board for the time 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 (in Latvian - *Publiskas personas kapitāla daļu un kapitālsabiedrību pārvaldības likums*).

The business address of each member of the Supervisory Board of ALTUM is Doma laukums 4, Rīga, LV-1050, Latvia.

### **Audit Committee**

ALTUM has established the Audit Committee in accordance with the requirements set forth by the Financial Instruments Market Law (in Latvian – *Finanšu instrumentu tirgus likums*). The Audit Committee was established on 1 December 2017. On 27 April 2021, at the Shareholders' Meetings of ALTUM for a period of three years the Audit Committee members were re-elected.

As of the date of this Base Prospectus, the members of the Audit Committee of ALTUM are:

- **Gunta Darkevica**, the chairperson of the Audit Committee, sworn auditor;

- **Gints Trupovnieks**, member of the Audit Committee, deputy director – head of the division at the Fiscal Policy Department of the Ministry of Finance;
- **Ilze Baltābola**, member of the Audit Committee, member of the Supervisory Board of ALTUM.

The Audit Committee has, *inter alia*, the following functions:

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

The business address of each member of the Audit Committee of ALTUM is Doma laukums 4, Rīga, LV-1050, Latvia.

### **Management Board**

The same requirements that are prescribed in the Credit Institution Law (in Latvian – *Kreditīestāžu likums*) for the members of Management Board of credit institutions apply also to the members of Management Board of ALTUM. Therefore, all members of the Management Board of ALTUM must:

- have competence in the financial management matters;

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

According to the law, all members of the Management Board are state officials.

ALTUM has five members of the Management Board elected by the Supervisory Board. The Management Board is in charge of daily operations of ALTUM.

Members of the Management Board of ALTUM are elected for three years. Members of the Management Board jointly represent ALTUM. The chairperson of the Management Board is elected from the members of the Management Board by the Supervisory Board of ALTUM.

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

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

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

The Management Board shall need a prior consent from the Supervisory Board of ALTUM on deciding the following matters:

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

Additionally, the Management Board needs a prior consent of the Shareholders' Meeting in order to obtain or terminate, increase or decrease a participation or decisive influence in other capital company, for acquisition or confiscation of an enterprise, as well as for making investments in funds, *inter alia*, in alternative investment funds. The activities mentioned in the previous sentence shall be implemented within programmes or the delegated public administration tasks.

As of the date of this Base Prospectus, the members of the Management Board of ALTUM are:

- **Reinis Bērziņš**, chairman of the Management Board. He is a professional in business management and finance with extensive experience in business and institution

management. He has an MBA degree in International Banking and Finance, Business Management (Swiss Business School) and a degree in law. His main responsibilities include financial management, as well as human resources.

- **Jēkabs Krieviņš**, member of the Management Board. He is an expert in the financial industry with more than 20 years of experience in organizing and managing business credit processes. He has gained his experience working both in the private banking and public finance institution sectors. He has an executive MBA degree in business and institution management, certificate of bank's specialist and bachelor's degree in economics. Jēkabs Krieviņš is responsible for the information technology scope, ALTUM's customer and regional service centres, and overseeing the Land Fund of Latvia;
- **Inese Zīle**, member of the Management Board. She has 20 years of experience in the financial sector, including more than 15 years in the management of various departments, as well as experience of working in the public sector. Inese Zīle has an MBA degree in International Economics and Business. Her main areas of responsibilities include corporate governance, marketing, public relations and development of ALTUM's state support programs. Inese Zīle is a member of the Supervisory Board of Finance Latvia Association;
- **Ieva Jansone – Buka**, member of the Management Board. She holds a professional master's degree in business from the Riga School of Economics, a bachelor's degree in social sciences in management and political science from the University of Latvia. Ieva Jansone – Buka's work experience is related to the financial sector, working in leading positions at IPAS Indexo, SIA IJ Birojs and Nordea Bank Finland Plc. Latvia branch. Ieva Jansone – Buka has worked in senior management positions in the local companies SIA Clean R and SIA Vides Pakalpojumu Grupa. Her main area of responsibilities includes the venture capital financial instruments and stressed assets.
- **Aleksandrs Bimbirulis**, member of the management board. He has more than 20 years of experience in banking and finance. He has graduated from the Faculty of Law of the University of Latvia and holds professional master's degree in law from Turība University. His main responsibilities include risk and administrative management, as well as overseeing matters related to lending.

The business address of each member of the Management Board is Doma laukums 4, Rīga, LV-1050, Latvia.

### **Conflict of interest**

In accordance with the Law on Prevention of Conflict of Interest in the Activities of Public Officials (in Latvian – *likums "Par interešu konflikta novēršanu valsts amatpersonu darbībā"*), all members of the management boards and the supervisory boards of state-owned companies have the status of state officials. As such, all Management Board and Supervisory Board members of ALTUM are state officials and subject to detailed requirements of this law. The law permits them to combine their office of public official only with activities which are indicated by the law as compatible (e.g., offices in a trade union, association or similar organisation, teaching, scientific and creative work) in order to prevent personal or material interest in their activity as a state official. In accordance with the law, all state officials are obliged to submit an annual declaration of interest.

ALTUM is not aware of any conflicts of interest or potential conflicts of interest between duties of the members of the Management Board and Supervisory Board and their private interests and/or their other duties.

## **Employees**

Following implementation of several centralization of operations and automation projects at ALTUM, including development of new IT solutions and optimization of the operations and support functions for the regional customer service network, the number of employees at ALTUM reduced by 3 per-cent from 231 employees in 2017 to 224 employees in 30 June 2021, of which 38 employees were employed in the branch offices and 186 – in the main office. 66 per-cent of all employees were women, 34 per-cent were men. 9 per-cent of employees were younger than 30, 66.7 per-cent were between the ages of 31 and 50, 24.3 per-cent employees were over the age of 51. The average age of the employees was 42 years in 2020. 83 per-cent of all staff had higher education. ALTUM provides an effective human resource management to retain and attract qualified, professional and motivated employees for achievement of high operational efficiency of the company and its goals.

## **SHAREHOLDERS**

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



## SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following table is a summary of ALTUM Group's consolidated financial performance and key performance indicators for the two financial years ending 31 December 2019 and 2020 respectively and the two interim periods ended 30 June 2020 and 30 June 2021 respectively. The information set out in the table below has been extracted (without any material adjustment) from, and is qualified by reference to and should be read in conjunction with the audited ALTUM Group's consolidated annual reports for the years ending 31 December 2019 and 31 December 2020 respectively and unaudited consolidated interim reports of ALTUM Group for the six month period ended 30 June 2020 and 30 June 2021 respectively, each of which is attached to this Base Prospectus and forms an integral part of this Base Prospectus. ALTUM Group's consolidated annual reports and interim reports are prepared according to International Financial Reporting Standards (IFRS).

Key financial data	Six month ended 30 June		Year ended 31 December	
	2021	2020	2020	2019
Net interest income (EUR '000) <sup>1)</sup>	8 298	6 319	14 572	11 569
Operating profit (EUR '000) <sup>2)</sup>	5 947	738	5 539	8 131
Profit for the period (EUR '000)	5 947	738	5 539	8 131
Cost to income ratio (CIR) <sup>3)</sup>	46.24%	52.85%	47.51%	52.58%
Employees <sup>4)</sup>	222	205	211	203
Total assets (EUR '000)	896 486	700 967	850 704	560 061
Financial debt (EUR '000) <sup>5)</sup>	336 856	247 721	342 490	217 943
Tangible common equity (TCE) / Total tangible managed assets (TMA) * <sup>6)</sup>	34.73%	34.53%	33.56%	29.40%
Equity and reserves (EUR '000)	414 970	332 769	382 594	232 738
<b>Total risk coverage: (EUR '000) <sup>7)</sup></b>	<b>232 725</b>	<b>195 453</b>	<b>180 205</b>	<b>87 456</b>
Risk coverage reserve	127 364	109 441	112 567	99 778
Risk coverage reserve used for provisions	(29 434)	(29 495)	(28 197)	(27 829)
Portfolio loss reserve (specific reserve capital)	135 704	115 507	102 264	15 507
Portfolio loss reserve used to compensate provisions in the distribution of annual profit	(909)		(6 429)	-
Liquidity ratio for 180 days ** <sup>8)</sup>	346%	348%	464%	582%
Net Cash flows from operating activities (EUR '000)	8 881	(23 389)	21 966	39 813
Net Cash flows from financing activities (EUR '000)	3 580	119 675	165 800	18 700
Net Cash flow from investing activities (EUR '000)	12 710	3 865	(4 016)	(11 230)
<b>Financial instruments (gross value)</b>				
<b>Outstanding (EUR '000) (by financial instrument)</b>				
Loans (excluding sales and leaseback transactions)	323 275	264 316	302 481	225 144
Guarantees	379 602	321 987	359 605	284 232
Venture capital funds	83 620	68 589	73 165	68 331
Land Fund, of which:	72 411	52 304	68 258	39 634
- sales and leaseback transactions	34 263	18 814	31 500	15 268
- investment properties	38 148	33 490	36 758	24 366
<b>Total</b>	<b>858 908</b>	<b>707 196</b>	<b>803 509</b>	<b>617 341</b>
Number of transactions	28 951	24 085	26 578	22 437
<b>Volumes issued (EUR '000) (by financial instrument)</b>				
Loans (excluding sales and leaseback transactions)	59 492	66 606	138 238	64 320
Guarantees	55 671	68 734	137 425	98 240
Venture capital funds	13 222	2 939	14 014	9 022
Land Fund, of which:	3 870	12 501	28 191	16 384
- sales and leaseback transactions	2 214	3 528	16 796	7 239
- investment properties	1 656	8 973	11 395	9 145
<b>Total</b>	<b>132 255</b>	<b>150 780</b>	<b>317 868</b>	<b>187 966</b>
Number of transactions	3 270	2 729	6 147	5 559
Total contribution to economy, including the participation of the final recipients (EUR '000) <sup>9)</sup>			696 305	531 661
Leverage for raised private funding <sup>10)</sup>	163%	93%	114%	142%
Volume of support programmes funding per employee (EUR '000) <sup>11)</sup>	3 869	3 450	3 808	3 041
Long-term rating assigned by Moody's Investors Service	Baa1	Baa1	Baa1	Baa1

\* 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

- 1) "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" was reclassified to "Interest income" from "Net income from fees and commissions". Subsequently, the fee and commission income not related to lending activities was 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. ALTUM uses this indicator as the key financial metric for profitability, by evaluating ALTUM Group's net income amount generated by the portfolio of financial instruments and recognised in the Statement of Comprehensive income. ALTUM management measures and monitors the actual performance of this indicator on a quarterly basis compared to the approved level in ALTUM Group's budget.
- 2) "Operating profit" is calculated by deducting "Operating expenses" from "Operating income before operating expenses" included in the Statement of Comprehensive Income. "Operating expenses" is calculated as the sum of "Staff costs", "Administrative expense", "Amortisation of intangible assets and depreciation of property, plant and equipment" and "Impairment gain / (loss), net" included in the Statement of Comprehensive Income.
- 3) "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.
- 4) "Employees" is the average number of employees in the period, excluding members of the Supervisory Board and the Audit Committee.
- 5) "Financial debt" is calculated as the sum of "Due to credit institutions", "Due to general government entities", "Financial liabilities at amortised cost – issued debt securities" and "Support programme funding" included in the Statement of Financial Position less difference between "Risk Coverage Reserve" (as described in footnote <sup>7)</sup> below) and "Risk Coverage Reserve Used for Provisions" (as described in footnote <sup>7)</sup> below).
- 6) "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.
- 7) "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. 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 as "Credit risk coverage". "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 the key indicator to be used for assessment of ALTUM's risk coverage on implemented programmes and long-term financial stability.
- 8) "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) months 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.

- 9) "Total contribution to the economy, including the participation of the final recipients" is calculated by adding to the volumes issued by ALTUM the financing provided by the private co-financier and the project promoter. This measure has been set in the light of ALTUM development financial institution's role as strategic venture focusing on the economic development of Latvia.
- 10) "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.
- 11) "Volume of 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 Board and the Audit Committee.

## **FINANCIAL AND TREND INFORMATION**

### **Historical Financial Information**

ALTUM Group's consolidated annual reports as of and for the financial years ending 31 December 2019 and 31 December 2020 and unaudited consolidated interim reports as of and for the six months period ended 30 June 2020 and 30 June 2021 respectively, prepared according to IFRS are appended to this Base Prospectus and forms an integral part of it.

### **Legal and arbitration proceedings**

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

### **Significant Changes in Financial Position**

There has been no material adverse change in ALTUM's or ALTUM Group's financial or trading position since 31 December 2020.

### **Trend Information**

There has been no other material adverse change in the prospects of ALTUM or ALTUM Group since the date of the audited consolidated annual financial statements of ALTUM Group for 2020.

There has been no significant change in in the financial performance of ALTUM or ALTUM Group since the date of the audited consolidated annual financial statements of ALTUM Group for 2020.

As of the date of this Base Prospectus there is no information on any known trends, uncertainties, demands, commitments or events that are reasonably likely to have a material effect on ALTUM's or ALTUM Group's prospects for 2021.

### **Future Outlook**

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

## ADDITIONAL INFORMATION

### Share Capital

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

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

### Articles of Association

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

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

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

### Material Contracts

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

The following material contracts are concluded within the ordinary course of business which provide the core funding for the support programmes implemented by ALTUM Group where respective assets and liabilities have been matched by volumes and term structure:

- Loan agreement with European Investment Bank. Under the agreement ALTUM has borrowed EUR 100 million for realizing the loan programme for growth of SMEs. Repayment of the loan is made in instalments. As of 30 June 2021, the outstanding amount of the loan was EUR 16,5 million. The final repayment date of the loan is 20 August 2024;
- Loan agreement with the European Investment Bank for a loan of EUR 80 million to finance

working capital loans to small and medium-sized enterprises affected by the COVID-19 as co-funding to "COVID-19 programme" funded by public funding. As at 30 June 2021, the outstanding amount of the loan was EUR 45 million, which should be repaid in instalments with the final repayment date on 20 November 2025;

- Financing agreement with the Ministry of Agriculture of the Republic of Latvia on the implementation of loan programme for rural SMEs. Pursuant to the agreement, ALTUM must comply with the Regulations No. 446 of the Cabinet of Ministers of the Republic of Latvia of 24 July 2018 and realize financing in amount of EUR 7,81 million. The funding will be used to cover the credit risk expenses and ALTUM management expenses related to the implementation of the programmes. The agreement expires on 31 December 2036;
- Agreement with the Ministry of Agriculture of the Republic of Latvia on the implementation and monitoring of the guarantee program for agriculture, fisheries, and rural development. According the Regulation of the Cabinet of Ministers No. 9 of 8 January 2019, ALTUM shall use the financing of EUR 1,825 million to cover the necessary provisions for expected credit losses for the guarantee obligations issued under the program. The funding allocated for the implementation of the program is repayable until the end of the program, but not later than 31 December 2035;
- Financing agreement with the Ministry of Economics of the Republic of Latvia on the implementation of development programmes financed by reflows of public funding (resources returned from investments attributable to the structural funds and state budget contribution). The funding is used to cover the credit risk expenses and ALTUM's management expenses related to the implementation of the programmes. The agreement expires on 31 December 2048;
- Agreement with the Ministry of Welfare of the Republic of Latvia on the implementation of the social entrepreneurship programme co-financed by the European Social Fund. Pursuant to the agreement, ALTUM must comply with the Regulations No. 467 of the Cabinet of Ministers of the Republic of Latvia of 11 August 2015 and realize grant financing for both, existing and start-up social enterprises in total amount of EUR 9,84 million. The funding is used to grant the social entrepreneurs and cover ALTUM's management expenses related to the implementation of the programme. Agreement expires on 30 June 2023;
- Financing agreements with the Central Finance and Contracting Agency of the Republic of Latvia:
  - On the implementation of the "fund of funds" and financial instruments. Pursuant to the agreement, ALTUM must comply with the Regulations No. 118 of the Cabinet of Ministers of the Republic of Latvia of 1 March 2016 and realize financing in the amount of EUR 160,96 million. The funding is used to cover the credit risk expenses and ALTUM management expenses related to the implementation of the programmes. Agreement expires on 31 December 2023;
  - on the implementation of financial instruments. Pursuant to the agreement, ALTUM must comply with the Regulations No. 160 of the Cabinet of Ministers of the Republic of Latvia of 15 March 2016 and realize financing in the amount of EUR 25,01 million. The funding is used to cover the credit risk expenses and ALTUM management

expenses related to the implementation of the programmes. Agreement expires on 31 December 2023;

- on the implementation of the project of the EU funds. Pursuant to the agreement, ALTUM must comply with the Regulations No. 160 of the Cabinet of Ministers of the Republic of Latvia of 15 March 2016 and realize financing in the amount of EUR 176,28 million. The funding is used to grant the energy efficiency projects for multi-apartment residential buildings and ALTUM management expenses related to the implementation of the programme. Agreement expires on 31 December 2023;
- Loan agreements with the Ministry of Finance of the Republic of Latvia:
  - for implementation the loan programme for the purchase of agricultural land to produce agricultural products. Pursuant to the agreement, ALTUM must comply with the Regulations No. 295 of the Cabinet of Ministers of the Republic of Latvia of 22 May 2018 and the financing is available in the amount of EUR 100 million. Outstanding amount as at 30 June 2021 was EUR 63,6 million. The final repayment date is 20 January 2058;
  - for implementation the loan programme for promoting the development of micro, SMEs and agricultural service co-operative societies. Pursuant to the agreement, ALTUM must comply with the Regulations No. 1065 of the Cabinet of Ministers of the Republic of Latvia of 15 September 2009 and the financing is available in the amount of EUR 55 million. Outstanding amount as at 30 June 2021 was EUR 27,4 million. The final repayment date is 20 December 2043;
  - for implementation the loan programme of parallel loans for improvement of competitiveness of business. Pursuant to the agreement, ALTUM must comply with the Regulations No. 469 of the Cabinet of Ministers of the Republic of Latvia of 15 July 2016 and the financing is available in the amount of EUR 20 million. Outstanding amount as at 30 June 2021 was EUR 4,6 million. The final repayment date is 20 January 2039; for purchase, lease, selling or exchange of agricultural land on behalf of the Land Fund of Latvia. Pursuant to the agreement, ALTUM must comply with the Regulations No. 748 of the Cabinet of Ministers of the Republic of Latvia of 2 December 2014 and the financing is available in the amount of EUR 15 million. The loan amount has been used in 2020 and the outstanding amount as at 30 June 2021 was EUR 9,9 million. The final repayment date is 29 December 2028;
  - for implementation the loan programme of small loans for rural areas. Pursuant to the agreement, ALTUM must comply with the Regulations No. 446 of the Cabinet of Ministers of the Republic of Latvia of 24 July 2018 and the financing is available in the amount of EUR 6 million. Outstanding amount as at 30 June 2021 was EUR 1 million. The final repayment date is 31 January 2039;
  - for implementation the loan programme for micro loans and start-up loans. Pursuant to the agreement, ALTUM must comply with the Regulations No. 328 of the Cabinet of Ministers of the Republic of Latvia of 31 May 2016 and the financing is available in the amount of EUR 23 million. As of 30 June 2021, ALTUM has not utilized the loan. The final repayment date is 20 January 2029;

- for implementation the loan programme of working capital loans for farmers. Financing is available in the amount of EUR 25,6 million. Pursuant to the agreement, ALTUM must comply with the Regulations No. 582 of the Cabinet of Ministers of the Republic of Latvia of 3 December 2019. As of 30 June 2021, ALTUM has not utilized the loan. The final repayment date is 30 June 2025.



## THE ECONOMY OF THE REPUBLIC OF LATVIA

### General overview

2020 saw a decline in GDP in all the economies of the European Union except for Ireland. Latvian economy shrank by 3.6 per-cent, which was one of the slowest declines in Europe. The fiscal policy of Latvia will remain highly accommodative in 2021, as the government has envisaged a EUR 2.8 billion fiscal stimulus package, on top of the already spent EUR 1.3 billion in 2020 in order to combat the effects of the COVID-19 crisis. The measures include, for example, an extension of furlough schemes for workers and loans and guarantees to businesses affected by the crisis, as well as new measures like wage subsidies, working capital grants to businesses, and one-time direct payments to support pensioners and families with children. The growth outlook beyond 2021 is likely to be more favourable, reflecting reduced uncertainty and less downside risks, a release of pent-up demand and an acceleration in investment spending. Moreover, the Next Generation EU package is expected to be made available in mid-2021, which will further boost economic recovery in Latvia. The financial markets' trust in Latvia's long-term outlook was demonstrated in March 2021 with a EUR 1.25 billion ten-year Eurobond issue, which was oversubscribed more than 2 times and carried a 0 per-cent coupon rate and 0.105 per-cent yield for the investors – both at record lows for this type of maturity. Furthermore, in June 2021 the Republic of Latvia issued a more than five times oversubscribed EUR 500 million seven-year Eurobond with 0 per-cent coupon rate and 0.003 per-cent yield.

<b>Real GDP growth, per-cent</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
Latvia	2.4	3.3	4.0	2.0	-3.6
EU (27) average	2.0	2.8	2.1	1.6	-6.0

Source: Eurostat

### Inflation

In the three years prior to 2020 consumer price growth in Latvia continued at a steady rate of close to but below 3 per-cent, mainly fuelled by price pressures in the services industry. Average gross salaries in Latvia had been rising at more than 5 per-cent annually for the last seven years, inevitably putting pressure on prices. Inflation slowed in 2020 mostly due to falling transport prices and utility rates, moreover some companies reduced prices, struggling to survive in an environment of low demand and COVID-19 related restrictions. The price increases for goods were also limited by developments in the global commodity markets, especially the oil market, where prices declined significantly. Overall, the price level in 2020 was nearly unchanged from a year ago. The first half of 2021 saw a recovery in consumer price growth across the EU, driven by a rebound in commodity prices. Year-on-year consumer price growth in Latvia turned positive in March 2021 – for the first time since July 2020. Starting from May 2021 Latvia is witnessing inflation rates close but below 3 per-cent, driven both by certain pent-up demand being released and rising costs.

<b>Inflation, HICP, average, per-cent</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
Latvia	0.1	2.9	2.6	2.7	0.1
EU (27) average	0.2	1.6	1.8	1.4	0.7

Source: Eurostat

## Unemployment

Since the end of the financial crisis in 2010, the unemployment rate in Latvia fell every year, reaching 6.3 per-cent in 2019. The trend was reversed in 2020, when due to COVID-19 restrictions, businesses, especially in the services sector, had to lay-off non-essential workers. The rise in unemployment rate was limited by the government's financial support for downtime. This helped to keep the unemployment rate in single digits in 2020. After an increase in the first two months of 2021, the registered unemployment rate levelled off in March 2021 and started declining in the following months. The average gross salary grew by 6.2 per-cent in 2020, indicating that the workers who managed to keep their job during the COVID-19 crisis, were better off than the year before. With increasing COVID-19 vaccination and restrictions being eased, the labour market is experiencing a rebound as companies resume hiring.

<b>Unemployment rate, per-cent</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
Latvia	9.6	8.7	7.4	6.3	8.1
EU (27) average	9.1	8.1	7.2	6.7	7.1

Source: Eurostat

## Public Finance

The central government budget for 2021 accounts for 9.6 billion EUR in revenue and 10.8 billion EUR in expenditure, with certain reforms in the tax regime. The government has planned a 3.9 per-cent general budget deficit for 2021, reflecting a downturn in economic activity and a simultaneous fiscal stimulus. The budget is based on a real GDP growth forecast of 5.1 per-cent, which seems too optimistic, given that a more visible recovery from COVID-19 crisis is postponed to the second half of 2021, and the vaccination pace has been rather slow, i.e., only 45.3 per-cent of adult population had received at least one vaccine dose by 9 August 2021 compared to 72.2 per-cent in the EU/EEA (source: <https://vaccinetracker.ecdc.europa.eu>).

<b>General government balance, per-cent of GDP</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
Latvia	0.2	-0.8	-0.8	-0.6	-4.5
EU (27) average	-1.4	-0.8	-0.4	-0.5	-6.9

Source: Eurostat

In 2020, the international credit rating agency S&P Global Ratings upgraded Latvia's credit rating from "A" to "A+", while maintaining a stable outlook. The "A+" rating with a stable outlook was affirmed on August 13, 2021. On March 19, 2021 the international credit rating agency Fitch Ratings affirmed Latvia's credit rating at the 'A-' level with a stable credit rating outlook. Strong credit fundamentals, low public debt along with monetary support from the EU has allowed Latvia to withstand the current waves of COVID-19 and should provide Latvia's small and open economy with further room for fiscal policy manoeuvres in case a prolonged economic downturn due to the pandemic. The ability to raise funding is particularly important for combating the adverse effects that COVID-19 outbreak is having on the economy of Latvia. It is expected that public debt will increase considerably in 2021, on top of the increase in 2020, as additional funds and support schemes are allocated to various parts of the economy.

<b>General government gross debt, per-cent of GDP</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
Latvia	40.4	39.0	37.1	37.0	43.5

EU (27) average	84.0	81.5	79.5	77.5	90.7
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Source: Eurostat

### Foreign Trade

In 2020, the turnover of foreign trade in goods of Latvia at current prices reached EUR 28.3 billion – 2.0 per-cent less than in 2019. The goods exports value constituted EUR 13.2 billion (an increase of 1.8 per-cent), whereas the imports value – EUR 15.1 billion (a drop of 5.1 per-cent). The goods export growth was largely driven by increase in exports of machinery and electrical equipment, as well as agricultural products (mostly grain and rapeseed). In 2020, wood and its products lost its position as the dominant constituent of overall goods exports to the exports of machinery, mechanical appliances and electrical equipment, from which more than half of the value is re-export. The other Baltic States, Russia, Germany, Sweden, and Poland continued to be the main trading partners for Latvia both in export and import of goods. Exports of services, which account for about 30 per-cent of total exports, fell by 21.2 per-cent in 2020 led by a decline in export of transport services and tourism. In 2020, Latvia recorded current account surplus of 3 per-cent of GDP as income balance saw a surge in its surplus, due to falling investment income of foreign residents, and trade balance turned positive, as a sharp drop in consumption reduced import demand while goods exports performed relatively well. The first half of 2021 manifested a strong recovery both in imports and exports of goods, recording close to 20 per cent increase.

<b>Current account balance, per-cent of GDP</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
Latvia	1.6	1.3	-0.3	-0.6	3.0
EU (27) average	1.5	2.0	1.6	1.4	1.4

Source: Eurostat

## TAXATION

*Tax legislation of the investor's member state and of the Issuer's country of incorporation may have an impact on the income received from the Notes.*

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

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

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

### **Taxation of the Noteholders individuals**

#### ***Resident Individuals***

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

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

In accordance with the Law on Personal Income Tax (in Latvian – *Likums "Par iedzīvotāju ienākuma nodokli"*) the interest income from the Notes for resident individuals will be subject to 20 per-cent withholding tax, deductible by the Issuer before the payment. The income from the alienation of the Notes will be subject to 20 per-cent tax, but the tax would be payable by the individual him/herself.

#### ***Non-resident individuals***

In accordance with the Law on Personal Income Tax (in Latvian – *Likums "Par iedzīvotāju ienākuma nodokli"*) the interest income from the Notes being circulated publicly as well as income from the alienation of the publicly circulated Notes will not be subject to tax in Latvia.

## **Taxation of the Noteholders entities**

### **Resident entities**

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

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

### **Non-resident entities**

In accordance with the Corporate Income Tax Law (in Latvian – *Uzņēmumu ienākuma nodokļa likums*) the interest income and income from the alienation of the Notes for non-resident entities will not be taxable in Latvia.

### **Taxation of low-tax non-residents**

In general, payments (including interest payments) to non-residents located, registered or incorporated in a no-tax or low-tax country or territory as defined in the Regulations of the Cabinet of Ministers No.819 “Regulations on No-Tax or Low-Tax Countries and Territories”, adopted on 17 December 2020; effective as of 1 January 2021 (“**Low-Tax Non-Latvian Residents**”) are subject to withholding tax of 20 per-cent if the payer is a Latvian legal entity or 23 per-cent if the payer is a Latvian individual resident having obligation to withhold tax. However, pursuant to Article 5(6) of the Corporate Income Tax Law (in Latvian – *Uzņēmumu ienākuma nodokļa likums*) payments by Latvian legal entities to Low-Tax Non-Latvian Residents for securities publicly circulated in the EU or EEA are exempt from withholding tax if made at the market price. The Ministry of Finance of the Republic of Latvia in a legally non-binding explanation has confirmed that pursuant to Article 5(6) of the of the Corporate Income Tax Law (in Latvian – *Uzņēmumu ienākuma nodokļa likums*) there is no withholding tax also on the interest payments made by the Issuer to the holders of the notes publicly circulated in the EU or EEA who are Low-Tax Non-Latvian Residents, provided that the payments are made at the market price.

## GENERAL INFORMATION

### Authorisation

The shareholder of the Issuer has at the Shareholders' Meeting held on 8 September 2021 authorised the issue of the Notes and authorised the Management Board of the Issuer to approve the characteristics of the Notes, the Base Prospectus and any of the documents thereto, as well as any amendments and supplements thereof.

Management Board of the Issuer has at its meeting held on 15 September 2021 approved the Base Prospectus and the General Terms and Conditions of the Notes.

Each Final Terms issued in respect of each issue of Notes shall be approved by a separate resolution of the Management Board of the Issuer.

### Auditors

SIA "Deloitte Audits Latvia", registration number: 40003606960, legal address: Grēdu iela 4A, Riga, LV-1019, LV-1010, Latvia, has audited the 2020 Financial Statements included in this Base Prospectus and issued an unqualified auditors' reports on the aforementioned financial statements.

SIA "Deloitte Audits Latvia" is included in the register of audit firms maintained by the Latvian Association of Certified Auditors and holds audit company license No. 43. On behalf of SIA "Deloitte Audits Latvia", the auditors' reports on the 2020 Financial Statements were signed by Inguna Staša, holding auditor's certificate No. 145.

PricewaterhouseCoopers SIA, registration number: 40003142793, legal address: Krišjāņa Valdemāra iela 21 - 21, Riga, LV-1010, Latvia, has audited the 2019 Financial Statements included in this Base Prospectus and issued an unqualified auditors' reports on the aforementioned financial statements.

PricewaterhouseCoopers SIA is included in the register of audit firms maintained by the Latvian Association of Certified Auditors and holds audit company license No. 5. On behalf of PricewaterhouseCoopers SIA, the auditors' reports on the 2019 Financial Statements were signed by Terēze Labzova-Ceicāne, holding auditor's certificate No. 184.

The Interim Financial Statements have not been subject to any audit or review by independent auditors.

### Listing

Application will be made to Nasdaq Riga for admitting each Tranche to listing and trading on the official bond list (the Baltic Bond List) of Nasdaq Riga according to the requirements of Nasdaq Riga not later than within 3 (three) months after the Issue Date of the respective Tranche. Nasdaq Riga is a regulated market for the purposes of MiFID II.

### Clearing of the Notes

The Notes shall be issued in the bearer dematerialised form and registered with Nasdaq CSD SE, registration number: 40003242879. The International Securities Identification Number (ISIN) in relation to the Notes of each Tranche will be specified in the relevant Final Terms.

The address of Nasdaq CSD SE is Valņņu iela 1, Riga, LV-1050, Latvia.

## **Legal Entity Identifier**

The Issuer's legal entity identifier is 5493007HPQSSX8BJ4315.

## **Documents available**

For as long as the Notes are listed on the official bond list (the Baltic Bond List) of Nasdaq Riga, the copies of the following documents will be available on the Issuer's website [www.altum.lv](http://www.altum.lv):

- (i) the Articles of Association of the Issuer;
- (ii) the Financial Statements;
- (iii) the Green Bond Framework;
- (iv) each Final Terms; and
- (v) this Base Prospectus together with any supplement.

## **Arranger and Dealer transacting with the Issuer**

The Arranger and Dealer has engaged in, and may in the future engage in, investment banking and/or commercial banking or other services provided to ALTUM Group in the ordinary course of business (see Section *Risk Factors – Risk related to the Notes - Certain material interests*).

## **Interests of natural and legal persons involved in the issue/offer of the Notes**

Save for commissions to be paid to the Arranger and the Dealer, so far as the Issuer is aware, no person involved in the issue/offer of the Notes has an interest material to the issue/offer.

## **Expenses Charged to the Investors**

No expenses or taxes will be charged to the investors by the Issuer in respect to the issue of the Notes. However, the investors may be obliged to cover expenses which are related to the opening of securities accounts with the credit institutions or investment brokerage firms, as well as commissions which are charged by the credit institutions or investment brokerage firms in relation to the execution of the investor's purchase or selling orders of the Notes, the holding of the Notes or any other operations in relation to the Notes. Neither the Issuer, nor the Arranger or the Dealer shall compensate the Noteholders for any such expenses.

## **Credit Ratings**

As of the date of this Base Prospectus, the Issuer has a long-term credit rating Baa1 by Moody's France SAS. The outlook is stable.

Moody's France SAS is established in the EEA and is registered under Regulation (EU) No 1060/2009, as amended (the "**CRA Regulation**"), and is, as of the date of this Base Prospectus, included in the list of credit rating agencies published by the European Securities and Markets Authority ("**ESMA**").

Notes to be issued under the Programme may be rated or unrated. Where an issue of Notes is rated, the applicable rating will be specified in the relevant Final Terms. Such rating will not necessarily be the same as the rating(s) assigned to the Issuer or to Notes already issued (if applicable). Whether or not a credit

rating applied for in relation to a relevant Series of Notes will be issued by a credit rating agency established in the EEA and registered under the CRA Regulation will be disclosed in the Final Terms.

A rating is not a recommendation to buy or sell or hold Notes and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. Up-to-date information should always be sought by direct reference to the relevant rating agency.



### **INFORMATION INCORPORATED BY REFERENCE**

The following documents have been incorporated by reference to this Base Prospectus and form a part of the Base Prospectus:

- the Issuer's Green Bond Framework, which is available for viewing on the following website: [www.altum.lv](http://www.altum.lv)

## **ANNEX I – FINANCIAL STATEMENTS**

ALTUM Group's consolidated and ALTUM's annual report, representing audited consolidated and standalone financial statements for the financial year ending 31 December 2020, prepared in accordance with IFRS, together with the audit report in connection therewith.

ALTUM Group's consolidated and ALTUM's annual report, representing audited consolidated and standalone financial statements for the financial year ending 31 December 2019, prepared in accordance with IFRS, together with the audit report in connection therewith.

ALTUM's unaudited interim condensed financial report for the six months period ended 30 June 2021, prepared in accordance with IFRS.

ALTUM's unaudited interim condensed financial report for the six months period ended 30 June 2020, prepared in accordance with IFRS.

# **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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Phone: + 371 67774010  
Fax: + 371 67820143  
Registration No: 50103744891  
[www.altum.lv](http://www.altum.lv)

## 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
<b>Key financial data</b>			
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
<b>Tangible common equity (TCE) / Total tangible managed assets (TMA) ***</b>	<b>33.56%</b>	<b>29.40%</b>	<b>31.70%</b>
Equity and reserves (EUR '000)	382 594	232 738	221 590
<b>Total risk coverage: (EUR '000)</b>			
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%
<b>Financial instruments (gross value)</b>			
<b>Outstanding (EUR '000) (by financial instrument)</b>			
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
<b>Total</b>	<b>803 509</b>	<b>617 341</b>	<b>528 518</b>
Number of transactions	26 578	22 437	18 603
<b>Volumes issued (EUR '000) (by financial instrument)</b>			
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
<b>Total</b>	<b>317 868</b>	<b>187 966</b>	<b>163 345</b>
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)

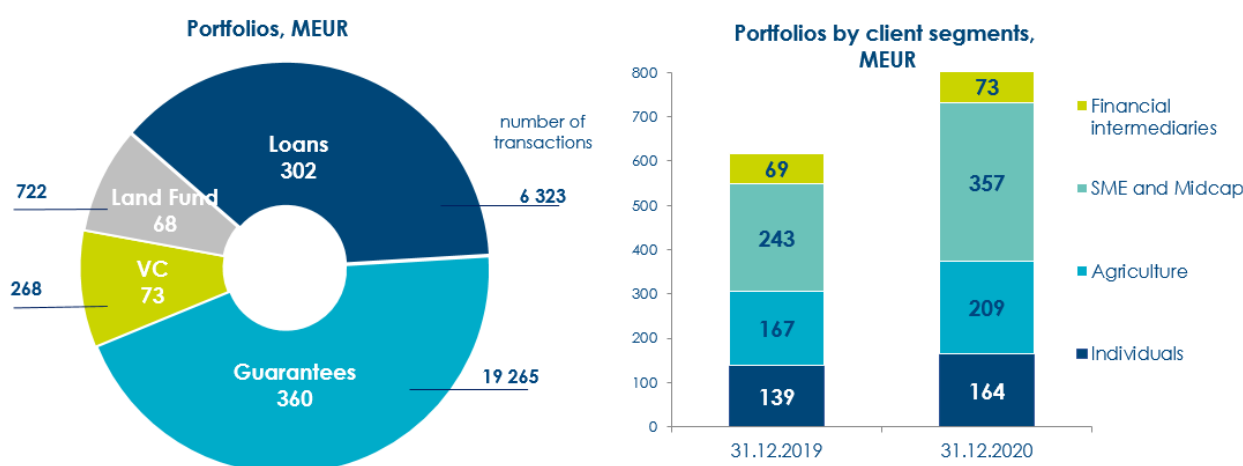
### Operational volumes (cont'd)

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

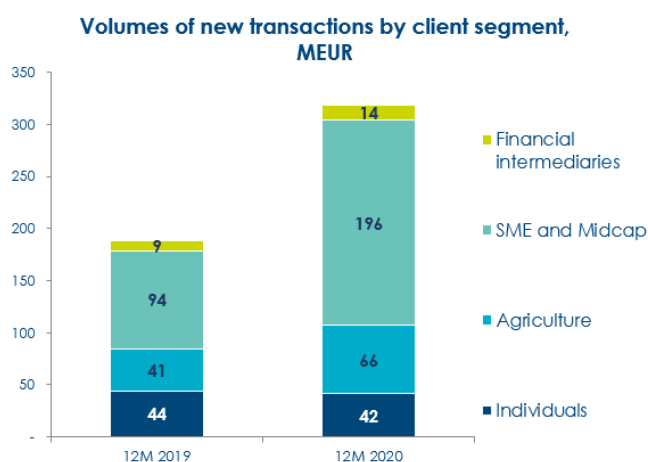
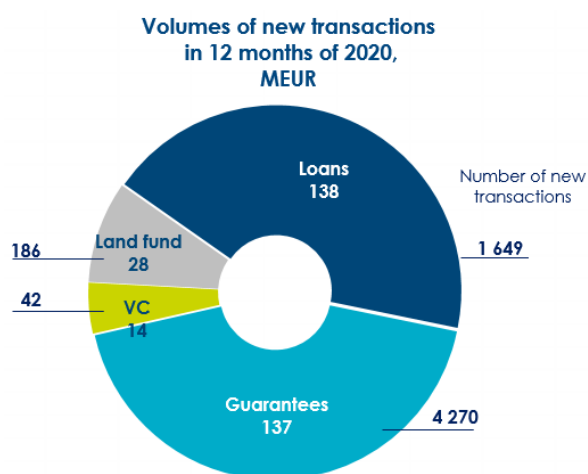
In 2020, the total funding disbursed for the implementation of the state aid programmes amounted to EUR 317.9 million, breaking down as follows: 43.5% (EUR 138.2 million) in loan programmes, 43.2% (EUR 137.4 million) for guarantee programmes, 8.9% (EUR 28.2 million) in the Land Fund transactions and 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 and 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

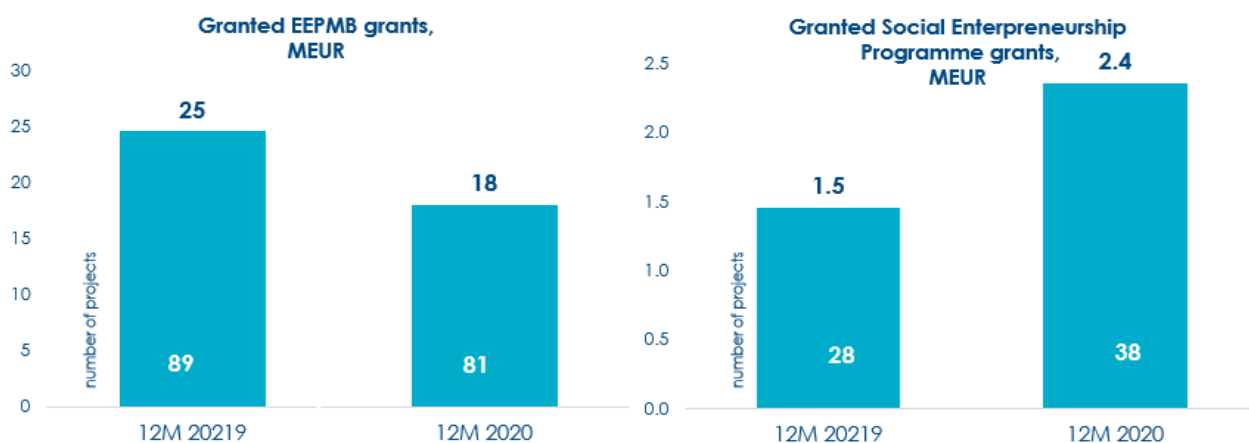
In order to make accessing to the support instruments more convenient for its clients, apart from the financial instruments, the Group services some grant programmes as well, namely, the grants issued under the Energy Efficiency Programme for Multi-apartment Buildings (EEPMB), Social Entrepreneurship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



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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.



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Reinis Bērziņš  
Chairman of the Management Board

## Statement of Comprehensive Income

All amounts in thousands of euro

	Notes	Group	Group	Company	Company
		01.01.2020.- 31.12.2020.	01.01.2019.- 31.12.2019.	01.01.2020.- 31.12.2020.	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		-	-	-	-
					-
<b>Profit for the period</b>		<b>5 539</b>	<b>8 131</b>	<b>5 539</b>	<b>8 131</b>
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)
<b>Total comprehensive income for the period</b>		<b>4 114</b>	<b>7 172</b>	<b>4 114</b>	<b>7 172</b>
Profit is attributable to:					
Owners of the Company		5 539	8 131	-	-
Non-controlling interest		-	-	-	-
<b>Profit for the period</b>		<b>5 539</b>	<b>8 131</b>	<b>-</b>	<b>-</b>
Total comprehensive income is attributable to:					
Owners of the Company		4 114	7 172	-	-
Non-controlling interest		-	-	-	-
<b>Total comprehensive income for the period</b>		<b>4 114</b>	<b>7 172</b>	<b>-</b>	<b>-</b>

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



## 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.
<b>Assets</b>					
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
<b>Total assets</b>		<b>850 704</b>	<b>560 061</b>	<b>850 123</b>	<b>559 504</b>
<b>Liabilities</b>					
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
<b>Total liabilities</b>		<b>468 110</b>	<b>327 323</b>	<b>468 190</b>	<b>327 310</b>
<b>Equity</b>					
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
<b>Net assets attributable to the Company's owners</b>		<b>381 935</b>	<b>232 196</b>	<b>381 933</b>	<b>232 194</b>
Non-controlling interest		659	542	-	-
<b>Total equity</b>		<b>382 594</b>	<b>232 738</b>	<b>381 933</b>	<b>232 194</b>
<b>Total equity and liabilities</b>		<b>850 704</b>	<b>560 061</b>	<b>850 123</b>	<b>559 504</b>

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

## Consolidated Statement of Changes in Equity

All amounts in thousands of euro

	Attributable to owners of the Company					Total equity
	Share capital	Reserves	Revaluation reserve of financial assets measured at fair value through other comprehensive income	Retained earnings	Non-controlling interest	
<b>As at 1 January 2019</b>	<b>204 862</b>	<b>7 965</b>	<b>3 597</b>	<b>4 900</b>	<b>266</b>	<b>221 590</b>
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
<b>As at 31 December 2019</b>	<b>204 862</b>	<b>16 565</b>	<b>2 638</b>	<b>8 131</b>	<b>542</b>	<b>232 738</b>
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
<b>As at 31 December 2020</b>	<b>204 862</b>	<b>170 321</b>	<b>1 213</b>	<b>5 539</b>	<b>659</b>	<b>382 594</b>

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
	<b>As at 1 January 2019</b>	<b>204 862</b>	<b>7 610</b>	<b>3 597</b>	<b>5 254</b>
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)	-
<b>As at 31 December 2019</b>	<b>204 862</b>	<b>16 563</b>	<b>2 638</b>	<b>8 131</b>	<b>232 194</b>
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)	-
<b>As at 31 December 2020</b>	<b>204 862</b>	<b>170 319</b>	<b>1 213</b>	<b>5 539</b>	<b>381 933</b>

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	Group	Company	Company
		01.01.2020.- 31.12.2020.	01.01.2019.- 31.12.2019.	01.01.2020.- 31.12.2020.	01.01.2019.- 31.12.2019.
Cash and cash equivalents at the beginning of period		176 199	128 916	176 047	128 536
<b>Cash flows from operating activities</b>					
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)
<b>(Decrease) of cash and cash equivalents from operating activities before changes in assets and liabilities</b>		<b>7 038</b>	<b>3 746</b>	<b>6 958</b>	<b>3 746</b>
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
<b>Net cash flows to/ from operating activities</b>		<b>21 966</b>	<b>39 813</b>	<b>21 977</b>	<b>39 304</b>
<b>Cash flows from investment activities</b>					
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)
<b>Net cash flows to/ from investing activities</b>		<b>(4 016)</b>	<b>(11 230)</b>	<b>(3 875)</b>	<b>(10 493)</b>
<b>Cash flows from financing activities</b>					
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
<b>Net cash flow from financing activities</b>		<b>165 800</b>	<b>18 700</b>	<b>165 800</b>	<b>18 700</b>
Increase in cash and cash equivalents		183 750	47 283	183 902	47 660
<b>Cash and cash equivalents at the end of period</b>		<b>359 949</b>	<b>176 199</b>	<b>359 949</b>	<b>176 047</b>

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 Title	Legal Address	Investment % in share capital
<i>Venture capital funds classified as Subsidiaries</i>		
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 Title	Legal Address	Investment % in share capital
<i>Venture capital funds classified as Associates</i>		
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	European 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 institutions and the Treasury are carried at amortised cost. Amounts due from credit institutions and the Treasury comprises cash and demand deposits with original maturity of 3 months or less (See Note 14) and demand deposits with original maturity of more than 3 months.

## 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 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 2<sup>nd</sup> and 3<sup>rd</sup> 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 4<sup>th</sup> 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 if it meets the definition of an investment property.

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

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

#### (v) Repossessed collateral (included in Other assets)

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

Depreciation of repossessed collateral is not calculated. Changes in value of repossessed collateral are recognised in 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
<b>Weighed average ***</b>	<b>(6.02)</b>	<b>4.34</b>	<b>4.20</b>

\* Base case scenario incorporates combination of two external scenarios: (i) the Ministry 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)
<b>Total net loans as at 31 December 2019</b>	<b>165</b>	<b>25 560</b>	<b>31 872</b>	<b>53 913</b>	<b>45 104</b>	<b>27 983</b>	<b>10 105</b>	<b>2 055</b>	<b>23 372</b>	<b>220 129</b>
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)
<b>Total net loans as at 31 December 2020</b>	<b>1 313</b>	<b>37 572</b>	<b>43 611</b>	<b>77 405</b>	<b>89 239</b>	<b>24 660</b>	<b>10 701</b>	<b>1 749</b>	<b>27 018</b>	<b>313 268</b>

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)
<b>Total net outstanding guarantees as at 31 December 2019</b>	<b>903</b>	<b>15 620</b>	<b>34 384</b>	<b>32 139</b>	<b>24 720</b>	<b>9 255</b>	<b>7 360</b>	<b>888</b>	<b>128 356</b>	<b>253 625</b>
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)
<b>Total net outstanding guarantees as at 31 December 2020</b>	<b>892</b>	<b>17 307</b>	<b>42 105</b>	<b>50 062</b>	<b>44 892</b>	<b>11 608</b>	<b>3 801</b>	<b>991</b>	<b>156 534</b>	<b>328 192</b>

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

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

\* 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
<b>As at 31 December 2019</b>	<b>2 548</b>	<b>2 646</b>	<b>15 089</b>	<b>20 283</b>	<b>186 175</b>	<b>18 239</b>	<b>35 998</b>	<b>240 412</b>
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
<b>Total movements with impact on credit loss allowance charge for the period:</b>	<b>4 680</b>	<b>1 152</b>	<b>(1 007)</b>	<b>4 825</b>	<b>95 652</b>	<b>14 731</b>	<b>(1 850)</b>	<b>108 533</b>
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)
<b>Total movements without impact on credit loss allowance charge for the period:</b>	<b>(262)</b>	<b>(292)</b>	<b>(3 842)</b>	<b>(4 396)</b>	<b>(7 533)</b>	<b>(958)</b>	<b>(6 473)</b>	<b>(14 964)</b>
<b>As at 31 December 2020</b>	<b>6 966</b>	<b>3 506</b>	<b>10 240</b>	<b>20 712</b>	<b>274 294</b>	<b>32 012</b>	<b>27 675</b>	<b>333 981</b>

\* Change of outstanding balance 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
<b>As at 31 December 2019</b>	<b>24 711</b>	<b>356</b>	<b>5 540</b>	<b>30 607</b>	<b>274 989</b>	<b>2 098</b>	<b>7 145</b>	<b>284 232</b>
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)
<b>Total movements with impact on credit loss allowance charge for the period:</b>	<b>7 672</b>	<b>464</b>	<b>(2 509)</b>	<b>5 627</b>	<b>98 044</b>	<b>4 900</b>	<b>(2 649)</b>	<b>100 295</b>
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)
<b>Total movements without impact on credit loss allowance charge for the period:</b>	<b>(4 614)</b>	<b>(3)</b>	<b>(204)</b>	<b>(4 821)</b>	<b>(24 918)</b>	<b>(3)</b>	<b>(1)</b>	<b>(24 922)</b>
<b>As at 31 December 2020</b>	<b>27 769</b>	<b>817</b>	<b>2 827</b>	<b>31 413</b>	<b>348 115</b>	<b>6 995</b>	<b>4 495</b>	<b>359 605</b>

\* 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
<b>Total gross loans, without interest accrued on the loans</b>	<b>333 981</b>	<b>240 411</b>	<b>333 981</b>	<b>240 411</b>
Impairment allowances	(20 713)	(20 283)	(20 713)	(20 283)
<b>Total net loans</b>	<b>313 268</b>	<b>220 128</b>	<b>313 268</b>	<b>220 128</b>

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:

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

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:

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

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:

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

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:

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

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
<b>Total collateral</b>	<b>264 817</b>	<b>197 162</b>	<b>264 817</b>	<b>197 162</b>
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
<b>Exposed</b>	<b>15.47%</b>	<b>10.43%</b>	<b>15.47%</b>	<b>10.43%</b>

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.
<b>Assets exposed to credit risk</b>				
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
<b>Total</b>	<b>800 885</b>	<b>523 046</b>	<b>800 850</b>	<b>522 894</b>
<b>Off-balance sheet items exposed to credit risk</b>				
Contingent liabilities (Note 21)	359 605	284 232	359 605	284 232
Financial commitments (Note 21)	178 073	97 149	188 488	110 620
<b>Total</b>	<b>537 678</b>	<b>381 381</b>	<b>548 093</b>	<b>394 852</b>

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
<b>Total financial liabilities</b>	<b>18 765</b>	<b>174 072</b>	<b>72 550</b>	<b>26 534</b>	<b>141 890</b>	<b>433 811</b>
Off-balance sheet items and contingent liabilities	349 731	171 663	16 284	-	-	537 678
<b>Total financial liabilities, off-balance items and contingent liabilities ***</b>	<b>368 496</b>	<b>345 735</b>	<b>88 834</b>	<b>26 534</b>	<b>141 890</b>	<b>971 489</b>
Due from credit institutions and the Treasury	359 949	-	-	-	-	359 949
Investment securities	22 991	14 408	-	-	-	37 399
<b>Liquid assets</b>	<b>382 940</b>	<b>14 408</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>397 348</b>

\* 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
<b>Total financial liabilities</b>	<b>5 260</b>	<b>4 942</b>	<b>400</b>	<b>8 163</b>	<b>18 765</b>
Off-balance sheet items and contingent liabilities *	286 738	13 777	14 532	34 684	349 731
<b>Total financial liabilities, off-balance items and contingent liabilities</b>	<b>291 998</b>	<b>18 719</b>	<b>14 932</b>	<b>42 847</b>	<b>368 496</b>
Due from credit institutions and the Treasury	359 949	-	-	-	359 949
Investment securities	2 090	20 436	-	465	22 991
<b>Liquid assets</b>	<b>362 039</b>	<b>20 436</b>	<b>-</b>	<b>465</b>	<b>382 940</b>

\* 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
<b>Total financial liabilities</b>	<b>11 539</b>	<b>64 371</b>	<b>54 773</b>	<b>55 420</b>	<b>109 006</b>	<b>295 109</b>
Off-balance sheet items and contingent liabilities	226 221	139 651	15 509	-	-	381 381
<b>Total financial liabilities, off-balance items and contingent liabilities ***</b>	<b>237 760</b>	<b>204 022</b>	<b>70 282</b>	<b>55 420</b>	<b>109 006</b>	<b>676 490</b>
Due from credit institutions and the Treasury	181 199	-	-	-	-	181 199
Investment securities	10 904	26 739	10 776	-	-	48 419
<b>Liquid assets</b>	<b>192 103</b>	<b>26 739</b>	<b>10 776</b>	<b>-</b>	<b>-</b>	<b>229 618</b>

\* 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
<b>Total financial liabilities</b>	<b>2 092</b>	<b>4 747</b>	<b>-</b>	<b>4 700</b>	<b>11 539</b>
Off-balance sheet items and contingent liabilities *	214 826	1 798	2 406	7 191	226 221
<b>Total financial liabilities, off-balance items and contingent liabilities</b>	<b>216 918</b>	<b>6 545</b>	<b>2 406</b>	<b>11 891</b>	<b>237 760</b>
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
<b>Liquid assets</b>	<b>176 287</b>	<b>1 149</b>	<b>2 002</b>	<b>12 665</b>	<b>192 103</b>

\* 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
<b>Total financial liabilities</b>	<b>18 765</b>	<b>174 072</b>	<b>72 550</b>	<b>26 534</b>	<b>141 890</b>	<b>433 811</b>
Off-balance sheet items and contingent liabilities	353 898	176 870	17 325	-	-	548 093
<b>Total financial liabilities, off-balance items and contingent liabilities ***</b>	<b>372 663</b>	<b>350 942</b>	<b>89 875</b>	<b>26 534</b>	<b>141 890</b>	<b>981 904</b>
Due from credit institutions and the Treasury	359 949	-	-	-	-	359 949
Investment securities	22 991	14 408	-	-	-	37 399
<b>Liquid assets</b>	<b>382 940</b>	<b>14 408</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>397 348</b>

\* 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
<b>Total financial liabilities</b>	<b>5 260</b>	<b>4 942</b>	<b>400</b>	<b>8 163</b>	<b>18 765</b>
Off-balance sheet items and contingent liabilities *	287 155	14 194	15 365	37 184	353 898
<b>Total financial liabilities, off-balance items and contingent liabilities</b>	<b>292 415</b>	<b>19 136</b>	<b>15 765</b>	<b>45 347</b>	<b>372 663</b>
Due from credit institutions and the Treasury	359 949	-	-	-	359 949
Investment securities	2 090	20 436	-	465	22 991
<b>Liquid assets</b>	<b>362 039</b>	<b>20 436</b>	<b>-</b>	<b>465</b>	<b>382 940</b>

\* 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
<b>Total financial liabilities</b>	<b>11 539</b>	<b>64 358</b>	<b>54 773</b>	<b>55 420</b>	<b>109 006</b>	<b>295 096</b>
Off-balance sheet items and contingent liabilities	228 511	147 868	18 473	-	-	394 852
<b>Total financial liabilities, off-balance items and contingent liabilities ***</b>	<b>240 050</b>	<b>212 226</b>	<b>73 246</b>	<b>55 420</b>	<b>109 006</b>	<b>689 948</b>
Due from credit institutions and the Treasury	181 047	-	-	-	-	181 047
Investment securities	10 904	26 739	10 776	-	-	48 419
<b>Liquid assets</b>	<b>191 951</b>	<b>26 739</b>	<b>10 776</b>	<b>-</b>	<b>-</b>	<b>229 466</b>

\* 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
<b>Total financial liabilities</b>	<b>2 092</b>	<b>4 747</b>	<b>-</b>	<b>4 700</b>	<b>11 539</b>
Off-balance sheet items and contingent liabilities *	214 940	2 141	2 864	8 566	228 511
<b>Total financial liabilities, off-balance items and contingent liabilities</b>	<b>217 032</b>	<b>6 888</b>	<b>2 864</b>	<b>13 266</b>	<b>240 050</b>
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
<b>Liquid assets</b>	<b>176 135</b>	<b>1 149</b>	<b>2 002</b>	<b>12 665</b>	<b>191 951</b>

\* 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
<b>Assets</b>							
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
<b>Total assets</b>	<b>375 158</b>	<b>33 822</b>	<b>24 403</b>	<b>59 432</b>	<b>192 831</b>	<b>165 058</b>	<b>850 704</b>
<b>Liabilities</b>							
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
<b>Total liabilities</b>	<b>38 126</b>	<b>5 208</b>	<b>399</b>	<b>9 135</b>	<b>173 548</b>	<b>241 694</b>	<b>468 110</b>
<b>Net liquidity</b>	<b>337 032</b>	<b>28 614</b>	<b>24 004</b>	<b>50 297</b>	<b>19 283</b>	<b>(76 636)</b>	<b>382 594</b>

\* 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
<b>Assets</b>							
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
<b>Total assets</b>	<b>193 180</b>	<b>10 961</b>	<b>17 950</b>	<b>33 957</b>	<b>185 668</b>	<b>118 345</b>	<b>560 061</b>
<b>Liabilities</b>							
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
<b>Total liabilities</b>	<b>33 497</b>	<b>4 903</b>	<b>303</b>	<b>4 998</b>	<b>63 923</b>	<b>219 699</b>	<b>327 323</b>
<b>Net liquidity</b>	<b>159 683</b>	<b>6 058</b>	<b>17 647</b>	<b>28 959</b>	<b>121 745</b>	<b>(101 354)</b>	<b>232 738</b>

\* 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
<b>Assets</b>							
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
<b>Total assets</b>	<b>375 158</b>	<b>33 822</b>	<b>24 403</b>	<b>59 432</b>	<b>192 831</b>	<b>164 477</b>	<b>850 123</b>
<b>Liabilities</b>							
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
<b>Total liabilities</b>	<b>38 126</b>	<b>5 208</b>	<b>399</b>	<b>9 135</b>	<b>173 548</b>	<b>241 774</b>	<b>468 190</b>
<b>Net liquidity</b>	<b>337 032</b>	<b>28 614</b>	<b>24 004</b>	<b>50 297</b>	<b>19 283</b>	<b>(77 297)</b>	<b>381 933</b>

\* 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
<b>Assets</b>							
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
<b>Total assets</b>	<b>193 028</b>	<b>10 961</b>	<b>17 950</b>	<b>33 957</b>	<b>186 500</b>	<b>117 108</b>	<b>559 504</b>
<b>Liabilities</b>							
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
<b>Total liabilities</b>	<b>33 497</b>	<b>4 903</b>	<b>303</b>	<b>4 998</b>	<b>63 910</b>	<b>219 699</b>	<b>327 310</b>
<b>Net liquidity</b>	<b>159 531</b>	<b>6 058</b>	<b>17 647</b>	<b>28 959</b>	<b>122 590</b>	<b>(102 591)</b>	<b>232 194</b>

\* 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.
<b>EUR</b>				
Financial assets	800 290	522 479	800 255	522 187
Financial liabilities	429 761	292 678	429 761	292 665
<b>Net position</b>	<b>370 529</b>	<b>229 801</b>	<b>370 494</b>	<b>229 522</b>
<b>USD</b>				
Financial assets	594	565	594	705
Financial liabilities	-	-	-	-
<b>Net position</b>	<b>594</b>	<b>565</b>	<b>594</b>	<b>705</b>
<b>GBP</b>				
Financial assets	0	2	0	2
Financial liabilities	-	-	-	-
<b>Net position</b>	<b>0</b>	<b>2</b>	<b>0</b>	<b>2</b>

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
<b>Total segments, gross</b>	<b>274 292</b>	<b>6 657</b>	<b>32 011</b>	<b>3 505</b>	<b>27 676</b>	<b>10 240</b>	<b>333 979</b>	<b>20 402</b>
Impairment overlay *	-	309	-	-	-	-	-	309
<b>Total segments, net</b>	<b>274 292</b>	<b>6 966</b>	<b>32 011</b>	<b>3 505</b>	<b>27 676</b>	<b>10 240</b>	<b>333 979</b>	<b>20 711</b>

\* 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
<b>Covid-19 more exposed industries</b>					
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 leisure	1 139	1 139	29	1 110	0.7%
Beauty and sports	-	-	-	-	0.0%
<b>Total Covid-19 more exposed industries</b>	<b>9 845</b>	<b>9 845</b>	<b>324</b>	<b>9 520</b>	<b>5.9%</b>
<b>Covid-19 less exposed industries</b>					
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%
<b>Total Covid-19 less exposed industries</b>	<b>54 715</b>	<b>54 715</b>	<b>2 034</b>	<b>52 681</b>	<b>32.5%</b>
<b>Total Covid-19 crisis related working capital loans</b>	<b>64 560</b>	<b>64 560</b>	<b>2 358</b>	<b>62 201</b>	<b>38.4%</b>

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
<b>Covid-19 more exposed industries</b>					
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 leisure	1 926	398	378	1 548	1.1%
Beauty and sports	710	116	255	455	0.4%
<b>Total Covid-19 more exposed industries</b>	<b>9 721</b>	<b>1 800</b>	<b>1 428</b>	<b>8 294</b>	<b>5.8%</b>
<b>Covid-19 less exposed industries</b>					
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%
<b>Total Covid-19 less exposed industries</b>	<b>93 981</b>	<b>20 572</b>	<b>12 606</b>	<b>81 374</b>	<b>55.9%</b>
<b>Total daily (ordinary) loan products</b>	<b>103 702</b>	<b>22 372</b>	<b>14 034</b>	<b>89 668</b>	<b>61.6%</b>

## 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
<b>Total segments, gross</b>	<b>348 116</b>	<b>27 770</b>	<b>6 994</b>	<b>816</b>	<b>4 495</b>	<b>2 827</b>	<b>359 605</b>	<b>31 413</b>

\* 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 ¼ 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
<b>Covid-19 more exposed industries</b>					
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 leisure	84	84	9	75	0.0%
<b>Total Covid-19 more exposed industries</b>	<b>11 045</b>	<b>11 045</b>	<b>1 230</b>	<b>9 816</b>	<b>5.9%</b>
<b>Covid-19 less exposed industries</b>					
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%
<b>Total Covid-19 less exposed industries</b>	<b>27 654</b>	<b>27 654</b>	<b>2 060</b>	<b>25 594</b>	<b>14.7%</b>
<b>Total specific COVID-19 related guarantee products *</b>	<b>38 699</b>	<b>38 699</b>	<b>3 290</b>	<b>35 410</b>	<b>20.5%</b>

\* 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
<i>Covid-19 more exposed industries</i>					
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 leisure	305	96	21	284	0.2%
<b>Total Covid-19 more exposed industries</b>	<b>9 808</b>	<b>1 625</b>	<b>924</b>	<b>8 884</b>	<b>5.2%</b>
<i>Covid-19 less exposed industries</i>					
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%
<b>Total Covid-19 less exposed industries</b>	<b>140 227</b>	<b>43 426</b>	<b>11 074</b>	<b>129 153</b>	<b>74.3%</b>
<b>Total daily (ordinary) guarantee products</b>	<b>150 035</b>	<b>45 051</b>	<b>11 998</b>	<b>138 037</b>	<b>79.5%</b>

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
<b>Total interest income</b>	<b>16 442</b>	<b>13 344</b>	<b>16 442</b>	<b>13 344</b>

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
<b>Total interest expense</b>	<b>1 870</b>	<b>1 775</b>	<b>1 870</b>	<b>1 775</b>

\* 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
<b>Total income from implementation of state support programmes</b>	<b>6 526</b>	<b>6 165</b>	<b>6 526</b>	<b>6 165</b>

## 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
<b>Total compensated expense for implementation of state support programmes</b>	<b>5 950</b>	<b>5 584</b>	<b>5 950</b>	<b>5 584</b>

## 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)
<b>Total gain from debt securities and foreign exchange transactions</b>	<b>(56)</b>	<b>90</b>	<b>(56)</b>	<b>90</b>

## 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 management of the AIF "Altum capital fund" and compensation of set-up costs	269	-	269	-
Other operating income	611	848	611	848
<b>Total other income</b>	<b>3 053</b>	<b>2 168</b>	<b>3 053</b>	<b>2 168</b>

## 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
<b>Total other expense</b>	<b>1 065</b>	<b>634</b>	<b>1 145</b>	<b>634</b>

## 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
<i>to the Supervisory Council</i>	74	81	74	81
<i>to the Management Board</i>	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
<b>Total staff costs</b>	<b>7 229</b>	<b>6 523</b>	<b>7 229</b>	<b>6 523</b>
Compensated staff costs (Note 7)	(1 813)	(1 883)	(1 813)	(1 883)
<b>Net staff costs</b>	<b>5 416</b>	<b>4 640</b>	<b>5 416</b>	<b>4 640</b>

\* 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
<b>Total administrative expenses</b>	<b>2 201</b>	<b>2 273</b>	<b>2 201</b>	<b>2 273</b>
Compensated administrative expense (Note 7)	(370)	(452)	(370)	(452)
<b>Net administrative expenses</b>	<b>1 831</b>	<b>1 821</b>	<b>1 831</b>	<b>1 821</b>

\* 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
<i>impairment losses</i>	12 225	8 793	12 225	8 793
<i>impairment losses covered by risk coverage reserve</i>	(3 640)	(2 126)	(3 640)	(2 126)
Disbursed guarantee compensations	-	-	-	-
<i>impairment losses</i>	57	-	57	-
<i>impairment losses covered by risk coverage reserve</i>	(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
<i>impairment losses</i>	14 442	15 752	14 442	15 752
<i>impairment losses covered by risk coverage reserve</i>	(7 958)	(13 111)	(7 958)	(13 111)
Loan commitments, net	1 564	253	1 564	253
<i>impairment losses</i>	1 953	608	1 953	608
<i>impairment losses covered by risk coverage reserve</i>	(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)
<i>reversal of impairment</i>	(8 130)	(5 897)	(8 130)	(5 897)
<i>reversal of impairment covered by risk coverage reserve</i>	1 782	1 179	1 782	1 179
Disbursed guarantee compensations	(188)	(1 788)	(188)	(1 788)
<i>reversal of impairment</i>	(323)	(1 902)	(323)	(1 902)
<i>reversal of impairment covered by risk coverage reserve</i>	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)
<i>reversal of impairment</i>	(13 060)	(6 692)	(13 060)	(6 692)
<i>reversal of impairment covered by risk coverage reserve</i>	8 494	3 566	8 494	3 566
Loan commitments, net	(1 010)	(208)	(1 010)	(208)
<i>reversal of impairment</i>	(1 398)	(1 369)	(1 398)	(1 369)
<i>reversal of impairment covered by risk coverage reserve</i>	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)
<b>Total impairment losses and (income) from recovery of loans written-off</b>	<b>3 480</b>	<b>(1 699)</b>	<b>3 400</b>	<b>(1 699)</b>

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
<i>cash and cash equivalent</i>	359 949	176 199	359 949	176 047
Impairment allowances	-	(2)	-	(2)
<b>Net due from credit institutions and State Treasury</b>	<b>359 949</b>	<b>181 199</b>	<b>359 949</b>	<b>181 047</b>

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
<b>Total gross as at 31 December 2019</b>	-	<b>12 435</b>	<b>138 364</b>	<b>23 973</b>	<b>6 427</b>	-	-	-	<b>181 199</b>
Due from credit institutions registered in the Republic of Latvia and the Treasury	-	3 965	336 739	9 561	9 684	-	-	-	359 949
<b>Total gross as at 31 December 2020</b>	-	<b>3 965</b>	<b>336 739</b>	<b>9 561</b>	<b>9 684</b>	-	-	-	<b>359 949</b>

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
<b>Total gross as at 31 December 2019</b>	-	<b>12 435</b>	<b>138 364</b>	<b>23 821</b>	<b>6 427</b>	-	-	-	<b>181 047</b>
Due from credit institutions registered in the Republic of Latvia and the Treasury	-	3 965	336 739	9 561	9 684	-	-	-	359 949
<b>Total gross as at 31 December 2020</b>	-	<b>3 965</b>	<b>336 739</b>	<b>9 561</b>	<b>9 684</b>	-	-	-	<b>359 949</b>

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
<b>Total investment securities valued at amortised cost</b>	<b>3 840</b>	<b>4 365</b>	<b>3 840</b>	<b>4 365</b>
Impairment allowances	(3 399)	(3 887)	(3 399)	(3 887)
<b>Net investment securities valued at amortised cost</b>	<b>441</b>	<b>478</b>	<b>441</b>	<b>478</b>
Investment securities valued at fair value through other comprehensive income				
Latvian Treasury bills and government bonds	36 958	47 941	36 958	47 941
<b>Total investment securities valued at fair value through other comprehensive income</b>	<b>36 958</b>	<b>47 941</b>	<b>36 958</b>	<b>47 941</b>
<b>Total gross investment securities</b>	<b>40 798</b>	<b>52 306</b>	<b>40 798</b>	<b>52 306</b>
<b>Total net investment securities</b>	<b>37 399</b>	<b>48 419</b>	<b>37 399</b>	<b>48 419</b>

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
<b>Total gross as at 31 December 2019</b>	<b>-</b>	<b>-</b>	<b>48 380</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3 926</b>	<b>52 306</b>
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
<b>Total gross as at 31 December 2020</b>	<b>-</b>	<b>-</b>	<b>37 365</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3 433</b>	<b>40 798</b>

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
<b>Total financial assets at fair value through profit or loss - investments of subsidiaries in underlying undertakings</b>	<b>5 425</b>	<b>4 217</b>

In 2020, the Company made disbursements to the 4th 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:

Company or venture capital fund generation	Country of incorporation	Equity of venture capital fund		Carrying Amount	
		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
<b>Total investments in associates</b>		<b>122 793</b>	<b>122 919</b>	<b>47 988</b>	<b>52 293</b>

\* 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 funds		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
<b>Net carrying amount at the period ended at 31 December</b>	<b>32 969</b>	<b>38 442</b>	<b>-</b>	<b>-</b>	<b>15 019</b>	<b>13 851</b>	<b>47 988</b>	<b>52 293</b>

\* 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	-
<b>Total other investments</b>	<b>7 502</b>	<b>250</b>	<b>7 502</b>	<b>250</b>

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
<b>Total gross loans</b>	<b>333 981</b>	<b>240 412</b>	<b>333 981</b>	<b>240 412</b>
Impairment allowances	(20 713)	(20 283)	(20 713)	(20 283)
<b>Total net loans</b>	<b>313 268</b>	<b>220 129</b>	<b>313 268</b>	<b>220 129</b>

## 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
<b>Total gross loans</b>	<b>333 981</b>	<b>240 412</b>	<b>333 981</b>	<b>240 412</b>
Impairment allowances	(20 713)	(20 283)	(20 713)	(20 283)
<b>Total net loans</b>	<b>313 268</b>	<b>220 129</b>	<b>313 268</b>	<b>220 129</b>

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	-	-	-	-
<b>Impairment allowances at the end of the period ended 31 December</b>	<b>20 713</b>	<b>20 283</b>	<b>20 713</b>	<b>20 283</b>
<i>Group's / Company's share of impairment allowances</i>	<i>14 219</i>	<i>14 917</i>	<i>14 219</i>	<i>14 917</i>
<i>Impairment allowances covered by risk coverage</i>	<i>6 494</i>	<i>5 367</i>	<i>6 494</i>	<i>5 367</i>

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	-
<b>Total grants, gross</b>	<b>31 282</b>	<b>17 198</b>	<b>31 282</b>	<b>17 198</b>
Impairment allowances	(175)	(12)	(175)	(12)
<b>Total grants, net</b>	<b>31 107</b>	<b>17 186</b>	<b>31 107</b>	<b>17 186</b>

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.
<b>Grants</b>				
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
<b>Impairment allowances</b>				-
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)
<b>Grants net book at the beginning of the period</b>	<b>17 174</b>	<b>22 561</b>	<b>17 174</b>	<b>22 561</b>
<b>Grants net book value at the end of the period ended 31 December</b>	<b>31 107</b>	<b>17 186</b>	<b>31 107</b>	<b>17 186</b>

## 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
<b>Carrying amount at the end of the period</b>	<b>36 758</b>	<b>24 366</b>	<b>36 758</b>	<b>24 366</b>

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 4th 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
<b>Total investments in the share capital of subsidiaries</b>	<b>4 879</b>	<b>3 812</b>

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)
<b>Total</b>	<b>4 980</b>	<b>4 611</b>	<b>(1 006)</b>	<b>(1 338)</b>

## 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
<b>Total intangible assets</b>	<b>1 398</b>	<b>1 395</b>	<b>1 398</b>	<b>1 395</b>

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.
<b>Original cost</b>				
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
<b>Accumulated depreciation</b>				
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
<b>Net book value at the beginning of period</b>	<b>1 395</b>	<b>1 347</b>	<b>1 395</b>	<b>1 347</b>
<b>Net book value as at 31 December</b>	<b>1 398</b>	<b>1 395</b>	<b>1 398</b>	<b>1 395</b>



## 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
<b>Total property, plant and equipment</b>	<b>4 717</b>	<b>4 694</b>	<b>4 717</b>	<b>4 694</b>

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)
<b>Carrying amount at 31 December 2018</b>	<b>3 269</b>	<b>-</b>	<b>956</b>	<b>3</b>	<b>4 228</b>
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
<b>Carrying amount at 31 December 2019</b>	<b>3 279</b>	<b>-</b>	<b>912</b>	<b>-</b>	<b>4 191</b>
Cost at 31 December 2019	4 789	132	5 512	-	10 433
Accumulated depreciation	(1 510)	(132)	(4 600)	-	(6 242)
<b>Carrying amount at 31 December 2019</b>	<b>3 279</b>	<b>-</b>	<b>912</b>	<b>-</b>	<b>4 191</b>
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	-	-	-	-	-
<b>Carrying amount at 31 December 2020</b>	<b>3 293</b>	<b>-</b>	<b>1 005</b>	<b>-</b>	<b>4 298</b>
Cost at 31 December 2020	4 976	44	5 064	-	10 084
Accumulated depreciation	(1 683)	(44)	(4 059)	-	(5 786)
Impairment allowances	-	-	-	-	-
<b>Carrying amount at 31 December 2020</b>	<b>3 293</b>	<b>-</b>	<b>1 005</b>	<b>-</b>	<b>4 298</b>

\* 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)
<b>Carrying amount at 31 December 2018</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3</b>	<b>3</b>
Additions	555	183	-	-	738
Disposals	(121)	-	-	-	(121)
Depreciation charge	(81)	(33)	-	(3)	(117)
<b>Carrying amount at 31 December 2019</b>	<b>353</b>	<b>150</b>	<b>-</b>	<b>-</b>	<b>503</b>
Cost at 31 December 2019	434	183	-	380	997
Accumulated depreciation	(81)	(33)	-	(334)	(448)
Impairment allowances	-	-	-	(46)	(46)
<b>Carrying amount at 31 December 2019</b>	<b>353</b>	<b>150</b>	<b>-</b>	<b>-</b>	<b>503</b>
Additions	-	45	-	-	45
Disposals	-	-	-	(380)	(380)
Depreciation charge	(86)	(43)	-	334	205
Change in depreciation from disposals	-	-	-	-	-
Change in impairment allowances	-	-	-	46	46
<b>Carrying amount at 31 December 2020</b>	<b>267</b>	<b>152</b>	<b>-</b>	<b>-</b>	<b>419</b>
Cost at 31 December 2020	434	228	-	-	662
Accumulated depreciation	(167)	(76)	-	-	(243)
<b>Carrying amount at 31 December 2020</b>	<b>267</b>	<b>152</b>	<b>-</b>	<b>-</b>	<b>419</b>

\* 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
<b>Total other assets, gross</b>	<b>5 631</b>	<b>6 598</b>	<b>5 596</b>	<b>6 598</b>
Impairment allowances for financial assets	(1 960)	(3 028)	(1 960)	(3 028)
<i>Group's / Company's share of provisions</i>	<i>(1 078)</i>	<i>(2 204)</i>	<i>(1 078)</i>	<i>(2 204)</i>
<i>Provisions covered by risk coverage</i>	<i>(882)</i>	<i>(824)</i>	<i>(882)</i>	<i>(824)</i>
<b>Total financial assets, net</b>	<b>3 643</b>	<b>3 067</b>	<b>3 608</b>	<b>3 067</b>
<b>Total other assets, net</b>	<b>3 671</b>	<b>3 570</b>	<b>3 636</b>	<b>3 570</b>

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
<b>Financial assets</b>				
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
<b>Impairment provision</b>				
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)
<b>Net book value at the beginning of period</b>	<b>-</b>	<b>22</b>	<b>3 046</b>	<b>3 068</b>
<b>Net book value as at 31 December 2020</b>	<b>-</b>	<b>111</b>	<b>3 532</b>	<b>3 643</b>

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
<b>Financial assets</b>				
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
<b>Impairment provision</b>				
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)
<b>Net book value at the beginning of period</b>	<b>-</b>	<b>22</b>	<b>3 046</b>	<b>3 068</b>
<b>Net book value as at 31 December 2020</b>	<b>-</b>	<b>111</b>	<b>3 497</b>	<b>3 608</b>

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
<b>Financial assets</b>				
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
<b>Impairment provision</b>				
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
<b>Net book value at the beginning of period</b>	<b>-</b>	<b>1 066</b>	<b>673</b>	<b>1 739</b>
<b>Net book value as at 31 December 2019</b>	<b>-</b>	<b>22</b>	<b>3 046</b>	<b>3 068</b>

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)
<b>Total other assets at the end of period ended 31 December</b>	<b>28</b>	<b>503</b>	<b>28</b>	<b>503</b>

## 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
<b>Total deferred expense</b>	<b>749</b>	<b>694</b>	<b>749</b>	<b>694</b>

## 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	-	-	-	-
<b>Total accrued income</b>	<b>772</b>	<b>1 649</b>	<b>772</b>	<b>1 649</b>

## 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)
<b>Total (loss) on the revaluation of assets held for sale</b>	<b>-</b>	<b>(105)</b>	<b>-</b>	<b>(105)</b>

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
<b>Total due to credit institutions</b>	<b>65 855</b>	<b>29 542</b>	<b>65 855</b>	<b>29 542</b>

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
<b>Total due to general governments</b>	<b>103 520</b>	<b>86 272</b>	<b>103 520</b>	<b>86 272</b>

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 (31 December 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 (31 December 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
<b>Loans</b>				
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
<b>Total loans</b>	<b>51 062 **</b>	<b>30 255</b>	<b>(6 821)</b>	<b>44 241</b>
<b>Guarantees</b>				
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
<b>Total guarantees</b>	<b>63 631</b>	<b>62 748</b>	<b>(21 376)</b>	<b>42 255</b>
<b>Grants</b>				
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
<b>Total grants</b>	<b>45 540</b>	<b>-</b>	<b>-</b>	<b>45 540</b>
<b>Venture Capital Funds</b>				
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
<b>Total venture capital funds</b>	<b>36 285</b>	<b>19 564</b>	<b>-</b>	<b>36 285</b>

\* 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
<b>Other Activities</b>				
Energy Efficiency Fund	433	-	-	433
Regional Creative Industries Alliance	-	-	-	-
<b>Total other activities</b>	<b>433</b>	<b>-</b>	<b>-</b>	<b>433</b>
Funding allocated to increase reserve capital ***	23 209	-	-	23 209
<b>Total support programme funding</b>	<b>220 160 ****</b>	<b>112 567</b>	<b>(28 197)</b>	<b>191 963</b>

\*\*\* 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
<b>Loans</b>				
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	-	-	-	-
<b>Total loans</b>	<b>52 200 **</b>	<b>30 208</b>	<b>(5 693)</b>	<b>46 507</b>
<b>Guarantees</b>				
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
<b>Total guarantees</b>	<b>57 984</b>	<b>56 465</b>	<b>(22 136)</b>	<b>35 848</b>
<b>Grants</b>				
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
<b>Total grants</b>	<b>26 992</b>	<b>-</b>	<b>-</b>	<b>26 992</b>
<b>Venture Capital Funds</b>				
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
<b>Total venture capital funds</b>	<b>18 891</b>	<b>13 105</b>	<b>-</b>	<b>18 891</b>
<b>Other Activities</b>				
Energy Efficiency Fund	492	-	-	492
Regional Creative Industries Alliance	-	-	-	-
<b>Total other activities</b>	<b>492</b>	<b>-</b>	<b>-</b>	<b>492</b>
<b>Total support programme funding</b>	<b>156 559 ***</b>	<b>99 778</b>	<b>(27 829)</b>	<b>128 730</b>

\* 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	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
	31.12.2019.									31.12.2020.
<b>Loans</b>										
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
<b>Total loans</b>	<b>46 507 *</b>	<b>3 941</b>	<b>(4 879)</b>	<b>-</b>	<b>(117)</b>	<b>-</b>	<b>491</b>	<b>(574)</b>	<b>(1 128)</b>	<b>44 241</b>
<b>Guarantees</b>										
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	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
	31.12.2019.									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
<b>Total guarantees</b>	<b>35 848</b>	<b>106</b>	<b>5 232</b>	<b>-</b>	<b>(228)</b>	<b>-</b>	<b>280</b>	<b>257</b>	<b>760</b>	<b>42 255</b>
<b>Grants</b>										
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
<b>Total grants</b>	<b>26 992</b>	<b>24 342</b>	<b>-</b>	<b>(4 184)</b>	<b>(1 610)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>45 540</b>
<b>Venture Capital Funds</b>										
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
<b>Total venture capital funds</b>	<b>18 891</b>	<b>23 311</b>	<b>(353)</b>	<b>-</b>	<b>(5 334)</b>	<b>(2 850)</b>	<b>2 540</b>	<b>80</b>	<b>-</b>	<b>36 285</b>
<b>Other Activities</b>										
Energy Efficiency Fund	492	16	-	-	(75)	-	-	-	-	433
Regional Creative Industries Alliance	-	38	-	-	(38)	-	-	-	-	-
<b>Total other activities</b>	<b>492</b>	<b>54</b>	<b>-</b>	<b>-</b>	<b>(113)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>433</b>
Funding allocated to increase reserve capital*****	-	23 209	-	-	-	-	-	-	-	23 209
<b>Total support programme funding</b>	<b>128 730</b>	<b>74 963</b>	<b>-</b>	<b>(4 184)</b>	<b>(7 402)</b>	<b>(2 850)</b>	<b>3 311</b>	<b>(237)</b>	<b>(368)</b>	<b>191 963</b>

\* 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 2<sup>nd</sup> and 3<sup>rd</sup> 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 2<sup>nd</sup> and 3<sup>rd</sup> 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
<i>Group's / Company's share of provisions</i>	10 919	9 294	10 919	9 294
<i>Provisions covered by risk coverage</i>	20 494	21 312	20 494	21 312
Provisions for loan commitments	1 014	458	1 014	458
<i>Group's / Company's share of provisions</i>	687	132	687	132
<i>Provisions covered by risk coverage</i>	327	326	327	326
Provisions for grant commitments	74	12	74	12
<i>Group's / Company's share of provisions</i>	74	12	74	12
<i>Provisions covered by risk coverage</i>	-	-	-	-
<b>Total provisions</b>	<b>32 501</b>	<b>31 076</b>	<b>32 501</b>	<b>31 076</b>
<i>Group's / Company's share of provisions</i>	11 680	9 438	11 680	9 438
<i>Provisions covered by risk coverage</i>	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)
<b>Provisions at the end of the period ended 31 December</b>	<b>31 413</b>	<b>30 606</b>	<b>31 413</b>	<b>30 606</b>
<i>Group's / Company's share of provisions</i>	10 919	9 294	10 919	9 294
<i>Provisions covered by risk coverage</i>	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
<b>Total other liabilities</b>	<b>2 901</b>	<b>2 786</b>	<b>2 901</b>	<b>2 773</b>

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
<b>Total accrued expense</b>	<b>857</b>	<b>478</b>	<b>937</b>	<b>478</b>

## 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	Group	Company	Company
							31.12.2020.	31.12.2019.	31.12.2020.	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	-
<b>Total issued debt securities at the end of period ended 31 December</b>							<b>65 522</b>	<b>45 348</b>	<b>65 522</b>	<b>45 348</b>

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	Group	Company	Company
	31.12.2020.	31.12.2019.	31.12.2020.	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)
<b>Total issued debt securities at the end of period ended 31 December</b>	<b>65 522</b>	<b>45 348</b>	<b>65 522</b>	<b>45 348</b>

## 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
<b>Total fully paid share capital</b>	<b>204 862</b>	<b>204 862</b>	<b>204 862</b>	<b>204 862</b>

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			
<b>Reserves as of 31 December 2018</b>	<b>11 807</b>	-	-	<b>(15 580)</b>	<b>11 738</b>	<b>3 597</b>	<b>11 562</b>
(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
<b>Reserves as of 31 December 2019</b>	<b>15 507</b>	-	-	<b>(15 580)</b>	<b>16 638</b>	<b>2 638</b>	<b>19 203</b>
(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
<b>Reserves as of 31 December 2020</b>	<b>16 133</b>	<b>25 000</b>	<b>120 000</b>	<b>(15 580)</b>	<b>24 768</b>	<b>1 213</b>	<b>171 534</b>

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			
<b>Reserves as of 31 December 2018</b>	<b>11 807</b>	-	-	<b>(15 935)</b>	<b>11 738</b>	<b>3 597</b>	<b>11 207</b>
(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
<b>Reserves as of 31 December 2019</b>	<b>15 507</b>	-	-	<b>(15 935)</b>	<b>16 991</b>	<b>2 638</b>	<b>19 201</b>
(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
<b>Reserves as of 31 December 2020</b>	<b>16 133</b>	<b>25 000</b>	<b>120 000</b>	<b>(15 935)</b>	<b>25 121</b>	<b>1 213</b>	<b>171 532</b>

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		
<b>Specific reserves as of 31 December 2018</b>	<b>11 807</b>	-	-	-	-	<b>11 807</b>
Increase of specific reserve capital	3 700	-	-	-	-	3 700
<b>Specific reserves as of 31 December 2019</b>	<b>15 507</b>	-	-	-	-	<b>15 507</b>
Increase of specific reserve capital	-	626	50 000	70 000	25 000	145 626
<b>Specific reserves as of 31 December 2020</b>	<b>15 507</b>	<b>626</b>	<b>50 000</b>	<b>70 000</b>	<b>25 000</b>	<b>161 133</b>
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 programmes 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
<b>Total contingent liabilities and financial commitments</b>	<b>537 678</b>	<b>381 381</b>	<b>548 093</b>	<b>394 852</b>

## 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)
<b>Total unutilized loan facilities, net</b>	<b>38 334</b>	<b>18 493</b>	<b>38 334</b>	<b>18 493</b>

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)
<b>Total grant commitments, net</b>	<b>6 724</b>	<b>7 689</b>	<b>6 724</b>	<b>7 689</b>

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
<b>Contingent liabilities</b>							
Outstanding guarantees	359 605 *	-	-	-	-	-	359 605
<b>Financial commitments</b>							
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
<b>Total financial commitments</b>	<b>46 146</b>	<b>13 777</b>	<b>14 532</b>	<b>34 682</b>	<b>52 652</b>	<b>16 284</b>	<b>178 073</b>
<b>Total contingent liabilities and financial commitments</b>	<b>405 751</b>	<b>13 777</b>	<b>14 532</b>	<b>34 682</b>	<b>52 652</b>	<b>16 284</b>	<b>537 678</b>

\* 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
<b>Contingent liabilities</b>							
Outstanding guarantees	284 232 *	-	-	-	-	-	284 232
<b>Financial commitments</b>							
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
<b>Total financial commitments</b>	<b>27 252</b>	<b>1 798</b>	<b>2 397</b>	<b>7 190</b>	<b>43 003</b>	<b>15 509</b>	<b>97 149</b>
<b>Total contingent liabilities and financial commitments</b>	<b>311 484</b>	<b>1 798</b>	<b>2 397</b>	<b>7 190</b>	<b>43 003</b>	<b>15 509</b>	<b>381 381</b>

\* 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
<b>Contingent liabilities</b>							
Outstanding guarantees	359 605	-	-	-	-	-	359 605
<b>Financial commitments</b>							
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
<b>Total financial commitments</b>	<b>46 563</b>	<b>14 194</b>	<b>15 365</b>	<b>37 182</b>	<b>57 859</b>	<b>17 325</b>	<b>188 488</b>
<b>Total contingent liabilities and financial commitments</b>	<b>406 168</b>	<b>14 194</b>	<b>15 365</b>	<b>37 182</b>	<b>57 859</b>	<b>17 325</b>	<b>548 093</b>

\* 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
<b>Contingent liabilities</b>							
Outstanding guarantees	284 232	-	-	-	-	-	284 232
<b>Financial commitments</b>							
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
<b>Total financial commitments</b>	<b>27 366</b>	<b>2 141</b>	<b>2 855</b>	<b>8 565</b>	<b>51 220</b>	<b>18 473</b>	<b>110 620</b>
<b>Total contingent liabilities and financial commitments</b>	<b>311 598</b>	<b>2 141</b>	<b>2 855</b>	<b>8 565</b>	<b>51 220</b>	<b>18 473</b>	<b>394 852</b>

\* 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:

	Contract period	Committed funding		Uncalled committed funding	
		31.12.2020.	31.12.2019.	31.12.2020.	31.12.2019.
<b>Investments in Subsidiaries</b>					
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
<b>Investments in Associates</b>					
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
<b>Other investments</b>					
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	-
<b>Total funding</b>		<b>253 479</b>	<b>169 016</b>	<b>142 342</b>	<b>74 575</b>

## 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)
<b>Revaluation reserve of financial assets measured at fair value through other comprehensive income at the end of period ended December 31</b>	<b>1 213</b>	<b>2 638</b>	<b>1 213</b>	<b>2 638</b>

\* 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.
<b>Transactions with shareholders</b>				
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)
<b>Associates</b>				
Venture capital funds	-	6 324	-	(5 303)
<b>Other companies owned by the Group's shareholders</b>				
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.
<b>Assets</b>				
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
<b>Total assets</b>	<b>802 568</b>	<b>512 434</b>	<b>794 293</b>	<b>509 079</b>
<b>Liabilities</b>				
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
<b>Total liabilities</b>	<b>426 860</b>	<b>289 892</b>	<b>425 178</b>	<b>289 892</b>

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.
<b>Assets</b>				
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
<b>Total assets</b>	<b>801 987</b>	<b>511 877</b>	<b>793 703</b>	<b>508 522</b>
<b>Liabilities</b>				
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
<b>Total liabilities</b>	<b>426 860</b>	<b>289 892</b>	<b>425 178</b>	<b>289 892</b>

## 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.
<b>Assets measured at fair value</b>								
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
<b>Assets with fair values disclosed</b>								
Due from credit institutions and the Treasury	-	-	316 631	181 198	43 318	-	359 949	181 198
<b>Financial assets at amortised cost:</b>								
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
<b>Total assets</b>	<b>24 035</b>	<b>35 021</b>	<b>330 696</b>	<b>195 258</b>	<b>439 562</b>	<b>278 800</b>	<b>794 293</b>	<b>509 079</b>
<b>Liabilities measured at fair value</b>								
Support programme funding	-	-	-	-	191 963	128 730	191 963	128 730
<b>Liabilities with fair value disclosed</b>								
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
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>425 178</b>	<b>289 892</b>	<b>425 178</b>	<b>289 892</b>

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.
<b>Assets measured at fair value</b>								
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
<b>Assets with fair values disclosed</b>								
Due from credit institutions and the Treasury	-	-	316 631	181 046	43 318	-	359 949	181 046
<b>Financial assets at amortised cost:</b>								
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
<b>Total assets</b>	<b>24 035</b>	<b>35 021</b>	<b>330 687</b>	<b>195 106</b>	<b>438 981</b>	<b>278 395</b>	<b>793 703</b>	<b>508 522</b>
<b>Liabilities measured at fair value</b>								
Support programme funding	-	-	-	-	191 963	128 730	191 963	128 730
<b>Liabilities with fair value disclosed</b>								
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
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>425 178</b>	<b>289 892</b>	<b>425 178</b>	<b>289 892</b>

## 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 underlying 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 2<sup>nd</sup> 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
<i>of which, interest on loans and guarantees (Note 4)</i>	<i>11 169</i>	<i>2 095</i>	<i>-</i>	<i>-</i>	<i>1 505</i>	<i>-</i>	<i>7</i>	<i>14 776</i>
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 securitises 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)
<b>Operating income / (loss) before operating expenses</b>	<b>10 662</b>	<b>3 160</b>	<b>648</b>	<b>(26)</b>	<b>2 361</b>	<b>35</b>	<b>342</b>	<b>17 182</b>
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	-	-	-	-	-	-	-	-
<b>Total segment profit/(loss)</b>	<b>3 567</b>	<b>484</b>	<b>514</b>	<b>(1 398)</b>	<b>2 195</b>	<b>31</b>	<b>146</b>	<b>5 539</b>
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
<b>Total segment assets</b>	<b>425 054</b>	<b>156 837</b>	<b>126 265</b>	<b>50 485</b>	<b>68 590</b>	<b>-</b>	<b>23 473</b>	<b>850 704</b>
<b>Total segment liabilities</b>	<b>251 157</b>	<b>76 321</b>	<b>36 525</b>	<b>47 715</b>	<b>55 645</b>	<b>-</b>	<b>747</b>	<b>468 110</b>

## 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
<i>of which, interest on loans and guarantees (Note 4)</i>	<i>9 548</i>	<i>1 410</i>	<i>-</i>	<i>-</i>	<i>796</i>	<i>-</i>	<i>11 754</i>
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)
<b>Operating income / (loss) before operating expenses</b>	<b>8 585</b>	<b>2 566</b>	<b>870</b>	<b>100</b>	<b>1 523</b>	<b>141</b>	<b>13 785</b>
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)
<b>Total segment profit/(loss)</b>	<b>3 245</b>	<b>4 479</b>	<b>691</b>	<b>(1 004)</b>	<b>1 169</b>	<b>(449)</b>	<b>8 131</b>
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
<b>Total segment assets</b>	<b>343 368</b>	<b>49 316</b>	<b>68 687</b>	<b>40 183</b>	<b>40 128</b>	<b>18 379</b>	<b>560 061</b>
<b>Total segment liabilities</b>	<b>173 392</b>	<b>67 778</b>	<b>17 867</b>	<b>28 971</b>	<b>38 382</b>	<b>933</b>	<b>327 323</b>

## 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.



## 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.

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Key audit matter	How the matter was addressed in the audit
<p><b>Expected credit losses on loans and measurement of guarantees</b></p>	
<p><i>Refer to Notes 2 (16), 13 and 32 to the financial statements</i></p> <p>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.</p> <p>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.</p> <p>In accordance with the requirements of IFRS 9 <i>Financial Instruments</i>, 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.</p> <p>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.</p> <p>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.</p> <p>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.</p>	<p>Our procedures included, but were not limited to:</p> <p>We assessed the appropriateness of the methodology used by the Company to identify impairment and quantify provisions for selected significant portfolios.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>On a sample of loans and guarantees, we evaluated the correctness of IFRS 9 staging and appropriateness of provisioning levels.</p> <p>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.</p> <p>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.</p>

<b>Accounting for investments in venture capital funds</b>	
<p>Refer to Notes 2 (16), 16, 17, 18 and 22 to the financial statements</p> <p>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.</p> <p>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'.</p> <p>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.</p> <p>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.</p> <p>As of 31 December 2020, the total value of investments in VCFs reported by the Company amounts to EUR 60 370 thousand.</p>	<p>Our procedures included, but were not limited to:</p> <p>We evaluated key judgments made by management when classifying investments in VCFs as subsidiaries, associates or other investments.</p> <p>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.</p> <p>We obtained the calculations of net asset values of the VCFs and the available information about the fair values of the underlying VCF Assets.</p> <p>For a sample of the VCFs, we assessed appropriateness of the calculation of its net assets.</p> <p>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.</p> <p>We assessed the relevance of adjustments made by the Company to the net asset values reported by the VCF's.</p>

*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.

Deloitte Audits Latvia SIA  
Licence No.43



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

Riga, Latvia  
March 31, 2021

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## 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) *
<b>Key financial data</b>						
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
<b>Tangible common equity (TCE) / Total tangible managed assets (TMA) ****</b>	<b>33.56%</b>	<b>29.40%</b>	<b>31.70%</b>	<b>35.10% *</b>	<b>36.50%</b>	<b>37.30%</b>
Equity and reserves (EUR '000)	382 594	232 738	221 590	222 848 *	210 406 *	199 610
<b>Total risk coverage: (EUR '000)</b>	<b>180 205</b>	<b>87 456</b>	<b>77 815</b>	<b>67 593 *</b>	<b>66 508 *</b>	<b>41 021</b>
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%
<b>Financial instruments (gross value)</b>						
<b>Outstanding (EUR '000) (by financial instrument)</b>						
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
<b>Total</b>	<b>803 509</b>	<b>617 341</b>	<b>528 518</b>	<b>463 068</b>	<b>434 024</b>	<b>395 051</b>
Number of transactions	26 578	22 437	18 603	14 655	11 561	8 940
<b>Volumes issued (EUR '000) (by financial instrument)</b>						
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
<b>Total</b>	<b>317 868</b>	<b>187 966</b>	<b>163 345</b>	<b>128 961</b>	<b>140 634</b>	<b>122 183</b>
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 (EUR)	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

<i>Net income from interest, fees and commission</i>	<p>"Net income from interest, fees and commission" is equal to the item "Net interest income" in the Statement of Comprehensive Income. Until 2018 this ratio included the following items of the Statement of Comprehensive Income: "Net interest income" and "Net income from fees and commissions". In 2019 following the industry practise Fee and commission income from lending activities is reclassified to Interest income from "Net income from fees and commissions". Subsequently the fee and commission income not related to lending activities is reclassified within Other income and as such is not included in this ratio. The item "Net income from fees and commissions" is not applicable in The Statement of Comprehensive Income 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.</p>
<i>Cost to income ratio (CIR)</i>	<p>"Cost to income ratio" (CIR) is calculated by dividing the amount of "Staff costs", "Administrative expense", "Amortisation of intangible assets and depreciation of property, plant and equipment" by "Operating income before operating expenses" included in the Statement of Comprehensive Income. ALTUM uses CIR to evaluate the operational efficiency. This is one of the measures of operational efficiency which ALTUM management assesses on a quarterly basis in the management reports to evaluate the outputs from different operational activities and efficiency improving measures.</p>
<i>Tangible common equity (TCE) / Tangible managed assets (TMA)</i>	<p>"Tangible Common Equity" (TCE) is calculated by subtracting the revaluation reserve of available for sale investments from total equity.</p> <p>The amount of "Total managed assets" (TMA) is calculated by adding the guarantees shown as off-balance sheet items to the total assets of ALTUM Group taking into account provisions for these guarantees and subtracting "Deferred expense", "Accrued income", "Property, plant and equipment", "Intangible assets", "Other assets" and "Assets held for sale".</p> <p>Data for the calculation of both indicators (TCE, TMA) are obtained from ALTUM Group's Financial statements: Statement of Financial Position and Consolidated Statement of Changes in Equity, notes - Off balance sheet items and contingent liabilities and Provisions. ALTUM uses the ratio "TCE/TMA" to evaluate ALTUM Group's capital position adequacy and to measure ALTUM Group's tangible common equity in terms of ALTUM Group's tangible managed assets including the off-balance sheet item Guarantee portfolio. The Risk and Liquidity Management Committee of ALTUM monitors its level on a quarterly basis.</p>
<i>Total risk coverage</i>	<p>"Total Risk Coverage" is the net funding available for covering the expected credit losses of the State aid programmes implemented by ALTUM. "Total Risk Coverage" is calculated as the total of "Risk Coverage Reserve" and "Portfolio Loss Reserve" (Specific Capital Reserves) less "Risk Coverage Reserve Used for Provisions" 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.</p> <p>"Total Risk Coverage" is key indicator to be used for assessment of ALTUM's risk coverage on implemented programmes and long-term financial stability.</p>
<i>180-day liquidity ratio</i>	<p>"180-days-liquidity ratio" is calculated by dividing the amount of the balances "Due from other credit institutions and the Treasury" with a maturity of up to 1 month and "Financial assets at fair value through other comprehensive income and Investment securities" by the amount of the total liabilities maturing within 6 months and total financial commitments maturing within 6 months (off-balance sheet items). The data required for the calculation of the "180-days liquidity ratio" is disclosed in the following ALTUM Group's Financial statements: Statement of Financial Position and notes – Maturity profile of assets and liabilities under the section of Risk Management, Off-balance sheet items and contingent liabilities. ALTUM uses the "180-days-liquidity ratio" to assess and monitor ALTUM Group's ability to fulfil ALTUM Group's contractual and/or contingent liabilities during 6 (six) month with the currently available liquidity resources. "180-days-liquidity ratio" helps to manage ALTUM Group's liquidity risk in line with ALTUM Group's/ALTUM's funding management objectives and risk framework. Risk and Liquidity Management Committee of ALTUM monitors its level on a quarterly basis.</p>
<i>Total contribution to the economy, including the participation of the final recipients, by volumes issued in the period</i>	<p>The 'Total contribution to the economy, including the participation of the final recipients, by volumes issued in the period' is calculated by adding to the volumes issued by ALTUM the financing provided by the private co-financier and the project promoter.</p>



## Definition of ratios (cont'd)

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

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## 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*:

<ul style="list-style-type: none"> <li>Major financial objective in implementation of the state aid programmes – positive return on Altum's capital.</li> </ul>	<ul style="list-style-type: none"> <li>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.</li> </ul>
<ul style="list-style-type: none"> <li>Major non-financial objective is to support and promote availability of finances to the business and development of the national economy.</li> </ul>	<ul style="list-style-type: none"> <li>Main target segments: support for entrepreneurs, energy efficiency, support for farmers, support for specific categories of persons, management of the Latvian Land Fund.</li> </ul>

## Corporate Governance Report 2020 (cont'd)

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 (11.03.2021); +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,

# Corporate Governance Report 2020

(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](http://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

## Corporate Governance Report 2020 (cont'd)

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

## Corporate Governance Report 2020 (cont'd)

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 CO<sub>2</sub> 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](http://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](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



## Corporate Governance Report 2020 (cont'd)

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

## Corporate Governance Report 2020 (cont'd)

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.



## Corporate Governance Report 2021 (cont'd)

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](http://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.

## Corporate Governance Report 2021 (cont'd)

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:

Innovation, infrastructure	<i>5G Techritory</i>	Promoting the Baltic Sea Region countries' cooperation in digital infrastructure
	<i>Three Seas Initiative Investment Fund (3SIIF)</i>	Promoting a new financing initiative to support transport, energy and digital infrastructure projects in Central and Eastern Europe, contributing to the region's economic development and quality infrastructure
	<i>Investor of the Year</i>	Popularization of venture capital investments and their positive effect on the national economy of Latvia, highlighting the most successful private and corporate investment deals
	<i>Techcill</i>	Fostering the development of the Baltic start-up ecosystem
Development of business environment	<i>Employers and business support leaders' think tanks Business Trends 2020</i>	Promoting an exchange of views on matters important to the business environment by joining forces with partners – Latvian Employers' Confederation and the European Commission
	<i>Business experience days</i>	Promoting sharing of knowledge among entrepreneurs for successful business development in cooperation with partners – LCCI and Swedbank

## Corporate Governance Report 2021 (cont'd)

	<i>Seminar A Practical Guide to Taxation and Securing Financing for Newcomers to Business</i>	In order to reduce potential risks related to inadequate tax and financial planning, Altum in cooperation with the State Revenue Service
	<i>Countryside Will Be! competition (Laukiem būt)</i>	Promotion of entrepreneurial activity in rural areas by involving young people, fostering the development of their competencies and involvement in rural entrepreneurship in cooperation with the Latvian Rural Advisory and Training Centre, while promoting a more balanced regional development in Latvia
Effect upon environment, green thinking	<i>Living Warmer campaign and Most Energy Efficient Building in Latvia project</i>	Promoting energy-efficient practices in households and business environment, emphasizing both financial and environmental benefits thereof
	<i>Forum What Happens After We Get Through Covid? Company Survival Kit for the Next 3 Years</i>	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	<i>Higher education (Latvia University of Life Sciences and Technologies, BA School of Business and Finance)</i>	Promoting cooperation between science and business, youth involvement in research, commercialization of research quality and innovative ideas
	<i>Discussion of BA School of Business and Finance graduates on challenges at a time of change in higher education</i>	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	<i>Latvian student companies' events #CitsBazārs</i>	Educating a new generation of entrepreneurs and industry experts by linking, in the learning process, theoretical knowledge with practice, through participation in the Junior Achievement Latvia programme Student Company (Skolēnu mācību uzņēmums - SMU)
Public welfare, demography	<i>Social Entrepreneurship Association</i>	Promotion of the idea of social entrepreneurship so that Latvia would have increasingly more enterprises with a clear social purpose and positive social impact
	<i>Competition And Grow It Will (Tā labam būs augt)</i>	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.
	<i>Think tank on remigration issues</i>	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 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.

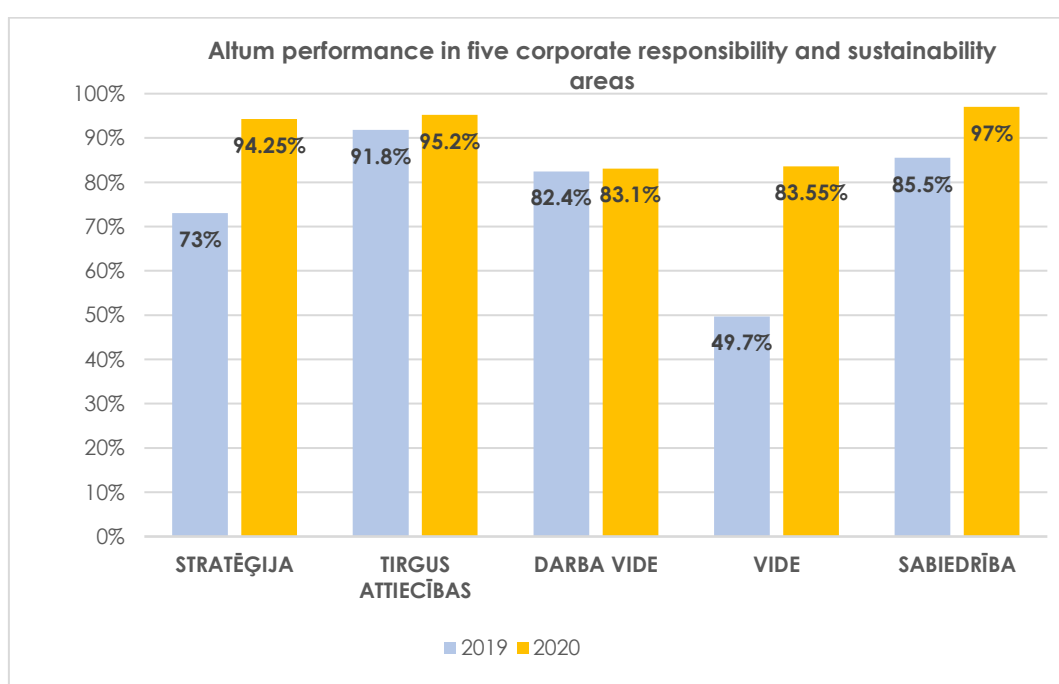
## Corporate Governance Report 2021 (cont'd)

Financial sector development	<i>Finance Latvia association</i>	Promotion of sustainable development of the financial sector by focusing, in cooperation with commercial banks, on the development of lending, personnel, communication, legal and other matters, and encouraging exchange of opinions and decision making in Latvia's public interest;
Export	<i>The Red Jackets</i>	Popularization of export-viable companies' experience and excellence in promoting export culture and positive economic impact;
	<i>Competition Export and Innovation Award</i>	Promotion of the production of new products with high export potential by popularizing the performance of Latvian companies and commending the manufacture of quality domestic products for the market, introduction of innovations and development of industrial design

More information about Altum principles for implementation of public support activities and support projects is available on website [www.altum.lv](http://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](http://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](http://www.altum.lv), in INVESTORS section under FINANCIAL INFORMATION sub-section.

A handwritten signature in black ink, appearing to be "Reinis Bērziņš".

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Reinis Bērziņš  
Chairman of the Board

31 March 2021

# **JSC DEVELOPMENT FINANCE INSTITUTION ALTUM**

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

(the 6th 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 2019, the Development Finance Institution Altum group (hereinafter – the Group) and the Group's parent company, the joint-stock company Development Finance Institution Altum (hereinafter – the Company), earned a profit of EUR 8.1 million.

## Key financial and performance indicators of the Group

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

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

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

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

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

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

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

## Financial instrument portfolio

As at 31 December 2019, the Group held a (gross) portfolio of financial instruments at a total value of EUR 593 million issued for 22,022 projects under the support programmes.

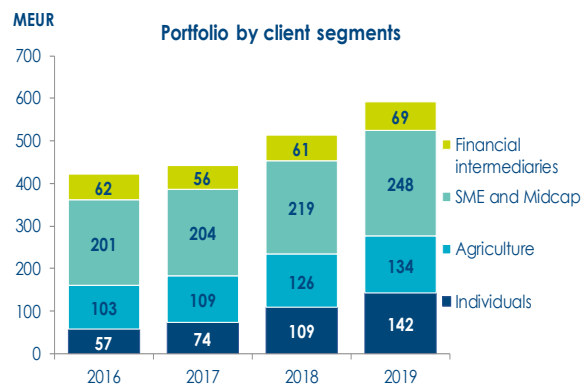
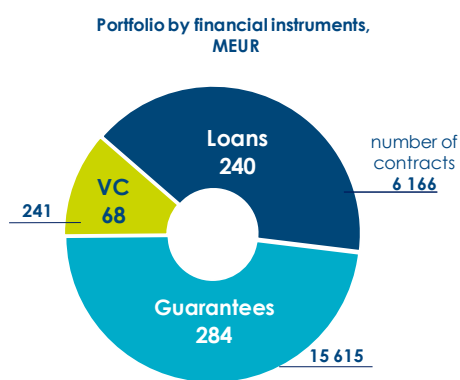
In 2019, the portfolio of the Group's financial instruments increased by 15.4% (EUR 79.3 million) in terms of volume and by 20.5% in terms of the number of projects (by 3,742 projects).

## Management Report (cont'd)

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

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

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

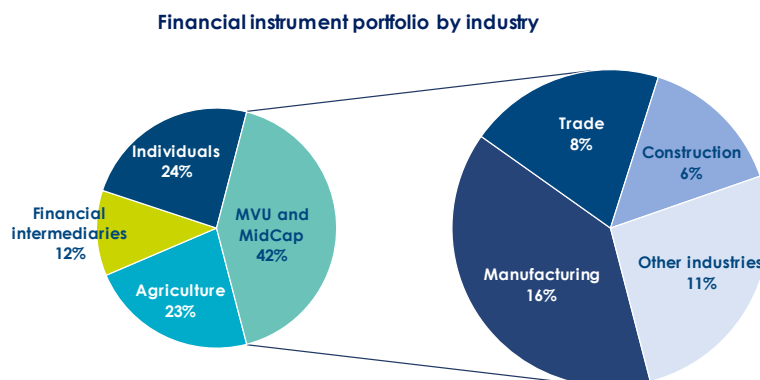


Group 31/12/2019

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

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

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



Group 31/12/2019

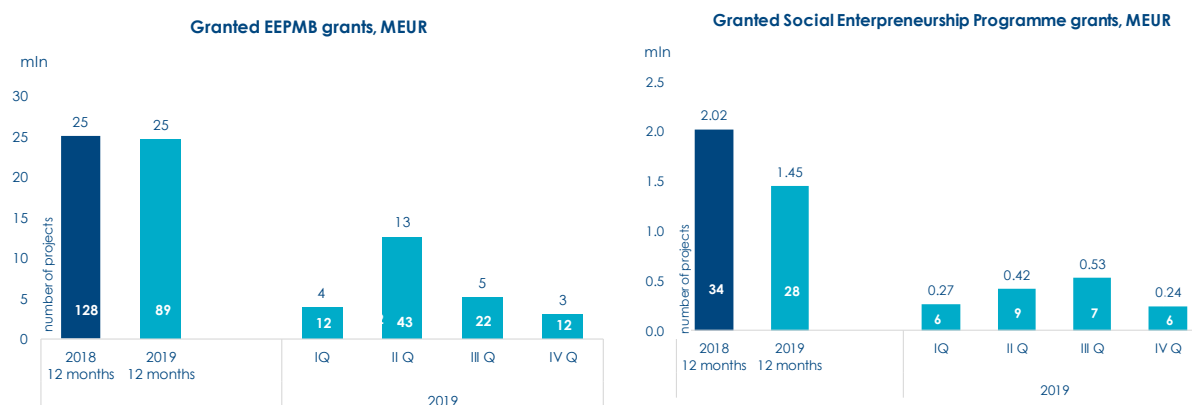
## Management Report (cont'd)

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

### Non-financial instrument portfolio

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

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



Group 31/12/2019

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

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

### Volume of new transactions

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

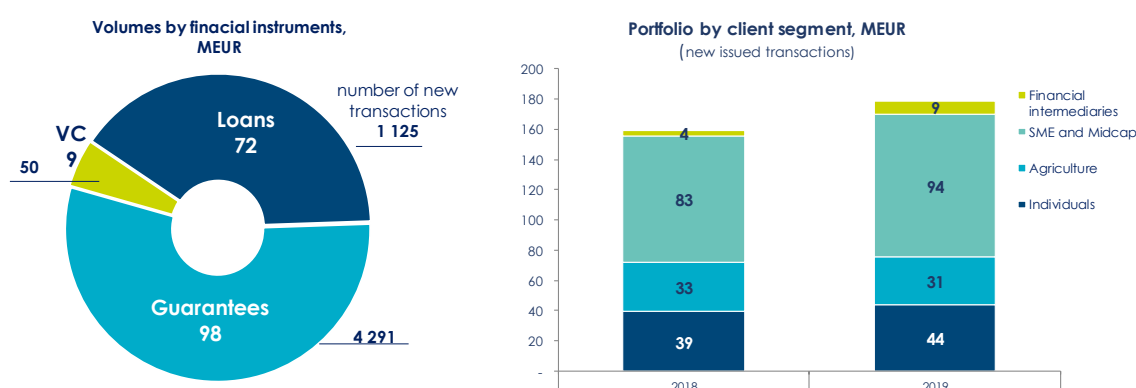
In 2019, the largest volume of new transactions was recorded in the segment of SMEs and Midcaps – 52.6%; in the other segments: Individuals – 24.7%, Agriculture – 17.6%, Financial Intermediaries – 5.1%.

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

## Management Report (cont'd)

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

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



Group 31/12/2019

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

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

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

As at 31 December 2019, as part of the Housing Guarantee Programme for Families with Children a total of 13,072 guarantees for EUR 94.9 million of the state aid for housing acquisition were granted. In 2019, guarantees issued under this programme totalled EUR 23.2 million, a 3% increase against the 2018. The programme's guarantees that help saving for the first instalment required to obtain a mortgage loan are used by families throughout Latvia: of the total number of the issued guarantees 79% were granted in Riga and its conurbations, 8% - in Kurzeme region, 7% - in Zemgale region, 4% - in Vidzeme region and 2% - in Latgale region. From March 2018, when the Programme was expanded to include young professionals, up to 31 December

## Management Report (cont'd)

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

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

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

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

### **New products and increasing operational efficiency**

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

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

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

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

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

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

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

## Management Report (cont'd)

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

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

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

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

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

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

### Long-term Funding

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

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

### Rating

On 25 March 2019 Moody's Investors Service (Moody's) confirmed Altum's (the parent company of the Group) Baa1 long-term issuer rating. The baseline credit assessment (BCA) was upgraded to baa3 from ba2. The short-term issuer rating was affirmed at P-2. The outlook on the long-term issuer rating is stable. This action concludes the Moody's review for upgrade initiated on 12 December 2018 following the introduction of an updated Moody's finance companies methodology on 10 December 2018.



## Management Report (cont'd)

Moody's initially assigned to Altum a long-term issuer rating Baa1 in June 2017. The Baa1 rating that Moody's assigned to Altum is one of the highest issuer ratings assigned to a corporate entity in Latvia. Altum baseline credit assessment upgrade from ba2 to investment grade rating baa3, as follows from the Moody's assessment: *"The strong financial profile of Altum with a very high capitalization level, large risk coverage margin incorporated in the public funding as well as reinvestment of the funding in implementation of new financial instruments products against moderate profitability and level of problem loans, as stipulated by Altum business specifics; and the unique standing of Altum in Latvia's financial services industry reflecting its policy mandate to provide a distribution channel for state and EU program funds to both end-customers (business start-ups, small and medium enterprises, farmers, etc.) and other financial institutions."*

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

### Risk Management

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

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

In view of the Group's activities in high-risk areas when implementing the State aid programmes, the Group has created the risk coverage of EUR 87.5 million (as at 31 December 2019) which is available to cover the expected credit loss of the State aid programmes. The expected loss is assessed before implementing the respective aid programme and a portion of the public funding received within the respective State aid programme for coverage of the expected credit loss is allocated to the risk coverage. The latter consists of the sum total of the risk coverage reserve and portfolio loss reserve (special reserve capital) less the risk coverage reserve used for provisions.

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

### Future Outlook

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

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

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

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

## Management Report (cont'd)

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

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

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

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



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Reinis Bērziņš  
Chairman of the Board

31 March 2020



## Supervisory Council and Management Board

### Supervisory Council

Name, Surname	Position	Appointment Date	Date of expiry of the term of the mandate
Līga Kļaviņa	Chairperson of the Council	29.12.2016.	28.12.2022.
Jānis Šnore	Member of the Council	29.12.2016.	28.12.2022.
Kristaps Soms	Member of the Council	29.12.2016.	28.12.2022.

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

### Management Board

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

Name, Surname	Position	Appointment Date	Date of expiry of the term of the mandate
Reinis Bērziņš	Chairman of the Board	11.06.2018.	10.06.2021.
Jēkabs Krieviņš	Member of the Board	11.06.2018.	10.06.2021.
Juris Vaskāns	Member of the Board	11.06.2018.	11.06.2018. - 28.11.2019.
Inese Zīle	Member of the Board	11.06.2018.	10.06.2021.
Aleksandrs Bimbirulis	Member of the Board	07.07.2017.	06.07.2020.

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

## Statement of Management's responsibility

Riga

31 March 2020

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

The financial statements and notes thereto set out on pages 13 to 87 are prepared in accordance with the source documents and present truly and fairly the financial position of the Company and the Group as at 31 December 2019 and 2018, and the results of their operations, changes in the shareholders' equity and cash flows for the years then ended.

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

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



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Reinis Bērziņš  
Chairman of the Board

## Statement of Comprehensive Income

All amounts in thousands of euro

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

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

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



Reinis Bērziņš  
Chairman of the Board



Kaspars Gibeiko  
Chief Accountant

## Statement of Financial Position

All amounts in thousands of euro

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

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

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



Reinis Bērziņš  
Chairman of the Board



Kaspars Gibeiko  
Chief Accountant

## Consolidated Statement of Changes in Equity

All amounts in thousands of euro

	Attributable to owners of the Company					Non-controlling interest	Total equity
	Share capital	Reserve capital	Revaluation reserve of financial assets measured at fair value through other comprehensive income	Reserve of disposal group classified as held for sale	Retained earnings		
<b>As at 31 December 2017 (restated)</b>	<b>204 862</b>	<b>722</b>	<b>6 092</b>	<b>1 839</b>	<b>9 333</b>	<b>-</b>	<b>222 848</b>
Impact of IFRS 9 adoption	-	-	-	(1 839)	(812)	-	(2 651)
Reclassification of distribution of 2015 year profit of the Company	-	-	-	-	(1 829)	-	(1 829)
<b>As at 1 January 2018</b>	<b>204 862</b>	<b>722</b>	<b>6 092</b>	<b>-</b>	<b>6 692</b>	<b>-</b>	<b>218 368</b>
Profit for the period	-	-	-	-	4 092	-	4 092
Other comprehensive income	-	-	(2 495)	-	-	-	(2 495)
Total comprehensive income	-	-	(2 495)	-	4 092	-	1 597
Changes of reserves (Note 35)	-	(753)	-	-	-	-	(753)
Increase of reserve capital (Note 35)	-	2 112	-	-	-	-	2 112
Distribution of 2017 profit of the Company (Note 35)	-	5 884	-	-	(5 884)	-	-
Non-controlling interest	-	-	-	-	-	266	266
<b>As at 31 December 2018</b>	<b>204 862</b>	<b>7 965</b>	<b>3 597</b>	<b>-</b>	<b>4 900</b>	<b>266</b>	<b>221 590</b>
Profit for the period	-	-	-	-	8 131	-	8 131
Other comprehensive income	-	-	(959)	-	-	-	(959)
Total comprehensive income	-	-	(959)	-	8 131	-	7 172
Increase of reserve capital (Note 35)	-	3 700	-	-	-	-	3 700
Distribution of profit of previous years (Note 35)	-	808	-	-	(808)	-	-
Distribution of 2018 profit of the Company (Note 35)	-	4 092	-	-	(4 092)	-	-
Non-controlling interest	-	-	-	-	-	276	276
<b>As at 31 December 2019</b>	<b>204 862</b>	<b>16 565</b>	<b>2 638</b>	<b>-</b>	<b>8 131</b>	<b>542</b>	<b>232 738</b>

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

## Company's Statement of Changes in Equity

All amounts in thousands of euro

	Share capital	Reserve capital	Revaluation reserve of financial assets measured at fair value through other comprehensive income	Reserve of disposal group classified as held for sale	Retained earnings	Total capital
<b>As at 31 December 2017 (restated)</b>	<b>204 862</b>	<b>(386)</b>	<b>6 092</b>	<b>1 839</b>	<b>7 488</b>	<b>219 895</b>
Impact of IFRS 9 adoption	-	-	-	(1 839)	(812)	(2 651)
<b>As at 1 January 2018</b>	<b>204 862</b>	<b>(386)</b>	<b>6 092</b>	<b>-</b>	<b>6 676</b>	<b>217 244</b>
Profit for the period	-	-	-	-	4 462	4 462
Other comprehensive income	-	-	(2 495)	-	-	(2 495)
Total comprehensive income	-	-	(2 495)	-	4 462	1 967
Increase of reserve capital	-	2 112	-	-	-	2 112
Distribution of 2017 profit (Note 35)	-	5 884	-	-	(5 884)	-
<b>As at 31 December 2018</b>	<b>204 862</b>	<b>7 610</b>	<b>3 597</b>	<b>-</b>	<b>5 254</b>	<b>221 323</b>
Profit for the period	-	-	-	-	8 131	8 131
Other comprehensive income (Note 35)	-	-	(959)	-	-	(959)
Total comprehensive income	-	-	(959)	-	8 131	7 172
Increase of reserve capital	-	3 700	-	-	-	3 700
Distribution of profit of previous years	-	791	-	-	(791)	-
Distribution of 2018 profit (Note 35)	-	4 462	-	-	(4 462)	-
<b>As at 31 December 2019</b>	<b>204 862</b>	<b>16 563</b>	<b>2 638</b>	<b>-</b>	<b>8 131</b>	<b>232 194</b>

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

## Statement of Cash Flows

All amounts in thousands of euro

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

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

# Approval of the Financial Statements

The management of the Company has approved these financial statements on 31 March 2020. The Commercial Law of the Republic of Latvia as well as Development Finance Institution Law stipulates that the shareholders' meeting is entitled to pass a decision on approval of the financial statements.

## 1 General Information

### (1) Corporate Information

These financial statements contain the financial information about joint-stock company Development Finance Institution Altum (Company) and its subsidiaries (hereinafter together — the Group). The separate financial statements of the Company are included alongside these consolidated financial statements to comply with legal requirements. The Company is the parent entity of the Group (Note 20).

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

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

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

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

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



## 2 Accounting Policies

### (1) Basis of presentation

These Group's and the Company's financial statements are financial statements prepared in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union, on a going concern basis. In preparation of these financial statements on a going concern basis the management considered the Group's / Company's financial position, access to financial resources and analysed the impact of the external factors on future operations of the Group / Company. For detailed disclosure on the impact of COVID-19 on the Group / Company see Note 42.

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

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

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

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

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

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

## 2 Accounting Policies (cont'd)

### (1) Basis of presentation (cont'd)

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

Items of statement of comprehensive income	Initial amount in 2018, Group	Reclassified	Reclassified amount in 2018, Group
<b>Restated items of statement of comprehensive income:</b>			
Interest income	11 934	516	12 450
Interest on loans and guarantees	9 934	516	10 450
Interest expense	(763)	(385)	(1 148)
Interest on balances due to credit institutions	(184)	(192)	(376)
Interest on issued debt securities	-	(387)	(387)
Allocation of state support programmes' profit to support programme funding	-	(346)	(346)
Other interest expense	(579)	555	(24)
Other commission expense	-	(15)	(15)
Income from implementation of state support programmes	-	3 337	3 337
Compensation of expenses for management of state support programmes	-	1 877	1 877
Compensation of the venture capital funds' management fees	-	1 460	1 460
Compensated expense for implementation of state support programmes	-	(3 391)	(3 391)
Compensated staff costs	-	(1 507)	(1 507)
Compensated administrative expense	-	(370)	(370)
Compensated venture capital fund management fees	-	(1 514)	(1 514)
Fee and commission income	539	(539)	-
From lending activities	537	(537)	-
Other fee and commission income	2	(2)	-
Fee and commission expense	(156)	156	-
On venture capital fund management fee	(54)	54	-
On securities portfolio maintenance	(62)	62	-
Other fee and commission expense	(40)	40	-
Other income	2 979	(1 600)	1 379
Income from lease payments for operational leases	421	(36)	385
Income from sale of investment property	-	11	11
Income from sale of repossessed collateral	-	292	292
Other commission income	-	15	15
Other operating income	418	(5)	413
Compensation	1 877	(1 877)	-
Other expense	-	(639)	(639)
Maintenance and service costs of Land Fund	-	(105)	(105)
Debt collection costs	-	(286)	(286)
Maintenance costs of repossessed collateral	-	(38)	(38)
Revaluation of repossessed collateral	-	(116)	(116)
Commission expense on investments in securities	-	(89)	(89)
Other commission expense	-	(5)	(5)
Staff costs	(7 368)	1 507	(5 861)
Administrative costs	(3 517)	1 038	(2 479)
Maintenance costs of repossessed collateral	(311)	311	-
Revaluation of repossessed collateral	(116)	116	-
Real estate tax	(152)	78	(74)
Other expense	(516)	163	(353)
<b>Items of statement of comprehensive income that were not restated:</b>			
Gains or losses from debt securities and foreign exchange translation	122	-	122
Share of (losses) of investment in joint venture and associate	(1 348)	-	(1 348)
Share of gain of investment in joint venture and associate at fair value through profit or loss	257	-	257
Gains less losses from liabilities at fair value through profit or loss	953	-	953
Amortisation of intangible assets and depreciation of property, plant and equipment	(620)	-	(620)
(Impairment) gain or loss, net	672	-	672
Profit or (loss) from assets held for sale revaluation	408	-	408
<b>Profit for the period</b>	<b>4 092</b>	<b>-</b>	<b>4 092</b>

## 2 Accounting Policies (cont'd)

### (1) Basis of presentation (cont'd)

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

Items of statement of comprehensive income	Initial amount in 2018, Company	Reclassified	Reclassified amount in 2018, Company
<b>Restated items of statement of comprehensive income:</b>			
Interest income	11 934	516	12 450
Interest on loans and guarantees	9 934	516	10 450
Interest expense	(763)	(385)	(1 148)
Interest on balances due to credit institutions	(184)	(192)	(376)
Interest on issued debt securities	-	(387)	(387)
Allocation of state support programmes' profit to support programme funding	-	(346)	(346)
Other interest expense	(579)	555	(24)
Other commission expense	-	(15)	(15)
Income from implementation of state support programmes	-	3 337	3 337
Compensation of expenses for management of state support programmes	-	1 877	1 877
Compensation of the venture capital funds' management fees	-	1 460	1 460
Compensated expense for implementation of state support programmes	-	(3 391)	(3 391)
Compensated staff costs	-	(1 507)	(1 507)
Compensated administrative expense	-	(370)	(370)
Compensated venture capital fund management fees	-	(1 514)	(1 514)
Fee and commission income	539	(539)	-
From lending activities	537	(537)	-
Other fee and commission income	2	(2)	-
Fee and commission expense	(156)	156	-
On venture capital fund management fee	(54)	54	-
On securities portfolio maintenance	(62)	62	-
Other fee and commission expense	(40)	40	-
Other income	2 979	(1 600)	1 379
Income from lease payments for operational leases	421	(36)	385
Income from sale of investment property	-	29	29
Income from sale of repossessed collateral	-	234	234
Other commission income	-	15	15
Other operating income	418	(5)	413
Compensation	1 877	(1 877)	-
Other expense	-	(639)	(639)
Maintenance and service costs of Land Fund	-	(105)	(105)
Debt collection costs	-	(286)	(286)
Maintenance costs of repossessed collateral	-	(38)	(38)
Revaluation of repossessed collateral	-	(116)	(116)
Commission expense on investments in securities	-	(89)	(89)
Other commission expense	-	(5)	(5)
Staff costs	(7 368)	1 507	(5 861)
Administrative costs	(3 517)	1 038	(2 479)
Maintenance costs of repossessed collateral	(311)	311	-
Revaluation of repossessed collateral	(116)	116	-
Real estate tax	(152)	78	(74)
Other expense	(516)	163	(353)
<b>Items of statement of comprehensive income that were not restated:</b>			
Gains or losses from debt securities and foreign exchange translation	122	-	122
Share of (losses) of investment in joint venture and associate	(1 348)	-	(1 348)
Share of gain of investment in joint venture and associate at fair value through profit or loss	257	-	257
Gains less losses from liabilities at fair value through profit or loss	953	-	953
Amortisation of intangible assets and depreciation of property, plant and equipment	(620)	-	(620)
(Impairment) gain or loss, net	672	-	672
Profit or (loss) from assets held for sale revaluation	778	-	778
<b>Profit for the period</b>	<b>4 462</b>	<b>-</b>	<b>4 462</b>

## 2 Accounting Policies (cont'd)

### (1) Basis of presentation (cont'd)

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

### (2) Consolidation and investments in associates

#### (i) Consolidation

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

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

Financial statements of the parent company and of the consolidated subsidiaries refer to the same period and have been drawn up according to the accounting policies applicable to the Group. A subsidiary is included in the consolidated financial statements from the time of acquisition, being the date when the parent company gains control over the subsidiary. The subsidiary is included in the consolidated financial statements until the date when control over the company ceases to exist. The entities of the Group are listed in Note 20.

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

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

At the level of the Company, the investments in subsidiaries upon their initial recognition at cost are recorded at fair value with revaluation in the profit or loss (see Note 2 (6) item (iii)). Some of the venture capital funds' investments are classified as investments in subsidiaries See Note 20 for details.

#### (ii) Investments in associates

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

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

The Group / Company classifies investments in the associates in two categories using a different accounting method for each. The first category is measured based on the equity method (Note 2 (6) item (i)), whereas the second category – fair value with revaluation in the profit or loss (Note 2 (6) item (ii) and Note 2 (6) item (iii)). Some of the venture capital funds investments are classified as investments in associates. See Note 17 for details.

### (3) Foreign currency translation

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

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

## 2 Accounting Policies (cont'd)

### (3) Foreign currency translation (cont'd)

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

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

### (4) Income and expense recognition

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

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

#### (i) Foreign income and expense

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

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

#### (ii) Interest income and expense

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

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

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

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

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

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

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

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

## 2 Accounting Policies (cont'd)

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

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

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

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

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

#### (i) Initial recognition

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

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

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

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

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

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

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

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

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

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

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

## 2 Accounting Policies (cont'd)

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

#### (v) Financial assets – reclassification.

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

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

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

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

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

Stage 3 includes financial instruments which are credit-impaired.

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

#### Measurement of expected credit losses

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

The ECL are determined by projecting the PD, LGD and EAD for each future month over the expected lifetime of an exposure. The three parameters are multiplied together and adjusted for future information. This effectively calculates monthly ECL, which are discounted back to the reporting date using the original effective interest rate and summed. The sum of all months over the remaining expected lifetime results in the lifetime the ECL and the sum of the next 12 months results in the 12-month ECL.

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

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

#### Definition of default and credit-impaired financial assets

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



## 2 Accounting Policies (cont'd)

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

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

##### Determining a significant increase in credit risk since initial recognition

The Group / Company assesses changes in credit risk at the individual financial instrument level. A financial instrument is no longer considered to have experienced a significant increase in credit risk when all indicators are no longer breached.

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

##### Expected lifetime

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

##### Modifications

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

##### Estimates

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

##### Presentation of credit impairments

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

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

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

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

#### (vii) Financial assets – write-off

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



## 2 Accounting Policies (cont'd)

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

#### (viii) Financial assets – derecognition

The Group / Company derecognises financial assets when:

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

#### (ix) Financial assets – modification

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

#### (x) Financial liabilities – measurement categories

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

#### (xi) Financial liabilities – derecognition

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

#### (xii) Due from credit institutions and the Treasury

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

#### (xiii) Derivative financial instruments

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

#### (xiv) Investment securities

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

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

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

## 2 Accounting Policies (cont'd)

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

#### (xv) Loans

For purposes of this section, loans are:

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

Based on the business model and the cash flow characteristics, the Group / Company classifies loans measured at AC. It means, that loans are held for collection of contractual cash flows. The loans are recognised in the financial statements of the Group / Company when cash is advanced to borrowers.

#### Loan commitments

The Group / Company issues commitments to provide loans. These commitments are irrevocable or revocable only in response to a material adverse change. Fees received for loan commitments are amortised on a straight-line basis over the life of the commitment. Further on such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at the remaining unamortised balance of the amount at initial recognition plus the amount of the loss allowance determined based on the ECL model, unless the commitment is to provide a loan at an interest rate below the market rate, in which case the measurement is at the higher of these two amounts.

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

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

#### Reverse rent

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

#### Reposessed collateral

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

#### (xvi) Grants

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

## 2 Accounting Policies (cont'd)

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

#### (xvii) Financial guarantees

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

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

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

#### (xviii) Financial liabilities carried at amortised cost

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

#### (xix) Issued debt securities

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

#### (xx) Financial liabilities designated at FVTPL

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

### (6) Investments in venture capital funds

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

#### (i) Investments in Associates

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

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

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

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

## 2 Accounting Policies (cont'd)

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

#### (i) Investments in Associates (cont'd)

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

The Group and the Company use part of the support programme funding, i.e., the Risk Coverage Reserve to compensate the change in the values of venture capital funds. The risk coverage mechanism is attributable to the 2nd and 3rd generation venture capital funds, such as BaltCap Latvia Venture Capital Fund, Imprimatur Capital Technology Venture Fund, Imprimatur Capital Seed Fund, ZGI-3 fund, FlyCap Investment Fund I un Expansion Capital Fund.

#### (ii) Investments in the Baltic Innovation Funds

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

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

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

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

#### (iii) Investments by subsidiaries in the shares of companies

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

#### (iv) Other accounting issues

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

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

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

The above risk cover mechanism is valid for the second and third generation VCFs such as BaltCap Latvia Venture Capital Fund, Imprimatur Capital Technology Venture Fund, Imprimatur Capital Seed Fund, ZGI-3 fund, FlyCap Investment Fund I and Expansion Capital Fund (Note 17) as well as for Baltic Innovation Fund from the December 2017.

### (7) Fair values of assets and liabilities

Fair value is the price that would be received when selling an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. Fair values of financial assets and liabilities, including derivative financial instruments, are based on market prices quoted in active markets. If the market for a financial asset or liability (and for unlisted securities) is not active, the Group / Company establishes fair value by using valuation techniques. These include the use of discounted cash flow analysis, option pricing models and recent comparative transactions as appropriate. Where, in the opinion of the Management of the Group / Company, the fair values of financial assets and liabilities differ materially from their book values, such fair values are separately disclosed in the notes to the accounts.

## 2 Accounting Policies (cont'd)

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

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

Disclosures for valuation methods, significant estimates and assumptions	Note 2 (5), 2 (6), 2 (8), 2 (9), 2 (15), 2 (16)
Quantitative disclosures of fair value measurement hierarchy	Note 39
Investment property	Note 2 (9) item (iv)
Financial instruments including those carried at amortised cost	Note 2 (5)

### (8) Off-setting financial instruments

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

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

#### (i) Intangible assets

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

#### (ii) Property, plant and equipment and depreciation

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

The annual depreciation rates applied are as follows:

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

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

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

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

#### (iii) Impairment of non-financial assets

The Group / Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group / Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows

## 2 Accounting Policies (cont'd)

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

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

are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

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

#### (iv) Investment property

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

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

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

#### (v) Repossessed collateral (included in Other assets)

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

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

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



## 2 Accounting Policies (cont'd)

### (10) Leases

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

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

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

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

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

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

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

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

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

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

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

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

## 2 Accounting Policies (cont'd)

### (10) Leases (cont'd)

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

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

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

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

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

### (11) Corporate income tax

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

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

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

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

### (12) Provisions

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

### (13) Vacation reserve

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

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



## 2 Accounting Policies (cont'd)

### (14) Employee benefits

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

### (15) Support programme funding

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

The fair value of the liability established in this manner will consist of the already carried Programmes' funding coupled with the state aid portion adjusted for the part of the future cash flow pertaining of additional payments / to reduction of additional payments due to value appreciation or impairment of the associated assets, i.e. the liability would be recognised to the extent that corresponds to the liability's repayment amount established for the Group / Company.

When calculating the fair value of the liabilities or Programmes' funding as at 1 January 2018, an adjustment of EUR (8,449) thsd was made. As a result, EUR (7,465) thousand were attributed to the amount of the liabilities and EUR (984) thsd – to the retained earnings of the previous years.

The measurement of the liabilities at fair value affected the amount of the value impairment provisions of the Group / Company. The fair value and impairment loss are presented in gross amounts, i.e. taking into account the amount of the risk coverage.

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

Detailed information is provided in Note 29.

### (16) Critical accounting estimates and judgements

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

#### (i) Impairment losses of loans

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

#### (ii) Fair value of investments in the VCF

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

## 2 Accounting Policies (cont'd)

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

#### (iii) Impairment allowance for securities valued at amortised cost

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

#### (iv) Revaluation of investment properties

The Group / Company carries its investment properties at fair value, with changes in fair value being recognised in the statement of profit or loss. The Group / Company engaged an independent valuation specialist to assess fair value as at 31 December 2019 and 31 December 2018 for investment properties. Investment property consists of agricultural land. Comparable transaction method is applied mostly for investment property. More information is provided in Notes 2 (9) item (iv) and Note 19.

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

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

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

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

## 2 Accounting Policies (cont'd)

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

#### (vi) Classification of the 4th generation VCFs.

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

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

#### (vii) Monitoring value of investments in VCFs

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

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

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

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

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

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

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

## 2 Accounting Policies (cont'd)

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

#### (viii) Reverse rent

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

#### (ix) Agent vs Principal

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

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

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

#### (x) Loans below market rate

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

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

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

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

#### (xi) Expected losses on credit risk

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

## 2 Accounting Policies (cont'd)

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

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

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

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

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

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

#### ▪ Amendments to the Conceptual Framework for Financial Reporting

Effective for the periods beginning on or after 1 January 2020, not yet adopted by the EU. The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance - in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Group / Company makes assessment on the impact of these amendments on its financial statements and disclosures, but does not consider them to have a significant impact on its financial results.

#### ▪ Amendments to IFRS 3 – Definition of a business

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

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

Effective from 1 January 2020, not yet adopted by the EU. The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The Group / Company makes assessment on the impact of these amendments on its financial statements, but does not expect them to have a material impact on the Group's / Company's financial position, by reviewing estimates and judgements used in preparation of financial statements.

## 2 Accounting Policies (cont'd)

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

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

These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary and the shares of the subsidiary are transferred during the transaction. The Group / Company makes assessment on the impact of these amendments on its financial statements, but does not expect them to have a material impact on the Group's / Company's financial position, by reviewing estimates and judgements used in preparation of financial statements.

## 3 Risk Management

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

The following major risk management principles are followed:

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

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

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

### (1) Credit Risk

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

#### (i) Credit Risk Governance

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

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

#### (ii) Credit Risk Assessment and Monitoring

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

To maintain a well-diversified credit portfolio with a low-risk profile and to find a favourable balance between risk and return, the Group / Company works continuously to understand the customers and their market conditions. When the Group / Company considers a credit application, a thorough analysis is performed which includes the customer's or cooperation partner's capacity and willingness to repay the new credit as well as other credits.



## 3 Risk Management (cont'd)

### (1) Credit Risk (cont'd)

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

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

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

#### (iii) Credit Risk Mitigation

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

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

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

Internal rating categories	A	B	C	D	E	F	G	H	Withdrawn rating	Total
Total gross loans	661	18 818	25 805	63 853	43 576	26 064	13 240	3 728	21 386	217 131
Impairment allowances	(3)	(94)	(520)	(4 505)	(3 086)	(4 256)	(3 411)	(631)	(2 870)	(19 376)
<b>Total net loans as at 31 December 2018</b>	<b>658</b>	<b>18 724</b>	<b>25 285</b>	<b>59 348</b>	<b>40 490</b>	<b>21 808</b>	<b>9 829</b>	<b>3 097</b>	<b>18 516</b>	<b>197 755</b>
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)
<b>Total net loans as at 31 December 2019</b>	<b>165</b>	<b>25 560</b>	<b>31 872</b>	<b>53 913</b>	<b>45 104</b>	<b>27 983</b>	<b>10 105</b>	<b>2 055</b>	<b>23 372</b>	<b>220 129</b>

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

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Total gross loans	166	25 773	32 949	55 825	48 562	32 890	13 785	2 905	27 557	240 412
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Breakdown of the Group's / Company's issued guarantees by internal rating categories, in thousands of euro:

Internal rating categories	A	B	C	D	E	F	G	H	Withdrawn rating	Total
Total gross outstanding guarantees	697	16 508	43 457	39 123	28 123	11 504	1 701	52	95 730	236 895
Impairment allowances *	(23)	(1 431)	(4 328)	(3 344)	(2 185)	(1 265)	(251)	(2)	(11 315)	(24 144)
<b>Total net outstanding guarantees as at 31 December 2018</b>	<b>674</b>	<b>15 077</b>	<b>39 129</b>	<b>35 779</b>	<b>25 938</b>	<b>10 239</b>	<b>1 450</b>	<b>50</b>	<b>84 415</b>	<b>212 751</b>
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)
<b>Total net outstanding guarantees as at 31 December 2019</b>	<b>903</b>	<b>15 620</b>	<b>34 384</b>	<b>32 139</b>	<b>24 720</b>	<b>9 255</b>	<b>7 360</b>	<b>888</b>	<b>128 356</b>	<b>253 625</b>



## 3 Risk Management (cont'd)

### (1) Credit Risk (cont'd)

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

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

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

## 3 Risk Management (cont'd)

### (1) Credit Risk (cont'd)

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

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

## 3 Risk Management (cont'd)

### (1) Credit Risk (cont'd)

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

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

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

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

## 3 Risk Management (cont'd)

### (1) Credit Risk (cont'd)

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

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

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

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

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

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

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

## 3 Risk Management (cont'd)

### (1) Credit Risk (cont'd)

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

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

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

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

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
<b>Total credit loss allowance for loans</b>	<b>30 607</b>	<b>(4)</b>	<b>5</b>	<b>(214)</b>	<b>215</b>

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

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

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

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

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

## 3 Risk Management (cont'd)

### (1) Credit Risk (cont'd)

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

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

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

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

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

### Impact of the transition to IFRS 9 on impairment losses

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

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

On 31 December 2017, total impairment due to credit losses applied to the Group / Company of EUR 39,007 consisted of credit losses EUR 30,463 thousand measured according to IAS 39 and credit losses EUR 8,544 measured according to IAS 37, while on 1 January 2018, total impairment due to credit losses applied to the Group/Company consisted of credit losses measured only according to IFRS 9.

### (2) Liquidity Risk

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

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

## 3 Risk Management (cont'd)

### (2) Liquidity Risk (cont'd)

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

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

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

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

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

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

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

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

## 3 Risk Management (cont'd)

### (2) Liquidity Risk (cont'd)

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

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

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

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

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

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



## 3 Risk Management (cont'd)

### (2) Liquidity Risk (cont'd)

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

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

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

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

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

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

## 3 Risk Management (cont'd)

### (2) Liquidity Risk (cont'd)

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

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years and w/o maturity	Total
<b>Assets</b>							
Due from credit institutions and the Treasury	123 824	8 202	-	5 000	-	-	137 026
Financial assets at fair value through profit or loss	-	-	-	-	-	1 160	1 160
Investment securities	96	1 270	71	260	38 866	10 293	50 856
Loans	10 224	8 387	7 779	18 886	85 664	66 815	197 755
Grants	2	-	-	-	974	21 585	22 561
Deferred expense and accrued income	158	-	-	1 703	211	-	2 072
Assets held for sale	11 343	-	-	-	-	-	11 343
Investments in venture capital funds	746	-	-	-	38 505	10 988	50 239
Investment property	-	-	-	-	12 747	2 047	14 794
Property, plant and equipment	-	-	-	-	-	4 228	4 228
Intangible assets	-	-	-	-	-	1 347	1 347
Other assets	265	-	-	652	1 641	-	2 558
<b>Total assets</b>	<b>146 658</b>	<b>17 859</b>	<b>7 850</b>	<b>26 501</b>	<b>178 608</b>	<b>118 463</b>	<b>495 939</b>
<b>Liabilities</b>							
Due to credit institutions	-	4 398	-	4 333	26 389	3 125	38 245
Financial assets at fair value through profit or loss – derivatives	2	-	-	-	-	-	2
Due to general governments	-	1	-	-	-	48 109	48 110
Issued debt securities	109	-	-	-	-	29 834	29 943
Deferred income and accrued expense	970	185	228	253	789	586	3 011
Provisions	25 103	-	-	270	-	-	25 373
Support programme funding	34 052	-	206	-	11 883	80 818	126 959
Other liabilities	2 706	-	-	-	-	-	2 706
<b>Total liabilities</b>	<b>62 942</b>	<b>4 584</b>	<b>434</b>	<b>4 856</b>	<b>39 061</b>	<b>162 472</b>	<b>274 349</b>
<b>Net liquidity</b>	<b>83 716</b>	<b>13 275</b>	<b>7 416</b>	<b>21 645</b>	<b>139 547</b>	<b>(44 009)</b>	<b>221 590</b>

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

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

## 3 Risk Management (cont'd)

### (2) Liquidity Risk (cont'd)

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

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years and w/o maturity	Total
<b>Assets</b>							
Due from credit institutions and the Treasury	123 444	8 202	-	5 000	-	-	136 646
Financial assets at fair value through profit or loss	-	-	-	-	-	-	-
Investment securities	96	1 270	71	260	38 866	10 293	50 856
Loans	10 224	8 387	7 779	18 886	85 664	66 533	197 473
Grants	2	-	-	-	974	21 585	22 561
Deferred expense and accrued income	158	-	-	1 703	211	-	2 072
Assets held for sale	11 343	-	-	-	-	-	11 343
Investments in venture capital funds	746	-	-	-	38 505	10 988	50 239
Investments in subsidiaries	-	-	-	-	-	1 492	1 492
Investment property	-	-	-	-	12 747	2 047	14 794
Property, plant and equipment	-	-	-	-	-	4 228	4 228
Intangible assets	-	-	-	-	-	1 347	1 347
Other assets	265	-	-	652	1 641	-	2 558
<b>Total assets</b>	<b>146 278</b>	<b>17 859</b>	<b>7 850</b>	<b>26 501</b>	<b>178 608</b>	<b>118 513</b>	<b>495 609</b>
<b>Liabilities</b>							
Due to credit institutions	-	4 398	-	4 333	26 389	3 125	38 245
Financial assets at fair value through profit or loss – derivatives	2	-	-	-	-	-	2
Due to general governments	-	1	-	-	-	48 109	48 110
Issued debt securities	109	-	-	-	-	29 834	29 943
Deferred income and accrued expense	970	185	228	253	789	586	3 011
Provisions	25 103	-	-	270	-	-	25 373
Support programme funding	34 052	-	206	-	11 883	80 818	126 959
Other liabilities	2 643	-	-	-	-	-	2 643
<b>Total liabilities</b>	<b>62 879</b>	<b>4 584</b>	<b>434</b>	<b>4 856</b>	<b>39 061</b>	<b>162 472</b>	<b>274 286</b>
<b>Net liquidity</b>	<b>83 399</b>	<b>13 275</b>	<b>7 416</b>	<b>21 645</b>	<b>139 547</b>	<b>(43 959)</b>	<b>221 323</b>

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

### (3) Interest Rate Risk

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

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

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

## 3 Risk Management (cont'd)

### (3) Interest Rate Risk (cont'd)

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

All amounts in thousands of euro

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

### (4) Foreign Currency Risk

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

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

All amounts in thousands of euro

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

### (5) Operational Risk

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

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

### (6) AML / CTF / sanctions risk

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

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

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

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

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

## 3 Risk Management (cont'd)

### (7) Capital Management

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

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

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

## 4 Interest income

All amounts in thousands of euro

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

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

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

## 5 Interest expense

All amounts in thousands of euro

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

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

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

## 6 Income for implementation of state support programmes

All amounts in thousands of euro

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

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

## 7 Expenses to be compensated for implementation of state support programmes

All amounts in thousands of euro

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

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

## 8 Gains from debt securities and foreign exchange transactions

All amounts in thousands of euro

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

## 9 Other income

All amounts in thousands of euro

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

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

## 10 Other expense

All amounts in thousands of euro

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

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



## 11 Staff Costs

All amounts in thousands of euro

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

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

## 12 Administrative expenses

All amounts in thousands of euro

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

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

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

## 13 Impairment losses, net

All amounts in thousands of euro

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

## 14 Due from credit institutions and the Treasury

All amounts in thousands of euro

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

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

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

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

Ratings	Aaa	Aa1-Aa3	A1-A3	Baa1-Baa3	Ba1-Ba3	B1-B3	Caa-C	Withdrawn rating (WR)	Total
Due from credit institutions registered in the Republic of Latvia and the Treasury	-	12 595	96 875	22 159	5 402	-	-	-	137 031
<b>Total gross as at 31 December 2018</b>	-	<b>12 595</b>	<b>96 875</b>	<b>22 159</b>	<b>5 402</b>	-	-	-	<b>137 031</b>
Due from credit institutions registered in the Republic of Latvia and the Treasury	-	12 435	138 364	23 973	6 427	-	-	-	181 199
<b>Total gross as at 31 December 2019</b>	-	<b>12 435</b>	<b>138 364</b>	<b>23 973</b>	<b>6 427</b>	-	-	-	<b>181 199</b>

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

Ratings	Aaa	Aa1-Aa3	A1-A3	Baa1-Baa3	Ba1-Ba3	B1-B3	Caa-C	Withdrawn rating (WR)	Total
Due from credit institutions registered in the Republic of Latvia and the Treasury	-	12 411	96 875	21 963	5 402	-	-	-	136 651
<b>Total gross as at 31 December 2018</b>	-	<b>12 411</b>	<b>96 875</b>	<b>21 963</b>	<b>5 402</b>	-	-	-	<b>136 651</b>
Due from credit institutions registered in the Republic of Latvia and the Treasury	-	12 435	138 364	23 821	6 427	-	-	-	181 047
<b>Total gross as at 31 December 2019</b>	-	<b>12 435</b>	<b>138 364</b>	<b>23 821</b>	<b>6 427</b>	-	-	-	<b>181 047</b>

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

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

## 15 Investment Securities

All amounts in thousands of euro

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

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

## 15 Investment Securities (cont'd)

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

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

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

## 16 Financial assets at fair value through profit or loss

All amounts in thousands of euro

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

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

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

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

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

## 17 Investments in venture capital funds

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

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

## 17 Investments in venture capital funds (cont'd)

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

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

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

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

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

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

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

## 18 Loans

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

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

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

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

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

## 18 Loans (cont'd)

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

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

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

	Group 01.01.2019.- 31.12.2019.	Group 01.01.2018.- 31.12.2018.	Company 01.01.2019.- 31.12.2019.	Company 01.01.2018.- 31.12.2018.
Allowances at the beginning of the period	19 376	15 438	19 376	15 438
Covered by risk coverage reserve	-	2 557	-	2 557
Impact of IFRS 9 adoption	-	4 324	-	4 324
Allowances for accrued income	-	1 745	-	1 745
Allowances as at 1 January	19 376	24 064	19 376	24 064
Increase in impairment allowances (Note 13)	8 793	5 917	8 793	5 917
Decrease in impairment allowances (Note 13)	(5 897)	(3 408)	(5 897)	(3 408)
Write-off of loans	(1 989)	(7 200)	(1 989)	(7 200)
Currency change	-	3	-	3
<b>Allowances at the end of the period ended 31 December</b>	<b>20 283</b>	<b>19 376</b>	<b>20 283</b>	<b>19 376</b>
<i>Group's / Company's share of provisions</i>	14 916	14 426	14 916	14 426
<i>Provisions covered by risk coverage*</i>	5 367	4 950	5 367	4 950

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

## 19 Investment Properties

All amounts in thousands of euro

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

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

## 19 Investment Properties (cont'd)

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

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

## 20 Investments in Subsidiaries

In 2019 disbursements were made to the 4th generation venture capital funds, part of which are classified as investments in subsidiaries, but part as investments in associates. All these investments are made into newly established venture capital funds with payments made upon call for funds. The Company has the right to appoint fund manager and fund manager is governing each particular venture capital fund. The Company also has ability to unconditionally remove fund manager. This ability expires within two years after certain date determined in each separate agreement with fund manager.

At the Group level the investments in subsidiaries are consolidated.

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

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

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

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

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

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

## 21 Intangible Assets

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

	Group 31.12.2019.	Group 31.12.2018.	Company 31.12.2019.	Company 31.12.2018.
	Computer software	1 395	1 347	1 395
<b>Total intangible assets</b>	<b>1 395</b>	<b>1 347</b>	<b>1 395</b>	<b>1 347</b>

## 21 Intangible Assets (cont'd)

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

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

## 22 Property, Plant and Equipment

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

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

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

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

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



## 22 Property, Plant and Equipment (cont'd)

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

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

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

## 23 Other Assets

All amounts in thousands of euro

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

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

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

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

	Disbursed guarantee compensations	Grants	Financial assets related to loan agreements	Other financial assets	Total
<b>Financial assets</b>					
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
<b>Impairment provision</b>					
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
<b>Net book value at the beginning of period</b>	-	-	<b>1 066</b>	<b>673</b>	<b>1 739</b>
<b>Net book value as at 31 December 2019</b>	-	-	<b>22</b>	<b>3 046</b>	<b>3 068</b>

## 23 Other Assets (cont'd)

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

	Disbursed guarantee compensations	Grants	Financial assets related to loan agreements	Other financial assets	Term deposits of JSC Savings Bank of Latvia being in liquidation	Total
<b>Financial assets</b>						
At the beginning of period	5 073	2 772	1 045	197	7 648	16 735
Changes	621	19 803	97	758	(7 648)	13 631
Reclassification	-	(22 575)	-	(17)	-	(22 592)
As at 31 December 2018	5 694	-	1 142	938	-	7 774
<b>Impairment provision</b>						
At the beginning of period	5 073	-	6	122	7 648	12 849
Impact from IFRS 9	-	2	-	-	-	2
Changes in impairment allowances	621	12	70	143	(7 648)	(6 802)
Reclassification	-	(14)	-	-	-	(14)
As at 31 December 2018	5 694	-	76	265	-	6 035
<b>Net book value at the beginning of period</b>	<b>-</b>	<b>2 772</b>	<b>1 039</b>	<b>75</b>	<b>-</b>	<b>3 886</b>
<b>Net book value as at 31 December 2018</b>	<b>-</b>	<b>-</b>	<b>1 066</b>	<b>673</b>	<b>-</b>	<b>1 739</b>

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

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

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

## 24 Deferred Expense

All amounts in thousands of euro

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

## 25 Accrued Income

All amounts in thousands of euro

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

## 26 Assets Held for Sale

All amounts in thousands of euro

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

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

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

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

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

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

## 27 Due to Credit Institutions

All amounts in thousands of euro

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

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

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

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

## 28 Due to General Governments

All amounts in thousands of euro

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

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

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

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

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

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

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

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

## 29 Support programme funding

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

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

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

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

## 29 Support programme funding (cont'd)

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

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

## 29 Support programme funding (cont'd)

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

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

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

## 29 Support programme funding (cont'd)

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

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

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

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

## 30 Provisions

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

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

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

	Group 01.01.2019.- 31.12.2019.	Group 01.01.2018.- 31.12.2018.	Company 01.01.2019.- 31.12.2019.	Company 01.01.2018.- 31.12.2018.
Provisions at the beginning of the period	24 144	5 986	24 144	5 986
Impact of IFRS 9 adaption	-	6 123	-	6 123
Reclassification IAS 37 (Provisions for onerous contracts)	-	8 544	-	8 544
Provisions covered by risk coverage	-	2 196	-	2 196
Provisions as at 1 January 2018	24 144	22 849	24 144	22 849
Increase in provisions (Note 13)	15 752	8 174	15 752	8 174
Decrease in provisions (Note 13)	(6 692)	(6 876)	(6 692)	(6 876)
Reclassification (Disbursed guarantee)	(2 597)	-	(2 597)	-
Currency change	(1)	(3)	(1)	(3)
<b>Provisions at the end of the period</b>	<b>30 606</b>	<b>24 144</b>	<b>30 606</b>	<b>24 144</b>
<i>Group's / Company's share of provisions</i>	9 294	10 982	9 294	10 982
<i>Provisions covered by risk coverage</i>	21 312	13 162	21 312	13 162



## 31 Other Liabilities

All amounts in thousands of euro

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

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

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

## 32 Accrued Expense

All amounts in thousands of euro

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

## 33 Issued Debt Securities

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

All amounts in thousands of euro

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

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

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

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

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

## 34 Share capital

All amounts in thousands of euro

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

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

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

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

For more information see Note 1 (1).

## 35 Reserves

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

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

## 35 Reserves (cont'd)

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

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

## 36 Off-balance sheet items and contingent liabilities

All amounts in thousands of euro

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

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

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

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

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

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

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

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

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
<b>Contingent liabilities</b>							
Outstanding guarantees	284 232	-	-	-	-	-	284 232
<b>Financial commitments</b>							
Loan commitments	18 951	-	-	-	-	-	18 951
Grant commitments	7 726	-	-	-	-	-	7 726
Commitments to venture capital funds	714	2 141	2 855	8 565	51 220	18 473	83 968
<b>Total financial commitments</b>	<b>27 391</b>	<b>2 141</b>	<b>2 855</b>	<b>8 565</b>	<b>51 220</b>	<b>18 473</b>	<b>110 645</b>
<b>Total contingent liabilities and financial commitments</b>	<b>311 623</b>	<b>2 141</b>	<b>2 855</b>	<b>8 565</b>	<b>51 220</b>	<b>18 473</b>	<b>394 877</b>

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

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years and w/o maturity	Total
<b>Contingent liabilities</b>							
Outstanding guarantees	236 895	-	-	-	-	-	236 895
<b>Financial commitments</b>							
Loan commitments	19 611	-	-	-	-	-	19 611
Grant commitments	7 320	-	-	-	-	-	7 320
Commitments to venture capital funds	600	2 100	4 600	10 000	38 000	4 958	60 258
<b>Total financial commitments</b>	<b>27 531</b>	<b>2 100</b>	<b>4 600</b>	<b>10 000</b>	<b>38 000</b>	<b>4 958</b>	<b>87 189</b>
<b>Total contingent liabilities and financial commitments</b>	<b>264 426</b>	<b>2 100</b>	<b>4 600</b>	<b>10 000</b>	<b>38 000</b>	<b>4 958</b>	<b>324 084</b>

Commitments to venture capital funds are contingent liabilities, which are based on agreements between the Group / Company and the venture capital fund which put an obligation on the Group / Company to allocate financial resources to the fund.

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

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

Approved funding for the VCFs, in thousands of euro:

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

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

All amounts in thousands of euro

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

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

## 38 Grants

All amounts in thousands of euro

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

## 38 Grants (cont'd)

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

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

## 39 Related party transactions

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

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

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

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

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

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

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

## 39 Related party transactions (cont'd)

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

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

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

## 40 Fair values of assets and liabilities

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

### Assets

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

### Liabilities

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

### Fair value hierarchy of financial assets and liabilities

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

- Level 1 includes listed financial instruments for which an active market exists, if in determining their fair value the Group / Company use unadjusted quoted market prices, obtained from a stock-exchange or reliable information systems;
- Level 2 includes balances due from other credit institutions and the Treasury as well as financial instruments traded over the counter (OTC) and financial instruments having no active market or a declining active market whose fair value measurement are based to a significant extent on observable market inputs (e.g., rates applied to similar instruments, benchmark financial instruments, credit risk insurance transactions, etc.);

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

- Level 3 includes financial instruments whose fair value measurements rely on observable market inputs requiring significant adjustment and have to be supported by unobservable market inputs, and financial instruments whose fair value measurements are based to a significant extent on data that cannot be observed on the active market and assumptions and estimates of the Group / Company that enable a credible measurement of the financial instrument's value.

### Debt securities

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

### Derivatives

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

### Investments in venture capital funds

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

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

### Investment properties

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

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

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

### Assets held for sale

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

## 41 Segment Information

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

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

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

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

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

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

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

## 41 Segment Information (cont'd)

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

	Loan service	Guarantee service	Venture capital fund service	Other services	Total
Net interest income	9 715	1 167	46	243	11 171
Net income from fees and commissions	73	182	43	85	383
Net trading loss	36	73	4	9	122
Share of (loss) of investment in joint venture and associate at fair value through profit or loss	-	-	(1 091)	-	(1 091)
Other income	828	191	(259)	3 580	4 340
<b>Operating income / (loss) before operating expenses</b>	<b>10 652</b>	<b>1 613</b>	<b>(1 257)</b>	<b>3 917</b>	<b>14 925</b>
Staff costs	(3 832)	(1 348)	(280)	(1 908)	(7 368)
Administrative expense	(1 855)	(640)	(161)	(861)	(3 517)
Amortisation of intangible assets and depreciation of property, plant and equipment	(326)	(136)	(21)	(137)	(620)
Net impairment provisions	(665)	2 569	-	(1 232)	672
Corporate income tax	-	-	-	-	-
<b>Total segment profit/(loss)</b>	<b>3 974</b>	<b>2 058</b>	<b>(1 719)</b>	<b>(221)</b>	<b>4 092</b>
Investments in venture capital funds - associates	-	-	50 239	-	50 239
Additions of property and equipment, intangible assets and investment property	830	292	61	412	1 595
<b>Total segment assets</b>	<b>277 554</b>	<b>100 213</b>	<b>54 402</b>	<b>63 770</b>	<b>495 939</b>
<b>Total segment liabilities</b>	<b>158 045</b>	<b>55 012</b>	<b>25 901</b>	<b>25 391</b>	<b>264 349</b>

## 42 Events after the reporting date

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

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

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

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

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

## 42 Events after the reporting date (cont'd)

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

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

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



## Independent auditor's report

To the Shareholder of JSC Finance Development Institution ALTUM

### Report on the audit of the consolidated and separate financial statements

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#### Our opinion

In our opinion, the consolidated and separate financial statements give a true and fair view of the consolidated and separate financial position of JSC Finance Development Institution ALTUM ("the Company") and its subsidiaries (together "the Group") as at 31 December 2019, and of their consolidated and separate financial performance and their consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Our opinion is consistent with our additional report to the Audit Committee dated 31 March 2020.

#### What we have audited

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

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

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#### Basis for opinion

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

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

#### Independence

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

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

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

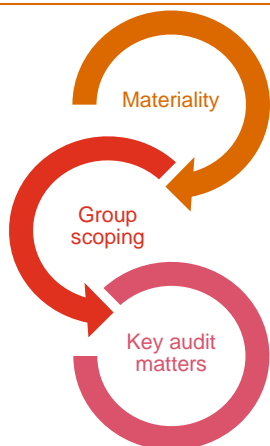
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## Our audit approach

### Overview



- Overall Group and Company materiality: EUR 5,500 thousand.
- We have audited the separate financial statements of the Company.
- We have performed selected audit procedures over assets owned by subsidiaries and associates.
- Our audit scope covered substantially all of the Group's revenues and substantially all of the Group's total assets.
- Impairment of loans and financial guarantees.
- Accounting for liabilities received at fair value.
- Valuation and impairment of investments in Venture Capital Funds.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including, among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

### Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group and Company materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the financial statements as a whole.

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

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

### Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
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#### Expected credit losses on loans to the public

*Refer to Notes 2 (16), 13 and 30 to the financial statements on pages 35, 60 and 74 respectively.*

We focused on this area because application of IFRS 9 “Financial instruments” expected credit loss (ECL) model for loans and financial guarantees impairment losses requires complex and subjective judgements over both timing of recognition of impairment and the size of any such impairment.

The key features of the ECL model include classification of loans and guarantees to 3 stages, assessment of credit risk parameters and application of forward-looking information. The amount of impairment provision for the Group’s and the Company’s loans and guarantees is based on the model calculations taking into consideration the exposure at default, probability of default, other known risk factors impacting stage of each exposure, and taking into account estimated future cash flows from the loan repayments or sale of collateral (loss given default), and ECL adjustments by expected impact of future macroeconomic scenarios. For all loans and guarantees in Stage 1 and 2 and insignificant loans in Stage 3 the expected credit losses are calculated using the ECL model, while for significant exposures and guarantees in Stage 3 additional specific provisions are calculated based on expert judgement to determine if the ECL calculated in accordance with the model needs to be adjusted.

As at 31 December 2019 expected credit losses for Loans amounted to EUR 6,667 thousand and for Guarantees to EUR 2,641 for the Group and the Company (refer to note 13).

We assessed whether the Group’s and the Company’s accounting policies in relation to the ECL of loans and guarantees are in compliance with IFRS 9 by assessing each significant model component for both loans ECL calculation tool and guarantees ECL calculation tool: exposure at default, probability of default and loss given default, definitions of default and significant increase in credit risk, use of macroeconomic scenarios.

Further, we performed detailed testing over reliability of loan and guarantee data, including contract dates, collateral values and types, allocation of stages, including aging and performing/ non performing status and other inputs used in ECL calculation tools as at 1 January 2019 and 31 December 2019.

We also performed detailed testing over macroeconomic factors used as inputs to ECL calculation tools.

In addition, we performed detailed recalculations for selected items in ECL calculation tools to verify that the ECL is calculated correctly and that it is in line with our expectations.

We also assessed the ECL adjustments related to specific provisions recognised for Stage 3 loans and guarantees on a sample of loans and guarantees. We verified the rationale of these adjustments and also verified the appropriateness of the valuation of collaterals used in the assessment of the adjustments.

We have reviewed the disclosures to the financial statements.

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

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### **Accounting for liabilities measured at fair value through profit or loss**

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

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

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

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

We examined the liability contracts signed for a sample of selected programmes and obtained understanding with regards to the principles applied to calculate the fair value of those liabilities.

We obtained understanding over accounting policies and assessed whether they were applied in accordance with IFRS requirements.

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

We have reviewed the disclosures to the financial statements.

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### **Valuation of investments in Venture Capital Funds**

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

The Group and the Company has significant investments into Venture Capital Funds (VCFs). Depending on whether the Company has control or significant influence over VCFs, they are classified in the financial statements as subsidiaries or associates.

Subsidiaries in separate financial statements are measured at fair value through profit and loss, while in consolidated financial statements they are fully consolidated.

Associates in both separate and consolidated financial statements are measured using the equity method, except for Baltic Innovation Fund (BIF), which is measured in both separate and consolidated financial statements at fair value through profit or loss.

We assessed accounting policies used by the Group and the Company and verified that VCFs are appropriately classified as either associates or subsidiaries.

We obtained the calculation of fair value of investments held by VCFs prepared by the management of the Group and the Company, as well as calculation of net asset values of VCFs and the full list of the investments made by VCFs into the companies. On a sample basis, we verified detailed calculations of fair value of investments and the amount of net assets value of particular funds.

The measurement of VCFs at equity method and BIF is performed using the fair values of underlying investments made by those associates.

Because of significance of investments in VCFs to the separate and consolidated financial statements, and the fact that changes in assumptions could lead to material changes in estimated values of net assets, impacting value of investments in VCFs, we considered valuation of these investments as a key audit matter.

We met with the representatives of the Group and the Company responsible for monitoring of the performance of the underlying investments made by the VCFs to understand current business performance of these investments and expectations of their exit values, which are considered to be representative of fair values of underlying investments. We also reviewed the methodology for investment valuation.

We reviewed the agreements register and inspected a sample of new investments made by VCFs in companies. We also assessed the information contained in investment memos prepared on initial investment.

We have reviewed the disclosures to the financial statements.

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### **How we tailored our Group audit scope**

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

We are not the statutory auditors of all of the Company's subsidiaries and associates, however, we have performed selected audit procedures over assets owned by subsidiaries and associates. Our audit work addressed substantially all of the Group's revenues and the Group's total assets.

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

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

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

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

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

With respect to the Management report, we also performed the procedures required by Law on Audit Services. Those procedures include considering whether the Management is prepared in accordance with the requirements of the applicable legislation.

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

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

- the information given in the Management Report and the Statement of Management Responsibility for the financial year for which the financial statements are prepared is consistent with the financial statements;
- the Management Report has been prepared in accordance with the requirements of the Law on Annual Reports and Consolidated Annual Reports of the Republic of Latvia; and
- the Statement of Corporate Governance, included the information in accordance with Article 56.1, section 1, clauses 3, 4, 6, 8 and 9, as well as Article 56.2, section 2, clause 5 of the Financial Instruments Market Law and it included the information stipulated in Article 56.2, section 2, clauses 1, 2, 3, 4, 7 and 8 of the Financial Instruments Market Law.

In addition, in light of the knowledge and understanding of the Company and the Group and their environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the Management Report and the Statement of Management Responsibility that we obtained prior to the date of this auditor's report. We have nothing to report in this respect.

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### Responsibilities of management and those charged with governance for the financial statements

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

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

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

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### Auditor's responsibilities for the audit of the financial statements

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

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

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

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- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion.

Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank and the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

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## Report on other legal and regulatory requirements

### Appointment

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

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PricewaterhouseCoopers SIA  
Certified audit company  
License No. 5

Ilandra Lejiņa  
Member of the Board

Rīga, Latvia  
31 March 2020

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

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## OTHER NOTES TO THE ANNUAL REPORT

### KEY FINANCIAL AND PERFORMANCE INDICATORS

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

\* Due to change of accounting policy on investments in venture capital funds and adoption of IFRS 9 requirements that effects the accounting of public funding risk coverage the comparatives for 2017 and 2016 have been restated.

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

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

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

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



## Definitions of ratios

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



## Definition of ratios (cont'd)

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

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## Corporate Governance Report 2019

The statement of joint-stock company Attīstības Finanšu Institūcija Altum (Development Finance Institution Altum, hereinafter – Altum), unified registration No. 50103744891, on corporate governance in 2019 is prepared in accordance with the requirements of Section 56.2 Paragraph three of the Financial Instruments Market Law.

Altum Group (Altum and the total of companies included in the consolidation group, hereinafter referred as the Group) parent company is a Latvia state-owned company ensuring access of enterprises and households to the financing resources by means of support financial instruments - loans, guarantees, investments in venture capital funds - in areas defined as important and to be supported by the state, thus developing national economy and by such way enhancing mobilization of private capital and financial resources.

Information about management of Altum and Group, representatives of the holders of the capital shares, Audit Committee and administrative structure of Altum is available on Altum's home page [www.altum.lv](http://www.altum.lv), under section ABOUT ALTUM, sub-section Management and Structure.

### Strategy 2019 - 2021

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

<ul style="list-style-type: none"> <li>Major financial objective in implementation of the state aid programmes – positive return on Altum's capital.</li> </ul>	<ul style="list-style-type: none"> <li>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.</li> </ul>
<ul style="list-style-type: none"> <li>Major non-financial objective is to support and promote availability of finances to the business and development of the national economy.</li> </ul>	<ul style="list-style-type: none"> <li>Main target segments: support to entrepreneurs; energy efficiency; support to farmers; support to specific categories of persons; management of the Latvian Land Fund.</li> </ul>

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

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

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

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

## Corporate Governance Report 2019 (cont'd)

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

#### *Internal control*

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

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

The Internal Audit Division, being an independent body subordinated to Altum's Council with its head appointed based on the decision of Altum shareholders' meeting, supervises the internal control system at Altum and the Group and assesses its adequacy and efficiency. Every year the shareholders' meeting approves the annual action plan for the internal audit about which the Internal Audit Division reports to the Council. The Council supervises how the Board provides for establishment of the internal control system and its efficient operation. The reports on the results of the internal audits and functioning of the management and control system produced by the Internal Audit Division are submitted to the Council. At least once a year the Internal Audit Division drafts and submits to the Shareholders' meeting a report on the accomplished audits and major problems identified, gives its assessment of ICS efficiency and opinion on the measures to be undertaken to improve the operation of the internal control system. An Audit Committee has been established in Altum and the Group, which, inter alia, monitors the efficiency of the internal control and risk management system, in as much as it pertains to maintaining the credibility and impartiality of annual reports and consolidated annual reports. The Audit Committee, in line with the requirements of Law on the Financial Instruments Market, monitors the process of the preparation of financial statements of Altum and the Group, and performs other duties assigned to it by laws and regulations. The Internal Audit Division performs its duties in accordance with the applicable laws and regulations, the international standards for the professional practice in internal auditing and the internal regulations of Altum and the Group.

An Accounting Policy and Policy on Establishment of Provisions have been developed in Altum and the Group, the purpose of which is to define principles, methods and rules for the accounting, assessment and disclosure of transactions, facts, events and items in financial statements. The management of Altum and the Group has established an accounting policy that ensures that the financial statements provide information that is reliable and useful for the users of such statements in decision-making. The applied Accounting Policy and Policy on Establishment of Provisions ensure that the information disclosed in the statements of Altum and the Group is true, comparable, timely, significant, explicit, relevant and complete. Altum and the Group have developed internal regulatory documents defining the procedure of preparing the financial statements.

#### *Risk management*

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

The following major risk management principles are followed:

- Risk management is a component of every-day functions;
- Altum and the Group identify and assess the probable risks before launching of new products or services;
- While assuming the risks, Altum and the Group are capable of long-term pursuit of the delegated aims and assignments;
- Altum and the Group do not enter into transactions, operations, etc. entailing risks that endanger their operational stability or may result in substantial damage to their reputation.

In their risk management Altum and the Group make use of various risk analysis methods and instruments as well as establish risk limits and restrictions.

Information about the key elements of the risk management system of enterprises involved in consolidation, applied in preparation of consolidated financial statements, is provided in Annual Report.

## Corporate Governance Report 2019 (cont'd)

Annual Report is publicly available in the premises of Altum at 4 Dome Square, Riga and in electronic form – on the website [www.altum.lv](http://www.altum.lv), in INVESTORS section under FINANCIAL INFORMATION sub-section and in ABOUT ALTUM section under FINANCIAL INFORMATION sub-section.

### Independent audit

An independent audit of the financial statements of Altum and the Group is performed by independent auditors who provide their opinion stating whether the financial statements of Altum and the Group give a true and fair view of the financial position, financial performance and cash flows of Altum and the Group in accordance with the International Financial Reporting Standards as adopted by the European Union. SIA PricewaterhouseCoopers has been approved the auditor of the financial statements of Altum and Group for years 2018-2019. The auditor was selected following the procedure established by the Public Procurement Law. The following qualification criteria were considered in selection of the auditor:

- in the last 3 (three) years has had experience of at least 3 (three) audits performed on the annual reports of credit institutions and/or insurance companies;
- holds a licence for provision of the services of sworn auditor;
- the auditor in charge holds the certificate of sworn auditor issued by Latvian Association of Sworn Auditors.

The following criteria were applied to selection of the auditor:

- the lowest price;
- performance of the contract involves an expert on International Financial Reporting Standards.

### Remuneration policy

Altum publishes information about the principles of remuneration policy alongside the fundamental principles of Altum's code of ethics, which are available at [www.altum.lv](http://www.altum.lv), under section ABOUT ALTUM, sub-section Personnel/Vacancies.

### Corporate social responsibility

In its day-to-day operations in implementing State-delegated functions to foster development of the national economy and voluntarily taking the responsibility for its impact on society and the environment, Altum acts in compliance with the organization's strategy and values (Team, Excellence, Responsibility).

Altum uses support financial instruments – loans, guarantees and investments in venture capital funds - to foster development of the national economy in areas defined as important and to be supported by the state, enhancing mobilization of private capital and financial resources. Altum has a long-term vision to attract financing for the purpose of ensuring the availability of resources to finance business projects important for the national economy.

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

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

Already In 2017 Altum issued bonds as series of notes quoted on *Nasdaq Riga* for the total face value of EUR 20 million being in compliance with the Green Bond Framework, becoming the first national development institution of the Central and Eastern European countries that has issued the green bonds. In order to assure investors that funding raised by green bonds will be used by ALTUM to invest in environment-friendly projects and help to reach specific environmental objectives, CICERO (Centre for International Climate and Environmental Research, Oslo) prepared an independent opinion on the Green Bond Framework of ALTUM. CICERO recognised that the system of financial management and reporting of the funds acquired as a result of the issue of the notes complied with high standards.

The funding attracted from the issue of the Green Bonds is used to fund sustainable business projects in the fields of energy efficiency, energy generation from renewable energy resources, green buildings and sustainable transportation, including energy service companies (ESCO) that provide services to the companies in these fields. In 2019 the loan volume issued to those projects was EUR 6.7 million, which by EUR 5 million exceeded that of 2018. The largest volume of loans in 2019 is in the energy efficiency segment, which dominates strongly in terms of number of projects and funding volume for transactions in renewable energy, sustainable transport and green building segments, where first loans were granted in 2019 and a number of project applications were received. Energy efficiency investment projects are being implemented not only by companies but also in the municipal sector, where solutions for heating systems are mainly implemented. Several ESCO projects in the field of lighting and technology should also be highlighted as well. It should be noted that the good results are due to the

## Corporate Governance Report 2019 (cont'd)

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

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

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

Initiatives supported in 2019:

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

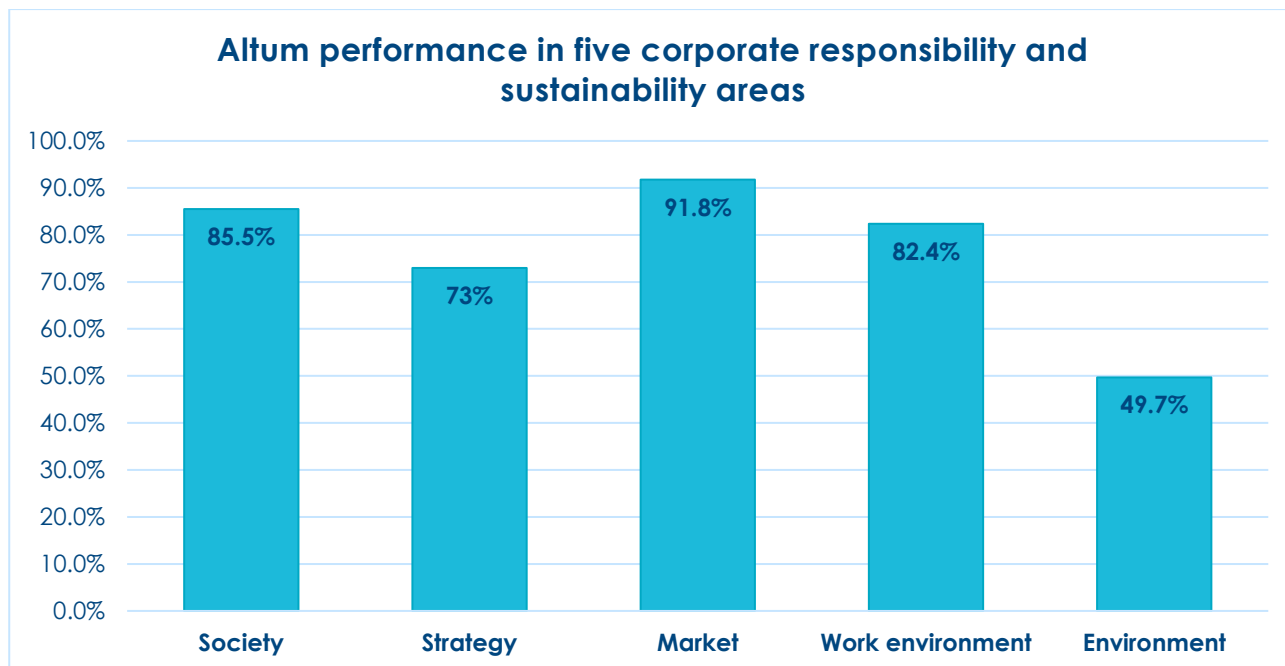
## Corporate Governance Report 2019 (cont'd)

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

More information about Altum principles for implementation of public support activities and support projects is available on website [www.altum.lv](http://www.altum.lv).

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

## Corporate Governance Report 2019 (cont'd)



For the purposes of improving the legal and social situation of its employees and creating a positive working environment based on justice, mutual trust, understanding and openness that would help achieve the established goals, Altum has concluded a Collective Agreement.

Corporate Governance Report 2019 is publicly available at Altum's premises at 4 Dome Square, Riga and in electronic form – on the website [www.altum.lv](http://www.altum.lv), in INVESTORS section under FINANCIAL INFORMATION sub-section.



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Reinis Bērziņš  
Chairman of the Board

31 March 2020

# **JSC DEVELOPMENT FINANCE INSTITUTION ALTUM**

Unaudited interim condensed financial report  
for the six months period ended 30 June 2021



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Phone: + 371 67774010  
Fax: + 371 67820143  
Registration No: 50103744891  
[www.altum.lv](http://www.altum.lv)

## Altum Group

**MISSION** We help Latvia grow!

**VISION** To be a partner and financial expert in economic development

**VALUES** Excellence / Team / Responsibility

AS Attīstības finanšu institūcija Altum (the joint stock company Development Finance Institution Altum), Parent Company of the Altum Group, is a Latvian state-owned company that implements the aid and development programmes by means of financial instruments and grants pursuing the state's policy in the national economy and providing for execution of other government assignments stipulated and delegated by laws and regulations. Eliminating market failures with the help of various support instruments that enhance the development of 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:

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



# Management Report

## Activity during the reporting period

Despite the fact that the impact of the pandemic has not diminished during the reporting period, the first 6 months of 2021 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) have ensured stable financial results and earned a profit of EUR 5.9 million.

## Key financial and performance indicators of the Group

Based on data from audited financial statements for the respective years

	2021 6M (unaudited)	2020 6M (unaudited)	2020 (audited)
<b>Key financial data</b>			
Net interest income (EUR '000)	8 298	6 319	14 572
Profit for the period (EUR '000)	5 947	738	5 539
Cost to income ratio (CIR)	46.24%	52.85%	47.51%
Employees *	222	205	211
Total assets (EUR '000)	896 486	700 967	850 704
<b>Tangible common equity (TCE) / Total tangible managed assets (TMA) **</b>	<b>34.73%</b>	<b>34.53%</b>	<b>33.56%</b>
Equity and reserves (EUR '000)	414 970	332 769	382 904
<b>Total risk coverage: (EUR '000)</b>	<b>232 725</b>	<b>95 453</b>	<b>180 205</b>
Risk coverage reserve	127 364	109 441	112 567
Risk coverage reserve used for provisions	(29 434)	(29 495)	(28 197)
Portfolio loss reserve (specific reserve capital)	135 704	15 507	102 264
Portfolio loss reserve used to compensate provisions in the distribution of annual profit	(909)		(6 429)
Liquidity ratio for 180 days ***	346%	348%	464%
<b>Financial instruments (gross value)</b>			
<b>Outstanding (EUR '000) (by financial instrument) ****</b>			
Loans (excluding sales and leaseback transactions)	323 275	264 316	302 481
Guarantees	379 602	321 987	359 605
Venture capital funds	83 620	68 589	73 165
Land Fund, of which:	72 411	52 304	68 258
- sales and leaseback transactions	34 263	18 814	31 500
- investment properties	38 148	33 490	36 758
<b>Total</b>	<b>858 908</b>	<b>707 196</b>	<b>803 509</b>
Number of transactions	28 951	24 085	26 578
<b>Volumes issued (EUR '000) (by financial instrument) ****</b>			
Loans (excluding sales and leaseback transactions)	59 492	66 606	138 238
Guarantees	55 671	68 734	137 425
Venture capital funds	13 222	2 939	14 014
Land Fund, of which: *****	3 870	12 501	28 191
- sales and leaseback transactions	2 214	3 528	16 796
- investment properties	1 656	8 973	11 395
<b>Total</b>	<b>132 255</b>	<b>150 780</b>	<b>317 868</b>
Number of transactions	3 270	2 729	6 147
Leverage for raised private funding	163%	93%	114%
Volume of support programmes funding per employee (EUR '000)	3 869	3 450	3 808
Long-term rating assigned by Moody's Investors Service	Baa1	Baa1	Baa1

\* TMA includes the off-balance sheet item, namely, guarantees at net carrying amount.

\*\* The calculation of liquidity ratio takes into account the previous experience and management estimate of the expected amount and timing of guarantee claims.

\*\*\* Taking into account the significance of the volume, the Land Fund portfolio, which consists of leaseback transactions and investment properties, is also presented in the operational volumes for the period. As in compliance with the accounting principles and IFRS the leaseback transactions are accounted for under the loans, the loan volume in this table has been reduced for the volume of the 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 Group's Financial Statements.

## 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.

As at 30 June 2021, the Group's gross portfolio was EUR 859 million consisting of 28,951 projects (31 December 2020: EUR 804 million and 26,578).

In the first half of 2021, the Group's portfolio increased by 2,373 projects (+8.9%) and by EUR 55.4 million (+6.9%) and that was significantly lower than in the first half of 2020, when it increased by EUR 90 million (+14.6%). It should be noted that the Group rapidly responded when in mid-March 2020 Covid-19 was declared a global pandemic and to the sharp economic downturn. It was actively involved in mitigating the negative impact of Covid-19 on the business sector by developing special financial instruments that resulted in a significant increase in the Group's portfolio in the first half of 2020. The portfolio of specialised financial instruments for Covid-19 effect mitigation increased by EUR 56.1 million while in the first half of 2021, when government support instruments had yielded results and both the global and national economies had recovered, the interest of companies in the support instruments significantly decreased, thus the said portfolio increased by only EUR 10.5 million. Consequently, the largest increases in the Group's portfolio in the respective period of 2021 were not related to the support programme for overcoming the consequences of Covid-19. That part of the Group's financial instruments portfolio increased by EUR 44.9 million, which is by EUR 11 million more than in the first half of 2020, when it increased by EUR 33.9 million. This, in turn, shows that businesses, in general, have successfully adapted to the market situation and are ready to invest in growth and further development.

The largest increase in the first half of 2021 was observed in the loan portfolio, increasing by EUR 20.8 million (+6.9%) and by 234 projects (+2.8%), which is less than in the corresponding period in 2020, when it increased by EUR 39.2 million (+17.4%) by volume and by 181 (+3%) projects. The largest increase of the loan portfolio in the first half of 2021 was ensured by the SME growth loans (+EUR 7.7 million), loans for acquisition of agricultural land intended for agricultural production (+EUR 7.4 million), the Covid-19 crisis-related loan programme (+EUR 3.5 million), Starts-up and Micro loans (+EUR 2 million) and small loans in rural areas (+EUR 1.5 million).

In the first half of 2021, the guarantee portfolio increased by EUR 20 million (+5.6%), which is less than in the respective period of 2020, when the guarantee portfolio increased by EUR 37.8 million (+13.3%). In turn, the number of projects in the guarantee portfolio grew by 2,071 projects (+10.8%), which is more than in the respective period of 2020, when the number of projects in guarantee portfolio increase by 1,324 projects (+8.5%). The increase in the number of projects in the guarantee portfolio in the first half of 2021 was mainly ensured by Housing Guarantees for Families with Children. The large increase in the first half of 2021 was ensured by Housing Guarantees for Families with Children (+EUR 13.2 million), Guarantee Programme for Improving Energy Efficiency in Multi-Apartments Buildings (+EUR 6.4 million), Housing Guarantees for Young Professionals (+EUR 3.7 million), Study loan portfolio guarantees (+EUR 2.5 million) and the loan guarantee programmes for the Covid-19-affected businesses (+EUR 2.2 million).

In the first half of 2021, the venture capital funds increased by EUR 10.5 million (+14.3%), which is significantly more than in the respective period of 2020, when the volume of the venture capital funds increased by EUR 0.26 million (+0.38%). This increase was ensured by investments in the AIF Altum Capital Fund and in the 4th generation venture capital funds.

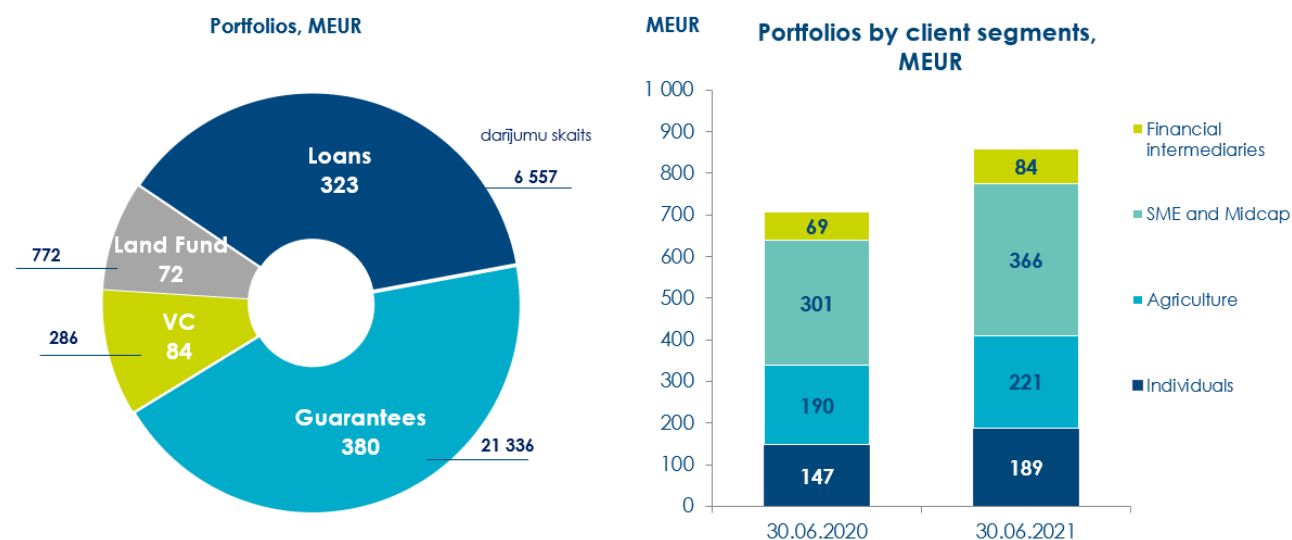
In the first half of 2021, the portfolio of the Land Fund increased by EUR 4.2 million (+6.1%) and by 50 projects (+6.9%), which is significantly less than in the respective period of 2020, when the Land Fund's portfolio increased by EUR 12.7 million (+32%) and by 133 projects (+23%). Demand for the Land Fund services has decreased as the year 2020 was favourable for farmers and provided good income, thus restoring the purchasing power of farmers themselves, which has reduced the demand for additional funding.

As at 30 June 2021, the balance sheet of the Land Fund included 1,085 properties with a total land area of 21,622 ha and amounting to EUR 72.4 million, including investment properties with a total area of 11,538 ha and amounting to EUR 38.1 million (31 December 2020: 10,964 ha; EUR 36.8 million), and leaseback transactions for 10,084 ha amounting to EUR 34.3 million (31 December 2020: 9,140 ha; EUR 31.5 million).

The largest portfolio of the Group is formed in the SMEs and Midcaps segment – 42.6%, while the Agriculture segment accounts for – 25.7%, Individuals – 22% and Financial intermediaries – 9.7%. The transactions of the Land Fund are recorded under the Agriculture segment.

# Management Report (cont'd)

## Operational volumes (cont'd)



Group 30/06/2021

In the first half of 2021, an increase in volume was observed in all segments. The largest growth was demonstrated by the Individuals segment, namely, by EUR 24.5 million (+15%), which is significantly more than in the first half of 2020, when the portfolio in this segment grew by EUR 8.5 million (+6.1%). The increase in the retail portfolios was mainly due to the increase in demand for Housing Guarantees, as well as guarantees under the Guarantee Programme for Improving Energy Efficiency in Multi-Apartments Buildings. The Agriculture segment increased by EUR 11.8 million (+5.6%), which is less than in the first half of 2020 when the portfolio in this segment grew by EUR 23.9 million (+14.4%), mainly due to the declining demand for Land Fund services. The Financial Intermediaries segment grew by EUR 10.4 million (+14.2%), contrasting to the decrease by EUR 0.13 million (-0.2%) in the respective period in 2020. SME and Midcap segment increased by EUR 8.6 million (+2.4%), which is significantly less than in the respective period in 2020, when the portfolio in this segment grew by EUR 57.6 million (+23.7%). It was mainly due to the declining demand for the specialised financial instruments earmarked for overcoming the negative impact of Covid-19.

### Volume of new transactions

In the 6 months of 2021, the total funding disbursed for the implementation of the state aid programmes amounted to EUR 132.2 million, breaking down as follows: 45% (EUR 59.5 million) in loan programmes, 42% (EUR 55.7 million) for guarantee programmes, 10% (EUR 13.2 million) in investments in the venture capital funds and 3% (EUR 3.9 million) in the Land Fund transactions. In total, support was given to 3,270 projects. In general, in the first half of 2021, the volume of the new transactions was less by 12% compared to the same period last year, when its increase was ensured by the state aid programmes implemented by the Group for supporting entrepreneurs in mitigating the Covid-19 effect. If in the 6 months of 2020 the volume of new transactions in the specialized financial instruments for Covid-19 effect mitigation reached EUR 57.7 million, then in the same period of this year its volume under these programmes was more than halved – EUR 26 million. In its turn, in the 6 months of this year, the volume of new transactions under the regular programmes was by 14% higher than in the 6 months of 2020.

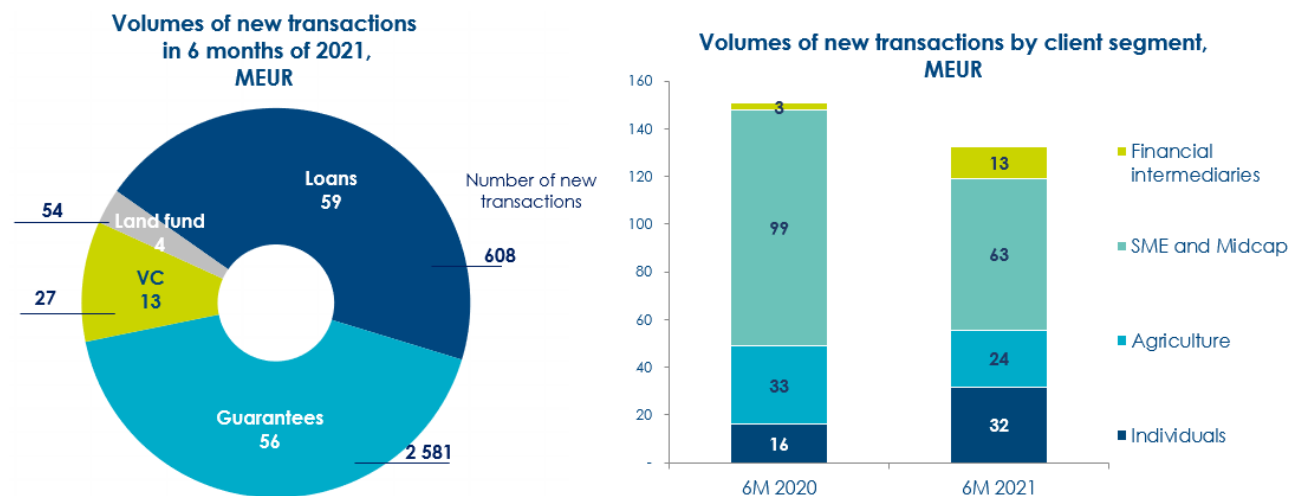
In the reporting period, the largest volume of the new transactions was recorded in the following segments: SMEs and Mid-caps –47.9%; Individuals – 24%; Agriculture –18.1%; and Financial Intermediaries – 10%.

In the first half of 2021, the largest increase in the volume of new transactions was recorded in the Financial Intermediaries segment, it being 4.6 times higher than in the first half of 2020. In the Individuals segment, the volume of new transactions in the first half of this year was twice as large as in the same period of 2020. In turn, the volume of new business compared to that of the first half of 2020 was by 35.8% lower in the SME and Mid-cap segment and by 27% lower. in the Agriculture segment.

In the first half of 2021, the volume of new loans issued amounted to EUR 59.5 million, which is by 10.7% (-EUR 7.1 million) less than in the respective period in 2020 due to a significant decline in demand for Covid-19 crisis-related loans. In the first half of 2021, the largest amount of new loans was issued under the SME Growth Loan Programme (EUR 18.5 million), under the Covid-19 crisis-related Loan Programme (EUR 13.3 million), loans for acquisition of agricultural land for the purpose of agricultural production (EUR 9.9 million) and working capital loans for agricultural enterprises (EUR 6.4 million).

## Management Report (cont'd)

### Volume of new transactions (cont'd)



Group 30/06/2021

In the reporting period there were issued new guarantees for EUR 55.7 million or by 19% (-EUR 13.1 million) less against the respective period in 2020, due to a significant decline in demand for the Covid-19 crisis-related guarantees. In the first half of 2021, the largest increase in the guarantee portfolio was in the Housing Guarantees for Families with Children (EUR 17.1 million), loan guarantees for entrepreneurs (EUR 13.3 million), the loan guarantee programmes for the Covid-19 affected businesses (EUR 7.9 million), Energy Efficiency Programme for Multi-apartment Buildings (EUR 6.1 million), Housing Guarantees for Young Professionals (EUR 4.3 million), portfolio guarantees (EUR 2.8 million) and Study loan portfolio guarantees (EUR 2.6 million).

Taking into account the business specifics, when issuing guarantees for working capital loans, for bank issued guarantees and for investment loan, a regular review and the extension of the issued guarantee are required for existing customers. This type of transaction is not attributed to newly issued guarantees because it is considered as an extension of guarantees. In the first half of 2021, there were extended guarantees worth EUR 30.4 million, of which more than half (55%) were guarantees for working capital loans.

As at 30 June 2021, a total of 17,711 guarantees for EUR 134.5 million of the state aid for housing acquisition was granted within the framework of the Programme for Housing Guarantees for Families with Children; out of these, guarantees worth EUR 17.1 million were issued in the first half of 2021, which is by 47.5% more against the respective period in 2020, when the economic activity of people decreased quite significantly due to the Covid-19 pandemic and national restrictions. The guarantees of the Programme help saving for the first instalment required to obtain a mortgage loan and are used by families all over Latvia. A total of 3,104 guarantees worth EUR 24 million were issued to young professionals; out of these, 489 guarantees worth EUR 4.3 million were issued in the first half of 2021.

Having launched the European Investment Fund (EIF) COSME and EaSI counter guarantees for loans up to EUR 25 thousand the Group has already supported 610 projects (COSME – 86 projects, EaSI – 524 projects) in total amount of EUR 8.6 million. 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.

In the first half of 2021, the Company's investments made in venture capital funds amounted to EUR 13.2 million, of which EUR 4.8 million - in the Altum Capital Fund, EUR 3.8 million - in the 4th generation venture capital funds, EUR 2.6 million - in the Three Seas Investment Fund while EUR 1.2 million and EUR 0.8 million – in the Baltic Innovation Fund and the Baltic Innovation Fund 2, respectively.

In the six months of 2021, the activity of the Land Fund was significantly lower than in the respective period of 2020, reaching only 30% of the volume of transactions performed then. This can be explained both by the relatively favourable previous year for farmers enabling them to recover their purchasing power, which has reduced the demand for additional funding and property purchase offers were made without involving the Land Fund.



## Management Report (cont'd)

### Non-financial instrument portfolio

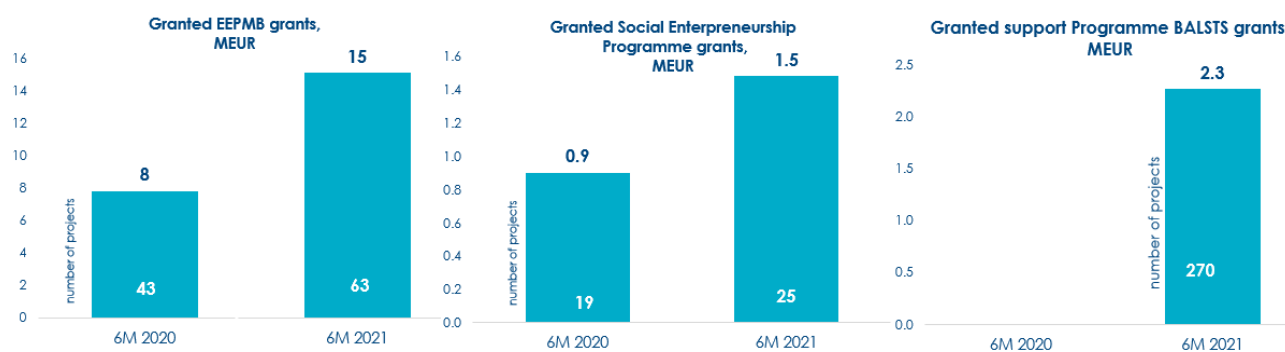
In order to make accessing to the support instruments more convenient for its clients, apart from the financial instruments, the Group services some grant programmes as well, namely, the grants issued under the Energy Efficiency Programme for Multi-apartment Buildings (EEPMB), Social Entrepreneurship Programme and European Local Energy Assistance (ELENA) Programme, the grants under the support program BALSTS for the purchase or construction of housing for families with three or more children, grants under the Culture Support Programme, for which organisers of art, entertainment and recreation events can apply from 19 May this year; on May 27, accepting of applications to the Energy Efficiency Support Programme for Private Houses began. The programme gained great interest from the very start, and 392 applications from private house owners had been received by 1 July. As the amount of funding for the programme is limited and approximately 243 projects are envisaged to be supported, accepting of new project applications has been suspended as of 1 July. As at 1 July, 192 applications had been approved and 42 agreements had been concluded with beneficiaries.

As at 30 June 2021, the EEPMB programme had awarded a total of 401 grants for EUR 87.2 million, of which 63 grants for EUR 15.1 million were granted in the first half of 2021. As of 18 December 2020, the programme was suspended and no new applications were accepted and currently the evaluation of the projects, awarding of grants and implementation of projects are carried out.

As at 30 June 2021, a total of 128 grants for EUR 8 million were awarded under the Social Entrepreneurship Programme.

In order to promote and support planning of the energy efficiency projects, Altum, 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 30 June 2021, there were a total of 60 grants awarded for EUR 617 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 30 June 2021, a total of 270 grants for EUR 2.3 million were awarded.



Group 30/06/2021

### New products and increasing operational efficiency

In order to continue providing support to Covid-19-affected businesses, in May the Cabinet of Ministers approved amendments to the Covid-19 crisis support programmes extending their duration to the end of the year. In addition, amendments to the Cabinet regulations for working capital loans to economic operators whose activities have been affected by the spread of Covid-19 were approved setting the duration of the programme up to 31 December 2021 thus providing for the extension of the term of commencement of repayment of the principal amount of working capital loans to the said economic operators from 18 to 24 months as well as to extend the maximum loan repayment term from 3 to 4 years and increase the maximum loan amount from EUR 1 million to EUR 1.5 million. Although the Cabinet regulations allow extending the loan repayment term, Altum follows the best practice of commercial banks in its provisioning policy. Consequently, the extension of each loan repayment term is evaluated taking into account the creditworthiness of the particular customer.

In order to mitigate the negative effects of the Covid-19 crisis on the arts, entertainment and leisure industry, from 19 May, organizers of arts, entertainment and recreation events can apply for a support programme developed by the Ministry of Culture in cooperation with the Group to stimulate the organization of new events by providing support in the form of loans and grants to entities whose core business is related to arts, entertainment and leisure activities. The total amount of support is planned to be EUR 6 million, given as a loan and a grant, where the grant does not exceed 40% of the total aid amount.

## Management Report (cont'd)

### New products and increasing operational efficiency (cont'd)

In parallel, work continues on the development and implementation of new support programmes for specific customer groups as well as the improvement of the conditions of the existing programmes.

- the Cabinet regulations approved concerning the Programme for Multi-apartment Building Renovation Loans under which it is planned to establish a Renovation Fund for financing renovation and other related costs for Multi-apartment buildings;
- the Cabinet regulations approved concerning the Energy Efficiency Support Programme for Private Houses, which envisages granting portfolio guarantees, technical assistance and grants for the renovation of private houses and increasing their energy efficiency. The maximum amount of technical assistance per beneficiary is EUR 1,000, while a grant for increasing the energy efficiency class of a residential house is expected in the amount of EUR 5,000 per beneficiary. Within the framework of the programme, on 27 May, accepting of applications for projects to increase the energy efficiency of private houses was started, but already on 1 July it was suspended due to the great interest in it (the number of received applications exceeded the available funding);
- the amount of a loan issued under the Programme for Land Purchase Loans increased to maximum EUR 1 million;
- approval is pending of amendments to the Programme for SME Growth Loans envisaging to provide additional financing of EUR 32 million from the European Regional Development Fund (ERDF) and allowing the financing of residential real estate;
- the ERDF funded additional allocation of EUR 10 million to the Programmes for Start-up and Micro Loans; also, the possibility to extend the maximum loan repayment term by 12 months;
- the Programme for Small Loans for Rural Areas will provide the possibility to receive a loan of up to EUR 35 thousand for the purchase of vacant/ built-up land; the maximum turnover of the applicant increased from EUR 70 thousand to EUR 100 thousand;
- amendments made to the Programme for Business Guarantees due to the additional financing of EUR 18 million for SMEs, of EUR 4.5 million for large businesses and to the Programme for Credit Guarantees for Farmers of EUR 7.7 million;
- the time limit for making pre-seed investment decisions set by the acceleration funds has been extended by one year, until 30 June 2022;
- the Cabinet regulations have been approved for a new support programme for entrepreneurs for large investment projects (at least EUR 10 million) in the form of a combined financial instrument, under which entrepreneurs will have access to a loan with a capital discount or when meeting certain criteria after the implementation of viable business projects the loan principal amount will be reduced.

In the first half of 2021, 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, 38% 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. Compared to the performance indicators for the respective period of 2020, in the six months of 2021, the total amount of loans granted both under centralised reviewing and in the regions increased by 6% or EUR 1.9 million, while the number of loans granted increased by 5%. The average loan amount in the regions increased from EUR 75 thousand in the first half of 2020 to EUR 76.6 thousand in the same period of 2021, while the average loan amount reviewed remotely on a centralised basis in the first half of 2021 was EUR 13.8 thousand.

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](https://mans.altum.lv), as well as through telephone and video consultations, thus ensuring continuous access to the services provided by the Group.

For the third year in a row, the Group participated in the Sustainability Index organised by the Institute for Corporate Sustainability and Responsibility, receiving the high platinum rating this year. The Sustainability Index rating is one of the visible manifestations of the invisible daily work that companies carry out in accordance with the principles of corporate sustainability and responsibility, balancing the interests of shareholders, employees, customers, the environment, business partners and other parties with sustainable operating conditions, thus becoming the leaders of the future.

### Long-term Funding

In order to diversify the financing structure, in October 2017, the Group issued the first transferable securities in the form of green bonds with a total value of EUR 20 million. Currently, the total amount of Altum bonds listed on the Nasdaq Riga stock exchange is EUR 65 million.



## Management Report (cont'd)

### Rating

On 12 August 2021, 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 30 June 2021 the Group has the risk coverage of EUR 233 million (31 December 2020: EUR 180 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 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

The Group continues to strengthen its role as the main government partner for the implementation of financial instrument programmes co-financed by the European Union (hereinafter - the EU). Currently, active preparations have been started so that the support of financial instruments within the framework of the new EU Cohesion Policy in the Programming Period 2021-2027 is available in 2022. Thus, the Group is involved in the preparation process for the implementation of the next programming period of the European Union funds. In addition, new financial instrument programmes will have access to the funding from the European Recovery and Resilience Facility (RRF), which aims to prevent the economic and social damage caused by the Covid-19 pandemic, stimulate Europe's recovery and protect and create jobs. The total EU public investment in financial instruments planned to be implemented within the framework of the support programmes implemented by the Group is at least EUR 650 million that will be directed to especially assisted areas: improving energy efficiency in multi-apartment buildings and private houses and transition to renewable energy technologies (EUR 57 million from RRF, EUR 163 million from under the Cohesion Policy in the Programming Period 2021-2027), improving energy efficiency for businesses (EUR 81 million from RRF, EUR 42 million from the EU in the Programming Period 2021-2027), Digital business transformation (EUR 45 million from RRF, EUR 5 million from the EU in the Programming Period 2021-2027), rental housing financing (EUR 43 million from RRF), promoting business productivity (EUR 164 million from the EU in the Programming Period 2021-2027), research and innovation (EUR 50 million from the EU in the Programming Period 2021-2027).



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Reinis Bērziņš  
Chairman of the Management Board

## 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 changes in the Supervisory Council of the Company during the reporting period. 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	27.05.2021.	26.05.2024.
Jēkabs Krieviņš	Member of the Board	27.05.2021.	26.05.2024.
Inese Zīle	Member of the Board	27.05.2021.	26.05.2024.
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 changes in the Management Board of the Company during the reporting period. 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

30 August 2021

The Management Board (the Management) is responsible for preparing the financial statements. The Management confirms that suitable accounting policies were used and applied consistently and reasonable and prudent judgments and estimates were made in the preparation of the financial statements on pages 12 to 76 for the period 1 January 2021 to 30 June 2021. The Management confirms that the Group's and the Company's financial statements were prepared on a going concern basis in accordance with International Accounting Standard 34 "Interim Financial Reporting".

During the reporting period appropriate accounting policies have been applied on a consistent basis. The Management is responsible for keeping proper accounting records, for taking reasonable steps to safeguard the assets of the Group and the Company and to prevent and detect fraud and other irregularities.



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Reinis Bērziņš  
Chairman of the Management Board

## Statement of Comprehensive Income

All amounts in thousands of euro

	Notes	Group	Group	Company	Company
		01.01.2021.- 30.06.2021. (unaudited)	01.01.2020.- 30.06.2020. (unaudited)	01.01.2021.- 30.06.2021. (unaudited)	01.01.2020.- 30.06.2020. (unaudited)
Interest income	4	9 318	7 293	9 318	7 293
Interest expense	5	(1 020)	(974)	(1 020)	(974)
Net interest income		8 298	6 319	8 298	6 319
					-
Income for implementation of state aid programmes	6	3 076	2 900	3 076	2 900
Expenses to be compensated for implementation of state aid programmes	7	(2 599)	(2 470)	(2 599)	(2 470)
Net income for implementation of state aid programmes		477	430	477	430
					-
Gains from trading securities and foreign exchange translation	8	20	2	20	2
Share of gain of investment in associate and other investments	12	146	2 018	18	2 018
Gains less losses from liabilities at fair value through profit or loss	20	(153)	(2 018)	(25)	(2 018)
Other income	8	1 246	1 396	1 246	1 396
Other expense	9	(627)	(363)	(627)	(363)
Operating income before operating expenses		9 407	7 784	9 407	7 784
					-
Staff costs		(3 006)	(2 785)	(3 006)	(2 785)
Administrative expense		(860)	(913)	(860)	(913)
Amortisation of intangible assets and depreciation of property, plant and equipment		(484)	(416)	(484)	(416)
Impairment gain / (loss), net	10	890	(2 932)	890	(2 932)
Profit before corporate income tax		5 947	738	5 947	738
					-
Corporate income tax		-	-	-	-
					-
<b>Profit for the period</b>		<b>5 947</b>	<b>738</b>	<b>5 947</b>	<b>738</b>
Other comprehensive income:		(301)	(495)	(301)	(495)
<i>Items to be reclassified to profit or loss in subsequent periods</i>					
Net loss from financial assets measured at fair value through other comprehensive income		(301)	(495)	(301)	(495)
<b>Total comprehensive income for the period</b>		<b>5 646</b>	<b>243</b>	<b>5 646</b>	<b>243</b>
Profit is attributable to:					
Owners of the Company		5 947	738	-	-
Non-controlling interest		-	-	-	-
<b>Profit for the period</b>		<b>5 947</b>	<b>738</b>	-	-
Total comprehensive income is attributable to:					
Owners of the Company		5 646	243	-	-
Non-controlling interest		-	-	-	-
<b>Total comprehensive income for the period</b>		<b>5 646</b>	<b>243</b>	-	-

The accompanying notes on pages 17 through 76 form an integral part of these financial statements.



Reinis Bērziņš  
 Chairman of the Management Board



Kaspars Gibeiko  
 Chief Accountant

30 August 2021

## Statement of Financial Position

All amounts in thousands of euro

	Notes	Group 30.06.2021. (unaudited)	Group 31.12.2020. (audited)	Company 30.06.2021. (unaudited)	Company 31.12.2020. (audited)
<b>Assets</b>					
Due from credit institutions and the State Treasury	11	385 119	359 949	385 119	359 949
Financial assets at fair value through profit or loss		7 602	5 425	-	-
Financial assets at fair value through other comprehensive income - investment securities		14 393	36 958	14 393	36 958
Financial assets at amortised cost:					
Investment securities		35	441	35	441
Loans and receivables	14	335 333	313 268	335 333	313 268
Grants	15	41 298	31 107	41 298	31 107
Deferred expense		332	749	332	749
Accrued income		1 835	772	1 835	772
Other investments	13	8 318	7 503	8 318	7 503
Investments in associates					
Investments accounted for using the equity method	12	38 347	32 969	38 347	32 969
Investments accounted for using the FVTPL method	12	15 858	15 019	15 858	15 019
Investments in subsidiaries		-	-	7 021	4 879
Investment property	16	38 148	36 758	38 148	36 758
Property, plant and equipment		4 411	4 717	4 411	4 717
Intangible assets		1 242	1 398	1 242	1 398
Other assets	17	4 215	3 671	4 215	3 636
<b>Total assets</b>		<b>896 486</b>	<b>850 704</b>	<b>895 905</b>	<b>850 123</b>
<b>Liabilities</b>					
Due to credit institutions	18	61 509	65 855	61 509	65 855
Due to general government entities	19	109 918	103 520	109 918	103 520
Financial liabilities at amortised cost - Issued debt securities		65 359	65 522	65 359	65 522
Deferred income		5 061	4 991	5 061	4 991
Accrued expense		1 171	857	1 251	937
Provisions	21	31 421	32 501	31 421	32 501
Support programme funding	20	198 000	191 963	198 000	191 963
Other liabilities		9 077	2 901	9 077	2 901
<b>Total liabilities</b>		<b>481 516</b>	<b>468 110</b>	<b>481 596</b>	<b>468 190</b>
<b>Equity</b>					
Share capital		204 862	204 862	204 862	204 862
Reserves	22	202 590	170 321	202 588	170 319
Revaluation reserve of financial assets measured at fair value through other comprehensive income		912	1 213	912	1 213
Retained earnings		5 947	5 539	5 947	5 539
<b>Net assets attributable to the Company's owners</b>		<b>414 311</b>	<b>381 935</b>	<b>414 309</b>	<b>381 933</b>
Non-controlling interest		659	659	-	-
<b>Total equity</b>		<b>414 970</b>	<b>382 594</b>	<b>414 309</b>	<b>381 933</b>
<b>Total equity and liabilities</b>		<b>896 486</b>	<b>850 704</b>	<b>895 905</b>	<b>850 123</b>

The accompanying notes on pages 17 through 76 form an integral part of these financial statements.



Reinis Bērziņš  
 Chairman of the Management Board



Kaspars Gibeiko  
 Chief Accountant

## Consolidated Statement of Changes in Equity

All amounts in thousands of euro

	Attributable to owners of the Company					Total equity
	Share capital	Reserves	Revaluation reserve of financial assets measured at fair value through other comprehensive income	Retained earnings	Non-controlling interest	
<b>As at 1 January 2020 (audited)</b>	<b>204 862</b>	<b>16 565</b>	<b>2 638</b>	<b>8 131</b>	<b>542</b>	<b>232 738</b>
Profit for the period	-	-	-	738	-	738
Other comprehensive income	-	-	(692)	-	-	(692)
Total comprehensive income	-	-	(692)	738	-	46
Increase of reserve capital (Note 22)		100 000				100 000
Distribution of 2019 profit of the Company (Note 22)		8 131		(8 131)		-
Non-controlling interest	-	-	-	-	(14)	(14)
<b>As at 30 June 2020 (unaudited)</b>	<b>204 862</b>	<b>124 695</b>	<b>1 946</b>	<b>738</b>	<b>528</b>	<b>332 769</b>
Profit for the period				4 801		4 801
Other comprehensive income			(733)			(733)
Total comprehensive income	-	-	(733)	4 801	-	4 068
Increase of reserve capital (Note 22)		45 626				45 626
Non-controlling interest					131	131
<b>As at 31 December 2020 (audited)</b>	<b>204 862</b>	<b>170 321</b>	<b>1 213</b>	<b>5 539</b>	<b>659</b>	<b>382 594</b>
Profit for the period	-	-	-	5 947	-	5 947
Other comprehensive income	-	-	(301)	-	-	(301)
Total comprehensive income	-	-	(301)	5 947	-	5 646
Increase of reserve capital (Note 22)	-	26 730	-	-	-	26 730
Distribution of 2020 profit of the Company (Note 22)		5 539		(5 539)		-
Non-controlling interest	-	-	-	-	-	-
<b>As at 30 June 2021 (unaudited)</b>	<b>204 862</b>	<b>202 590</b>	<b>912</b>	<b>5 947</b>	<b>659</b>	<b>414 970</b>

The accompanying notes on pages 17 through 76 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
<b>As at 1 January 2020 (audited)</b>	<b>204 862</b>	<b>16 563</b>	<b>2 638</b>	<b>8 131</b>	<b>232 194</b>
Profit for the period	-	-	-	738	738
Other comprehensive income	-	-	(692)	-	(692)
Total comprehensive income	-	-	(692)	738	46
Increase of reserve capital (Note 22)	-	100 000	-	-	100 000
Distribution of 2019 profit (Note 22)	-	8 131	-	(8 131)	-
<b>As at 30 June 2020 (unaudited)</b>	<b>204 862</b>	<b>124 693</b>	<b>1 946</b>	<b>738</b>	<b>232 239</b>
Profit for the period	-	-	-	4 801	4 801
Other comprehensive income	-	-	(733)	-	(733)
Total comprehensive income	-	-	(733)	4 801	4 068
Increase of reserve capital (Note 22)	-	45 626	-	-	45 626
<b>As at 31 December 2020 (audited)</b>	<b>204 862</b>	<b>170 319</b>	<b>1 213</b>	<b>5 539</b>	<b>381 933</b>
Profit for the period	-	-	-	5 947	5 947
Other comprehensive income	-	-	(301)	-	(301)
Total comprehensive income	-	-	(301)	5 947	5 646
Increase of reserve capital (Note 22)	-	26 730	-	-	26 730
Distribution of 2020 profit (Note 22)	-	5 539	-	(5 539)	-
<b>As at 30 June 2021 (unaudited)</b>	<b>204 862</b>	<b>202 588</b>	<b>912</b>	<b>5 947</b>	<b>414 309</b>

The accompanying notes on pages 17 through 76 form an integral part of these financial statements.

## Statement of Cash Flows

All amounts in thousands of euro

	Notes	Group	Group	Company	Company
		01.01.2021.- 30.06.2021. (unaudited)	01.01.2020.- 30.06.2020. (unaudited)	01.01.2021.- 30.06.2021. (unaudited)	01.01.2020.- 30.06.2020. (unaudited)
Cash and cash equivalents at the beginning of period		359 949	176 199	359 949	176 047
<b>Cash flows from operating activities</b>					
Profit before taxes		5 947	738	5 947	738
Amortisation of intangible assets and depreciation of property, plant and equipment		484	475	484	475
Interest income	4	(9 318)	(7 293)	(9 318)	(7 293)
Interest received		6 584	4 396	6 584	4 396
Interest expenses	5	1 020	974	1 020	974
Interests paid		(603)	(622)	(603)	(622)
(Decrease) / increase in impairment allowances	10	(740)	2 932	(740)	2 932
<b>(Decrease) of cash and cash equivalents from operating activities before changes in assets and liabilities</b>		<b>3 374</b>	<b>1 600</b>	<b>3 374</b>	<b>1 600</b>
Due from credit institutions decrease		-	2 004	-	2 006
(Increase) of loans	14	(18 702)	(42 046)	(18 702)	(42 046)
(Increase) of grants	15	(10 206)	(5 523)	(10 206)	(5 523)
Increase of due to credit institutions and general government entities	18,19	2 051	352	2 051	352
Increase in deferred income and accrued expense		384	645	384	645
(Decrease) / increase in deferred expense and accrued income		(646)	318	(646)	318
(Increase) / Decrease of other assets	17	(579)	1 643	(579)	1 643
Increase in other liabilities		33 205	17 618	33 299	17 629
<b>Net cash flows to/ from operating activities</b>		<b>8 881</b>	<b>(23 389)</b>	<b>8 975</b>	<b>(23 376)</b>
<b>Cash flows from investment activities</b>					
Sale of investment securities		23 209	11 827	23 209	11 827
Acquisition of property, plant and equipment and intangible assets		(28)	(484)	(28)	(484)
Purchase of investment properties	16	(1 542)	(9 154)	(1 542)	(9 154)
Sale of investment properties	16	152	30	152	30
Other investments	13	(815)	556	(815)	556
Investments in associates, net	12	(6 089)	1 733	(6 089)	1 733
Investments of subsidiaries in underlying undertakings		(2 177)	(643)	-	-
Investments in subsidiaries		-	-	(2 271)	(504)
<b>Net cash flows to/ from investing activities</b>		<b>12 710</b>	<b>3 865</b>	<b>12 616</b>	<b>4 004</b>
<b>Cash flows from financing activities</b>					
Issued debt securities		(585)	19 675	(585)	19 675
Increase of reserve capital	22	4 165	100 000	4 165	100 000
<b>Net cash flow from financing activities</b>		<b>3 580</b>	<b>119 675</b>	<b>3 580</b>	<b>119 675</b>
Increase in cash and cash equivalents		25 171	100 151	25 171	47 660
<b>Cash and cash equivalents at the end of period</b>		<b>385 120</b>	<b>276 350</b>	<b>385 120</b>	<b>276 350</b>

The accompanying notes on pages 17 through 76 form an integral part of these financial statements.



## Approval of the Financial Statements

The Management of the Group / Company has approved these unaudited interim condensed financial statements on 30 August 2021.

### 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.

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 the 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.

## 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.

Legal Title	Legal Address	Investment % in share capital
<i>Venture capital funds classified as Subsidiaries</i>		
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
<i>Venture capital funds classified as Associates</i>		
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
Baltic Innovation Fund	European Investment Fund, 37B, avenue J.F. Kennedy, L-2968 Luxembourg	20
KS AIF "Altum kapitāla fonds"	Doma laukums 4, Rīga, LV-1050	48.9

## 2 Accounting Policies

### (1) Basis of presentation

These unaudited interim condensed financial statements for the 6 months period ended 30 June 2021 were prepared in accordance with International Accounting Standard (IAS) 34 "Interim Financial Reporting", as adopted in the European Union. These financial statements are to be used together with the complete financial statements for the year 2020 prepared in accordance with International Financial Reporting Standards (IFRS), as adopted in the European Union.

All amounts in the interim condensed financial statements are presented in the national currency of Latvia – the euro (EUR).

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

Several new standards and interpretations have been published, adopted by the EU and become effective for the financial reporting periods beginning on or after 1 January 2021:

- **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).
- **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),
- **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

The major risks that the Group / Company is exposed to are credit, liquidity and operational risks. These unaudited interim condensed financial statements do not include all information on risk management and disclosures required in the annual financial statements. They are to be viewed together with the complete financial statements for the year 2020.

#### (1) Credit Risk

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	
	30.06.2021. (unaudited)	31.12.2020. (audited)	30.06.2021. (unaudited)	31.12.2020. (audited)	30.06.2021. (unaudited)	31.12.2020. (audited)	30.06.2021. (unaudited)	31.12.2020. (audited)
<b>Financial assets at AC</b>								
Due from credit institutions and the Treasury	385 119	359 949	-	-	-	-	385 119	359 949
Impairment allowances	-	-	-	-	-	-	-	-
<b>Total net due from credit institutions and the Treasury</b>	<b>385 119</b>	<b>359 949</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>385 119</b>	<b>359 949</b>
Investment securities	-	441	-	-	3 533	3 545	3 533	3 986
Impairment allowances	-	-	-	-	(3 498)	(3 510)	(3 498)	(3 510)
<b>Total net investment securities</b>	<b>-</b>	<b>441</b>	<b>-</b>	<b>-</b>	<b>35</b>	<b>35</b>	<b>35</b>	<b>476</b>
Loans and receivables	293 029	274 294	37 994	32 012	26 515	27 675	357 538	333 981
Impairment allowances *	(6 906)	(6 966)	(5 084)	(3 506)	(10 215)	(10 240)	(22 205)	(20 712)
<b>Total net loans and receivables</b>	<b>286 123</b>	<b>267 328</b>	<b>32 910</b>	<b>28 506</b>	<b>16 300</b>	<b>17 435</b>	<b>335 333</b>	<b>313 269</b>
Grants	41 480	31 282	-	-	-	-	41 480	31 282
Impairment allowances	(182)	(175)	-	-	-	-	(182)	(175)
<b>Total net grants</b>	<b>41 298</b>	<b>31 107</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>41 298</b>	<b>31 107</b>
Other financial assets	3 420	2 507	-	-	3 066	3 096	6 486	5 603
Impairment allowances	(37)	(34)	-	-	(2 256)	(1 926)	(2 293)	(1 960)
<b>Total net other financial assets</b>	<b>3 383</b>	<b>2 473</b>	<b>-</b>	<b>-</b>	<b>810</b>	<b>1 170</b>	<b>4 193</b>	<b>3 643</b>
<b>Total financial assets at AC</b>	<b>723 048</b>	<b>668 473</b>	<b>37 994</b>	<b>32 012</b>	<b>33 114</b>	<b>34 316</b>	<b>794 156</b>	<b>734 801</b>
Impairment allowances	(7 125)	(7 175)	(5 084)	(3 506)	(15 969)	(15 676)	(28 179)	(26 357)
<b>Total net financial assets at AC</b>	<b>715 923</b>	<b>661 298</b>	<b>32 910</b>	<b>28 506</b>	<b>17 145</b>	<b>18 640</b>	<b>765 978</b>	<b>708 444</b>
<b>Financial assets at FVOCI</b>								
Investment securities	14 393	36 958	-	-	-	-	14 393	36 958
Impairment allowances	(6)	(6)	-	-	-	-	(6)	(6)
<b>Total net investment securities</b>	<b>14 387</b>	<b>36 952</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>14 387</b>	<b>36 952</b>
<b>Total financial assets at FVOCI</b>	<b>14 393</b>	<b>36 958</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>14 393</b>	<b>36 958</b>
Impairment allowances	(6)	(6)	-	-	-	-	(6)	(6)
<b>Total net financial assets at FVOCI</b>	<b>14 387</b>	<b>36 952</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>14 387</b>	<b>36 952</b>

## 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: (cont'd)

	Stage 1		Stage 2		Stage 3		Total	
	30.06.2021. (unaudited)	31.12.2020. (audited)	30.06.2021. (unaudited)	31.12.2020. (audited)	30.06.2021. (unaudited)	31.12.2020. (audited)	30.06.2021. (unaudited)	31.12.2020. (audited)
<b>Off-balance sheet items and contingent liabilities</b>								
Outstanding guarantees	358 226	348 115	17 641	6 995	3 735	4 495	379 602	359 605
Impairment allowances *	(26 433)	(27 769)	(1 906)	(817)	(2 348)	(2 827)	(30 687)	(31 413)
<b>Total net outstanding guarantees</b>	<b>331 793</b>	<b>320 346</b>	<b>15 735</b>	<b>6 178</b>	<b>1 387</b>	<b>1 668</b>	<b>348 915</b>	<b>328 192</b>
Loan commitments	43 367	36 514	543	2 834	252	-	44 162	39 348
Impairment allowances *	(581)	(949)	(34)	(65)	(32)	-	(647)	(1 014)
<b>Total net loan commitments</b>	<b>42 786</b>	<b>35 565</b>	<b>509</b>	<b>2 769</b>	<b>220</b>	<b>-</b>	<b>43 515</b>	<b>38 334</b>
Grant commitments	22 504	6 798	-	-	-	-	22 504	6 798
Impairment allowances	(87)	(74)	-	-	-	-	(87)	(74)
<b>Total net grant commitments</b>	<b>22 417</b>	<b>6 724</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>22 417</b>	<b>6 724</b>
<b>Total off-balance items and contingent liabilities</b>	<b>424 097</b>	<b>391 427</b>	<b>18 184</b>	<b>9 829</b>	<b>3 987</b>	<b>4 495</b>	<b>446 268</b>	<b>405 751</b>
Impairment allowances	(27 101)	(28 792)	(1 940)	(882)	(2 380)	(2 827)	(31 421)	(32 501)
<b>Total net off-balance items and contingent liabilities</b>	<b>396 996</b>	<b>362 635</b>	<b>16 244</b>	<b>8 947</b>	<b>1 607</b>	<b>1 668</b>	<b>414 847</b>	<b>373 250</b>

\* Includes net impairment allowances of EUR 879 thousand covered by Portfolio Loss Reserve (Special Reserve Capital) upon approval of the 2021 annual report. In the distribution of the 2021 profit, it will be directly attributed to the Portfolio Loss Reserve, thus the 2021 result which will be allocated to Reserves will improve. Additional information available in Note 22.

## 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	
	30.06.2021. (unaudited)	31.12.2020. (audited)	30.06.2021. (unaudited)	31.12.2020. (audited)	30.06.2021. (unaudited)	31.12.2020. (audited)	30.06.2021. (unaudited)	31.12.2020. (audited)
<b>Financial assets at AC</b>								
Due from credit institutions and the Treasury	385 119	359 949	-	-	-	-	385 119	359 949
Impairment allowances	-	-	-	-	-	-	-	-
<b>Total net due from credit institutions and the Treasury</b>	<b>385 119</b>	<b>359 949</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>385 119</b>	<b>359 949</b>
Investment securities	-	441	-	-	3 533	3 545	3 533	3 986
Impairment allowances	-	-	-	-	(3 498)	(3 510)	(3 498)	(3 510)
<b>Total net investment securities</b>	<b>-</b>	<b>441</b>	<b>-</b>	<b>-</b>	<b>35</b>	<b>35</b>	<b>35</b>	<b>476</b>
Loans and receivables	293 029	274 294	37 994	32 012	26 515	27 675	357 538	333 981
Impairment allowances *	(6 906)	(6 966)	(5 084)	(3 506)	(10 215)	(10 240)	(22 205)	(20 712)
<b>Total net loans and receivables</b>	<b>286 123</b>	<b>267 328</b>	<b>32 910</b>	<b>28 506</b>	<b>16 300</b>	<b>17 435</b>	<b>335 333</b>	<b>313 269</b>
Grants	41 480	31 282	-	-	-	-	41 480	31 282
Impairment allowances	(182)	(175)	-	-	-	-	(182)	(175)
<b>Total net grants</b>	<b>41 298</b>	<b>31 107</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>41 298</b>	<b>31 107</b>
Other financial assets	3 414	2 363	-	-	3 066	3 205	6 480	5 568
Impairment allowances	(37)	(34)	-	-	(2 256)	(1 926)	(2 293)	(1 960)
<b>Total net other financial assets</b>	<b>3 377</b>	<b>2 329</b>	<b>-</b>	<b>-</b>	<b>810</b>	<b>1 279</b>	<b>4 187</b>	<b>3 608</b>
<b>Total financial assets at AC</b>	<b>723 042</b>	<b>668 329</b>	<b>37 994</b>	<b>32 012</b>	<b>33 114</b>	<b>34 425</b>	<b>794 150</b>	<b>734 766</b>
Impairment allowances	(7 125)	(7 175)	(5 084)	(3 506)	(15 969)	(15 676)	(28 179)	(26 357)
<b>Total net financial assets at AC</b>	<b>715 917</b>	<b>661 154</b>	<b>32 910</b>	<b>28 506</b>	<b>17 145</b>	<b>18 749</b>	<b>765 972</b>	<b>708 409</b>
<b>Financial assets at FVOCI</b>								
Investment securities	14 393	36 958	-	-	-	-	14 393	36 958
Impairment allowances	(6)	(6)	-	-	-	-	(6)	(6)
<b>Total net investment securities</b>	<b>14 387</b>	<b>36 952</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>14 387</b>	<b>36 952</b>
<b>Total financial assets at FVOCI</b>	<b>14 393</b>	<b>36 958</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>14 393</b>	<b>36 958</b>
Impairment allowances	(6)	(6)	-	-	-	-	(6)	(6)
<b>Total net financial assets at FVOCI</b>	<b>14 387</b>	<b>36 952</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>14 387</b>	<b>36 952</b>
<b>Off-balance sheet items and contingent liabilities</b>								
Outstanding guarantees	358 226	348 115	17 641	6 995	3 735	4 495	379 602	359 605
Impairment allowances *	(26 433)	(27 769)	(1 906)	(817)	(2 348)	(2 827)	(30 687)	(31 413)
<b>Total net outstanding guarantees</b>	<b>331 793</b>	<b>320 346</b>	<b>15 735</b>	<b>6 178</b>	<b>1 387</b>	<b>1 668</b>	<b>348 915</b>	<b>328 192</b>
Loan commitments	43 367	36 514	543	2 834	252	-	44 162	39 348
Impairment allowances *	(581)	(949)	(34)	(65)	(32)	-	(647)	(1 014)
<b>Total net loan commitments</b>	<b>42 786</b>	<b>35 565</b>	<b>509</b>	<b>2 769</b>	<b>220</b>	<b>-</b>	<b>43 515</b>	<b>38 334</b>
Grant commitments	22 504	6 798	-	-	-	-	22 504	6 798
Impairment allowances	(87)	(74)	-	-	-	-	(87)	(74)
<b>Total net grant commitments</b>	<b>22 417</b>	<b>6 724</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>22 417</b>	<b>6 724</b>
<b>Total off-balance items and contingent liabilities</b>	<b>424 097</b>	<b>391 427</b>	<b>18 184</b>	<b>9 829</b>	<b>3 987</b>	<b>4 495</b>	<b>446 268</b>	<b>405 751</b>
Impairment allowances	(27 101)	(28 792)	(1 940)	(882)	(2 380)	(2 827)	(31 421)	(32 501)
<b>Total net off-balance items and contingent liabilities</b>	<b>396 996</b>	<b>362 635</b>	<b>16 244</b>	<b>8 947</b>	<b>1 607</b>	<b>1 668</b>	<b>414 847</b>	<b>373 250</b>

\* Includes net impairment allowances of EUR 879 thousand covered by Portfolio Loss Reserve (Special Reserve Capital) upon approval of the 2021 annual report. In the distribution of the 2021 profit, it will be directly attributed to the Portfolio Loss Reserve, thus the 2021 result which will be allocated to Reserves will improve. Additional information available in Note 22.

## 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
<b>As at 31 December 2020 (audited)</b>	<b>6 966</b>	<b>3 506</b>	<b>10 240</b>	<b>20 712</b>	<b>274 294</b>	<b>32 012</b>	<b>27 675</b>	<b>333 981</b>
Movements with impact on credit loss allowance charge for the period:								
Transfers between stages:								
from Stage 1 to Stage 2	(703)	1 837	-	1 134	(11 263)	11 173	-	(90)
to credit impaired (from Stage 1 and Stage 2 to Stage 3)	(68)	(11)	884	805	(2 182)	(377)	2 428	(131)
from Stage 3 to Stage 2	-	182	(223)	(41)	-	729	(823)	(94)
to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	132	(189)	-	(57)	3 606	(3 838)	-	(232)
New originated or purchased	876	18	156	1 050	31 604	328	1 237	33 169
Derecognised during the period	(305)	(36)	(675)	(1 016)	(9 897)	(725)	(2 820)	(13 442)
Changes to ECL measurement model assumptions (PD, LGD)	-	-	-	-	-	-	-	-
Changes to ECL measurement model assumptions (macroeconomic factors)	-	-	-	-	-	-	-	-
Other movements	454 *	-	-	454	3	-	-	3
<b>Total movements with impact on credit loss allowance charge for the period:</b>	<b>386</b>	<b>1 801</b>	<b>142</b>	<b>2 329</b>	<b>11 871</b>	<b>7 290</b>	<b>22</b>	<b>19 183</b>
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	-	-	-	-	-	-
Foreign exchange gains and losses and other movements	-	-	-	-	-	-	-	-
Change of outstanding balance **	(446)	(223)	(167)	(836)	6 864	(1 308)	(1 182)	4 374
<b>Total movements without impact on credit loss allowance charge for the period:</b>	<b>(446)</b>	<b>(223)</b>	<b>(167)</b>	<b>(836)</b>	<b>6 864</b>	<b>(1 308)</b>	<b>(1 182)</b>	<b>4 374</b>
<b>As at 30 June 2021 (unaudited)</b>	<b>6 906</b>	<b>5 084</b>	<b>10 215</b>	<b>22 205</b>	<b>293 029</b>	<b>37 994</b>	<b>26 515</b>	<b>357 538</b>

\* The impairment overlay represents an additional loss reserve for SME and Midcaps portfolio

\*\* Change of outstanding balance includes cash flows from repayment of principal

## 3 Risk Management (cont'd)

### (1) Credit Risk (cont'd)

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

	Credit loss allowance				Gross carrying amount			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
<b>As at 31 December 2020 (audited)</b>	<b>27 769</b>	<b>817</b>	<b>2 827</b>	<b>31 413</b>	<b>348 115</b>	<b>6 995</b>	<b>4 495</b>	<b>359 605</b>
Movements with impact on credit loss allowance charge for the period:								
Transfers between stages:								
from Stage 1 to Stage 2	(1 406)	1 349	-	(57)	(12 601)	12 231	-	(370)
to credit impaired (from Stage 1 and Stage 2 to Stage 3)	(51)	(9)	501	441	(777)	(28)	787	(18)
from Stage 3 to Stage 2	104	(122)	-	(18)	1 284	(1 214)	-	70
to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-	1	(7)	(6)	-	7	(7)	-
New originated or purchased	3 745	-	-	3 745	50 892	-	-	50 892
Derecognised during the period	(1 751)	(12)	(668)	(2 431)	(25 264)	(133)	(1 065)	(26 462)
Changes to ECL measurement model assumptions (PD, LGD)	-	-	-	-	-	-	-	-
Changes to ECL measurement model assumptions (macroeconomic factors)	-	-	-	-	-	-	-	-
Other movements	-	-	(275)	(275)	-	-	(437)	(437)
<b>Total movements with impact on credit loss allowance charge for the period:</b>	<b>641</b>	<b>1 207</b>	<b>(449)</b>	<b>1 399</b>	<b>13 534</b>	<b>10 863</b>	<b>(722)</b>	<b>23 675</b>
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	-	-	-	-	-	-
Change of outstanding balance *	(1 977)	(118)	(30)	(2 125)	(3 423)	(217)	(38)	(3 678)
<b>Total movements without impact on credit loss allowance charge for the period:</b>	<b>(1 977)</b>	<b>(118)</b>	<b>(30)</b>	<b>(2 125)</b>	<b>(3 423)</b>	<b>(217)</b>	<b>(38)</b>	<b>(3 678)</b>
<b>As at 30 June 2021 (unaudited)</b>	<b>26 433</b>	<b>1 906</b>	<b>2 348</b>	<b>30 687</b>	<b>358 226</b>	<b>17 641</b>	<b>3 735</b>	<b>379 602</b>

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

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

	Group 30.06.2021. (unaudited)	Group 31.12.2020. (audited)	Company 30.06.2021. (unaudited)	Company 31.12.2020. (audited)
Performing	338 320	313 856	338 320	313 856
Past due up to 30 days	9 153	9 339	9 153	9 339
Past due from 31 to 60 days	1 033	445	1 033	445
Past due from 61 to 90 days	488	217	488	217
Past due over 90 days	8 544	10 124	8 544	10 124
<b>Total gross loans, without interest accrued on the loans</b>	<b>357 538</b>	<b>333 981</b>	<b>357 538</b>	<b>333 981</b>
Impairment allowances	(22 205)	(20 713)	(22 205)	(20 713)
<b>Total net loans</b>	<b>335 333</b>	<b>313 268</b>	<b>335 333</b>	<b>313 268</b>

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



## 3 Risk Management (cont'd)

### (1) Credit Risk (cont'd)

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

	Group 30.06.2021. (unaudited)	Group 31.12.2020. (audited)	Company 30.06.2021. (unaudited)	Company 31.12.2020. (audited)
Real estate (loans)	183 030	178 614	183 030	178 614
Real estate (leaseback)	32 842	30 536	32 842	30 536
Movable property	55 164	52 619	55 164	52 619
Guarantees	5 316	3 048	5 316	3 048
<b>Total collateral</b>	<b>276 352</b>	<b>264 817</b>	<b>276 352</b>	<b>264 817</b>
Loan portfolio, gross *	357 538	333 981	357 538	333 981
Impairment allowances	(22 205)	(20 713)	(22 205)	(20 713)
Loan portfolio, net	335 333	313 268	335 333	313 268
<b>Exposed</b>	<b>17.59%</b>	<b>15.47%</b>	<b>17.59%</b>	<b>15.47%</b>

\* includes loans in amount of EUR 67,997 thousand to mitigate the impact of Covid-19 for which no real estate or movable property is required as collateral while credit risk is covered by risk coverage (Portfolio Loss Reserve).

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 30.06.2021. (unaudited)	Group 31.12.2020. (audited)	Company 30.06.2021. (unaudited)	Company 31.12.2020. (audited)
<i>Assets exposed to credit risk</i>				
Due from credit institutions and the Treasury	385 119	359 949	385 119	359 949
Financial assets at fair value through other comprehensive income - investment securities	14 393	36 958	14 393	36 958
Financial assets at amortised cost:				
Investment securities	35	441	35	441
Loans and receivables	335 333	313 268	335 333	313 268
Grants	41 298	31 107	41 298	31 107
Other investments	8 318	7 503	8 318	7 503
Investments in associates	54 205	47 988	54 205	47 988
Other assets	4 215	3 671	4 215	3 636
<b>Total</b>	<b>842 916</b>	<b>800 885</b>	<b>842 916</b>	<b>800 850</b>
<i>Off-balance sheet items exposed to credit risk</i>				
Contingent liabilities (Note 21)	379 602	359 605	379 602	359 605
Financial commitments (Note 21)	189 172	178 073	196 883	188 488
<b>Total</b>	<b>568 774</b>	<b>537 678</b>	<b>576 485</b>	<b>548 093</b>

As at 30 June 2021, part of the Group's / Company's assets in amount of EUR 142,789 thousand (31 December 2020: EUR 124,087 thousand) were pledged. Detailed information on the Group's / Company's outstanding loan agreement as at 30 June 2021 is provided in Note 18 and Note 19.

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. Actual amount of issued guarantees as at 30 June 2021 was EUR 250,062 thousand (31 December 2020: EUR 251,701 thousand).

## 3 Risk Management (cont'd)

### (2) Liquidity Risk

Maturity profile of the Group's expected undiscounted future cash flows of financial liabilities, off-balance liabilities and liquid assets as at 30 June 2021, 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	16 227	45 309	-	-	-	61 536
Due to general governments	4 549	26 322	26 370	18 613	34 612	110 466
Issued debt securities	1 212	67 527	-	-	-	68 739
Support programme funding **	1 075	62 778	71 975	34 615	27 557	198 000
Other liabilities	8 119	933	25	-	-	9 077
<b>Total financial liabilities</b>	<b>31 182</b>	<b>202 869</b>	<b>98 370</b>	<b>53 228</b>	<b>62 169</b>	<b>447 818</b>
Off-balance sheet items and contingent liabilities	365 402	192 561	10 811	-	-	568 774
<b>Total financial liabilities, off-balance items and contingent liabilities ***</b>	<b>396 584</b>	<b>395 430</b>	<b>109 181</b>	<b>53 228</b>	<b>62 169</b>	<b>1 016 592</b>
Due from credit institutions and the Treasury	385 119	-	-	-	-	385 119
Investment securities	1 228	13 200	-	-	-	14 428
<b>Liquid assets</b>	<b>386 347</b>	<b>13 200</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>399 547</b>

\* 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 30 June 2021 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 78,811 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 30 June 2021, 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	-	4 360	3 777	8 090	16 227
Due to general governments	-	17	1 537	2 994	4 549
Issued debt securities	-	-	184	1 028	1 212
Support programme funding	1 075	-	-	-	1 075
Other liabilities	8 023	-	-	96	8 119
<b>Total financial liabilities</b>	<b>9 098</b>	<b>4 377</b>	<b>5 498</b>	<b>12 208</b>	<b>31 182</b>
Off-balance sheet items and contingent liabilities *	314 392	10 231	14 677	26 102	365 402
<b>Total financial liabilities, off-balance items and contingent liabilities</b>	<b>323 490</b>	<b>14 608</b>	<b>20 175</b>	<b>38 310</b>	<b>396 584</b>
Due from credit institutions and the Treasury	385 119	-	-	-	385 119
Investment securities	35	-	105	1 088	1 228
<b>Liquid assets</b>	<b>385 154</b>	<b>-</b>	<b>-</b>	<b>1 088</b>	<b>386 347</b>

\* 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 23.

Contingent liabilities and financial commitments are funded from various funding sources available to the Group.

Outstanding financial guarantees in amount of EUR 243,685 thousand (up to 1 year) – from respective guarantee support programme funding (see Note 20) and Specific reserve capital (see Note 22). 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 44,162 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 18 and 19) and respective loan support programme funding (see Note 20).

Grant commitments in amount of EUR 22,504 thousand (up to 1 year) – from respective grant support programme funding (see Note 20).

Commitments to investments in associates in amount of EUR 8,335 thousand (up to 1 year) – from respective venture capital fund support programme funding (see Note 20).

Commitments to AIF "Altum capital fund" in amount of EUR 41,064 thousand (up to 1 year) – from specific reserve capital (see Note 22) and additional funding from shareholders expected in 2021.

Commitments to other investments in amount of EUR 5,652 thousand (up to 1 year) – for Baltic Innovation Fund 2 from support programme funding and repayments on different support programmes (see Note 20) 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 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
<b>Total financial liabilities</b>	<b>18 765</b>	<b>174 072</b>	<b>72 550</b>	<b>26 534</b>	<b>141 890</b>	<b>433 811</b>
Off-balance sheet items and contingent liabilities	349 731	171 663	16 284	-	-	537 678
<b>Total financial liabilities, off-balance items and contingent liabilities ***</b>	<b>368 496</b>	<b>345 735</b>	<b>88 834</b>	<b>26 534</b>	<b>141 890</b>	<b>971 489</b>
Due from credit institutions and the Treasury	359 949	-	-	-	-	359 949
Investment securities	22 991	14 408	-	-	-	37 399
<b>Liquid assets</b>	<b>382 940</b>	<b>14 408</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>397 348</b>

\* 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
<b>Total financial liabilities</b>	<b>5 260</b>	<b>4 942</b>	<b>400</b>	<b>8 163</b>	<b>18 765</b>
Off-balance sheet items and contingent liabilities *	286 738	13 777	14 532	34 684	349 731
<b>Total financial liabilities, off-balance items and contingent liabilities</b>	<b>291 998</b>	<b>18 719</b>	<b>14 932</b>	<b>42 847</b>	<b>368 496</b>
Due from credit institutions and the Treasury	359 949	-	-	-	359 949
Investment securities	2 090	20 436	-	465	22 991
<b>Liquid assets</b>	<b>362 039</b>	<b>20 436</b>	<b>-</b>	<b>465</b>	<b>382 940</b>

\* 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 23.

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 20) and Specific reserve capital (see Note 22). 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 18 and 19) and respective loan support programme funding (see Note 20).

Grant commitments in amount of EUR 6,798 thousand (up to 1 year) – from respective grant support programme funding (see Note 20).

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 20).

Commitments to AIF "Altum capital fund" in amount of EUR 46,117 thousand (up to 1 year) – from specific reserve capital (see Note 22) 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 and repayments on different support programmes (see Note 20) 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 Company's expected undiscounted future cash flows of financial liabilities, off-balance liabilities and liquid assets as at 30 June 2021, 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	16 227	45 309	-	-	-	61 536
Due to general governments	4 549	26 322	26 370	18 613	34 612	110 466
Issued debt securities	1 212	67 527	-	-	-	68 739
Support programme funding **	1 075	62 778	71 975	34 615	27 557	198 000
Other liabilities	8 119	933	25	-	-	9 077
<b>Total financial liabilities</b>	<b>31 182</b>	<b>202 869</b>	<b>98 370</b>	<b>53 228</b>	<b>62 169</b>	<b>447 818</b>
Off-balance sheet items and contingent liabilities	368 486	196 417	11 582	-	-	576 485
<b>Total financial liabilities, off-balance items and contingent liabilities ***</b>	<b>399 668</b>	<b>399 286</b>	<b>109 952</b>	<b>53 228</b>	<b>62 169</b>	<b>1 024 303</b>
Due from credit institutions and the Treasury	385 119	-	-	-	-	385 119
Investment securities	1 228	13 200	-	-	-	14 428
<b>Liquid assets</b>	<b>386 347</b>	<b>13 200</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>399 547</b>

\* 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 30 June 2021 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 78,811 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 30 June 2021, 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	-	4 360	3 777	8 090	16 227
Due to general governments	-	17	1 537	2 994	4 549
Issued debt securities	-	-	184	1 028	1 212
Support programme funding	1 075	-	-	-	1 075
Other liabilities	8 023	-	-	96	8 119
<b>Total financial liabilities</b>	<b>9 098</b>	<b>4 377</b>	<b>5 498</b>	<b>12 208</b>	<b>31 182</b>
Off-balance sheet items and contingent liabilities *	314 700	10 539	15 294	27 953	368 486
<b>Total financial liabilities, off-balance items and contingent liabilities</b>	<b>323 798</b>	<b>14 916</b>	<b>20 792</b>	<b>40 161</b>	<b>399 668</b>
Due from credit institutions and the Treasury	385 119	-	-	-	385 119
Investment securities	35	-	105	1 088	1 228
<b>Liquid assets</b>	<b>385 154</b>	<b>-</b>	<b>105</b>	<b>1 088</b>	<b>386 347</b>

\* 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 23.

Contingent liabilities and financial commitments are funded from various funding sources available to the Company.

Outstanding financial guarantees in amount of EUR 243,685 thousand (up to 1 year) – from respective guarantee support programme funding (see Note 20) and Specific reserve capital (see Note 22). 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 44,162 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 18 and 19) and respective loan support programme funding (see Note 20).

Grant commitments in amount of EUR 22,504 thousand (up to 1 year) – from respective grant support programme funding (see Note 20).

Commitments to investments in subsidiaries in amount of EUR 3,084 thousand (up to 1 year) – from respective venture capital fund support programme funding (see Note 20).

Commitments to investments in associates in amount of EUR 8,335 thousand (up to 1 year) – from respective venture capital fund support programme funding (see Note 20).

Commitments to AIF "Altum capital fund" in amount of EUR 41,064 thousand (up to 1 year) – from specific reserve capital (see Note 22) and additional funding from shareholders expected in 2021.

Commitments to other investments in amount of EUR 5,652 thousand (up to 1 year) – for Baltic Innovation Fund 2 from support programme funding and repayments on different support programmes (see Note 20) 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 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
<b>Total financial liabilities</b>	<b>18 765</b>	<b>174 072</b>	<b>72 550</b>	<b>26 534</b>	<b>141 890</b>	<b>433 811</b>
Off-balance sheet items and contingent liabilities	353 898	176 870	17 325	-	-	548 093
<b>Total financial liabilities, off-balance items and contingent liabilities ***</b>	<b>372 663</b>	<b>350 942</b>	<b>89 875</b>	<b>26 534</b>	<b>141 890</b>	<b>981 904</b>
Due from credit institutions and the Treasury	359 949	-	-	-	-	359 949
Investment securities	22 991	14 408	-	-	-	37 399
<b>Liquid assets</b>	<b>382 940</b>	<b>14 408</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>397 348</b>

\* 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
<b>Total financial liabilities</b>	<b>5 260</b>	<b>4 942</b>	<b>400</b>	<b>8 163</b>	<b>18 765</b>
Off-balance sheet items and contingent liabilities *	287 155	14 194	15 365	37 184	353 898
<b>Total financial liabilities, off-balance items and contingent liabilities</b>	<b>292 415</b>	<b>19 136</b>	<b>15 765</b>	<b>45 347</b>	<b>372 663</b>
Due from credit institutions and the Treasury	359 949	-	-	-	359 949
Investment securities	2 090	20 436	-	465	22 991
<b>Liquid assets</b>	<b>362 039</b>	<b>20 436</b>	<b>-</b>	<b>465</b>	<b>382 940</b>

\* 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 23.

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 20) and Specific reserve capital (see Note 22). 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 18 and 19) and respective loan support programme funding (see Note 20).

Grant commitments in amount of EUR 6,798 thousand (up to 1 year) – from respective grant support programme funding (see Note 20).

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 20).

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 20).

Commitments to AIF "Altum capital fund" in amount of EUR 46,117 thousand (up to 1 year) – from specific reserve capital (see Note 22) 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 and repayments on different support programmes (see Note 20) 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)

Breakdown of the Group's assets and liabilities by maturity profile as at 30 June 2021 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
<b>Assets</b>							
Due from credit institutions and the Treasury	385 119	-	-	-	-	-	385 119
Financial assets at fair value through profit or loss	-	-	-	-	-	7 602	7 602
Investment securities	35	-	105	1 088	13 200	-	14 428
Loans *	10 004	11 783	25 602	39 969	156 944	91 031	335 333
Grants	48	14 652	407	213	24 210	1 768	41 298
Deferred expense and accrued income	2 167	-	-	-	-	-	2 167
Other investments	-	-	-	-	-	8 318	8 318
Investments in associates	-	-	-	28 188	-	26 017	54 205
Investment property	-	-	-	-	-	38 148	38 148
Property, plant and equipment	-	-	-	-	-	4 411	4 411
Intangible assets	-	-	-	-	-	1 242	1 242
Other assets	1 647	57	58	925	1 528	-	4 215
<b>Total assets</b>	<b>399 020</b>	<b>26 492</b>	<b>26 172</b>	<b>70 383</b>	<b>195 882</b>	<b>178 537</b>	<b>896 486</b>
<b>Liabilities</b>							
Due to credit institutions	-	4 360	3 750	8 090	45 309	-	61 509
Due to general governments	-	2	1 419	2 846	26 091	79 560	109 918
Issued debt securities	-	-	184	183	64 992	-	65 359
Deferred income and accrued expense	231	350	374	1 472	3 021	784	6 232
Provisions	31 421	-	-	-	-	-	31 421
Support programme funding	1 075	-	-	-	62 778	134 147	198 000
Other liabilities	8 023	-	-	96	933	25	9 077
<b>Total liabilities</b>	<b>40 750</b>	<b>4 712</b>	<b>5 727</b>	<b>12 687</b>	<b>203 124</b>	<b>214 516</b>	<b>481 516</b>
<b>Net liquidity</b>	<b>358 270</b>	<b>21 780</b>	<b>20 445</b>	<b>57 696</b>	<b>(7 242)</b>	<b>(35 979)</b>	<b>414 970</b>

\* 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 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
<b>Assets</b>							
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
<b>Total assets</b>	<b>375 158</b>	<b>33 822</b>	<b>24 403</b>	<b>59 432</b>	<b>192 831</b>	<b>165 058</b>	<b>850 704</b>
<b>Liabilities</b>							
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
<b>Total liabilities</b>	<b>38 126</b>	<b>5 208</b>	<b>399</b>	<b>9 135</b>	<b>173 548</b>	<b>241 694</b>	<b>468 110</b>
<b>Net liquidity</b>	<b>337 032</b>	<b>28 614</b>	<b>24 004</b>	<b>50 297</b>	<b>19 283</b>	<b>(76 636)</b>	<b>382 594</b>

\* 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 30 June 2021 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
<b>Assets</b>							
Due from credit institutions and the Treasury	385 119	-	-	-	-	-	385 119
Investment securities	35	-	105	1 088	13 200	-	14 428
Loans *	10 004	11 783	25 602	39 969	156 944	91 031	335 333
Grants	48	14 652	407	213	24 210	1 768	41 298
Deferred expense and accrued income	2 167	-	-	-	-	-	2 167
Other investments	-	-	-	-	-	8 318	8 318
Investments in associates	-	-	-	28 188	-	26 017	54 205
Investments in subsidiaries	-	-	-	-	-	7 021	7 021
Investment property	-	-	-	-	-	38 148	38 148
Property, plant and equipment	-	-	-	-	-	4 411	4 411
Intangible assets	-	-	-	-	-	1 242	1 242
Other assets	1 647	57	58	925	1 528	-	4 215
<b>Total assets</b>	<b>399 020</b>	<b>26 492</b>	<b>26 172</b>	<b>70 383</b>	<b>195 882</b>	<b>177 956</b>	<b>895 905</b>
<b>Liabilities</b>							
Due to credit institutions	-	4 360	3 750	8 090	45 309	-	61 509
Due to general governments	-	2	1 419	2 846	26 091	79 560	109 918
Issued debt securities	-	-	184	183	64 992	-	65 359
Deferred income and accrued expense	231	350	374	1 552	3 021	784	6 312
Provisions	31 421	-	-	-	-	-	31 421
Support programme funding	1 075	-	-	-	62 778	134 147	198 000
Other liabilities	8 023	-	-	96	933	25	9 077
<b>Total liabilities</b>	<b>40 750</b>	<b>4 712</b>	<b>5 727</b>	<b>12 767</b>	<b>203 124</b>	<b>214 516</b>	<b>481 596</b>
<b>Net liquidity</b>	<b>358 270</b>	<b>21 780</b>	<b>20 445</b>	<b>57 616</b>	<b>(7 242)</b>	<b>(36 560)</b>	<b>414 309</b>

\* 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
<b>Assets</b>							
Due from credit institutions and the Treasury	359 949	-	-	-	-	-	359 949
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
<b>Total assets</b>	<b>375 158</b>	<b>33 822</b>	<b>24 403</b>	<b>59 432</b>	<b>192 831</b>	<b>164 477</b>	<b>850 123</b>
<b>Liabilities</b>							
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
<b>Total liabilities</b>	<b>38 126</b>	<b>5 208</b>	<b>399</b>	<b>9 135</b>	<b>173 548</b>	<b>241 774</b>	<b>468 190</b>
<b>Net liquidity</b>	<b>337 032</b>	<b>28 614</b>	<b>24 004</b>	<b>50 297</b>	<b>19 283</b>	<b>(77 297)</b>	<b>381 933</b>

\* 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)

### (3) Covid-19 impact

#### (i) Covid-19 impact on loan portfolio

Analysis of the Group's / Company's loan portfolio by client segments as at 30 June 2021, 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	1 124	8	-	-	614	346	1 738	354
Agriculture	116 883	987	10 344	307	5 669	1 340	132 896	2 634
SME and Midcaps	137 337	5 094	26 227	4 769	17 690	7 677	181 254	17 540
of which,								
Covid-19 crisis related working capital loans	59 687	1 781	6 404	255	1 908	868	67 999	2 904
Daily loan products	77 650	3 313	19 823	4 514	15 784	6 809	113 255	14 636
Private individuals	4 869	31	331	7	2 187	850	7 387	888
Land Fund	32 816	23	1 092	1	355	2	34 263	26
<b>Total segments, gross</b>	<b>293 029</b>	<b>6 143</b>	<b>37 994</b>	<b>5 084</b>	<b>26 515</b>	<b>10 215</b>	<b>357 538</b>	<b>21 442</b>
Impairment overlay *	-	763	-	-	-	-	-	763
<b>Total segments, net</b>	<b>293 029</b>	<b>6 906</b>	<b>37 994</b>	<b>5 084</b>	<b>26 515</b>	<b>10 215</b>	<b>357 538</b>	<b>22 205</b>

\* The impairment overlay represents an additional loss reserve for SME and Midcaps portfolio over the modelled ECL amounts to account for other economic uncertainties.

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
<b>Total segments, gross</b>	<b>274 292</b>	<b>6 657</b>	<b>32 011</b>	<b>3 505</b>	<b>27 676</b>	<b>10 240</b>	<b>333 979</b>	<b>20 402</b>
Impairment overlay *	-	309	-	-	-	-	-	309
<b>Total segments, net</b>	<b>274 292</b>	<b>6 966</b>	<b>32 011</b>	<b>3 505</b>	<b>27 676</b>	<b>10 240</b>	<b>333 979</b>	<b>20 711</b>

\* The impairment overlay represents an additional loss reserve for SME and Midcaps portfolio over the modelled ECL amounts to account for other economic uncertainties.

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

## 3 Risk Management (cont'd)

### (3) COVID-19 impact (cont'd)

#### (i) Covid-19 impact on loan portfolio (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 30 June 2021, in thousands euro:

	Gross loans	Changes to 31.12.2020.	Granted in 2021 6M	Granted in 2020 12M	Impairment allowance	Changes to 31.12.2020.	Net loans	% of Total Gross loans, SME & Midcap
<i>Covid-19 more exposed industries</i>								
Retail	4 854	140	216	4 714	334	148	4 520	2.7%
Hotels and restaurants	3 322	(76)	210	3 398	112	15	3 209	1.8%
Tourism services	2 900	248	-	2 652	72	8	2 827	1.6%
Land transport services	1 807	1 213	188	594	48	36	1 759	1.0%
Art, entertainment and leisure	1 507	367	81	1 139	51	22	1 456	0.8%
Beauty and sports	100	100	100	-	3	3	97	0.1%
<b>Total Covid-19 more exposed industries</b>	<b>14 490</b>	<b>1 992</b>	<b>795</b>	<b>12 497</b>	<b>620</b>	<b>232</b>	<b>13 868</b>	<b>8.0%</b>
<i>Covid-19 less exposed industries</i>								
Manufacturing	18 577	(954)	1 875	19 532	675	(63)	17 902	10.2%
Wholesale	13 268	91	1 183	13 178	793	303	12 475	7.3%
Construction	7 469	1 412	1 415	6 057	402	48	7 067	4.1%
Transport, warehousing and communications	3 567	(35)	303	3 602	118	8	3 449	2.0%
Information technologies and communication	2 932	410	-	2 522	94	41	2 839	1.6%
Professional, science and technical services	2 174	(121)	399	2 295	69	(12)	2 106	1.2%
Forestry	1 961	(41)	153	2 002	59	(4)	1 902	1.1%
Municipal authorities	896	141	20	755	21	5	875	0.5%
Electricity, gas and water utilities	623	(837)	-	1 460	10	(40)	613	0.3%
Real estate	470	38	-	432	11	1	459	0.3%
Health and social care	189	27	45	163	4	1	185	0.1%
Other industries	1 381	1 316	168	65	28	27	1 353	0.8%
<b>Total Covid-19 less exposed industries</b>	<b>53 507</b>	<b>1 447</b>	<b>5 561</b>	<b>52 063</b>	<b>2 284</b>	<b>315</b>	<b>51 225</b>	<b>29.5%</b>
<b>Total Covid-19 crisis related working capital loans</b>	<b>67 997</b>	<b>3 439</b>	<b>6 356</b>	<b>64 560</b>	<b>2 904</b>	<b>547</b>	<b>65 093</b>	<b>37.5%</b>

## 3 Risk Management (cont'd)

### (3) COVID-19 impact (cont'd)

#### (i) Covid-19 impact on loan portfolio (cont'd)

Split of daily (ordinary) loan product portfolio for the SME and Midcap client segment by industries as at 30 June 2021, in thousands euro:

	Gross loans	Changes to 31.12.2020.	Granted in 2021 6M	Granted in 2020 12M	Impairment allowance	Changes to 31.12.2020.	Net loans	% of Total Gross loans, SME & Midcap
<i>Covid-19 more exposed industries</i>								
Hotels and restaurants	4 934	210	516	1 021	599	1	4 335	2.7%
Retail	1 934	(80)	108	194	142	6	1 792	1.1%
Land transport services	1 803	(123)	128	398	445	67	1 359	1.0%
Art, entertainment and leisure	678	330	-	71	83	22	595	0.4%
Beauty and sports	660	(50)	32	116	243	(12)	417	0.4%
Tourism services	333	-	-	-	87	1	246	0.2%
<b>Total Covid-19 more exposed industries</b>	<b>10 342</b>	<b>287</b>	<b>784</b>	<b>1 800</b>	<b>1 599</b>	<b>85</b>	<b>8 744</b>	<b>5.7%</b>
<i>Covid-19 less exposed industries</i>								
Manufacturing	52 986	4 384	4 002	9 075	6 207	(555)	46 779	29.2%
Real estate	11 082	1 241	727	1 657	3 023	935	8 059	6.1%
Wholesale	6 317	(222)	316	1 474	963	93	5 354	3.5%
Electricity, gas and water utilities	6 152	(69)	257	366	964	(32)	5 188	3.4%
Municipal authorities	4 891	302	189	3 005	100	2	4 791	2.7%
Health and social care	4 664	347	396	711	471	(43)	4 192	2.6%
Construction	4 194	974	984	1 592	257	3	3 937	2.3%
Forestry	3 685	1 233	642	910	142	54	3 543	2.0%
Professional, science and technical services	2 805	(855)	83	810	149	(101)	2 656	1.5%
Fishery	1 809	162	-	281	164	18	1 645	1.0%
Transport, warehousing and communications	753	70	257	121	186	-	567	0.4%
Information technologies and communication	598	47	59	91	71	27	527	0.3%
Other industries	2 979	1 652	350	479	341	116	2 637	1.6%
<b>Total Covid-19 less exposed industries</b>	<b>102 915</b>	<b>9 266</b>	<b>8 262</b>	<b>20 572</b>	<b>13 038</b>	<b>517</b>	<b>89 875</b>	<b>56.8%</b>
<b>Total daily (ordinary) loan products</b>	<b>113 257</b>	<b>9 553</b>	<b>9 046</b>	<b>22 372</b>	<b>14 637</b>	<b>602</b>	<b>98 619</b>	<b>62.5%</b>

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. The same loan application assessment process applies to specific Covid-19 related support instrument – working capital loans.

About 39% of the SME and Midcap segment as of 30.06.2021 consists of loans in the manufacturing sector. In the first 6 months of 2021, the growth of manufacturing companies has generally continued. Given the constraints on the entertainment, catering, tourism and other services sectors, public consumption trends are significantly affected and most of the income is directed to the purchase of various goods. The sub-sector that is experiencing the sharpest fluctuations is wood processing, as the trend of the second half of 2020 continues with rapidly rising sales prices, and profit indicators are increasing accordingly. However, the availability of raw materials, in connection with the economic sanctions against Belarus, as well as the possible sharp decline in the price of products on the basis of demand adjustments, poses additional risks to companies in the sector. The sufficiently good results of the manufacturing industry in 2021 are also shown by the macroeconomic indicators - the output of exported goods continues to increase in almost all sub-sectors. Therefore, it can be concluded that the negative impact of Covid-19 on the operations of the companies in the sector has been insignificant.

The second largest sector in terms of size of loan portfolio (around 11%) in the SME and Midcap segment is trading. In the wholesale sector, similarly to the manufacturing sector, the impact of the Covid-19 crisis, including in the first 6 months of 2021, has varied depending on the sub-sector. For example, wholesalers of various raw materials and equipment have closed 2020 with very good results, and they have been able to improve their performance thanks to the growth of the manufacturing sector in 2021 as well. Timber wholesalers have been less successful, having had 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



## 3 Risk Management (cont'd)

### (3) COVID-19 impact (cont'd)

#### (i) Covid-19 impact on loan portfolio (cont'd)

rising timber prices worldwide. This trend will continue in the first 6 months of 2021, but the challenges for the industry are similar to those for the wood processing industry. The first 6 months of 2021 have been slightly more successful for fuel and fuel traders, as they have been able to take advantage of the positive effect of rising prices, but in general the industry has not fully recovered from the losses caused by the Covid-19 crisis in 2020. On the positive side, most companies in this sector have sufficiently high equity ratios and owners with the ability to financially support companies. In the retail segment, the first half of 2021 was challenging for all sub-sectors, except for trade in pharmaceuticals, food products and household goods. Due to store restrictions, many retailers of clothing, footwear, cosmetics, jewellery and other product groups have major challenges in covering their day-to-day expenses and selling existing inventory to renew their range.

The third largest sector in terms of size of loan portfolio (around 6%) is real estate operations. The real estate portfolios where the hotel business is located were the most affected - due to travel restrictions, the flow of visitors to the region has almost completely stopped. It is too early to judge the recovery of this segment, and much will depend on the pace of vaccination and the overall success of controlling the virus. The second most significantly affected segment is shopping centers. Restrictions on trade, social distancing, as well as the boom in e-commerce have had a significant impact on the financial results of shopping centers - a large number of tenants have requested rent discounts, but in some centers the proportion of vacant space has increased. In the office segment - most office employees have had to work remotely and many still work from home on a daily basis, thus the issue of the need for offices in the future has become topical in the real estate sector. The impact of the Covid-19 crisis on the industry has been moderate overall, with negative effects being more pronounced for companies that did not diversify their tenant portfolios by industry. For example, rental space was mostly leased to beauty, retail customers, hotels, in this example landlords had to reduce rents or look for other tenants, thus suffering from the impact of Covid-19. However, the problems of entrepreneurs who had tenants in various industries in the portfolio are relatively minimal and could not significantly affect the client's solvency. The warehousing segment is surviving the pandemic better, as the volume of goods delivered has increased significantly due to the boom in e-commerce. At the same time, the requirements of buyers to ensure the speed of delivery of goods create additional demand for warehouse space.

#### (ii) Covid-19 impact on guarantee portfolio

Analysis of the Group's / Company's guarantees portfolio by client segments as at 30 June 2021, 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	11 883	1 756	1 532	130	597	385	14 012	2 271
SME and Midcaps	165 419	9 801	15 922	1 749	3 023	1 851	184 364	13 401
of which,								
Covid-19 crisis related guarantees *	31 705	1 899	8 932	1 057	218	134	40 855	3 090
Daily guarantees products	133 714	7 901	6 990	691	2 805	1 717	143 509	10 309
Private individuals	180 923	14 875	188	28	115	112	181 226	15 015
<b>Total segments, gross</b>	<b>358 225</b>	<b>26 432</b>	<b>17 642</b>	<b>1 907</b>	<b>3 735</b>	<b>2 348</b>	<b>379 602</b>	<b>30 687</b>

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

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
<b>Total segments, gross</b>	<b>348 116</b>	<b>27 770</b>	<b>6 994</b>	<b>816</b>	<b>4 495</b>	<b>2 827</b>	<b>359 605</b>	<b>31 413</b>

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

### 3 Risk Management (cont'd)

#### (3) COVID-19 impact (cont'd)

##### (ii) Covid-19 impact on guarantee portfolio (cont'd)

Guarantees issued by the Group / Company to SME and Midcap client segment are split between specific Covid-19 related support instrument – SME loan credit holiday guarantees, portfolio guarantees and SME and Midcap companies loan holiday guarantees and 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 30 June 2021, in thousands euro:

	Gross outstanding guarantees	Changes to 31.12.2020.	Issued in 2021 6M	Issued in 2020 12M	Impairment allowance	Changes to 31.12.2020.	Net outstanding guarantees	% of Total gross outstanding guarantees, SME & Midcap
<i>Covid-19 more exposed industries</i>								
Hotels and restaurants	5 181	(9)	-	5 190	569	(71)	4 612	2.8%
Retail	1 366	(1 506)	-	2 872	32	(58)	1 334	0.7%
Land transport services	3 924	1 026	1 287	2 899	501	11	3 424	2.1%
Art, entertainment and leisure	81	(3)	-	84	10	-	71	0.0%
<b>Total Covid-19 more exposed industries</b>	<b>10 552</b>	<b>(492)</b>	<b>1 287</b>	<b>11 045</b>	<b>1 112</b>	<b>(118)</b>	<b>9 441</b>	<b>5.7%</b>
<i>Covid-19 less exposed industries</i>								
Manufacturing	12 029	759	2 779	11 270	743	33	11 286	6.5%
Wholesale	12 117	3 234	3 329	8 882	973	63	11 144	6.6%
Construction	750	-	-	750	13	(13)	737	0.4%
Transport, warehousing and communications	4 043	(335)	-	4 378	86	(130)	3 958	2.2%
Information technologies and communication	63	-	-	63	-	-	63	0.0%
Professional, science and technical services	-	-	-	-	-	-	-	0.0%
Forestry	418	(29)	-	447	80	23	338	0.2%
Electricity, gas and water utilities	410	(48)	-	458	41	(7)	369	0.2%
Real estate	350	(16)	-	366	35	(5)	314	0.2%
Health and social care	-	(500)	-	500	-	(12)	-	0.0%
Other industries	122	(416)	1	539	8	(32)	116	0.1%
<b>Total Covid-19 less exposed industries</b>	<b>30 302</b>	<b>2 649</b>	<b>6 109</b>	<b>27 653</b>	<b>1 979</b>	<b>(80)</b>	<b>28 325</b>	<b>16.4%</b>
<b>Total specific COVID-19 related guarantee products *</b>	<b>40 854</b>	<b>2 157</b>	<b>7 396</b>	<b>38 698</b>	<b>3 091</b>	<b>(198)</b>	<b>37 766</b>	<b>22.2%</b>

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

## 3 Risk Management (cont'd)

### (3) COVID-19 impact (cont'd)

#### (ii) Covid-19 impact on guarantee portfolio (cont'd)

Split of daily (ordinary) guarantee product portfolio of the SME and Midcap client segment by industries as at 30 June 2021, in thousands euro:

	Gross outstanding guarantees	Changes to 31.12.2020.	Issued in 2021 6M	Issued in 2020 12M	Impairment allowance	Changes to 31.12.2020.	Net outstanding guarantees	% of Total gross outstanding guarantees, SME & Midcap
<b>Covid-19 more exposed industries</b>								
Hotels and restaurants	721	(144)	-	-	56	(42)	665	0.4%
Retail	5 951	234	664	917	439	(8)	5 512	3.2%
Land transport services	4 872	1 950	2 022	612	439	81	4 433	2.6%
Art, entertainment and leisure	484	179	183	96	37	16	447	0.3%
<b>Total Covid-19 more exposed industries</b>	<b>12 028</b>	<b>2 219</b>	<b>2 869</b>	<b>1 625</b>	<b>971</b>	<b>47</b>	<b>11 057</b>	<b>6.5%</b>
<b>Covid-19 less exposed industries</b>								
Manufacturing	42 724	(3 384)	4 364	12 365	3 328	(450)	39 396	23.2%
Wholesale	32 444	(300)	4 461	12 060	1 658	(79)	30 786	17.6%
Construction	29 482	(4 925)	1 086	8 288	2 606	(865)	26 876	16.0%
Transport, warehousing and communications	2 403	293	470	405	268	19	2 134	1.3%
Information technologies and communication	3 600	753	816	201	183	33	3 417	2.0%
Professional, science and technical services	5 471	224	414	2 788	437	129	5 034	3.0%
Forestry	9 203	692	464	5 891	536	22	8 666	5.0%
Electricity, gas and water utilities	990	(1 962)	300	280	56	(464)	933	0.5%
Real estate	3 971	198	122	869	118	(56)	3 854	2.2%
Health and social care	633	(70)	57	100	95	20	538	0.3%
Other industries	561	(264)	181	180	54	(43)	508	0.3%
<b>Total Covid-19 less exposed industries</b>	<b>131 482</b>	<b>(8 745)</b>	<b>12 735</b>	<b>43 427</b>	<b>9 339</b>	<b>(1 734)</b>	<b>122 142</b>	<b>71.3%</b>
<b>Total daily (ordinary) guarantee products</b>	<b>143 510</b>	<b>(6 526)</b>	<b>15 604</b>	<b>45 052</b>	<b>10 310</b>	<b>(1 687)</b>	<b>133 199</b>	<b>77.8%</b>

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. The same guarantee application assessment process applies to specific Covid-19 related support instruments.

About 30% of the SME and Midcap segment as of 30.06.2021 consists of guarantees in the manufacturing sector. In the first 6 months of 2021, the growth of manufacturing companies has generally continued. Given the constraints on the entertainment, catering, tourism and other services sectors, public consumption trends are significantly affected and most of the income is directed to the purchase of various goods. The sub-sector that is experiencing the sharpest fluctuations is wood processing, as the trend of the second half of 2020 continues with rapidly rising sales prices, and profit indicators are increasing accordingly. However, the availability of raw materials, in connection with the economic sanctions against Belarus, as well as the possible sharp decline in the price of products on the basis of demand adjustments, poses additional risks to companies in the sector. The sufficiently good results of the manufacturing industry in 2021 are also shown by the macroeconomic indicators - the output of exported goods continues to increase in almost all sub-sectors. Therefore, it can be concluded that the negative impact of Covid-19 on the operations of the companies in the sector has been insignificant.

The second largest sector in terms of size of the guarantee portfolio (around 24%) in the SME and Midcap segment is trading. In the wholesale sector, similarly to the manufacturing sector, the impact of the Covid-19 crisis, including in the first 6 months of 2021, has varied depending on the sub-sector. For example, wholesalers of various raw materials and equipment have closed 2020 with very good results, and they have been able to improve their performance thanks to the growth of the manufacturing sector in 2021 as well. Timber wholesalers have been less successful, having had 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. This trend will continue in the first 6 months of 2021, but the challenges for the industry are similar to those for the wood processing industry. The first 6 months of 2021 have been slightly more successful for fuel and

## 3 Risk Management (cont'd)

### (3) COVID-19 impact (cont'd)

#### *(ii) Covid-19 impact on guarantee portfolio (cont'd)*

fuel traders, as they have been able to take advantage of the positive effect of rising prices, but in general the industry has not fully recovered from the losses caused by the Covid-19 crisis in 2020. On the positive side, most companies in this sector have sufficiently high equity ratios and owners with the ability to financially support companies. In the retail segment, the first half of 2021 was challenging for all sub-sectors, except for trade in pharmaceuticals, food products and household goods. Due to store restrictions, many retailers of clothing, footwear, cosmetics, jewelry and other product groups have major challenges in covering their day-to-day expenses and selling existing inventory to renew their assortment.

The third largest sector in terms of the size of the guarantee portfolio (around 16%) in the SME and Midcap segment is construction. The Covid-19 crisis affected the sector 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 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, overall, the first 6 months of 2021 show good results for the industry, as frozen projects have been revived and, following the peak of the frozen consumption crisis, demand has risen sharply from both institutional and private customers, leading to rising prices and rising profits. The easing of travel conditions also allows Latvian companies to return to the Scandinavian market.

## 4 Interest income

All amounts in thousands of euro

	Group 01.01.2021.- 30.06.2021. (unaudited)	Group 01.01.2020.- 30.06.2020. (unaudited)	Company 01.01.2021.- 30.06.2021. (unaudited)	Company 01.01.2020.- 30.06.2020. (unaudited)
Interest on loans and guarantees	9 068	6 521	9 068	6 521
Interest on securities at fair value	238	749	238	749
Interest on securities at amortised cost	12	10	12	10
Other interest income	-	13	-	13
<b>Total interest income</b>	<b>9 318</b>	<b>7 293</b>	<b>9 318</b>	<b>7 293</b>

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 the 6 months of 2021 amounts to EUR 686 thousand (6 months of 2020: EUR 651 thousand).

## 5 Interest expense

All amounts in thousands of euro

	Group 01.01.2021.- 30.06.2021. (unaudited)	Group 01.01.2020.- 30.06.2020. (unaudited)	Company 01.01.2021.- 30.06.2021. (unaudited)	Company 01.01.2020.- 30.06.2020. (unaudited)
Interest on balances due to credit institutions	343	291	343	291
Interest on issued debt securities	404	333	404	333
Allocation of state support programmes' profit to support programme funding *	261	332	261	332
Other commission expense	12	18	12	18
<b>Total interest expense</b>	<b>1 020</b>	<b>974</b>	<b>1 020</b>	<b>974</b>

\* 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 01.01.2021.- 30.06.2021. (unaudited)	Group 01.01.2020.- 30.06.2020. (unaudited)	Company 01.01.2021.- 30.06.2021. (unaudited)	Company 01.01.2020.- 30.06.2020. (unaudited)
Compensation of expenses for management of state support programmes	1 207	1 001	1 207	1 001
Compensation of venture capital fund management fees	1 669	1 467	1 669	1 467
Compensation of expenses for management of state support programmes of the previous years	-	332	-	332
Compensation of expenses of capital congestion	200	100	200	100
<b>Total income from implementation of state support programmes</b>	<b>3 076</b>	<b>2 900</b>	<b>3 076</b>	<b>2 900</b>

## 7 Expenses to be compensated for implementation of state support programmes

All amounts in thousands of euro

	Group 01.01.2021.- 30.06.2021. (unaudited)	Group 01.01.2020.- 30.06.2020. (unaudited)	Company 01.01.2021.- 30.06.2021. (unaudited)	Company 01.01.2020.- 30.06.2020. (unaudited)
Compensated staff costs	753	819	753	819
Compensated administrative expense	147	182	147	182
Compensated venture capital fund management fees	1 699	1 469	1 699	1 469
<b>Total compensated expense for implementation of state support programmes</b>	<b>2 599</b>	<b>2 470</b>	<b>2 599</b>	<b>2 470</b>

## 8 Other income

All amounts in thousands of euro

	Group 01.01.2021.- 30.06.2021. (unaudited)	Group 01.01.2020.- 30.06.2020. (unaudited)	Company 01.01.2021.- 30.06.2021. (unaudited)	Company 01.01.2020.- 30.06.2020. (unaudited)
Income from lease payments for operating leases	674	460	674	460
Income from payments for financial leases	3	316	3	316
Income from investment property revaluation	-	10	-	10
Income from sale of investment property	36	27	36	27
Income from sale of repossessed collateral	5	13	5	13
Other commission income	13	3	13	3
Income from investments in the AIF "Altum capital fund"	40	-	40	-
Income from investments in the Three Seas Initiative Investment Fund	39	-	39	-
Income from management of the AIF "Altum capital fund"	279	-	279	-
Other operating income	157	567	157	567
<b>Total other income</b>	<b>1 246</b>	<b>1 396</b>	<b>1 246</b>	<b>1 396</b>

## 9 Other expense

All amounts in thousands of euro

	Group 01.01.2021.- 30.06.2021. (unaudited)	Group 01.01.2020.- 30.06.2020. (unaudited)	Company 01.01.2021.- 30.06.2021. (unaudited)	Company 01.01.2020.- 30.06.2020. (unaudited)
Maintenance and service costs of Land Fund	174	143	174	143
Debt collection costs	60	76	60	76
Maintenance costs of repossessed collateral	-	3	-	3
Revaluation of repossessed collateral	-	27	-	27
Depreciation of right-of-use assets	73	68	73	68
Commission expense on investments in securities	40	45	40	45
AIF "Altum capital fund" management costs	279	-	279	-
Loss from investments in subsidiaries	-	-	-	-
Other commission expense	1	1	1	1
<b>Total other expense</b>	<b>627</b>	<b>363</b>	<b>627</b>	<b>363</b>

## 10 Impairment losses, net

All amounts in thousands of euro

	Group 01.01.2021.- 30.06.2021. (unaudited)	Group 01.01.2020.- 30.06.2020. (unaudited)	Company 01.01.2021.- 30.06.2021. (unaudited)	Company 01.01.2020.- 30.06.2020. (unaudited)
Impairment losses on:	4 981	8 277	4 981	8 277
Loans, net	2 851	4 279	2 851	4 279
<i>impairment losses</i>	4 036	6 744	4 036	6 744
<i>impairment losses covered by Portfolio Loss Reserve</i>	1 169	-	1 169	-
<i>impairment losses covered by Risk Coverage Reserve</i>	(1 185)	(2 465)	(1 185)	(2 465)
Disbursed guarantee compensations	-	-	-	-
<i>impairment losses</i>	-	-	-	-
<i>impairment losses covered by risk coverage reserve</i>	-	-	-	-
Grants	3	-	3	-
Other assets	8	-	8	-
Due from credit institutions and the Treasury	-	-	-	-
Financial assets related to loan agreements	20	2	20	2
Debt securities	-	-	-	-
Guarantees, net	1 660	3 383	1 660	3 383
<i>impairment losses</i>	6 701	6 975	6 701	6 975
<i>impairment losses covered by Portfolio Loss Reserve</i>	1 219	-	1 219	-
<i>impairment losses covered by Risk Coverage Reserve</i>	(5 041)	(3 592)	(5 041)	(3 592)
Loan commitments, net	396	613	396	613
<i>impairment losses</i>	482	770	482	770
<i>impairment losses covered by Portfolio Loss Reserve</i>	99	-	99	-
<i>impairment losses covered by Risk Coverage Reserve</i>	(86)	(157)	(86)	(157)
Grant commitments	43	-	43	-
Reversal of impairment on:	(5 478)	(4 848)	(5 478)	(4 848)
Loans, net	(2 115)	(2 309)	(2 115)	(2 309)
<i>reversal of impairment</i>	(3 158)	(2 648)	(3 158)	(2 648)
<i>reversal of impairment covered by Portfolio Loss Reserve</i>	(744)	-	(744)	-
<i>reversal of impairment covered by Risk Coverage Reserve</i>	1 043	339	1 043	339
Disbursed guarantee compensations	(12)	(88)	(12)	(88)
<i>reversal of impairment</i>	(29)	(96)	(29)	(96)
<i>reversal of impairment covered by Portfolio Loss Reserve</i>	(3)	-	(3)	-
<i>reversal of impairment covered by Risk Coverage Reserve</i>	17	8	17	8
Grants	(20)	-	(20)	-
Other assets	-	-	-	-
Due from credit institutions and the Treasury	-	-	-	-
Financial assets related to loan agreements	(13)	-	(13)	-
Debt securities	(11)	-	(11)	-
Guarantees, net	(3 091)	(2 235)	(3 091)	(2 235)
<i>reversal of impairment</i>	(7 081)	(5 520)	(7 081)	(5 520)
<i>reversal of impairment covered by Portfolio Loss Reserve</i>	(772)	-	(772)	-
<i>reversal of impairment covered by Risk Coverage Reserve</i>	3 990	3 285	3 990	3 285
Loan commitments, net	(209)	(216)	(209)	(216)
<i>reversal of impairment</i>	(234)	(375)	(234)	(375)
<i>reversal of impairment covered by Portfolio Loss Reserve</i>	(89)	-	(89)	-
<i>reversal of impairment covered by Risk Coverage Reserve</i>	25	159	25	159
Grant commitments	(7)	-	(7)	-
Total impairment losses / (reversal), net	(497)	3 429	(497)	3 429
Recovery of loans written off in previous periods	(393)	(497)	(393)	(497)
<b>Total impairment losses and (income) from recovery of loans written-off</b>	<b>(890)</b>	<b>2 932</b>	<b>(890)</b>	<b>2 932</b>

Additional information Including on impairment allowances covered by Portfolio Loss Reserve (Special Reserve Capital) upon approval of the 2021 annual report available in Note 3.1.

## 11 Due from credit institutions and the Treasury

All amounts in thousands of euro

	Group 30.06.2021. (unaudited)	Group 31.12.2020. (audited)	Company 30.06.2021. (unaudited)	Company 31.12.2020. (audited)
Due from credit institutions and State Treasury	385 119	359 949	385 119	359 949
<i>cash and cash equivalent</i>	385 120	359 949	385 120	359 949
Impairment allowances	-	-	-	-
<b>Net due from credit institutions and State Treasury</b>	<b>385 119</b>	<b>359 949</b>	<b>385 119</b>	<b>359 949</b>

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.

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	-	3 965	336 739	9 561	9 684	-	-	-	359 949
<b>Total gross as at 31 December 2020 (audited)</b>	-	<b>3 965</b>	<b>336 739</b>	<b>9 561</b>	<b>9 684</b>	-	-	-	<b>359 949</b>
Due from credit institutions registered in the Republic of Latvia and the Treasury	-	3 021	360 811	12 238	9 049	-	-	-	385 119
<b>Total gross as at 30 June 2021 (unaudited)</b>	-	<b>3 021</b>	<b>360 811</b>	<b>12 238</b>	<b>9 049</b>	-	-	-	<b>385 119</b>

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	-	3 965	336 739	9 561	9 684	-	-	-	359 949
<b>Total gross as at 31 December 2020 (audited)</b>	-	<b>3 965</b>	<b>336 739</b>	<b>9 561</b>	<b>9 684</b>	-	-	-	<b>359 949</b>
Due from credit institutions registered in the Republic of Latvia and the Treasury	-	3 021	360 811	12 238	9 049	-	-	-	385 119
<b>Total gross as at 30 June 2021 (unaudited)</b>	-	<b>3 021</b>	<b>360 811</b>	<b>12 238</b>	<b>9 049</b>	-	-	-	<b>385 119</b>

The increase in the Group's / Company's position *Due from credit institutions and the Treasury* is related to the funding received from the Ministry of Economics and the European Investment Bank for the implementation of state support programs to mitigate the effects of Covid-19.

As at 30 June 2021, the Group / Company held accounts with 4 banks and the Treasury of the Republic of Latvia. The average interest rate on balances of position *Due from credit institutions and the Treasury* as at 30 June 2021 was -0.01% (31 December 2020: 0%).



## 12 Investments in Associates and Other investments

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

Company or venture capital fund generation	Country of incorporation	Equity of venture capital fund		Carrying Amount	
		30.06.2021. (unaudited)	31.12.2020. (audited)	30.06.2021. (unaudited)	31.12.2020. (audited)
The 1st generation VCFs	LV	-	-	-	-
The 2nd generation VCFs	LV	17 223	19 652	12 348	12 953
The 3rd generation VCFs	LV	14 381	16 974	15 840	16 376
The 4th generation VCFs	LV	8 446	6 459	5 183	3 640
AIF "Altum capital fund" *	LV	10 175	138	4 977	-
Baltic Innovation Fund *	LU	85 544	79 570	15 857	15 019
<b>Total investments in associates</b>		<b>135 769</b>	<b>122 793</b>	<b>54 205</b>	<b>47 988</b>

\* Investments in Associates are stated under the equity method, except for investments in Baltic Innovation Fund and AIF "Altum capital fund" that are valued using the FVTPL method.

As at 30 June 2021 the total venture capital funds' portfolio value at cost value was EUR 83,620 thousand (31 December 2020: EUR 73,165 thousand).

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

	Investments in venture capital funds		Investments in AIF "Altum capital fund"		Investments in Baltic Innovation Fund		Total	
	01.01.2021.- 30.06.2021. (unaudited)	01.01.2020.- 30.06.2020. (unaudited)	01.01.2021.- 30.06.2021. (unaudited)	01.01.2020.- 30.06.2020. (unaudited)	01.01.2021.- 30.06.2021. (unaudited)	01.01.2020.- 30.06.2020. (unaudited)	01.01.2021.- 30.06.2021. (unaudited)	01.01.2020.- 30.06.2020. (unaudited)
Carrying amount at the beginning of period	32 969	38 442	-	-	15 019	13 851	47 988	52 293
Invested	1 543	72	4 825	-	1 108	2 246	7 628	2 318
Refunded	(1 990)	(2 658)	-	-	(317)	-	(2 307)	(2 658)
Reclassified (increase of support programme funding, see Note 20)	824	-	-	-	-	-	824	-
Received interest and realised gain / (loss) on exit	(404)	-	-	-	47	-	(357)	-
Share of net gain / (loss) of investment in associate	153	(2 421)	152	-	-	-	305	(2 421)
<b>Net carrying amount at the period ended at 30 June (unaudited)</b>	<b>33 371</b>	<b>33 435</b>	<b>4 977</b>	<b>-</b>	<b>15 857</b>	<b>16 097</b>	<b>54 205</b>	<b>49 532</b>
Invested	-	1 474	-	-	-	883	-	2 357
Refunded	-	(3 537)	-	-	-	(2 499)	-	(6 036)
Received interest and realised gain on exit	-	1 271	-	-	-	250	-	1 521
Share of net gain of investment in associate	-	326	-	-	-	-	-	326
Remeasurement gain of investment in associate at fair value through profit or loss	-	-	-	-	-	288	-	288
<b>Net carrying amount at the period ended at 31 December (audited)</b>	<b>-</b>	<b>32 969</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>15 019</b>	<b>-</b>	<b>47 988</b>

The Group's / Company's share of gain of investment in associate and other investments, in thousands of euro:

	Investments in venture capital funds		Investments in AIF "Altum capital fund"		Investments in Baltic Innovation Fund		Total	
	01.01.2021.- 30.06.2021. (unaudited)	01.01.2020.- 30.06.2020. (unaudited)	01.01.2021.- 30.06.2021. (unaudited)	01.01.2020.- 30.06.2020. (unaudited)	01.01.2021.- 30.06.2021. (unaudited)	01.01.2020.- 30.06.2020. (unaudited)	01.01.2021.- 30.06.2021. (unaudited)	01.01.2020.- 30.06.2020. (unaudited)
Management fee	-	-	(181)	-	(63)	-	(244)	-
Net profit from revaluation of investments in associates and other investments	154	2 018	151	-	85	-	390	2 018
<b>Total</b>	<b>154</b>	<b>2 018</b>	<b>(30)</b>	<b>-</b>	<b>22</b>	<b>-</b>	<b>146</b>	<b>2 018</b>

## 12 Investments in Associates (cont'd)

In the 6 months of 2021, the Group's / Company's expenses included:

- Management fees for the 2nd and 3rd generation venture capital funds amounted EUR 337 thousand (6 months of 2020: EUR 459 thousand) which were compensated from the risk coverage reserve (see Note 20);
- Management fees for the 4th generation venture capital funds amounted EUR 419 thousand (6 months of 2020: EUR 384 thousand) which were compensated from the risk coverage reserve (see Note 20);
- Management fees for the Baltic Innovation Fund amounted EUR 92 thousand (6 months of 2020: EUR 47 thousand) which were compensated from the risk coverage reserve (see Note 20);
- Management fees for the AIF "Altum capital fund" amounted EUR 278 thousand (6 months of 2020: 0) (see Note 22).

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 681 thousand (6 months of 2020: EUR 605 thousand) which were compensated from the Risk Coverage reserve (see Note 20).

## 13 Other Investments

All amounts in thousands of euro

	Group 30.06.2021. (unaudited)	Group 31.12.2020. (audited)	Company 30.06.2021. (unaudited)	Company 31.12.2020. (audited)
Baltic Innovation Fund II	1 503	806	1 503	806
Three Seas Initiatives Investment Fund	6 815	6 697	6 815	6 697
<b>Total other investments</b>	<b>8 318</b>	<b>7 503</b>	<b>8 318</b>	<b>7 503</b>

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 of 2.19% on 30 June 2021 (31 December 2020: 3.57%) of the total committed capital the Three Seas Initiative Investment Fund (30 June 2021: EUR 913,000 thousand, 31 December 2020: EUR 560,000 thousand).

## 14 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 30.06.2021. (unaudited)	Group 31.12.2020. (audited)	Company 30.06.2021. (unaudited)	Company 31.12.2020. (audited)
SME and Midcaps	181 253	168 262	181 253	168 262
Agriculture	132 896	124 297	132 896	124 297
Private individuals	7 388	8 025	7 388	8 025
Financial Intermediaries	1 738	1 897	1 738	1 897
Land Fund	34 263	31 500	34 263	31 500
<b>Total gross loans</b>	<b>357 538</b>	<b>333 981</b>	<b>357 538</b>	<b>333 981</b>
Impairment allowances	(22 205)	(20 713)	(22 205)	(20 713)
<b>Total net loans</b>	<b>335 333</b>	<b>313 268</b>	<b>335 333</b>	<b>313 268</b>

## 14 Loans (cont'd)

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

	Group 30.06.2021. (unaudited)	Group 31.12.2020. (audited)	Company 30.06.2021. (unaudited)	Company 31.12.2020. (audited)
Agriculture and forestry	172 626	155 682	172 626	155 682
Manufacturing	72 550	67 807	72 550	67 807
Retail and wholesale	26 662	32 378	26 662	32 378
Real estate	11 710	9 328	11 710	9 328
Construction	11 624	10 273	11 624	10 273
Municipal authorities	9 038	8 328	9 038	8 328
Hotels and restaurants	8 646	8 214	8 646	8 214
Electricity, gas and water utilities	6 775	7 097	6 775	7 097
Transport, warehousing and communications	6 806	5 227	6 806	5 227
Professional, science and technical services	4 979	4 878	4 979	4 878
Health and social care	4 867	4 479	4 867	4 479
Information technologies and communication	3 530	3 073	3 530	3 073
Fishing	1 809	1 647	1 809	1 647
Other industries	8 517	7 545	8 517	7 545
Private individuals	7 399	8 025	7 399	8 025
<b>Total gross loans</b>	<b>357 538</b>	<b>333 981</b>	<b>357 538</b>	<b>333 981</b>
Impairment allowances	(22 205)	(20 713)	(22 205)	(20 713)
<b>Total net loans</b>	<b>335 333</b>	<b>313 268</b>	<b>335 333</b>	<b>313 268</b>

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

	Group 01.01.2021.- 30.06.2021.	Group 01.01.2020.- 31.12.2020.	Company 01.01.2021.- 30.06.2021.	Company 01.01.2020.- 31.12.2020.
Impairment allowances at the beginning of the period	20 713	20 283	20 713	20 283
Increase in impairment allowances (Note 10)	4 036	6 665	4 036	6 665
Decrease in impairment allowances (Note 10)	(3 158)	(2 648)	(3 158)	(2 648)
Write-off of loans	-	(3 392)	-	(3 392)
Reclassification (increase of impairment allowances due to changes in off-balance sheet and balance sheet)	614	79	614	79
Currency change	-	-	-	-
<b>Impairment allowances at the end of the period ended 30 June (unaudited)</b>	<b>22 205</b>	<b>20 987</b>	<b>22 205</b>	<b>20 987</b>
<i>Group's / Company's share of impairment allowances</i>	12 450	12 945	12 450	12 945
<i>Impairment allowances covered by Portfolio Loss Reserve</i>				
<i>Impairment allowances covered by Risk Coverage Reserve</i>	6 848	6 799	6 848	6 799
Increase in impairment allowances (Note 10)	-	4 796	-	4 796
Decrease in impairment allowances (Note 10)	-	(5 482)	-	(5 482)
Write-off of loans	-	(273)	-	(273)
Reclassification (increase of impairment allowances due to changes in off-balance sheet and balance sheet)		685		685
Currency change	-	-	-	-
<b>Impairment allowances at the end of the period ended 31 December (audited)</b>	<b>-</b>	<b>20 713</b>	<b>-</b>	<b>20 713</b>
<i>Group's / Company's share of impairment allowances</i>		11 860		11 860
<i>Impairment allowances covered by Portfolio Loss Reserve</i>				
<i>Impairment allowances covered by Risk Coverage Reserve</i>	-	6 494	-	6 494

As at 30 June 2021 the average annual interest rate for the loan portfolio of the Group / Company was 4.04% (31 December 2020: 4.05%).

## 14 Loans (cont'd)

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

	Group 30.06.2021. (unaudited)	Group 31.12.2020. (audited)	Company 30.06.2021. (unaudited)	Company 31.12.2020. (audited)
Number of customers	48	36	48	36
Total credit exposure of customers (EUR '000)	75 281	62 821	75 281	62 821
Percentage of total gross portfolio of loans	22.55%	18,81%	22.55%	18,81%

## 15 Grants

All amounts in thousands of euro

	Group 30.06.2021. (unaudited)	Group 31.12.2020. (audited)	Company 30.06.2021. (unaudited)	Company 31.12.2020. (audited)
Energy Efficiency Programme for Multi-apartment Buildings	39 040	30 053	39 040	30 053
Social Entrepreneurship Programme	1 336	1 065	1 336	1 065
Grants for development of energy efficiency projects	42	-	42	-
Housing grant programme "Balsts"	1 062	164	1 062	164
<b>Total grants, gross</b>	<b>41 480</b>	<b>31 282</b>	<b>41 480</b>	<b>31 282</b>
Impairment allowances	(182)	(175)	(182)	(175)
<b>Total grants, net</b>	<b>41 298</b>	<b>31 107</b>	<b>41 298</b>	<b>31 107</b>

Movement in the Group's / Company's net book value of grants in 6 months of 2021, in thousands of euro:

	Group 30.06.2021. (unaudited)	Group 31.12.2020. (unaudited)	Company 30.06.2021. (unaudited)	Company 31.12.2020. (unaudited)
<b>Carrying amount</b>				
Carrying amount at the beginning of period	31 107	17 198	31 107	17 198
Changes	10 373	5 522	10 373	5 522
Carrying amount at the end of period ended 30 June (unaudited)	41 480	22 720	41 480	22 720
<b>Impairment allowances</b>				
At the beginning of period	(175)	(12)	(175)	(12)
Changes	17	-	17	-
Reclassification (increase of impairment allowances due to changes in off-balance sheet and balance sheet)	(24)	-	(24)	-
At the end of period ended 30 June (unaudited)	(182)	(12)	(182)	(12)
<b>Grants net book at the beginning of the period</b>	<b>30 932</b>	<b>17 186</b>	<b>30 932</b>	<b>17 186</b>
<b>Grants net book value at the end of the period ended 30 June (unaudited)</b>	<b>41 298</b>	<b>22 708</b>	<b>41 298</b>	<b>22 708</b>
<b>Carrying amount</b>				
Carrying amount at the beginning of period	-	22 720	-	22 720
Changes	-	8 562	-	8 562
Carrying amount at the end of period ended 31 December	-	31 282	-	31 282
<b>Impairment allowances</b>				
At the beginning of period	-	(12)	-	(12)
Changes	-	(163)	-	(163)
At the end of period ended 31 December	-	(175)	-	(175)
<b>Grants net book at the beginning of the period 30 June (unaudited)</b>	<b>-</b>	<b>22 708</b>	<b>-</b>	<b>22 708</b>
<b>Grants net book value at the end of the period ended 31 December (audited)</b>	<b>-</b>	<b>31 107</b>	<b>-</b>	<b>31 107</b>

## 16 Investment Properties

All amounts in thousands of euro

	Group 30.06.2021. (unaudited)	Group 31.12.2020. (audited)	Company 30.06.2021. (unaudited)	Company 31.12.2020. (audited)
Carrying amount at the beginning of period	36 758	24 366	36 758	24 366
Acquired during the reporting period *	1 542	11 695	1 542	11 695
Disposals during the reporting period	(152)	(40)	(152)	(40)
Net gain from fair value adjustment	-	737	-	737
<b>Carrying amount at the end of the period</b>	<b>38 148</b>	<b>36 758</b>	<b>38 148</b>	<b>36 758</b>

\* All acquisitions of investment properties made 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.

## 17 Other Assets

All amounts in thousands of euro

	Group 30.06.2021. (unaudited)	Group 31.12.2020. (audited)	Company 30.06.2021. (unaudited)	Company 31.12.2020. (audited)
Financial assets	6 480	5 603	6 480	5 568
Other assets (repossessed collateral)	28	28	28	28
<b>Total other assets, gross</b>	<b>6 508</b>	<b>5 631</b>	<b>6 508</b>	<b>5 596</b>
Impairment allowances for financial assets	(2 293)	(1 960)	(2 293)	(1 960)
Group's / Company's share of provisions	(1 416)	(1 078)	(1 416)	(1 078)
Provisions covered by risk coverage	(877)	(882)	(877)	(882)
<b>Total financial assets, net</b>	<b>4 187</b>	<b>3 643</b>	<b>4 187</b>	<b>3 608</b>
<b>Total other assets, net</b>	<b>4 215</b>	<b>3 671</b>	<b>4 215</b>	<b>3 636</b>

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

Movement in the Group's / Company's net book value of financial assets in 6 months of 2021, in thousands of euro:

	Disbursed guarantee compensations	Financial assets related to loan agreements	Other financial assets	Total
<b>Financial assets</b>				
At the beginning of period	1 624	280	3 664	5 568
Changes	316	582	14	912
As at 30 June 2021 (unaudited)	1 940	862	3 678	6 480
<b>Impairment provision</b>				
At the beginning of period	(1 624)	(169)	(167)	(1 960)
Changes in impairment allowances	(316)	(87)	70	(333)
As at 30 June 2021 (unaudited)	(1 940)	(255)	(97)	(2 292)
<b>Net book value at the beginning of period</b>	<b>-</b>	<b>111</b>	<b>3 497</b>	<b>3 608</b>
<b>Net book value as at 30 June 2021 (unaudited)</b>	<b>-</b>	<b>606</b>	<b>3 581</b>	<b>4 187</b>

## 17 Other Assets (cont'd)

Movement in the Group's / Company's net book value of financial assets in 6 months of 2020, in thousands of euro:

	Disbursed guarantee compensations	Financial assets related to loan agreements	Other financial assets	Total
<b>Financial assets</b>				
At the beginning of period	2 361	163	3 571	6 095
Changes	345	37	(119)	263
As at 30 June 2020 (unaudited)	2 706	200	3 452	6 358
<b>Impairment provision</b>				
At the beginning of period	(2 361)	(143)	(524)	(3 028)
Changes in impairment allowances	(345)	-	-	(345)
As at 30 June 2020 (unaudited)	(2 706)	(143)	(524)	(3 373)
<b>Net book value at the beginning of period</b>	-	<b>20</b>	<b>3 047</b>	<b>3 067</b>
<b>Net book value as at 30 June 2020 (unaudited)</b>	-	<b>57</b>	<b>2 928</b>	<b>2 985</b>

## 18 Due to Credit Institutions

All amounts in thousands of euro

	Group 30.06.2021. (unaudited)	Group 31.12.2020. (audited)	Company 30.06.2021. (unaudited)	Company 31.12.2020. (audited)
Due to credit institutions registered in OECD countries	61 509	65 855	61 509	65 855
<b>Total due to credit institutions</b>	<b>61 509</b>	<b>65 855</b>	<b>61 509</b>	<b>65 855</b>

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 61,509 thousand (31 December 2020: EUR 65,855 thousand), of which EUR 16 thousand constitutes accrued interest expenses (31 December 2020: EUR 22 thousand).

On October 2, 2009, an agreement was signed with the European Investment Bank for a loan of EUR 100,000 thousand to finance projects under the SMEs Growth Loan Programme. As at 30 June 2021 the principal amount of the loan EUR 16,493 thousand (31 December 2020: EUR 20,833 thousand), the accrued interest on the loan amounts to EUR 15,720 (31 December 2020: EUR 22,424), the final repayment date 20 August 2024. The Ministry of Finance of the Republic of Latvia has issued a guarantee for the loan, as a collateral serves the commercial pledge to the right of the Company's claims. As at 30 June 2021, the amount of the secured claim was EUR 16,509 thousand (31 December 2020: EUR 20,855 thousand).

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. As at 30 June 2021 the principal amount of the loan EUR 45,000 thousand (31 December 2020: EUR 45,000 thousand), the final repayment date 20 November 2025. As at 30 June 2021, according to the loan agreement the Company is available the financing in the amount of EUR 35,000 thousand, the size and pace of its drawdown relates to the further volume of new loan transactions. The loan is unsecured.

As at 30 June 2021, the average interest rate for the balances Due to credit institutions was 0.09% (31 December 2020: 0.11%).

## 19 Due to General Governments

All amounts in thousands of euro

	Group 30.06.2021. (unaudited)	Group 31.12.2020. (audited)	Company 30.06.2021. (unaudited)	Company 31.12.2020. (audited)
Loans received from Rural Support Service	3 321	4 046	3 321	4 046
Loans received from the Treasury	106 597	99 474	106 597	99 474
<b>Total due to general governments</b>	<b>109 918</b>	<b>103 520</b>	<b>109 918</b>	<b>103 520</b>

## 19 Due to General Governments (cont'd)

Item *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 30 June 2021 the Group / Company liabilities to Rural Support Service consist of the principal amount of EUR 3,104 thousand (31 December 2020: EUR 3,829 thousand) and accrued interest – EUR 217 thousand (31 December 2020: EUR 217 thousand). The final repayment date is 31 December 2025. The loan from Rural Support Service is unsecured.

Item *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 30 June 2021 the principal amount of the loan EUR 63,616 thousand (31 December 2020: EUR 72,513 thousand), the final repayment date 20 January 2058. 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 30 June 2021, according to the loan agreement the Company is available the financing in the amount of EUR 36,384 thousand, the size and pace of its drawdown relates to the further volume of new loan transactions. As at 30 June 2021, the amount of the secured claim was EUR 76,339 thousand (31 December 2020: EUR 72,514 thousand).
- SME development programme: as at 30 June 2021 the principal amount of the loan EUR 27,423 thousand (31 December 2020: EUR 17,040 thousand), the final repayment date 20 December 2043. 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 30 June 2021, according to the loan agreement the Company still is available the financing in the amount of EUR 27,577 thousand, the size and pace of its drawdown relates to the further volume of new loan transactions. As at 30 June 2021, the amount of the secured claim was EUR 32,908 thousand (31 December 2020: EUR 20,449 thousand).
- Parallel loan programme: as at 30 June 2021 the principal amount of the loan EUR 4,600 thousand (31 December 2020: absorption had not started), the final repayment date 20 January 2039. 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 30 June 2021, according to the loan agreement the Company still is available the financing in the amount of EUR 15,400 thousand, the size and pace of its drawdown relates to the further volume of new loan transactions. As at 30 June 2021, the amount of the secured claim was EUR 5,520 thousand.
- Programme of Small Loans for Rural Areas: as at 30 June 2021 the principal amount of the loan EUR 1,037 thousand, the final repayment date 31 January 2039. 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 30 June 2021, according to the loan agreement the Company still is available the financing in the amount of EUR 4,963 thousand, the size and pace of the drawdown the loan relates to the further volume of new loan transactions. As at 30 June 2021, the amount of the secured claim was EUR 1,244 thousand.
- Latvian Land Fund (the financing for the Fund's transactions): the loan amount has been used in 2020 and as at 30 June 2021 the principal amount of the loan EUR 9,919 thousand (31 December 2020: EUR 9,919 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 30 June 2021, the amount of registered mortgage was EUR 10,269 thousand (31 December 2020: EUR 10,269 thousand).

As at 30 June 2021 the accrued interest on the loans received from the Treasury amounts to EUR 1,605 (31 December 2020: EUR 1,743).

The Company has also concluded the following loan agreements with the Treasury, the absorption of which has not been started until June 30, 2021:

- Micro Loans and Star-up Loans programme: the amount of the loan agreement EUR 23,000 thousand, the final repayment date 20 January 2029, 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.
- 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.

## 20 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 30 June 2021, in thousands of euro:

Financial Instrument / Programme	Programme funding	Credit risk coverage	Provisions covered by risk coverage	Net programme funding
<b>Loans</b>				
ERDF II	2 038	1 788	(454)	1 584
ESF II	1 005	181	(77)	928
Microcredits of Swiss programme	1 082	207	(7)	1 075
ERDF I	116	84	(6)	110
ESF I	324	38	(30)	294
ERDF II (second round)	5 763	331	(58)	5 705
Incubators (from ESF II)	82	6	-	82
ERAF II 2 Public fund	285	58	(14)	271
Fund of Funds programme – Start-up loans	2 730	2 730	(300)	2 430
Fund of Funds programme – Microcredits	298	298	(21)	277
Fund of Funds programme – Parallel loans	4 298	4 298	(3 267)	1 031
Energy Efficiency Programme for Multi-apartment Buildings Loans	3 699	3 495	(77)	3 622
Start-up State Aid Cumulation Lending Programme	1 972	1 972	(387)	1 585
Other loans to start-ups	1 488	228	(66)	1 422
Mezzanine Programme – Loans	3 480	3 306	(1 911)	1 569
Guarantees and interest grants programme	4 258	4 258	-	4 258
SME energy efficiency loans	3 723	3 723	-	3 723
Parallel loans	2 000	2 000	(235)	1 765
Loans for enterprises in rural territories	7 810	1 709	(115)	7 695
Loans to Midcaps for mitigation of the COVID-19 effect	2 435	-	-	2 435
Start-up loans to innovative entrepreneurs	500	100	-	500
Cultural industry support programme	2 739	-	-	2 739
<b>Total loans</b>	<b>52 125 *</b>	<b>30 810</b>	<b>(7 025)</b>	<b>45 100</b>
<b>Guarantees</b>				
Fund of Funds programme - Guarantees	30 326	30 326	(5 453)	24 873
Energy Efficiency Programme for Multi-apartment Buildings Guarantees	6 245	5 890	(995)	5 250
Housing Guarantee Programme	18 429	18 429	(10 855)	7 574
Portfolio guarantees for renovation of private houses	502	502	-	502
Guarantee Programme for Clients of State Aid Accumulation, Grace Period and Large Economic Operators	7 753	7 753	(729)	7 024
Mezzanine Programme - Guarantees	1 040	988	(487)	553
Portfolio Guarantee Fund	3 963	3 646	(2 056)	1 907
Export guarantees	2 477	2 477	(602)	1 875
Study and student portfolio guarantees	197	-	-	197
Agricultural Guarantees	1 725	1 725	(1 232)	493
<b>Total guarantees</b>	<b>72 657</b>	<b>71 736</b>	<b>(22 409)</b>	<b>50 248</b>

\* Support programme funding includes funding that is planned to be reallocated to other support programmes. Funding is planned to be reallocated in the 3<sup>rd</sup> quarter of 2021.



## 20 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 30 June 2021, in thousands of euro (cont'd):

Financial Instrument / Programme	Programme funding	Credit risk coverage	Provisions covered by risk coverage	Net programme funding
<b>Grants</b>				
Energy Efficiency Programme for Multi-apartment Buildings Grants	48 038	-	-	48 038
Housing grant programme "Balsts"	2 007	-	-	2 007
Grants for renovation of private houses	1 872	-	-	1 872
Social Entrepreneurship Programme	1 598	-	-	1 598
Grants for development of energy efficiency projects	373	-	-	373
Cultural industry support programme	2 445	-	-	2 445
<b>Total grants</b>	<b>56 333</b>	<b>-</b>	<b>-</b>	<b>56 333</b>
<b>Venture Capital Funds</b>				
Fund of Funds and venture capital funds	21 994	18 255	-	21 994
Investment Fund Activity	6 903	5 302	-	6 903
Baltic Innovation Fund	1 949	585	-	1 949
Baltic Innovation Fund II	2 252	676	-	2 252
<b>Total venture capital funds</b>	<b>33 098</b>	<b>24 818</b>	<b>-</b>	<b>33 098</b>
<b>Other Activities</b>				
Energy Efficiency Fund	406	-	-	406
Regional Creative Industries Alliance	-	-	-	-
<b>Total other activities</b>	<b>406</b>	<b>-</b>	<b>-</b>	<b>406</b>
Funding allocated to increase reserve capital **	12 815	-	-	12 815
<b>Total support programme funding</b>	<b>227 434 ***</b>	<b>127 364</b>	<b>(29 434)</b>	<b>198 000</b>

\*\* 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 3<sup>rd</sup> quarter of 2021.

\*\*\* Support programme funding contains EUR 13,197 thousand allocated for management costs of the Group / Company to be compensated from support programme funding.

## 20 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:

Financial Instrument / Programme	Programme funding	Credit risk coverage	Provisions covered by risk coverage	Net programme funding
<b>Loans</b>				
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	3 202	2 817	(2 353)	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	599	(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
<b>Total loans</b>	<b>51 063 *</b>	<b>29 145</b>	<b>(6 822)</b>	<b>44 241</b>
<b>Guarantees</b>				
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
<b>Total guarantees</b>	<b>63 631</b>	<b>62 748</b>	<b>(21 376)</b>	<b>42 255</b>

\* Support programme funding includes funding that is planned to be reallocated to other support programmes. Funding is planned to be reallocated in the 3<sup>rd</sup> quarter of 2021.

## 20 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
<b>Grants</b>				
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
<b>Total grants</b>	<b>45 540</b>	<b>-</b>	<b>-</b>	<b>45 540</b>
<b>Venture Capital Funds</b>				
Fund of Funds and venture capital funds	26 654	14 967	-	26 654
Investment Fund Activity	5 272	3 172	-	5 272
Baltic Innovation Fund	2 000	700	-	2 000
Baltic Innovation Fund II	2 359	724	-	2 359
<b>Total venture capital funds</b>	<b>36 285</b>	<b>19 563</b>	<b>-</b>	<b>36 285</b>
<b>Other Activities</b>				
Energy Efficiency Fund	433	-	-	433
Regional Creative Industries Alliance	-	-	-	-
<b>Total other activities</b>	<b>433</b>	<b>-</b>	<b>-</b>	<b>433</b>
Funding allocated to increase reserve capital **	23 209	-	-	23 209
<b>Total support programme funding</b>	<b>220 161 ***</b>	<b>111 456</b>	<b>(28 198)</b>	<b>191 963</b>

\*\* 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. Reserve capital of the Group / Company was increased by this amount in accordance with the decision of the General Meeting of Shareholders of the Group / Company of 22 March 2021.

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

## 20 Support programme funding (cont'd)

Movement in the Group's / Company's support programme funding in 6 months of 2021, in thousands of euro:

Financial Instrument / Programme	31.12.2020.									30.06.2021.
	Financing, net	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	
<b>Loans</b>										
ERDF II	1 571	-	-	-	-	-	-	-	13	1 584
ESF II	912	-	-	-	-	-	-	7	9	928
Microcredits of Swiss programme	3 444	-	(2 374)	-	-	-	-	-	5	1 075
ERDF I	107	-	-	-	-	-	-	-	3	110
ESF I	293	-	-	-	-	-	-	-	1	294
ERDF II (second round)	5 676	-	-	-	-	-	-	12	17	5 705
Incubators (from ESF II)	82	-	-	-	-	-	-	-	-	82
ERAF II 2 Public fund	271	-	-	-	-	-	-	-	-	271
Fund of Funds programme – Start-up loans	2 416	-	-	-	-	-	-	-	14	2 430
Fund of Funds programme – Microcredits	272	-	-	-	-	-	-	-	5	277
Fund of Funds programme – Parallel loans	1 125	-	437	-	-	-	-	-	(531)	1 031
Energy Efficiency Programme for Multi-apartment Buildings – Loan Fund	3 706	-	-	-	(49)	-	-	-	(35)	3 622
Start-up State Aid Cumulation Lending Programme	1 706	-	-	-	-	-	-	-	(121)	1 585
Other loans to start-ups	1 416	-	-	-	-	-	-	5	1	1 422
Mezzanine Programme – Loans	849	-	193	-	-	-	85	-	442	1 569
Guarantees and interest grants programme	4 251	-	-	-	-	-	-	7	-	4 258
SME energy efficiency loans	3 723	-	-	-	-	-	-	-	-	3 723
Parallel loans	1 762	-	-	-	-	-	-	-	3	1 765
Loans for enterprises in rural territories	7 724	-	-	-	-	-	-	-	(29)	7 695
Loans to Midcaps for mitigation of the COVID-19 effect	2 435	-	-	-	-	-	-	-	-	2 435
Start-up loans to innovative entrepreneurs	500	-	-	-	-	-	-	-	-	500
Cultural industry support programme	-	2 739	-	-	-	-	-	-	-	2 739
<b>Total loans</b>	<b>44 241 *</b>	<b>2 739</b>	<b>(1 744)</b>	<b>-</b>	<b>(49)</b>	<b>-</b>	<b>85</b>	<b>31</b>	<b>(203)</b>	<b>45 100</b>
<b>Guarantees</b>										
Fund of Funds programme - Guarantees	20 619	-	3 000	-	-	-	419	-	835	24 873
Energy Efficiency Programme for Multi-apartment Buildings - Guarantees	5 226	-	-	-	(68)	-	96	-	(4)	5 250
Housing Guarantee Programme	4 336	4 424	-	-	-	-	-	-	(1 186)	7 574
Portfolio guarantees for renovation of private houses	-	-	502	-	-	-	-	-	-	502
Guarantee Programme for Clients of State Aid Accumulation, Grace Period and Large Economic Operators	6 675	-	-	-	-	-	-	-	349	7 024
Mezzanine Programme – Guarantees	456	-	(193)	-	-	-	43	-	247	553
Portfolio Guarantee Fund	2 283	-	-	-	(42)	-	-	-	(334)	1 907
Export guarantees	1 907	-	-	-	-	-	-	-	(32)	1 875
Study and student portfolio guarantees	77	120	-	-	-	-	-	-	-	197
Agricultural Guarantees	676	725	-	-	-	-	-	-	(908)	493
<b>Total guarantees</b>	<b>42 255</b>	<b>5 269</b>	<b>3 309</b>	<b>-</b>	<b>(110)</b>	<b>-</b>	<b>558</b>	<b>-</b>	<b>(1 033)</b>	<b>50 248</b>

\* Support programme funding includes funding that is planned to be reallocated to other support programmes. Funding is planned to be reallocated in the 3<sup>rd</sup> quarter of 2021.

## 20 Support programme funding (cont'd)

Movement in the Group's / Company's support programme funding in 6 months of 2021, in thousands of euro: (cont'd)

Financial Instrument / Programme	Financing, net	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.									30.06.2021.
<b>Grants</b>										
Energy Efficiency Programme for Multi-apartment Buildings – Grants	40 538	7 500	-	-	-	-	-	-	-	48 038
Housing grant programme "Balsts"	3 266	-	-	(1 259)	-	-	-	-	-	2 007
Grants for renovation of private houses	-	-	1 872	-	-	-	-	-	-	1 872
Social Entrepreneurship Programme	1 564	1 176	-	(1 066)	(76)	-	-	-	-	1 598
Grants for development of energy efficiency projects	172	292	-	(61)	(30)	-	-	-	-	373
Cultural industry support programme	-	2 445	-	-	-	-	-	-	-	2 445
<b>Total grants</b>	<b>45 540</b>	<b>11 413</b>	<b>1 872</b>	<b>(2 386)</b>	<b>(106)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>56 333</b>
<b>Venture Capital Funds</b>										
Fund of Funds and venture capital funds	26 654	-	(3 437)	-	(1 138)**	(128)	43 *****	-	-	21 994
Investment Fund Activity	5 272	-	-	-	(380)***	(253)	315 *****	1 949	-	6 903
Baltic Innovation Fund	2 000	-	-	-	(97)****	-	46 *****	-	-	1 949
Baltic Innovation Fund II	2 359	-	-	-	(107)	-	-	-	-	2 252
<b>Total venture capital funds</b>	<b>36 285</b>	<b>-</b>	<b>(3 437)</b>	<b>-</b>	<b>(1 722)</b>	<b>(381)</b>	<b>404</b>	<b>1 949</b>	<b>-</b>	<b>33 098</b>
<b>Other Activities</b>										
Energy Efficiency Fund	433	-	-	-	(27)	-	-	-	-	406
Regional Creative Industries Alliance	-	-	-	-	-	-	-	-	-	-
<b>Total other activities</b>	<b>433</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(27)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>406</b>
Funding allocated to increase reserve capital	23 209	12 815	-	-	-	-	-	(23 209)	-	12 815
<b>Total support programme funding</b>	<b>191 963</b>	<b>32 236</b>	<b>-</b>	<b>(2 386)</b>	<b>(2 014)</b>	<b>(381)</b>	<b>1 047</b>	<b>(21 229)</b>	<b>(1 236)</b>	<b>198 000</b>

\*\* include EUR 1,100 thousand management fees for the 4th generation venture capital funds (see Note 12).

\*\*\* include EUR 337 thousand management fees for the 2<sup>nd</sup> and 3<sup>rd</sup> generation venture capital funds (see Note 12).

\*\*\*\* include EUR 92 thousand management fees for the Baltic Innovation Fund (see Note 12).

\*\*\*\*\* include EUR 43 thousand mezzanine interest received from investments in 4<sup>th</sup> generation venture capital funds in 6 months of 2021 (see Note 12).

\*\*\*\*\* include EUR 315 thousand mezzanine interest received and EUR 3 thousand realised gain on investments in 2<sup>nd</sup> and 3<sup>rd</sup> generation venture capital funds in 6 months of 2021 (see Note 12).

\*\*\*\*\* include EUR 46 thousand realised gain on investment in Baltic Innovation Fund in 6 months of 2021 (see Note 12).

## 21 Provisions

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

	Group 30.06.2021. (unaudited)	Group 31.12.2020. (audited)	Company 30.06.2021. (unaudited)	Company 31.12.2020. (audited)
Provisions for financial guarantees	30 687	31 413	30 687	31 413
<i>Group's / Company's share of provisions</i>	5 465	7 343	5 465	7 343
<i>Provisions covered by Portfolio Loss Reserve</i>	3 837	3 576	3 837	3 576
<i>Provisions covered by Risk Coverage Reserve</i>	21 385	20 494	21 385	20 494
Provisions for loan commitments	647	1 014	647	1 014
<i>Group's / Company's share of provisions</i>	275	378	275	378
<i>Provisions covered by Portfolio Loss Reserve</i>	195	309	195	309
<i>Provisions covered by Risk Coverage Reserve</i>	177	327	177	327
Provisions for grant commitments	87	74	87	74
<i>Group's / Company's share of provisions</i>	87	74	87	74
<i>Provisions covered by risk coverage</i>	-	-	-	-
<b>Total provisions</b>	<b>31 421</b>	<b>32 501</b>	<b>31 421</b>	<b>32 501</b>
<i>Group's / Company's share of provisions</i>	5 827	7 795	5 827	7 795
<i>Provisions covered by Portfolio Loss Reserve</i>	4 032	3 885	4 032	3 885
<i>Provisions covered by Risk Coverage Reserve</i>	21 562	20 821	21 562	20 821

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

	Group 01.01.2021.- 30.06.2021. (unaudited)	Group 01.01.2020.- 31.12.2020. (unaudited)	Company 01.01.2021.- 30.06.2021. (unaudited)	Company 01.01.2020.- 31.12.2020. (unaudited)
Provisions at the beginning of the period	31 413	30 606	31 413	30 606
Increase in provisions (Note 10)	6 701	6 975	6 701	6 975
Decrease in provisions (Note 10)	(7 081)	(5 519)	(7 081)	(5 520)
Reclassification (Disbursed guarantee)	(346)	(491)	(346)	(491)
<b>Provisions at the end of the period ended 30 June (unaudited)</b>	<b>30 687</b>	<b>31 571</b>	<b>30 687</b>	<b>31 570</b>
<i>Group's / Company's share of provisions</i>	5 465	7 343	5 465	7 343
<i>Provisions covered by Portfolio Loss Reserve</i>	3 837	2 592	3 837	2 592
<i>Provisions covered by Risk Coverage Reserve</i>	21 385	21 638	21 385	21 638
Increase in provisions (Note 10)	-	7 467	-	7 467
Decrease in provisions (Note 10)	-	(7 540)	-	(7 540)
Reclassification (Disbursed guarantee)	-	(84)	-	(84)
<b>Provisions at the end of the period ended 31 December (audited)</b>	<b>-</b>	<b>31 413</b>	<b>21 385</b>	<b>31 413</b>
<i>Group's / Company's share of provisions</i>	-	7 343	-	7 343
<i>Provisions covered by Portfolio Loss Reserve</i>	-	3 576	-	3 576
<i>Provisions covered by Risk Coverage Reserve</i>	-	20 494	-	20 494

## 22 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 loans to MidCaps	Reserve capital for AIF "Altum capital fund"	Reserve capital for mitigating of impact of Covid-19	Difference recognised in Group's reorganisation reserve			
<b>Reserves as of 1 January 2020 (audited)</b>	<b>15 507</b>	-	-	-	<b>(15 580)</b>	<b>16 638</b>	<b>2 638</b>	<b>19 203</b>
(Decrease) in revaluation reserve of financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	(692)	(692)
Distribution of 2019 year profit of the Company	-	-	-	-	-	8 131	-	8 131
Increase of reserve capital				100 000				100 000
<b>Reserves as of 30 June 2020 (unaudited)</b>	<b>15 507</b>	-	-	<b>100 000</b>	<b>(15 580)</b>	<b>24 768</b>	<b>1 946</b>	<b>126 641</b>
(Decrease) in revaluation reserve of financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	(733)	(733)
Increase of reserve capital	626	-	25 000	20 000	-	-	-	45 626
<b>Reserves as of 31 December 2020 (audited)</b>	<b>16 133</b>	-	<b>25 000</b>	<b>120 000</b>	<b>(15 580)</b>	<b>24 768</b>	<b>1 213</b>	<b>171 534</b>
(Decrease) in revaluation reserve of financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	(301)	(301)
Distribution of 2020 year profit of the Company	-	-	-	-	-	5 539	-	5 539
Decrease of Special Reserve Capital to cover impairment allowances for 2020 *	(392)	-	(185)	(2 668)	(3 184)	6 429	-	-
Increase of reserve capital	4 165	22 565	-	-	-	-	-	26 730
<b>Reserves as of 30 June 2021 (unaudited)</b>	<b>19 906</b>	<b>22 565</b>	<b>24 815</b>	<b>117 332</b>	<b>(18 764)</b>	<b>36 736</b>	<b>912</b>	<b>203 502</b>

\* Decrease of Special Reserve Capital (Portfolio Loss Reserve) to cover impairment allowances for 2020 upon approval of the 2020 annual report.

## 22 Reserves (cont'd)

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 loans to MidCaps	Reserve capital for AIF "Altum capital fund"	Reserve capital for mitigating of impact of Covid-19	Difference recognised in Group's reorganisation reserve			
<b>Reserves as of 1 January 2020 (audited)</b>	<b>15 507</b>	-	-	-	<b>(15 935)</b>	<b>16 991</b>	<b>2 638</b>	<b>19 201</b>
(Decrease) in revaluation reserve of financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	(692)	(692)
Distribution of 2019 year profit of the Company	-	-	-	-	-	8 131	-	8 131
Increase of reserve capital	-	-	-	100 000	-	-	-	100 000
<b>Reserves as of 30 June 2020 (unaudited)</b>	<b>15 507</b>	-	-	<b>100 000</b>	<b>(15 935)</b>	<b>25 121</b>	<b>1 946</b>	<b>126 639</b>
(Decrease) in revaluation reserve of financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	(733)	(733)
Increase of reserve capital	626	-	25 000	20 000	-	-	-	45 626
<b>Reserves as of 31 December 2020 (audited)</b>	<b>16 133</b>	-	<b>25 000</b>	<b>120 000</b>	<b>(15 935)</b>	<b>25 121</b>	<b>1 213</b>	<b>171 532</b>
(Decrease) in revaluation reserve of financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	(301)	(301)
Distribution of 2020 year profit of the Company	-	-	-	-	-	5 539	-	5 539
Decrease of Special Reserve Capital to cover impairment allowances for 2020 *	(392)	-	(185)	(5 852)	-	6 429	-	-
Increase of reserve capital	4 165	22 565	-	-	-	-	-	26 730
<b>Reserves as of 30 June 2021 (unaudited)</b>	<b>19 906</b>	<b>22 565</b>	<b>24 815</b>	<b>114 148</b>	<b>(15 935)</b>	<b>37 089</b>	<b>912</b>	<b>203 500</b>

\* Decrease of Special Reserve Capital (Portfolio Loss Reserve) to cover impairment allowances for 2020 upon approval of the 2020 annual report.



## 22 Reserves (cont'd)

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	Loans to MidCaps	Working capital loans	Loan holiday guarantees		
<b>Specific reserves as of 1 January 2020 (audited)</b>	<b>15 507</b>	-	-	-	-	-	<b>15 507</b>
Increase of specific reserve capital	-	-	-	50 000	50 000	-	<b>100 000</b>
<b>Specific reserves as of 30 June 2020 (unaudited)</b>	<b>15 507</b>	-	-	<b>50 000</b>	<b>50 000</b>	-	<b>115 507</b>
Increase of specific reserve capital	-	626	-	-	20 000	25 000	<b>45 626</b>
<b>Specific reserves as of 31 December 2020 (audited)</b>	<b>15 507</b>	<b>626</b>	-	<b>50 000</b>	<b>70 000</b>	<b>25 000</b>	<b>161 133</b>
of which:							
Portfolio loss reserve (Special Reserve Capital)	15 507	626	-	29 000	50 000	7 131	<b>102 264</b>
Portfolio Loss Reserve (Special Reserve Capital) to be used to cover credit loss and management fees upon approval of the 2020 annual report	-	(392)	-	(2 668)	(3 184)	(185)	<b>(6 429)</b>
Increase of specific reserve capital	2 179	1 986	22 565	22 565	-	-	<b>26 730</b>
<b>Specific reserves as of 30 June 2021 (unaudited)</b>	<b>17 686</b>	<b>2 612</b>	<b>22 566</b>	<b>72 565</b>	<b>70 000</b>	<b>25 000</b>	<b>187 863</b>
of which:							
Portfolio loss reserve (Special Reserve Capital)	17 686	2 220	13 800	40 132	66 816	8 850	135 704
Portfolio Loss Reserve (Special Reserve Capital) to be used to cover credit loss and management fees upon approval of the 2021 annual report	-	(432)	-	(435)	(12)	(30)	(909)

Analysis of portfolio loss reserve movements, in thousands of euro:

	Portfolio loss reserve for non-Covid-19 guarantees programmes			Portfolio loss reserve for mitigating of impact of Covid-19		Reserve capital for AIF "Altum capital fund"	Total portfolio loss reserve
	Housing Guarantee Programme	Study and student portfolio guarantees	Loans to MidCaps	Working capital loans	Loan holiday guarantees		
<b>Portfolio loss reserve as of 1 January 2020 (audited)</b>	-	-	-	-	-	-	-
<b>Portfolio loss reserve as of 30 June 2020 (unaudited)</b>	-	-	-	-	-	-	-
Increase of portfolio loss reserve	15 507	626	-	29 000	50 000	7 131	102 264
<b>Portfolio loss reserve as of 31 December 2020 (audited)</b>	<b>15 507</b>	<b>626</b>	-	<b>29 000</b>	<b>50 000</b>	<b>7 131</b>	<b>102 264</b>
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 2020 annual report	-	(392)	-	(2 668)	(3 184)	(185)	(6 429)
Increase of portfolio loss reserve	2 179	1 986	13 800	13 800	20 000	-	37 965
Reallocation of funding within portfolio loss reserve – funding for management fee	-	-	-	-	-	2 060	2 060
Reallocation of funding from portfolio loss reserve to core funding within specific reserve capital	-	(392)	-	(2 668)	(3 184)	(185)	(6 429)
Decrease of Portfolio Loss Reserve according to the List of the Partners and their Commitments	-	-	-	-	-	(156)	(156)
<b>Portfolio loss reserve as of 30 June 2021 (unaudited)</b>	<b>17 686</b>	<b>2 220</b>	<b>13 800</b>	<b>40 132</b>	<b>66 816</b>	<b>8 850</b>	<b>135 704</b>
of which:							
Portfolio Loss Reserve (Special Reserve Capital) to be used to cover credit loss and management fees upon approval of the 2021 annual report	-	(432)	-	(435)	(12)	(30)	(909)

## 22 Reserves (cont'd)

Subitem Reserve capital for non-Covid-19 programmes includes the following increases in the Specific Reserve capital for non-Covid-19 programmes in the 6 months of 2021:

- An increase of EUR 22,565 thousand in accordance with the decision of the General Meeting of Shareholders of the Group of 22 March 2021, adopted on the basis of the Cabinet of Ministers Order No. 70 of 10 November 2020 and the Cabinet of Ministers Regulations No. 677 of 10 November 2020 "Regulations on loans and their interest rate subsidies to entrepreneurs to support competitiveness". That amount was accounted as part of support programme funding as of 31 December 2020 (see Note 20)
- An increase of EUR 2,179 thousand in accordance with the decision of the General Meeting of Shareholders of the Group of 22 March 2021, adopted on the basis of the Cabinet of Ministers Regulations No. 95 of 20 February 2018 "Regulations on state aid for the purchase or construction of a dwelling" and the Cabinet of Ministers Order No. 55 of 22 September 2020.
- An increase of EUR 1,986 thousand in accordance with the decision of the General Meeting of Shareholders of the Group of 22 March 2021, adopted on the basis of the Cabinet of Ministers Regulations No. 231 of 21 April 2020 "Regulations on study and student lending for studies in Latvia from the resources of credit institutions, which are guaranteed by the state budget" and the Cabinet of Ministers Order No. 73 of 17 November 2020. Part of that amount in amount of EUR 644 thousand was accounted as part of support programme funding as of 31 December 2020 (see Note 20).

The funding included in the Specific Reserve Capital will be used to cover the expected credit losses of the programmes 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.

## 23 Off-balance sheet items and contingent liabilities

All amounts in thousands of euro

	Group 30.06.2021. (unaudited)	Group 31.12.2020. (audited)	Company 30.06.2021. (unaudited)	Company 31.12.2020. (audited)
Contingent liabilities:				
Outstanding guarantees	379 602	359 605	379 602	359 605
Financial commitments:				
Loan commitments	44 162	39 348	44 162	39 348
Grant commitments	22 504	6 798	22 504	6 798
Commitments to investments in subsidiaries	-	-	7 711	10 415
Commitments to AIF "Altum capital fund"	43 718	48 772	43 718	48 772
Commitments to investments in associates	41 676	44 935	41 676	44 935
Commitments to other investments	37 112	38 220	37 112	38 220
<b>Total contingent liabilities and financial commitments</b>	<b>568 774</b>	<b>537 678</b>	<b>576 485</b>	<b>548 093</b>

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

	Group 30.06.2021. (unaudited)	Group 31.12.2020. (audited)	Company 30.06.2021. (unaudited)	Company 31.12.2020. (audited)
Unutilised loan facilities	44 162	39 348	44 162	39 348
Impairment allowances	(647)	(1 014)	(647)	(1 014)
<b>Total unutilized loan facilities, net</b>	<b>43 515</b>	<b>38 334</b>	<b>43 515</b>	<b>38 334</b>

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

	Group 30.06.2021. (unaudited)	Group 31.12.2020. (audited)	Company 30.06.2021. (unaudited)	Company 31.12.2020. (audited)
Grant commitments	22 504	6 798	22 504	6 798
Impairment allowances	(87)	(74)	(87)	(74)
<b>Total grant commitments, net</b>	<b>22 417</b>	<b>6 724</b>	<b>22 417</b>	<b>6 724</b>

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

Breakdown of the Group's off-balance sheet assets and contingent liabilities by remaining contractual maturities as at 30 June 2021, 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
<b>Contingent liabilities</b>							
Outstanding guarantees	243 683 *	-	-	2	135 917	-	379 602
<b>Financial commitments</b>							
Loan commitments	44 162	-	-	-	-	-	44 162
Grant commitments	22 504	-	-	-	-	-	22 504
Commitments to AIF "Altum capital fund"	3 503	8 493	12 157	16 911	2 040	614	43 718
Commitments to investments in associates	417	1 250	1 667	5 001	29 173	4 168	41 676
Commitments to other investments	123	488	853	4 188	25 431	6 029	37 112
<b>Total financial commitments</b>	<b>70 709</b>	<b>10 231</b>	<b>14 677</b>	<b>26 100</b>	<b>56 644</b>	<b>10 811</b>	<b>189 172</b>
<b>Total contingent liabilities and financial commitments</b>	<b>314 392</b>	<b>10 231</b>	<b>14 677</b>	<b>26 102</b>	<b>192 561</b>	<b>10 811</b>	<b>568 774</b>

\* 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 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
<b>Contingent liabilities</b>							
Outstanding guarantees	240 592 *	-	-	2	119 011	-	359 605
<b>Financial commitments</b>							
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
<b>Total financial commitments</b>	<b>46 146</b>	<b>13 777</b>	<b>14 532</b>	<b>34 682</b>	<b>52 652</b>	<b>16 284</b>	<b>178 073</b>
<b>Total contingent liabilities and financial commitments</b>	<b>286 738</b>	<b>13 777</b>	<b>14 532</b>	<b>34 684</b>	<b>171 663</b>	<b>16 284</b>	<b>537 678</b>

\* 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.

## 23 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 30 June 2021, 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
<b>Contingent liabilities</b>							
Outstanding guarantees	243 683 *	-	-	2	135 917	-	379 602
<b>Financial commitments</b>							
Loan commitments	44 162	-	-	-	-	-	44 162
Grant commitments	22 504	-	-	-	-	-	22 504
Commitments to investments in subsidiaries	308	308	617	1 851	3 856	771	7 711
Commitments to AIF "Altum capital fund"	3 503	8 493	12 157	16 911	2 040	614	43 718
Commitments to investments in associates	417	1 250	1 667	5 001	29 173	4 168	41 676
Commitments to other investments	123	488	853	4 188	25 431	6 029	37 112
<b>Total financial commitments</b>	<b>71 017</b>	<b>10 539</b>	<b>15 294</b>	<b>27 951</b>	<b>60 500</b>	<b>11 582</b>	<b>196 883</b>
<b>Total contingent liabilities and financial commitments</b>	<b>314 700</b>	<b>10 539</b>	<b>15 294</b>	<b>27 953</b>	<b>196 417</b>	<b>11 582</b>	<b>576 485</b>

\* 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 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
<b>Contingent liabilities</b>							
Outstanding guarantees	240 592 *	-	-	2	119 011	-	359 605
<b>Financial commitments</b>							
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
<b>Total financial commitments</b>	<b>46 563</b>	<b>14 194</b>	<b>15 365</b>	<b>37 182</b>	<b>57 859</b>	<b>17 325</b>	<b>188 488</b>
<b>Total contingent liabilities and financial commitments</b>	<b>287 155</b>	<b>14 194</b>	<b>15 365</b>	<b>37 184</b>	<b>176 870</b>	<b>17 325</b>	<b>548 093</b>

\* 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. Additional information on classification of venture capital funds is available in Note 1.

## 24 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.

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	
	30.06.2021. (unaudited)	31.12.2020. (audited)	30.06.2021. (unaudited)	31.12.2020. (audited)	30.06.2021. (unaudited)	31.12.2020. (audited)	30.06.2021. (unaudited)	31.12.2020. (audited)
Investments in venture capital funds	-	-	-	-	54 203	47 988	-	-
Investments in AIF "Altum capital fund"	-	-	-	-	2	-	-	-
Due to general governments	-	-	-	-	-	-	3 321	4 047
Support programme funding	-	-	191 960	192 081	-	-	35 317	35 480
Off-balance sheet financial liabilities for venture capital funds	-	-	-	-	41 676	44 935	-	-
Off-balance sheet financial liabilities for AIF "Altum capital fund"	-	-	-	-	43 718	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	
	30.06.2021. (unaudited)	31.12.2020. (audited)	30.06.2021. (unaudited)	31.12.2020. (audited)	30.06.2021. (unaudited)	31.12.2020. (audited)	30.06.2021. (unaudited)	31.12.2020. (audited)
Investments in venture capital funds	-	-	54 203	47 988	-	-	-	-
Investments in AIF "Altum capital fund"	-	-	2	-	-	-	-	-
Investments in subsidiaries	-	-	-	-	-	-	7 021	4 879
Due to general governments	-	-	-	-	3 321	4 047	-	-
Support programme funding	191 960	192 081	-	-	35 317	35 480	-	-
Off-balance sheet financial liabilities for venture capital funds	-	-	41 676	44 935	-	-	-	-
Off-balance sheet financial liabilities for AIF "Altum capital fund"	-	-	43 718	48 772	-	-	-	-
Off-balance sheet financial liabilities for investments in subsidiaries	-	-	-	-	-	-	7 711	10 415

## 24 Related party transactions (cont'd)

The Group's / Company's transactions with related parties, in thousands of euro:

	Received State aid funding		Issued State aid funding or funding paid back	
	01.01.2021.- 30.06.2021. (unaudited)	01.01.2020.- 30.06.2020. (unaudited)	01.01.2021.- 30.06.2021. (unaudited)	01.01.2020.- 30.06.2020. (unaudited)
<b>Transactions with shareholders</b>				
Ministry of Finance of the Republic of Latvia	23 082	4 705	(16 220)	(4 705)
Ministry of Economics of the Republic of Latvia	18 603	123 311	-	123 311
<b>Associates</b>				
Venture capital funds	7 476	2 318	(2 031)	(2 658)
<b>Other companies owned by the Group's shareholders</b>				
Rural Support Service	-	-	-	-
Central Finance and Contracting Agency of the Republic of Latvia	7 500	300	-	(300)
Ministry of Education and Science of the Republic of Latvia	1 463	-	-	-
Ministry of Culture of the Republic of Latvia	3 815	-	-	-
Ministry of Wealth Fair of the Republic of Latvia	1 176	-	-	-

The remuneration of the members of the Supervisory Council, Audit Committee and the Management Board of the Company in the 6 months of 2021 amounted to EUR 306 thousand (6 months of 2020: EUR 275 thousand), incl. social insurance contributions.

## 25 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	
	30.06.2021. (unaudited)	31.12.2020. (audited)	30.06.2021. (unaudited)	31.12.2020. (audited)
<b>Assets</b>				
Due from credit institutions and the Treasury	385 119	359 949	385 119	359 949
Financial assets at fair value through profit or loss	7 602	5 425	7 602	5 425
Financial assets at fair value through other comprehensive income - investment securities	14 393	36 958	14 393	36 958
Financial assets at amortised cost:				
Investment securities	35	441	91	1 142
Individuals	335 333	313 268	325 947	304 292
<i>Companies</i>	23 729	30 370	23 110	22 023
<i>Loans</i>	311 604	282 898	302 838	282 270
Grants	41 298	31 107	41 298	31 107
Investments in associates (investments in Baltic Innovation Fund)	15 857	15 019	15 857	15 019
Investment properties	38 148	36 758	38 148	36 758
Other assets	4 187	3 643	4 187	3 643
<b>Total assets</b>	<b>841 972</b>	<b>802 568</b>	<b>832 642</b>	<b>794 293</b>
<b>Liabilities</b>				
Due to credit institutions	61 509	65 855	61 509	65 855
Due to general governments	109 918	103 520	108 482	101 838
Financial liabilities at amortised cost - Issued debt securities	65 359	65 522	65 359	65 522
Support programme funding	198 000	191 963	198 000	191 963
<b>Total liabilities</b>	<b>434 786</b>	<b>426 860</b>	<b>433 350</b>	<b>425 178</b>

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	
	30.06.2021. (unaudited)	31.12.2020. (audited)	30.06.2021. (unaudited)	31.12.2020. (audited)
<b>Assets</b>				
Due from credit institutions and the Treasury	385 119	359 949	385 119	359 949
Financial assets at fair value through other comprehensive income - investment securities	14 393	36 958	14 393	36 958
Financial assets at amortised cost:				
Investment securities	35	441	90	1 133
Individuals	335 333	313 268	325 947	304 292
<i>Companies</i>	23 729	30 370	23 110	22 023
<i>Loans</i>	311 604	282 898	302 838	282 270
Grants	41 298	31 107	41 298	31 107
Investments in associates (investments in Baltic Innovation Fund)	15 857	15 019	15 857	15 019
Investments in subsidiaries	7 021	4 879	7 021	4 879
Investment properties	38 148	36 758	38 148	36 758
Other assets	4 187	3 608	4 187	3 608
<b>Total assets</b>	<b>841 391</b>	<b>801 987</b>	<b>832 060</b>	<b>793 703</b>
<b>Liabilities</b>				
Due to credit institutions	61 509	65 855	61 509	65 855
Due to general governments	109 918	103 520	108 482	101 838
Financial liabilities at amortised cost - Issued debt securities	65 359	65 522	65 359	65 522
Support programme funding	198 000	191 963	198 000	191 963
<b>Total liabilities</b>	<b>434 786</b>	<b>426 860</b>	<b>433 350</b>	<b>425 178</b>

## 25 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	
	30.06.2021. (unaudited)	31.12.2020. (audited)	30.06.2021. (unaudited)	31.12.2020. (audited)	30.06.2021. (unaudited)	31.12.2020. (audited)	30.06.2021. (unaudited)	31.12.2020. (audited)
<b>Assets measured at fair value</b>								
Financial assets at fair value through profit or loss	-	-	-	-	7 602	5 425	7 602	5 425
Financial assets at fair value through other comprehensive income - investment securities	3 594	24 035	10 799	12 923	-	-	14 393	36 958
Investments in associates (investments in BIF)	-	-	-	-	15 857	15 019	15 857	15 019
Investment properties	-	-	-	-	38 148	36 758	38 148	36 758
<b>Assets with fair values disclosed</b>								
Due from credit institutions and the Treasury	-	-	341 555	316 631	43 564	43 318	385 119	359 949
<b>Financial assets at amortised cost:</b>								
Investment securities	-	-	91	1 142	-	-	91	1 142
Loans	-	-	-	-	325 947	304 292	325 947	304 292
Grants	-	-	-	-	41 298	31 107	41 298	31 107
Other assets	-	-	-	-	4 187	3 643	4 187	3 643
<b>Total assets</b>	<b>3 594</b>	<b>24 035</b>	<b>352 445</b>	<b>330 696</b>	<b>476 603</b>	<b>439 562</b>	<b>832 642</b>	<b>794 293</b>
<b>Liabilities measured at fair value</b>								
Support programme funding	-	-	-	-	198 000	191 963	198 000	191 963
<b>Liabilities with fair value disclosed</b>								
Due to credit institutions	-	-	-	-	61 509	65 855	61 509	65 855
Due to general governments	-	-	-	-	108 482	101 838	108 482	101 838
Financial liabilities at amortised cost - Issued debt securities	-	-	-	-	65 359	65 522	65 359	65 522
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>433 350</b>	<b>425 178</b>	<b>433 350</b>	<b>425 178</b>

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	
	30.06.2021. (unaudited)	31.12.2020. (audited)	30.06.2021. (unaudited)	31.12.2020. (audited)	30.06.2021. (unaudited)	31.12.2020. (audited)	30.06.2021. (unaudited)	31.12.2020. (audited)
<b>Assets measured at fair value</b>								
Financial assets at fair value through other comprehensive income - investment securities	3 594	24 035	10 799	12 923	-	-	14 393	36 958
Investments in subsidiaries	-	-	-	-	7 021	4 879	7 021	4 879
Investments in venture capital funds – associates (investments in BIF)	-	-	-	-	15 857	15 019	15 857	15 019
Investment properties	-	-	-	-	38 148	36 758	38 148	36 758
<b>Assets with fair values disclosed</b>								
Due from credit institutions and the Treasury	-	-	341 555	316 631	43 564	43 318	385 119	359 949
<b>Financial assets at amortised cost:</b>								
Investment securities	-	-	90	1 133	-	-	90	1 133
Loans	-	-	-	-	325 947	304 292	325 947	304 292
Grants	-	-	-	-	41 298	31 107	41 298	31 107
Other assets	-	-	-	-	4 187	3 608	4 187	3 608
<b>Total assets</b>	<b>3 594</b>	<b>24 035</b>	<b>352 444</b>	<b>330 687</b>	<b>476 022</b>	<b>438 981</b>	<b>832 060</b>	<b>793 703</b>
<b>Liabilities measured at fair value</b>								
Support programme funding	-	-	-	-	198 000	191 963	198 000	191 963
<b>Liabilities with fair value disclosed</b>								
Due to credit institutions	-	-	-	-	61 509	65 855	61 509	65 855
Due to general governments	-	-	-	-	108 482	101 838	108 482	101 838
Financial liabilities at amortised cost - Issued debt securities	-	-	-	-	65 359	65 522	65 359	65 522
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>433 350</b>	<b>425 178</b>	<b>433 350</b>	<b>425 178</b>



## 25 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.

## 25 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 underlying investment properties.

## 26 Segment Information

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 transactions with repossessed collaterals taken over in the debt collection process and development of new support programmes as well as transactions, which cannot be attributed to support 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.

## 26 Segment Information (cont'd)

Analysis of the operating segments of the Group for the period from 1 January 2021 till 30 June 2021, 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	6 645	1 550	13	-	1 108	-	2	9 318
<i>of which, interest on loans and guarantees (Note 4)</i>	6 537	1 423	-	-	1 108	-	-	9 068
Interest expense	(694)	(12)	-	-	(314)	-	-	(1 020)
Net interest income	5 951	1 538	13	-	794	-	2	8 298
Income for implementation of state aid programmes	88	322	2 070	553	-	-	43	3 076
Expenses to be compensated for implementation of state aid programmes	(60)	(102)	(1 866)	(553)	-	-	(18)	(2 599)
Net income for implementation of state aid programmes	30	220	204	-	-	-	23	477
Gains from debt securities and foreign exchange translation	9	10	1	-	-	-	-	20
Share of (losses) of investment in associates	-	-	146	-	-	-	-	146
Share of gain of investment in associates at fair value through profit or loss	-	-	-	-	-	-	-	-
Gains less losses from liabilities at fair value through profit or loss	-	-	(153)	-	-	-	-	(153)
Other income	-	-	224	13	710	279	20	1 246
Other expense	(110)	(29)	(5)	(16)	(183)	(279)	(5)	(627)
<b>Operating income / (loss) before operating expenses</b>	<b>5 880</b>	<b>1 739</b>	<b>430</b>	<b>(3)</b>	<b>1 321</b>	<b>-</b>	<b>40</b>	<b>9 407</b>
Staff costs	(1 742)	(599)	(85)	(398)	(125)	-	(57)	(3 006)
Administrative expense	(423)	(187)	(67)	(117)	(37)	-	(29)	(860)
Amortisation of intangible assets and depreciation of property, plant and equipment	(229)	(103)	(23)	(92)	(19)	-	(18)	(484)
(Impairment) gain, net	(547)	1 466	-	(19)	(6)	-	(4)	890
Profit or (loss) from assets held for sale revaluation	-	-	-	-	-	-	-	-
<b>Total segment profit/(loss)</b>	<b>2 939</b>	<b>2 316</b>	<b>255</b>	<b>(629)</b>	<b>1 134</b>	<b>-</b>	<b>(68)</b>	<b>5 947</b>
Financial assets at fair value through profit or loss	-	-	35 602	-	-	-	-	35 602
Other investments	-	-	15 858	-	-	-	-	15 858
Investments in associates	-	-	8 318	-	-	-	-	8 318
Additions of property and equipment, intangible assets and investment property	43	17	5	21	1 545	-	3	1 634
<b>Total segment assets</b>	<b>465 078</b>	<b>155 683</b>	<b>123 418</b>	<b>54 580</b>	<b>73 400</b>	<b>359</b>	<b>23 968</b>	<b>896 486</b>
<b>Total segment liabilities</b>	<b>287 855</b>	<b>68 283</b>	<b>22 779</b>	<b>39 720</b>	<b>62 091</b>	<b>30</b>	<b>758</b>	<b>481 516</b>

## 26 Segment Information (cont'd)

Analysis of the operating segments of the Group for the period from 1 January 2020 till 30 June 2020, in thousands of euro:

	Loan service	Guarantee service	Venture capital fund service	Grant service	Land Fund service	Other services	Total
Interest income	5 402	1 274	17	-	598	2	7 293
<i>of which, interest on loans and guarantees (Note 4)</i>	<i>5 074</i>	<i>868</i>	<i>-</i>	<i>-</i>	<i>579</i>	<i>-</i>	<i>6 521</i>
Interest expense	(728)	(16)	-	-	(230)	-	(974)
Net interest income	4 674	1 258	17	-	368	2	6 319
Income for implementation of state aid programmes	431	250	1 693	488	-	38	2 900
Expenses to be compensated for implementation of state aid programmes	(53)	(199)	(1 676)	(488)	-	(54)	(2 470)
Net income for implementation of state aid programmes	378	51	17	-	-	(16)	430
Gains from debt securities and foreign exchange translation	1	2	-	-	(1)	-	2
Share of (losses) of investment in associates	-	-	2 018	-	-	-	2 018
Share of gain of investment in associates at fair value through profit or loss	-	-	-	-	-	-	-
Gains less losses from liabilities at fair value through profit or loss	-	-	(2 018)	-	-	-	(2 018)
Other income	-	-	567	3	497	329	1 396
Other expense	(132)	(23)	(2)	(15)	(159)	(32)	(363)
<b>Operating income / (loss) before operating expenses</b>	<b>4 921</b>	<b>1 288</b>	<b>599</b>	<b>(12)</b>	<b>705</b>	<b>283</b>	<b>7 784</b>
Staff costs	(1 799)	(419)	20	(325)	(134)	(128)	(2 785)
Administrative expense	(503)	(146)	(22)	(168)	(35)	(39)	(913)
Amortisation of intangible assets and depreciation of property, plant and equipment	(209)	(83)	(14)	(77)	(17)	(16)	(416)
(Impairment) gain, net	(2 212)	(956)	-	-	238	(2)	(2 932)
Profit or (loss) from assets held for sale revaluation	-	-	-	-	-	-	-
<b>Total segment profit/(loss)</b>	<b>198</b>	<b>(316)</b>	<b>583</b>	<b>(582)</b>	<b>757</b>	<b>98</b>	<b>738</b>
Financial assets at fair value through profit or loss	-	-	14 651	-	-	-	14 651
Other investments	-	-	37 728	-	-	-	37 728
Investments in associates	-	-	250	-	-	-	250
Additions of property and equipment, intangible assets and investment property	426	122	22	181	9 186	30	9 967
<b>Total segment assets</b>	<b>363 468</b>	<b>111 309</b>	<b>95 538</b>	<b>31 594</b>	<b>63 554</b>	<b>35 332</b>	<b>700 795</b>
<b>Total segment liabilities</b>	<b>180 027</b>	<b>73 302</b>	<b>32 191</b>	<b>28 360</b>	<b>53 574</b>	<b>744</b>	<b>368 198</b>

## 27 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.

Other Notes

## **OTHER NOTES TO UNAUDITED INTERIM CONDENSED REPORT**

Key financial and performance indicators

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Definitions of indicators

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## OTHER NOTES TO THE INTERIM CONDENSED REPORT

### KEY FINANCIAL AND PERFORMANCE INDICATORS

Based on data from financial statements for the respective reporting period

	2021 6M (unaudited)	2021 3M (unaudited)	2020 12M (audited)
<b>Key financial data</b>			
Net interest income (EUR '000) **	8 298	4 095	14 572
Profit for the period (EUR '000)	5 947	2 320	5 539
Cos to income ratio (CIR) ***	46.24%	42.04%	47.51%
Employees	222	217	211
Total assets (EUR '000)	896 486	<b>855 956</b>	850 704
<b>Tangible common equity (TCE) / Total tangible managed assets (TMA) ****</b>	<b>34.73%</b>	<b>35.67%</b>	<b>33.56%</b>
Equity and reserves (EUR '000)	414 970	411 933	382 904
<b>Total risk coverage: (EUR '000)</b>	<b>232 725</b>	<b>226 002</b>	<b>180 205</b>
Risk coverage reserve	127 364	119 785	112 567
Risk coverage reserve used for provisions	(29 434)	(28 569)	(28 197)
Portfolio loss reserve (specific reserve capital)	135 704	142 134	102 264
Portfolio loss reserve used to compensate provisions upon approval of the annual report	(909)	(7 348)	(6 429)
Liquidity ratio for 180 days *****	346%	462%	464%
<b>Financial instruments (gross value)</b>			
<b>Outstanding (EUR '000) (by financial instrument) *****</b>			
Loans (excluding sales and leaseback transactions)	323 275	313 185	302 481
Guarantees	379 602	373 708	359 605
Venture capital funds	83 620	75 901	73 165
Land Fund, of which:	72 411	70 574	68 258
- sales and leaseback transactions	34 263	32 920	31 500
- investment properties	38 148	37 654	36 758
<b>Total</b>	<b>858 908</b>	<b>833 368</b>	<b>803 509</b>
Number of transactions	28 951	27 560	26 578
<b>Volumes issued (EUR '000) (by financial instrument) *****</b>			
Loans (excluding sales and leaseback transactions)	59 492	33 431	138 238
Guarantees	55 671	28 860	137 425
Venture capital funds	13 222	5 406	14 014
Land Fund, of which:	3 870	2 266	28 191
- sales and leaseback transactions	2 214	1 218	16 796
- investment properties	1 656	1 048	11 395
<b>Total</b>	<b>132 255</b>	<b>69 964</b>	<b>317 868</b>
Number of transactions	3 270	1 526	6 147
Leverage for raised private funding	163%	139%	114%
Volume of support programmes funding per employee (EUR '000)	3 869	3 840	3 808
Long-term rating assigned by Moody's Investors Service	Baa1	Baa1	Baa1

\* Due to change of accounting policy on investments in venture capital funds and adoption of IFRS 9 requirements that effects the accounting of public funding risk coverage the comparatives for 2017, 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.

## OTHER NOTES TO THE INTERIM CONDENSED REPORT (cont'd)

### KEY FINANCIAL AND PERFORMANCE INDICATORS (cont'd)

Based on data from audited financial statements for the respective years

	2020	2019	2018	2017 (corrected) *	2016 (corrected) *	2015 (corrected) *
<b>Key financial data</b>						
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
<b>Tangible common equity (TCE) / Total tangible managed assets (TMA) ****</b>	<b>33.56%</b>	<b>29.40%</b>	<b>31.70%</b>	<b>35.10% *</b>	<b>36.50%</b>	<b>37.30%</b>
Equity and reserves (EUR '000)	382 904	232 738	221 590	222 848 *	210 406 *	199 610
<b>Total risk coverage: (EUR '000)</b>	<b>180 205</b>	<b>87 456</b>	<b>77 815</b>	<b>67 593 *</b>	<b>66 508 *</b>	<b>41 021</b>
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%
<b>Financial instruments (gross value)</b>						
<b>Outstanding (EUR '000) (by financial instrument) *****</b>						
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
<b>Total</b>	<b>803 509</b>	<b>617 341</b>	<b>528 518</b>	<b>463 068</b>	<b>434 024</b>	<b>395 051</b>
Number of transactions	26 578	22 437	18 603	14 655	11 561	8 940
<b>Volumes issued (EUR '000) (by financial instrument) *****</b>						
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
<b>Total</b>	<b>317 868</b>	<b>187 966</b>	<b>163 345</b>	<b>128 961</b>	<b>140 634</b>	<b>122 183</b>
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 (EUR)	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

<p><i>Net income from interest, fees and commission</i></p>	<p>"Net income from interest, fees and commission" is equal to the item "Net interest income" in the Statement of Comprehensive Income. Until 2018 this ratio included the following items of the Statement of Comprehensive Income: "Net interest income" and "Net income from fees and commissions". In 2019 following the industry practise Fee and commission income from lending activities is reclassified to Interest income from "Net income from fees and commissions". Subsequently the fee and commission income not related to lending activities is reclassified within Other income and as such is not included in this ratio. The item "Net income from fees and commissions" is not applicable in The Statement of Comprehensive Income 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.</p>
<p><i>Cost to income ratio (CIR)</i></p>	<p>"Cost to income ratio" (CIR) is calculated by dividing the amount of "Staff costs", "Administrative expense", "Amortisation of intangible assets and depreciation of property, plant and equipment" by "Operating income before operating expenses" included in the Statement of Comprehensive Income. ALTUM uses CIR to evaluate the operational efficiency. This is one of the measures of operational efficiency which ALTUM management assesses on a quarterly basis in the management reports to evaluate the outputs from different operational activities and efficiency improving measures.</p>
<p><i>Tangible common equity (TCE) / Tangible managed assets (TMA)</i></p>	<p>"Tangible Common Equity" (TCE) is calculated by subtracting the revaluation reserve of available for sale investments from total equity.</p> <p>The amount of "Total managed assets" (TMA) is calculated by adding the guarantees shown as off-balance sheet items to the total assets of ALTUM Group taking into account provisions for these guarantees and subtracting "Deferred expense", "Accrued income", "Property, plant and equipment", "Intangible assets", "Other assets" and "Assets held for sale".</p> <p>Data for the calculation of both indicators (TCE, TMA) are obtained from ALTUM Group's Financial statements: Statement of Financial Position and Consolidated Statement of Changes in Equity, notes - Off balance sheet items and contingent liabilities and Provisions. ALTUM uses the ratio "TCE/TMA" to evaluate ALTUM Group's capital position adequacy and to measure ALTUM Group's tangible common equity in terms of ALTUM Group's tangible managed assets including the off-balance sheet item Guarantee portfolio. The Risk and Liquidity Management Committee of ALTUM monitors its level on a quarterly basis.</p>
<p><i>Total risk coverage</i></p>	<p>"Total Risk Coverage" is the net funding available for covering the expected credit losses of the State aid programmes implemented by ALTUM. "Total Risk Coverage" is calculated as the total of "Risk Coverage Reserve" and "Portfolio Loss Reserve" (Specific Capital Reserves) less "Risk Coverage Reserve Used for Provisions" 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.</p> <p>"Total Risk Coverage" is key indicator to be used for assessment of ALTUM's risk coverage on implemented programmes and long-term financial stability.</p>
<p><i>180-day liquidity ratio</i></p>	<p>"180-days-liquidity ratio" is calculated by dividing the amount of the balances "Due from other credit institutions and the Treasury" with a maturity of up to 1 month and "Financial assets at fair value through other comprehensive income and Investment securities" by the amount of the total liabilities maturing within 6 months and total financial commitments maturing within 6 months (off-balance sheet items). The data required for the calculation of the "180-days liquidity ratio" is disclosed in the following ALTUM Group's Financial statements: Statement of Financial Position and notes – Maturity profile of assets and liabilities under the section of Risk Management, Off-balance sheet items and contingent liabilities. ALTUM uses the "180-days-liquidity ratio" to assess and monitor ALTUM Group's ability to fulfil ALTUM Group's contractual and/or contingent liabilities during 6 (six) month with the currently available liquidity resources. "180-days-liquidity ratio" helps to manage ALTUM Group's liquidity risk in line with ALTUM Group's/ALTUM's funding management objectives and risk framework. Risk and Liquidity Management Committee of ALTUM monitors its level on a quarterly basis.</p>
<p><i>Total contribution to the economy, including the participation of the final recipients, by volumes issued in the period</i></p>	<p>The 'Total contribution to the economy, including the participation of the final recipients, by volumes issued in the period' is calculated by adding to the volumes issued by ALTUM the financing provided by the private co-financier and the project promoter.</p>



## Definition of ratios (cont'd)

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<i>Leverage for raised private funding</i>	"Leverage for raised private funding" indicates the amount of additional private funds invested in a project in addition to ALTUM's financing. "Leverage for raised private funding" is determined considering the financing invested by a private co-financier and a project's implementer, which, on average, makes up to 50 per cent for loans, up to 70 per cent for guarantees and venture capital (except for housing loan guarantees' programme for the first instalment with a ratio of 795 per cent) in addition to ALTUM's funding.
<i>Employees</i>	Average number of employees in the period excluding members of the Council and the Audit Committee.
<i>Volume of support programmes funding per employee</i>	"Support programmes funding per employee" is calculated by dividing the gross value of the Financial Instruments Portfolio by the average number of employees during the period, excluding members of the Supervisory Council and the Audit Committee.
<i>Venture capital</i>	The Venture Capital Funds presented at their gross value.

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# **AS “ATTĪSTĪBAS FINANŠU INSTITŪCIJA ALTUM”**

Unaudited interim condensed financial report  
for the six-month period ended 30 June 2020

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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

During the 6 months of year 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 0.74 million.

## Key financial and performance indicators of the Group

	2020 6M (unaudited)	2019 6M (unaudited)	2019 (audited)
<b>Key financial data</b>			
Net interest income (EUR '000)	6 319	5 479	11 569
Profit for the period (EUR '000)	738	5 174	8 131
Cos to income ratio (CIR)	52.85%	57.00%	52.58%
Employees	205	202	203
Total assets (EUR '000)	700 967	517 234	560 061
<b>Tangible common equity (TCE) / Total tangible managed assets (TMA) *</b>	<b>34.53%</b>	<b>29.33%</b>	<b>29.40%</b>
Equity and reserves (EUR '000)	332 769	226 542	232 738
<b>Total risk coverage: (EUR '000)</b>			
Risk coverage reserve	109 441	87 651	99 778
Risk coverage reserve used for provisions	(29 495)	(22 503)	(27 829)
Portfolio loss reserve (specific reserve capital)	115 507	11 807	15 507
Liquidity ratio for 180 days **	348%	340%	582%
<b>Financial instruments (gross value)</b>			
<b>Outstanding (EUR '000) (by financial instrument)</b>			
Loans (excluding sales and leaseback transactions)	264 316	217 057	225 144
Guarantees	321 987	273 270	284 232
Venture capital funds	68 589	63 196	68 331
Land Fund, of which:	52 304	31 858	39 634
- sales and leaseback transactions	18 814	11 692	15 268
- investment properties	33 490	20 166	24 366
<b>Total</b>	<b>707 196</b>	<b>585 381</b>	<b>617 341</b>
Number of transactions	24 085	20 441	22 437
<b>Volumes issued (EUR '000) (by financial instrument)</b>			
Loans (excluding sales and leaseback transactions)	66 606	29 183	64 320
Guarantees	68 734	56 122	98 240
Venture capital funds	2 939	4 372	9 022
Land Fund, of which: ***	12 501	9 213	16 384
- sales and leaseback transactions	3 528	3 840	7 239
- investment properties	8 973	5 373	9 145
<b>Total</b>	<b>150 780</b>	<b>98 890</b>	<b>187 966</b>
Number of transactions	2 729	2 925	5 559
Leverage for raised private funding	93%	137%	142%
Volume of support programmes funding per employee (EUR '000)	3 450	2 898	3 041
Long-term rating assigned by Moody's Investors Service	Baa1	Baa1	Baa1

\* TMA includes off-balance sheet item outstanding guarantees.

\*\* The calculation of liquidity ratio 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 operational volumes for 6 months of 2019 have been adjusted accordingly.

The figures are explained in the section "Key Financial and Performance Indicators" under Other Notes to the Group's Financial Statements.

## Management Report (cont'd)

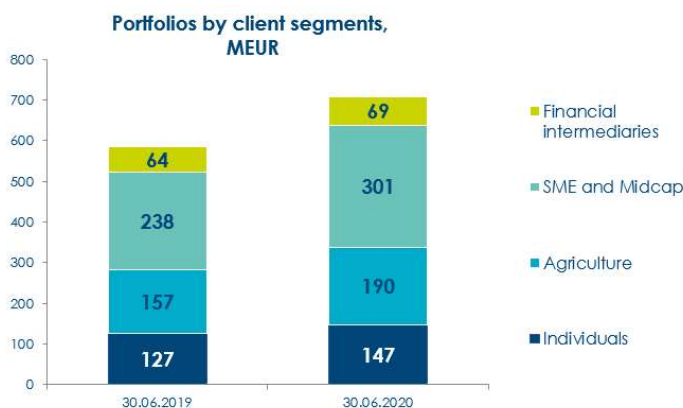
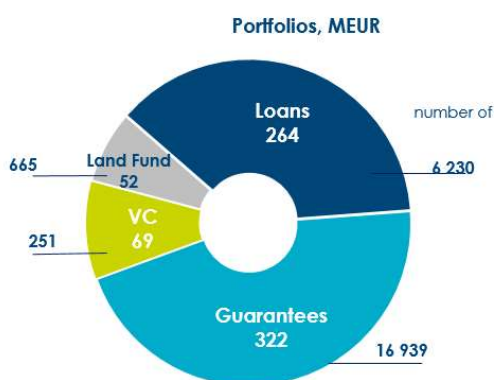
### Operational volumes

Since March, as delegated by the government, the Group has engaged actively in mitigating the adverse impact of Covid-19 on the business sector in Latvia by developing new financial support instruments in co-operation with the Ministry of Economics. The work outcome is reflected clearly in the operating results of the first half of 2020.

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.

As at 30 June 2020, the Group's gross portfolio was EUR 707 million consisting of 24,085 projects (31.12.2019: EUR 617 million and 22,437).

In the first half of 2020, the Group's portfolio increased by EUR 90 million (+14.6%) in terms of volume and by 1,648 projects regarding the number of projects (+7.4%) compared to the end of 2019. Its growth in the first half of 2020 is higher than in the respective period of 2019, when the portfolio increased by EUR 67.8 million (+12.8%). In the second quarter of 2020, the Group's portfolio increased considerably faster, both in terms of volume and the number of projects, compared to the first quarter, which was mainly because of the support to entrepreneurs for overcoming the negative effects of Covid-19 provided using the Group's financial instruments: in the second quarter, the Group's portfolio increased by EUR 75.9 million, of which under the support programmes for minimising the Covid-19 effect - by EUR 56.1 million, and by 976 projects, of which 361 projects under the support programmes for minimising the Covid-19 effect; while in the first quarter, the portfolio grew by EUR 14 million and 673 projects.



Group 30/06/2020

In the first half of 2020, the greatest upsurge was demonstrated by the Land Fund with operations increasing by EUR 12.7 million (+32%) which is more than in the respective period of 2019 when the Land Fund's operations increased by EUR 10.1 million (+46.7%). The number of projects in the Land Fund in the first six months of 2020 increased by 133 projects (+23%), while in the corresponding period in 2019 this increase was faster, when it increased by 148 projects (+45.8), indicating that transactions take place less frequently, but the properties purchased are larger and at a higher price; the average volume of concluded transactions has increased by 50%.

As at 30 June 2020, the balance sheet of the Land Fund included 826 properties with a total land area of 16,626 ha and amounting to EUR 52.3 million, including investment properties with a total area of 10,289 ha and amounting to EUR 33.5 million (31.12.2019: 7,996 ha; EUR 24.4 million), and leaseback transactions for 6,337 ha amounting to EUR 18.8 million (31.12.2019: 5,404 ha; EUR 15.3 million).

In the first half of 2020, the loan portfolio increased by EUR 39.2 million (+17.4%), which is twice as much as in the respective period of 2019, when the loan portfolio increased by EUR 18.5 million (+8.8%), while the number of transactions in the loan portfolio increased by 181 (+3%), which is less than in the same period of 2019, when their number increased by 220 projects (+ 4%). As the negative impact of Covid-19 on the economy increased, the number of new transactions declined, however, the average transaction volume in the loan portfolio increased from EUR 35.7 thousand as at 30 June 2019 to EUR 44.3 thousand in the same period of 2020. It should be noted that the loan portfolio increased significantly in the second quarter of 2020, growing by EUR 38.2 million (+16.9%), mainly due to the lending programme introduced by the Group for mitigating the Covid-19 effect (+EUR 31.7 million). Notwithstanding the consequences brought by Covid-19 to global and Latvian economy, in the first six months of 2020 the Group's loan portfolio continued to grow also in programs that are not related to mitigating the



## Management Report (cont'd)

### Operational volumes (cont'd)

negative impact of Covid-19: loans for acquisition of agricultural land intended for agricultural production (+EUR 6.1 million), SME growth loans (+EUR 4.3 million) and small loans in rural areas (+ EUR 2.2 million).

In the first half of 2020, the guarantee portfolio increased by EUR 37.8 million (+13.3%), which is more than in the respective period in 2019, when the guarantee portfolio grew by EUR 36.4 million (+15.4%). In turn, the number of projects in the guarantee portfolio increased by 1,324 projects (+8.5%), while in the respective period in 2019 it grew by 1,926 projects (+16.2%). The business environment becoming more unpredictable, the average transaction volume of guarantees in the portfolio has also increased. Its largest increase in the first six months of 2020 was ensured by the loan guarantee programmes for the Covid-19 affected businesses (+24.4 million EUR) as well as Housing Guarantees for Families with Children (+EUR 6 million), loan guarantees for entrepreneurs (+EUR 5.7 million), Housing Guarantees for Young Professionals (+EUR 2.4 million).

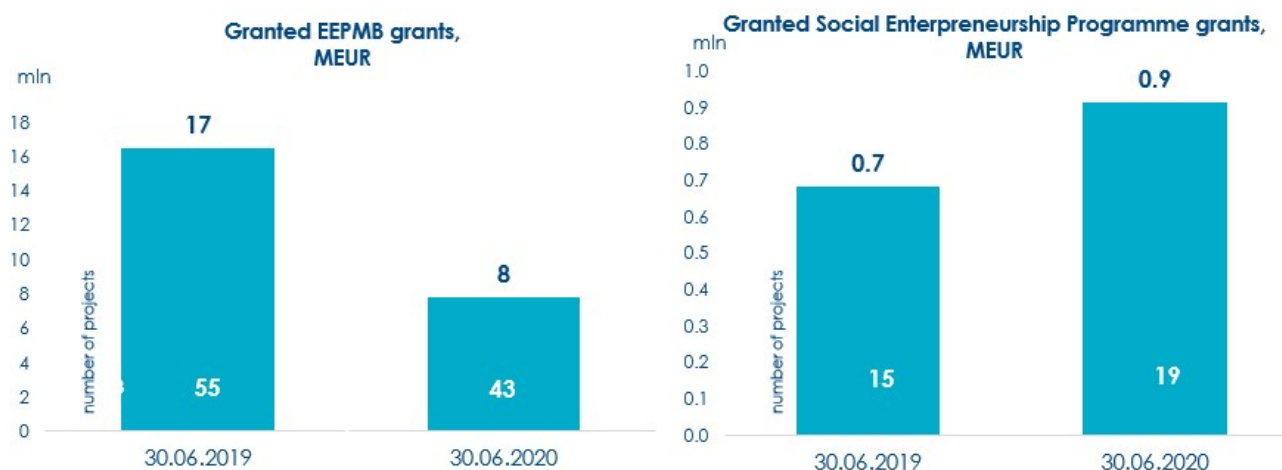
In the first half of 2020, the venture capital funds increased by EUR 0.26 million (+0.38%) in terms of volume and by 10 projects (+4.2%) in terms of the number of transactions.

The largest portfolio of the Group is formed in the SMEs and Midcaps segment – 42.5%, while the Agriculture segment accounts for - 27%, Individuals – 20.8% and Financial intermediaries - 9.7%. 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 the first six months of 2020 the largest growth was demonstrated by the SMEs and Midcaps segment, namely, +EUR 57.6 million (+23.7%), which is three times more than in the respective period in 2019 when its growth reached EUR 7.7 million (+8%). In the first half of 2020, the Agriculture segment increased by EUR 23.9 million (+14.4%), which is more than in the first half of 2019 when the portfolio in this segment grew by EUR 15 million (+11%), and likewise the portfolio increase in the Individuals segment was by EUR 8.5 million (+6%). However, taking into account the Covid-19 related decrease in economic activity, the growth rates of the Individuals segment in the first half of 2020 were significantly lower than in the first half of 2019, when it increased by EUR 20.2 million (+18.9%). If the segment Financial Intermediaries in the first half of 2019 increased by EUR 3.43 million (+5.7%), then in the same period of 2020 there was a decrease in this segment by EUR 0.13 million (-0.2%), which was due to the successfully implemented recent investment in the first generation venture capital funds, thus fully closing it.

### 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.



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As at 30 June 2020, the EEPMB programme had awarded a total of 298 grants for EUR 60 million, of which 28 grants for EUR 6 million were granted in the second quarter of 2020. It should be noted that successful progress of the EEPMB programme requires direct involvement of the inhabitants and, consequently, their awareness of renovation solutions, investments and benefits. Commercial banks have an equally significant role in the programme execution. Therefore, effective and efficient communication with inhabitants, their authorised persons and the banks was one of the core factors in the utilization of funds. As at 30 June 2020, 885 applications were submitted to the programme and since 11 January 2020 the programme has been

## Management Report (cont'd)

### Non-financial instrument portfolio (cont'd)

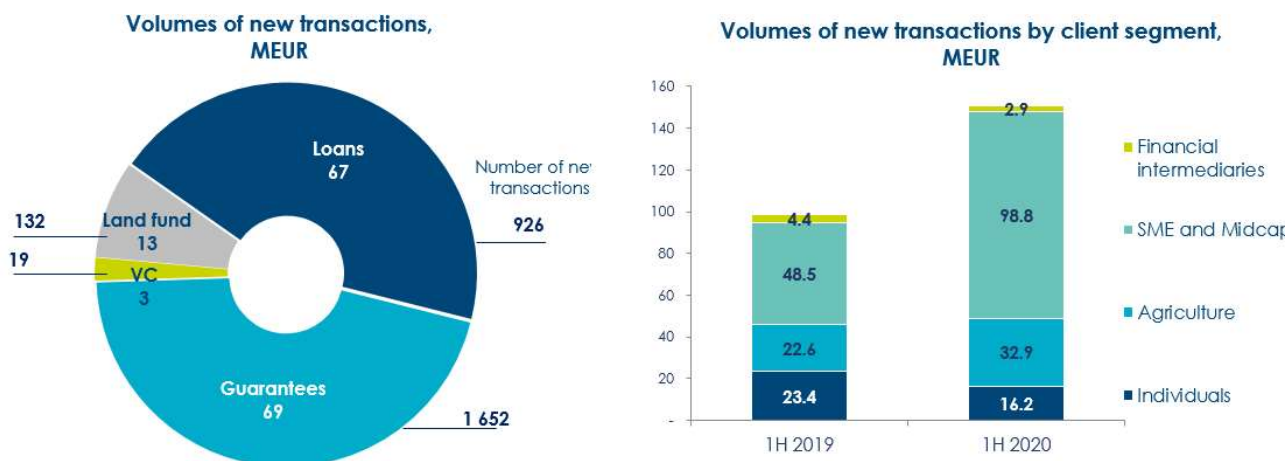
suspended and no new applications have been accepted; however, on 30 June 2020, the Cabinet approved amendments to the relevant Cabinet regulations, allocating additional funding of EUR 35 million earmarked for financing newly submitted projects.

As at 30 June 2020, a total of 84 grants for EUR 5.1 million were awarded under the Social Entrepreneurship Programme.

In order to promote and support planning of the energy efficiency projects, Altum, 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 30 June 2020, there were a total of 39 grants awarded for EUR 138 thousand.

### Volume of new transactions

In the first half of 2020, the total funding disbursed for the implementation of the state aid programmes amounted to EUR 150.8 million, breaking down as follows: 46% (EUR 68.7 million) for guarantee programmes, 44% (EUR 66.6 million) in loan programmes, 8% (EUR 12.5 million) in the Land Fund transactions and 2% (EUR 2.9 million) in investments in the venture capital funds. In total, support was given to 2,729 projects. Compared to the same period last year, the volume of the new transactions was larger by 52% (EUR 51.9 million) in the first half of 2020. Assessing the Group's quarterly operations, the volume of new business in the second quarter of 2020 was 2.5 times higher than in the first quarter (EUR 42.9 million in the first quarter and EUR 107.8 million in the second quarter); such a result was due to the activities of the Group and Latvian state institutions involved in reducing the negative impact of Covid-19 upon the business sector.



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In the reporting period, the largest volume of the new transactions was recorded in the following segments: SMEs and Midcaps – 65.5%, Agriculture – 21.8%, Individuals – 10.7% and Financial Intermediaries – 2%. As a result of the implementation of the already mentioned Covid-19 crisis-related support programmes, the volume of new transactions in the SMEs and Midcaps significantly increased during the reporting period, namely, compared to the first half of 2019 the respective volume has increased twice. Likewise, it was 1.5 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 the first half of 2020 the new transaction volume dropped in the segments Financial Intermediaries and Individuals, where it was by 32.8% and 31% lower than in 2019, respectively. For these segments, support measures to mitigate the negative effects of Covid-19.

During the first six months of 2020, the number of new loans issued amounted to EUR 66.6 million or 2.2 times more (+EUR 37.4 million) as in the respective period in 2019. Most of the growth was brought about by the implementation of the Covid-19 crisis-related loan programme, under which EUR 31.7 million were disbursed (all transactions took place in the second quarter), as well as the new loans under the SME Growth Loan Programme amounting to EUR 13 million and the loans amounting to EUR 8.6 million for acquisition of agricultural land intended for agricultural production.

In the reporting period there were issued new guarantees for EUR 68.7 million or by 22.5% more against the respective period in 2019. Most of the new guarantees amounting to EUR 24.4 million were issued under the loan guarantee programmes for the Covid-19 affected businesses.



## Management Report (cont'd)

### Volume of new transactions (cont'd)

Having launched the European Investment Fund (EIF) COSME and EaSI counter guarantees for loans up to EUR 25 thousand the Group has already supported 306 projects (COSME – 55 projects, EaSI – 251 projects) of which 95 projects were supported in the first half of 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 30 June 2020, as part of the Housing Guarantee Programme for Families with Children a total of 14,206 guarantees for EUR 104.5 million of the state aid for housing acquisition was granted, of which guarantees worth EUR 3.8 million were issued in the second quarter of 2020. The Programme's guarantees that help saving for the first instalment required to obtain a mortgage loan are used by families throughout Latvia: of the total number of the issued guarantees 77% were granted in Riga and its conurbations, 8% - in Kurzeme, 7% - in Zemgale, 5% - in Vidzeme and 3% - in Latgale. While a total of 2,132 guarantees worth EUR 15.5 million were issued to young professionals of which 149 guarantees worth EUR 1.2 million were issued in the second quarter of 2020.

In the first half of 2020, the managers of the 4th generation venture capital funds made investments of EUR 692 thousand (the Company's share – 100%). All investments were made by the managers of the acceleration pre-seed funds making a total of 15 new pre-seed investments. It should be noted that the Covid-19 crisis has encumbered making new investments - acceleration fund managers have found it difficult to select teams, run the Accelerator Program and make investments due to travel restrictions - this is especially true for teams with participants from abroad. In some cases, managers take a wait and see approach in the Venture Capital Programme. 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 1.58 million and EUR 0.67 million respectively.

This year FlyCap Mezzanine Fund II, one of the 4th generation funds, has attracted a new investor – Nordic Environment Finance Corporation (NEFCO) that invested EUR 1 million in the fund. NEFCO was established by the governments of five Nordic countries - Denmark, Finland, Iceland, Norway and Sweden. Altum's investment in the fund is EUR 11 million.

In the first half of 2020, the activities of the Land Fund steadily increased, carrying out land acquisition transactions for EUR 9 million, which is by EUR 3.6 million more than in the respective period in 2019, and concluding leaseback transactions for EUR 3.5 million, which is by EUR 0.3 million less than in the respective period in 2019. In general, the volume of the new Land Fund transactions in the first half of 2020 increased by 35.7% in comparison to the new transactions carried out in the first half of 2019.

### New products and increasing operational efficiency

The existence of novel coronavirus (Covid-19) was confirmed in early 2020 and by now it has spread across the world, Latvia including, significantly affecting business and economic activities. Since the beginning of March 2020, Altum has engaged actively in mitigating the adverse impact of Covid-19 on the business sector by promptly developing new financial support instruments in co-operation with the Ministry of Economics. The first regulations on financial support instruments were already approved by the Cabinet on 19 March 2020.

Entrepreneurs who have experienced objective difficulties in meeting their obligations to credit institutions are offered loan guarantees both for the existing and new banking services, thus enabling banks to postpone principal loan payments for up to two years and obtain additional security in the form of a guarantee. This provides liquidity support to Covid-19-affected businesses to overcome the crisis. The state budget funding of EUR 50 million is used for the implementation of the financial instrument enabling the Group to issue EUR 240 million in guarantees and making banks able to restructure loans for the total amount of EUR 715 million.

Working capital loans on favourable terms are offered as the second type of support already approved on 19 March 2020 for businesses whose operations have been substantially reduced and requiring liquidity support. The total volume of the programme amounts to EUR 200 million with EUR 50 million contributed by the state budget and EUR 150 million being loans from the Treasury and international financial institutions. On 8 July 2020, a loan agreement with the European Investment Bank (EIB) was signed which provides additional funding facility of EUR 80 million for financing the Covid-19-related working capital loans.

In order to reduce the negative impact of Covid-19, until 31 December 2020, it is permitted to provide export credit guarantees to companies, regardless of the exporting country, in accordance with Cabinet Regulation No. 866 of 20 December 2016 'Regulation on Granting Short-Term Export Credit Guarantees to Businesses and Relevant Agricultural Service Cooperatives'. In such circumstances, export credit guarantees are also possible to EU Member States from which there is no exporter.

## Management Report (cont'd)

### New products and increasing operational efficiency (cont'd)

In June 2020, the EIF approved financing for Altum's application to the EIF Covid-19-related guarantee instrument under COSME Loan Guarantee Facility, which provides guarantees up to 80% of the loan amount, if not exceeding EUR 150 thousand and granted under the COVID-19 crisis-related loan programme.

In addition to the existing financial support instruments for mitigating the impact of Covid-19, on 14 July 2020, the Cabinet approved regulations for new financial support instruments for large businesses.

Large enterprises in need of financing as impacted by Covid-19 are offered investment loan and working capital loan guarantees for new loans up to 90% of the loan amount, while for existing loans no more than 90% of the principal amount deferred. The state budget funding of EUR 40 million will be used for the implementation of this programme ensuring issuance of guarantees to the existing and new financial services for a total indicative amount up to EUR 450 million.

Already in April, at an extraordinary meeting, the government endorsed the proposal to create an Equity Fund to support large companies; it will consist of public and private funding and will be managed by the Company. On May 26, the Board of the Financial Capital and Market Commission made a decision to register the joint stock company Development Finance Institution Altum as an alternative investment fund manager and on July 31 the limited partnership and alternative investment fund Altum Capital Fund was registered with the Register of Enterprises of the Republic of Latvia. The Cabinet Regulation 'On Capital Investments in Enterprises whose Operations have been Affected by the Spread of Covid-19', which sets out the procedure for the establishment of alternative investment funds for the support of large enterprises affected by the Covid-19 crisis, was approved at the Cabinet meeting of 14 July. The fund is created with the aim to support well-managed, perspective enterprises facing temporary difficulties as a result of the Covid-19 crisis, as well as large enterprises 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 total size will be EUR 100 million, consisting in equal parts of public and private financing – EUR 50 million of public funds and EUR 50 million raised from the companies managing the state-funded pension schemes. On 23 July, the limited partnership signed an agreement with the first private investor. The share of public funding will not exceed 50% of the fund's total capital. The alternative investment fund will be making investments in the companies' capital, quasi-capital and corporate bonds. Up to EUR 10 million will be invested in one company. It is planned to support 20 to 30 large enterprises through the fund.

At the beginning of 2020, an agreement with the EIF on a counter-guarantee for large businesses of EUR 12 million was signed which will enable to support innovative and digitalisation projects at the same time providing a higher risk coverage for the Group.

Provision of energy services as a branch of economic activity is common in a number of developed countries around the world; however, it is merely in its inception stage in Latvia. Considering the needs of energy service companies (ESCOs) for funding and the current terms of attracting investment to private sector, in April 2020 the Cabinet adopted amendments to its regulations governing the SME Growth Loans Programme coming forth with a new financial instrument for ESCO development that provides for a loan to acquire the future cash flow and earmarking additional EUR 2 million of the public funding.

On 30 June 2020, the Cabinet approved amendments to the relevant Cabinet regulations on the Guarantee Programme for Improvement of Energy Efficiency of Multi-apartment Buildings (EEPMB), allocating additional funding of EUR 35 million to grants to be used for financing the submitted new projects. At the same time, amendments to the Cabinet regulations envisage new terms and conditions for the selection of suppliers, simplifying the current procedure for concluding supply, service and construction contracts.

On 30 June 2020, the Cabinet approved amendments to the Housing Guarantee Program, improving the existing one for the purchase of housing for families with children, both increasing the maximum transaction amount and giving the right to apply for support also to families where family growth is still expected. Moreover, the Cabinet approved the launch of a new support program "Balsts" (Support), which will provide for receiving a non-refundable state subsidy or grant for the purchase or construction of housing for families with three or more children. In total, EUR 3.5 million will be available for support of large families, thus enabling 400 large families to buy a new home.

In April 2020, the Cabinet Regulations "Regulations on Granting Study Loans and Student Loans from the Funds of Credit Institutions Guaranteed from the State Budget" were approved making it possible to introduce the new study and student loan model to ensure the availability of funding from the beginning of the new academic year 2020/2021. The major advantage of the new lending model consists of revoking the requirement for another guarantor and simplification of some procedures (digitalisation of the services, remote conclusion of the agreements using e-signature) that would provide for receipt of a loan within the shortest time possible. On 29 June, the Group announced a selection of credit institutions for issuing study and student loans guaranteed by the Group. Any credit institution that is entitled to provide lending services in Latvia

## Management Report (cont'd)

### New products and increasing operational efficiency (cont'd)

and wishes to issue loans to students can apply for the Group's portfolio guarantees. Given that credit institutions require a different time period for preparing the necessary infrastructure and processes, there is no time limit for submitting applications and it is possible to apply for study and student loan portfolio guarantees without a time limit.

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](https://mans.altum.lv), as well as through telephone and video consultations, thus ensuring continuous access to the services provided by the Group.

In the first six 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, 38% 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. The average loan amount in the regions has increased from EUR 72.1 thousand in the first six months of 2019 to EUR 75 thousand in the same period of 2020, while the average loan amount reviewed remotely on a centralised basis in the first six months of 2020 was EUR 13.5 thousand.

### 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 April 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 195.5 million (31.12.2019: EUR 87.5 million) to cover the expected credit loss of the State aid programmes. The expected loss is assessed before implementing the respective aid programme and a portion of the public funding received within 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

## Management Report (cont'd)

### Future Outlook

In order to prepare for the expected investments under the InvestEU Programme 2021–2027, in the second quarter of 2020 the preparations undertaken already in 2019 for Pillar Assessment of Altum 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. In the reporting period, 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.). Upon completing the audit procedures, a draft report was submitted, with a planned final report and a detailed plan for the implementation of recommendations to follow. The project will be completed in the third quarter of 2020.

In February 2020, the conference of the Three Seas Countries Investment Fund was held in Riga for the first time. The organiser of the conference was Bank Gospodarstwa Krajowego, which is a Polish state development bank, the initiator of the Fund and the Group. During the event, the representatives of the Fund management informed about the development of new financial instrument for funding and infrastructure development projects in 12 countries of the Three Seas Region, including Latvia, aimed at bridging the infrastructure gaps among various regions of Europe. On 7 May this year, the Cabinet approved the Group's involvement in the Three Seas Initiative Investment Fund, a new financial instrument to support infrastructure projects in the transport, energy and digitalisation sectors in the Central and Eastern European region. Considering the impact of Covid-19 on Latvian economy, it offers another investment opportunity for Latvia to develop strategically important infrastructure projects that are essential for ensuring the economic growth of our region. The Fund's investment allocation is expected to be as follows: 40% - in transport infrastructure, 40% - in energy and 20% - in digitalisation. The Group's investment amount in the Three Seas Initiative Investment Fund is planned to be EUR 20 million.

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.



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Reinis Bērziņš  
Chairman of the Board

26 August 2020

## Supervisory Council and Management Board

### Supervisory Council

Name, Surname	Position	Appointment Date	Date of expiry of the term of the mandate
Līga Kļaviņa	Chairperson of the Council	29.12.2016.	28.12.2022.
Jānis Šnore	Member of the Council	29.12.2016.	28.12.2022.
Kristaps Soms	Member of the Council	29.12.2016.	28.12.2022.

There were no changes in the Supervisory Council of the Company during the reporting period.

### Management Board

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	07.07.2017.	25.06.2023.

There were no changes in the Management Board of the Company during the reporting period.

## Statement of Management's responsibility

Riga

26 August 2020

The Management Board (the Management) is responsible for preparing the financial statements. The Management confirms that suitable accounting policies were used and applied consistently and reasonable and prudent judgments and estimates were made in the preparation of the financial statements on pages 13 to 51 for the period 1 January 2020 to 30 June 2020. The Management confirms that the Group's and the Company's financial statements were prepared on a going concern basis in accordance with International Accounting Standard 34 "Interim Financial Reporting".

During the reporting period appropriate accounting policies have been applied on a consistent basis. The Management is responsible for keeping proper accounting records, for taking reasonable steps to safeguard the assets of the Group and the Company and to prevent and detect fraud and other irregularities.



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Reinis Bērziņš  
Chairman of the Board

# Statement of Comprehensive Income

All amounts in thousands of euro

	Notes	Group	Group	Company	Company
		01.01.2020.- 30.06.2020. (unaudited)	01.01.2019.- 30.06.2019. (unaudited) *	01.01.2020.- 30.06.2020. (unaudited)	01.01.2019.- 30.06.2019. (unaudited) *
Interest income	4	7 293	6 652	7 293	6 652
Interest expense	5.	(974)	(1 173)	(974)	(1 173)
Net interest income		6 319	5 479	6 319	5 479
Income for implementation of state aid programmes	6.	2 900	1 965	2 900	1 965
Expenses to be compensated for implementation of state aid programmes	7.	(2 470)	(1 728)	(2 470)	(1 728)
Net income for implementation of state aid programmes		430	237	430	237
Gains or losses from trading securities and foreign exchange translation		2	94	2	94
Share of (losses) of investment in joint venture and associate	12.	2 018	623	2 018	623
Share of gain of investment in joint venture and associate at fair value through profit or loss	12.	(2 018)	(623)	(2 018)	(623)
Gains less losses from liabilities at fair value through profit or loss		-	-	-	-
Other income	8.	1 396	425	1 396	425
Other expense	9.	(363)	(261)	(363)	(261)
Operating income before operating expenses		7 784	5 974	7 784	5 974
Staff costs		(2 785)	(2 218)	(2 785)	(2 218)
Administrative expense		(913)	(778)	(913)	(778)
Amortisation of intangible assets and depreciation of property, plant and equipment		(416)	(382)	(416)	(382)
(Impairment) gain or loss, net	10.	(2 932)	2 578	(2 932)	2 578
Profit before corporate income tax		-	-	-	-
Profit before corporate income tax		738	5 174	738	5 174
Corporate income tax		-	-	-	-
<b>Profit for the period</b>		<b>738</b>	<b>5 174</b>	<b>738</b>	<b>5 174</b>
Other comprehensive income:		(692)	(274)	(692)	(274)
Items to be reclassified to profit or loss in subsequent periods					
Net loss from financial assets measured at fair value through other comprehensive income		(692)	(274)	(692)	(274)
<b>Total comprehensive income for the period</b>		<b>46</b>	<b>4 900</b>	<b>46</b>	<b>4 900</b>
Profit is attributable to:					
Owners of the Company		738	5 174	-	-
Non-controlling interest		-	-	-	-
<b>Profit for the period</b>		<b>738</b>	<b>5 174</b>	<b>-</b>	<b>-</b>
Total comprehensive income is attributable to:					
Owners of the Company		(692)	(274)	-	-
Non-controlling interest		-	-	-	-
<b>Total comprehensive income for the period</b>		<b>738</b>	<b>5 174</b>	<b>-</b>	<b>-</b>

\* comparatives reclassified according to Section (1) of Note 2.

The accompanying notes on pages 18 through 51 form an integral part of these financial statements.



Reinis Bērziņš  
 Chairman of the Board



Kaspars Gibeiko  
 Chief Accountant

26 August 2020

## Statement of Financial Position

All amounts in thousands of euro

	Notes	Group 30.06.2020. (unaudited)	Group 31.12.2019. (audited)	Company 30.06.2020. (unaudited)	Company 31.12.2019. (audited)
<b>Assets</b>					
Due from credit institutions and the Treasury	11.	279 354	181 199	279 354	181 047
Financial assets at fair value through profit or loss		4 845	4 217	-	-
Financial assets at fair value through other comprehensive income - investment securities		37 061	47 941	37 061	47 941
Financial assets at amortised cost:					
Investment securities		479	478	479	478
Loans and receivables	13.	262 143	220 129	262 143	220 129
Grants	22.	22 708	17 186	22 708	17 186
Deferred expense		242	694	242	694
Accrued income		1 782	1 649	1 782	1 649
Investments in venture capital funds – associates	12.	50 255	52 543	50 255	52 543
investments in subsidiaries		-	-	4 315	3 812
Investment property	14.	33 490	24 366	33 490	24 366
Property, plant and equipment		4 726	4 694	4 726	4 694
Intangible assets		1 371	1 395	1 371	1 395
Other assets	15.	2 511	3 570	2 511	3 570
<b>Total assets</b>		<b>700 967</b>	<b>560 061</b>	<b>700 437</b>	<b>559 504</b>
<b>Liabilities</b>					
Due to credit institutions	16.	25 202	29 542	25 202	29 542
Due to general governments	17.	90 964	86 272	90 964	86 272
Financial liabilities at amortised cost - Issued debt securities		65 351	45 348	65 351	45 348
Deferred income		3 300	3 091	3 300	3 091
Accrued expense		913	478	913	478
Provisions	19.	32 434	31 076	32 434	31 076
Support programme funding	18.	146 150	128 730	146 150	128 730
Other liabilities		3 884	2 786	3 884	2 773
<b>Total liabilities</b>		<b>368 198</b>	<b>327 323</b>	<b>368 198</b>	<b>327 310</b>
<b>Equity</b>					
Share capital		204 862	204 862	204 862	204 862
Reserves	20.	124 695	16 565	124 693	16 563
Revaluation reserve of financial assets measured at fair value through other comprehensive income	20.	1 946	2 638	1 946	2 638
Retained earnings		738	8 131	738	8 131
<b>Net assets attributable to the Company's owners</b>		<b>332 241</b>	<b>232 196</b>	<b>332 239</b>	<b>232 194</b>
Non-controlling interest		528	542	-	-
<b>Total equity</b>		<b>332 769</b>	<b>232 738</b>	<b>332 239</b>	<b>232 194</b>
<b>Total equity and liabilities</b>		<b>700 967</b>	<b>560 061</b>	<b>700 437</b>	<b>559 504</b>

\* comparatives reclassified according to Section (1) of Note 2.

The accompanying notes on pages 18 through 51 form an integral part of these financial statements.



Reinis Bērziņš  
 Chairman of the Board



Kaspars Gibeiko  
 Chief Accountant

26 August 2020



## Consolidated Statement of Changes in Equity

All amounts in thousands of euro

	Attributable to owners of the Company						Total equity
	Share capital	Reserves	Revaluation reserve of financial assets measured at fair value through other comprehensive income	Reserve of disposal group classified as held for sale	Retained earnings	Non-controlling interest	
<b>As at 1 January 2019 (audited)</b>	<b>204 862</b>	<b>7 965</b>	<b>3 597</b>		<b>4 900</b>	<b>266</b>	<b>221 590</b>
Profit for the period	-	-	-	-	5 174	-	5 174
Other comprehensive income	-	-	(274)	-	-	-	(274)
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>(274)</b>	<b>-</b>	<b>5 174</b>	<b>-</b>	<b>4 900</b>
Distribution of profit of previous years	-	808	-	-	(808)	-	-
Distribution of 2018 year profit of the Company	-	4 092	-	-	(4 092)	-	-
Non-controlling interest	-	-	-	-	-	54	54
<b>As at 30 June 2019 (unaudited)</b>	<b>204 862</b>	<b>12 865</b>	<b>3 323</b>	<b>-</b>	<b>5 174</b>	<b>320</b>	<b>226 544</b>
Profit for the period	-	-	-	-	2 957	-	2 957
Other comprehensive income	-	-	(685)	-	-	-	(685)
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>(685)</b>	<b>-</b>	<b>2 957</b>	<b>-</b>	<b>2 272</b>
Changes of reserves	-	3 700	-	-	-	-	3 700
Non-controlling interest	-	-	-	-	-	222	222
<b>As at 31 December 2019 (audited)</b>	<b>204 862</b>	<b>16 565</b>	<b>2 638</b>	<b>-</b>	<b>8 131</b>	<b>542</b>	<b>232 738</b>
Profit for the period	-	-	-	-	738	-	738
Other comprehensive income	-	-	(692)	-	-	-	(692)
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>(692)</b>	<b>-</b>	<b>738</b>	<b>-</b>	<b>46</b>
Changes of reserves	-	100 000	-	-	-	-	100 000
Distribution of 2019 year profit of the Company	-	8 131	-	-	(8 131)	-	-
Non-controlling interest	-	-	-	-	-	(14)	(14)
<b>As at 30 June 2020 (unaudited)</b>	<b>204 862</b>	<b>124 695</b>	<b>1 946</b>	<b>-</b>	<b>738</b>	<b>528</b>	<b>332 769</b>

The accompanying notes on pages 18 through 51 form an integral part of these financial statements.

## Company's Statement of Changes in Equity

All amounts in thousands of euro

	Attributable to owners of the Company					Non-controlling interest	Total equity
	Share capital	Reserves	Revaluation reserve of financial assets measured at fair value through other comprehensive income	Reserve of disposal group classified as held for sale	Retained earnings		
<b>As at 1 January 2019 (audited)</b>	<b>204 862</b>	<b>7 610</b>	<b>3 597</b>		<b>5 254</b>	<b>221 323</b>	<b>204 862</b>
Profit for the period	-	-	-	-	5 174	5 174	-
Other comprehensive income	-	-	(274)	-	-	(274)	-
<b>Total comprehensive income</b>	-	-	<b>(274)</b>	-	<b>5 174</b>	<b>4 900</b>	-
Distribution of profit of previous years	-	791	-	-	(791)	-	-
Distribution of 2018 year profit of the Company	-	4 462	-	-	(4 462)	-	-
<b>As at 30 June 2019 (unaudited)</b>	<b>204 862</b>	<b>12 863</b>	<b>3 323</b>	-	<b>5 175</b>	<b>226 223</b>	<b>204 862</b>
Profit for the period	-	-	-	-	2 957	2 957	-
Other comprehensive income	-	-	(685)	-	-	(685)	-
<b>Total comprehensive income</b>	-	-	<b>(685)</b>	-	<b>2 957</b>	<b>2 272</b>	-
Changes of reserves	-	3 700	-	-	-	3 700	-
<b>As at 31 December 2019 (audited)</b>	<b>204 862</b>	<b>16 563</b>	<b>2 638</b>	-	<b>8 131</b>	<b>232 194</b>	<b>204 862</b>
Profit for the period	-	-	-	-	738	738	-
Other comprehensive income	-	-	(692)	-	-	(692)	-
<b>Total comprehensive income</b>	-	-	<b>(692)</b>	-	<b>738</b>	<b>46</b>	-
Changes of reserves	-	100 000	-	-	-	100 000	-
Distribution of 2019 year profit of the Company	-	8 131	-	-	(8 131)	-	-
<b>As at 30 June 2020 (unaudited)</b>	<b>204 862</b>	<b>124 693</b>	<b>1 946</b>	-	<b>738</b>	<b>332 239</b>	<b>204 862</b>

The accompanying notes on pages 18 through 51 form an integral part of these financial statements.

## Statement of Cash Flows

All amounts in thousands of euro

	Notes	Group	Group	Company	Company
		01.01.2020.- 30.06.2020. (unaudited)	01.01.2019.- 30.06.2019. (audited)	01.01.2020.- 31.03.2020. (unaudited)	01.01.2019.- 31.03.2019. (audited)
Cash and cash equivalents at the beginning of period		176 199	128 916	176 047	128 536
<b>Cash flows from operating activities</b>					
Profit before taxes		738	5 174	738	5 174
Amortisation of intangible assets and depreciation of property, plant and equipment		475	435	475	435
Interest income	4.	(7 293)	(6 652)	(7 293)	(6 652)
Interest received		4 396	3 909	4 396	3 909
Interest expenses	5.	974	1 173	974	1 173
Interests paid		(622)	(822)	(622)	(822)
(Decrease) / increase in provisions for impairment	10.	2 932	(2 578)	2 932	(2 578)
<b>(Decrease) of cash and cash equivalents from operating activities before changes in assets and liabilities</b>		<b>1 600</b>	<b>639</b>	<b>1 600</b>	<b>639</b>
Due from credit institutions decrease		2 004	3 115	2 006	3 115
Decrease / (increase) of loans		(42 046)	(9 016)	(42 046)	(8 593)
Decrease / (increase) of grants		(5 523)	9 767	(5 523)	9 767
Due to credit institutions and general governments increase		352	7 173	352	7 173
Increase in deferred income and accrued expense		645	568	645	568
(Decrease) in deferred expense and accrued income		318	776	318	677
Decrease of other assets		1 643	796	1 643	796
Increase / (decrease) in other liabilities		17 618	(7 517)	17 629	(7 507)
<b>Net cash flows to/ from operating activities</b>		<b>(23 389)</b>	<b>6 301</b>	<b>(23 376)</b>	<b>6 635</b>
<b>Cash flows from investment activities</b>					
Sale of investment securities		11 827	3 113	11 827	3 113
Acquisition of property, plant and equipment and intangible assets		(484)	(887)	(484)	(887)
Purchase of investment properties		(9 154)	(5 404)	(9 154)	(5 404)
Sale of investment properties		30	32	30	32
Investments in venture capital funds, net		2 289	(1 945)	2 289	(1 945)
Investments of subsidiaries in share capital		(643)	(808)	(504)	(944)
<b>Net cash flows to/ from investing activities</b>		<b>3 865</b>	<b>(5 899)</b>	<b>4 004</b>	<b>(6 035)</b>
<b>Cash flows from financing activities</b>					
Issued debt securities		19 675	15 000	19 675	15 000
Increase of capital		100 000	-	100 000	-
<b>Net cash flow from financing activities</b>		<b>119 675</b>	<b>15 000</b>	<b>119 675</b>	<b>15 000</b>
Increase in cash and cash equivalents		100 151	15 402	100 303	15 600
<b>Cash and cash equivalents at the end of period</b>		<b>276 350</b>	<b>144 318</b>	<b>276 350</b>	<b>144 136</b>

The accompanying notes on pages 18 through 51 form an integral part of these financial statements.

# Approval of the Financial Statements

The Management of the Group / Company has approved these unaudited interim condensed financial statements on 26 August 2020.

## 1 General Information

### (1) Corporate Information

These financial statements contain the financial information about joint-stock company Development Finance Institution Altum (Company) and its subsidiaries (hereinafter together — the Group). The separate financial statements of the Company are included alongside these consolidated financial statements to comply with legal requirements. The Company is the parent entity of the Group (Note 20).

JSC Development Finance Institution Altum is a Latvia state-owned company that ensures access of the enterprises and households to the financial resources by means of support financial instruments - loans, guarantees, investments in venture capital funds - in the areas defined as important and to be supported by the state, thus developing the national economy and enhancing mobilization of the private capital and financial resources. On 25 March 2019 Moody's Investors Service (Moody's) reconfirmed Altum's Baa1 long-term issuer rating, with outlook stable. The assigned Moody's rating of Altum is one of the highest credit ratings assigned to corporate entities in Latvia.

JSC Development Finance Institution Altum was established on 27 December 2013 by a decision of the Cabinet of Ministers. The mission of the Company's establishment is by merging three prior independently operating companies providing state support into a single institution and further allocate the state funds for implementation of financial instrument state support and development programmes in one place. The Company's operations are governed by its specific law – Development Finance Institution Law. The Company's Article of Association has been approved by the Cabinet of Ministers. All voting shares of the Company are owned by the Republic of Latvia. The holders of the shares are ministries of the Republic of Latvia as stipulated by the Development Finance Institution Law with following split of the shares – the Ministry of Finance 40%, the Ministry of Economics 30% and the Ministry of Agriculture 30% respectively.

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, Latviam 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.

The below listed venture capital funds - subsidiaries and associates - are treated as subsidiaries or associates only for purposes of financial accounting.

Legal Title	Legal Address	Investment % in share capital
<i>Venture capital funds classified as Subsidiaries</i>		
KS Overkill Ventures Fund I	Dzirnavu iela 105, Rīgas, Latvija, LV-1011	100
KS Buildit Latvia Pre-Seed Fund	Sporta iela 2, Rīga, Latvija, LV-1013	100
KS Commercialization Reactor Pre-seed Fund	Bīvības 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
<i>Venture capital funds classified as Associates</i>		
KS Overkill Ventures Fund II	Dzirnavu iela 105, Rīgas, Latvija, LV-1011	80
KS Buildit Latvia Seed Fund	Sporta iela 2, Rīga, Latvija, LV-1013	80
KS Commercialization Reactor Seed Fund	Bīvības 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
Baltic Innovation Fund	European Investment Fund, 37B, avenue J.F. Kennedy, L-2968 Luxembourg	20
Baltic Innovation Fund II	European Investment Fund, 37B, avenue J.F. Kennedy, L-2968 Luxembourg	17
KS Otrais Eko Fonds	Dārza 2, Rīga, LV-1007	33

## 2 Summary of significant accounting policies

### (1) Basis of presentation

These unaudited interim condensed financial statements for the 3 months period ended 31 March 2020 were prepared in accordance with International Accounting Standard (IAS) 34 "Interim Financial Reporting", as adopted in the European Union. These financial statements are to be used together with the complete financial statements for the year 2019 prepared in accordance with International Financial Reporting Standards (IFRS), as adopted in the European Union.

In order to ensure the users of the financial statements with a better understanding of the Company's and the Group's operational performance, "Maintenance and service costs of Land Fund", "Maintenance costs of assets that have been taken over in the debt collection process", "Loss on revaluation of assets that have been taken over in the debt collection process" and "Debt collection costs" have been classified within *Other expenses* instead of *Administrative expenses* in the complete financial statements for the year 2019. The comparatives for the 6 month period of 2019 for the above noted items have been reclassified accordingly following the new classification in order to ensure comparability of information.

All amounts in the interim condensed financial statements are presented in the national currency of Latvia – the euro (EUR).

### (2) Application of new and/or amended IFRS and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC)

Several new standards and interpretations have been published, adopted by the EU and become effective for the financial reporting periods beginning on or after 1 January 2020:

- **Amendments to the Conceptual Framework for Financial Reporting**

The Group / Company makes assessment on the impact of these amendments on its financial statements and disclosures, but does not consider them to have a significant impact on its financial results.

- **Amendments to IFRS 3 – Definition of a business**

The Group / Company makes further assessment on the impact of these amendments. The amendments may result in changes in accounting policies but will not have a material effect on the Group's / Company's financial statements.

- **Amendments to IAS 1 and IAS 8 – Definition of materiality**

The Group / Company makes assessment on the impact of these amendments on its financial statements, but does not expect them to have a material impact on the Group's / Company's financial position, by reviewing estimates and judgements used in preparation of financial statements.

- **Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**

These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The Group / Company makes assessment on the impact of these amendments on its financial statements, but does not expect them to have a material impact on the Group's / Company's financial position, by reviewing estimates and judgements used in preparation of financial statements.

### 3 Risk Management

The major risks that the Group / Company is exposed to are credit, liquidity and operational risks. These unaudited interim condensed financial statements do not include all information on risk management and disclosures required in the annual financial statements. They are to be viewed together with the complete financial statements for the year 2019.

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	
	30.06.2020. (unaudited)	31.12.2019. (audited)	30.06.2020. (unaudited)	31.12.2019. (audited)	30.06.2020. (unaudited)	31.12.2019. (audited)	30.06.2020. (unaudited)	31.12.2019. (audited)
<b>Financial assets at AC</b>								
Due from credit institutions and the Treasury	279 356	181 201	-	-	-	-	279 356	181 201
Impairment allowances	(2)	(2)	-	-	-	-	(2)	(2)
<b>Total net due from credit institutions and the Treasury</b>	<b>279 354</b>	<b>181 199</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>279 354</b>	<b>181 199</b>
Investment securities	442	439	-	-	3 924	3 926	4 366	4 365
Impairment allowances	-	-	-	-	(3 887)	(3 887)	(3 887)	(3 887)
<b>Total net investment securities</b>	<b>442</b>	<b>439</b>	<b>-</b>	<b>-</b>	<b>37</b>	<b>39</b>	<b>479</b>	<b>478</b>
Loans and receivables	216 346	186 175	37 210	18 239	29 574	35 998	283 130	240 412
Impairment allowances *	(5 939)	(2 548)	(4 279)	(2 646)	(10 769)	(15 089)	(20 987)	(20 283)
<b>Total net loans and receivables</b>	<b>210 407</b>	<b>183 627</b>	<b>32 931</b>	<b>15 593</b>	<b>18 805</b>	<b>20 909</b>	<b>262 143</b>	<b>220 129</b>
Grants	22 720	17 198	-	-	-	-	22 720	17 198
Impairment allowances	(12)	(12)	-	-	-	-	(12)	(12)
<b>Total net grants</b>	<b>22 708</b>	<b>17 186</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>22 708</b>	<b>17 186</b>
Other financial assets	1 810	1 830	-	-	3 548	3 341	5 358	5 171
Impairment allowances	(110)	(113)	-	-	(2 828)	(2 769)	(2 938)	(2 882)
<b>Total net other financial assets</b>	<b>1 700</b>	<b>1 717</b>	<b>-</b>	<b>-</b>	<b>720</b>	<b>572</b>	<b>2 420</b>	<b>2 289</b>
<b>Total financial assets at AC</b>	<b>520 674</b>	<b>386 843</b>	<b>37 210</b>	<b>18 239</b>	<b>37 046</b>	<b>43 265</b>	<b>594 930</b>	<b>448 347</b>
Impairment allowances	(6 063)	(2 675)	(4 279)	(2 646)	(17 484)	(21 745)	(27 826)	(27 066)
<b>Total net financial assets at AC</b>	<b>514 611</b>	<b>384 168</b>	<b>32 931</b>	<b>15 593</b>	<b>19 562</b>	<b>21 520</b>	<b>567 104</b>	<b>421 281</b>
<b>Financial assets at FVOCI</b>								
Investment securities	37 061	47 941	-	-	-	-	37 061	47 941
Impairment allowances	-	-	-	-	-	-	-	-
<b>Total net investment securities</b>	<b>37 061</b>	<b>47 941</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>37 061</b>	<b>47 941</b>
<b>Total financial assets at FVOCI</b>	<b>37 061</b>	<b>47 941</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>37 061</b>	<b>47 941</b>
Impairment allowances	-	-	-	-	-	-	-	-
<b>Total net financial assets at FVOCI</b>	<b>37 061</b>	<b>47 941</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>37 061</b>	<b>47 941</b>
<b>Off-balance sheet items and contingent liabilities</b>								
Outstanding guarantees	309 896	274 989	6 308	2 098	5 783	7 145	321 987	284 232
Impairment allowances *	(26 479)	(24 711)	(901)	(356)	(4 190)	(5 540)	(31 570)	(30 607)
<b>Total net outstanding guarantees</b>	<b>283 417</b>	<b>250 278</b>	<b>5 407</b>	<b>1 742</b>	<b>1 593</b>	<b>1 605</b>	<b>290 417</b>	<b>253 625</b>
Loan commitments	51 489	18 867	1 047	84	-	-	52 536	18 951
Impairment allowances *	(812)	(455)	(41)	(3)	-	-	(853)	(458)
<b>Total net loan commitments</b>	<b>50 677</b>	<b>18 412</b>	<b>1 006</b>	<b>81</b>	<b>-</b>	<b>-</b>	<b>51 683</b>	<b>18 493</b>
Grant commitments	10 056	7 726	-	-	-	-	10 056	7 726
Impairment allowances	(11)	(11)	-	-	-	-	(11)	(11)
<b>Total net grant commitments</b>	<b>10 045</b>	<b>7 715</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10 045</b>	<b>7 715</b>
<b>Total off-balance items and contingent liabilities</b>	<b>371 441</b>	<b>301 582</b>	<b>7 355</b>	<b>2 182</b>	<b>5 783</b>	<b>7 145</b>	<b>384 579</b>	<b>310 909</b>
Impairment allowances	(27 302)	(25 177)	(942)	(359)	(4 190)	(5 540)	(32 434)	(31 076)
<b>Total net off-balance items and contingent liabilities</b>	<b>344 139</b>	<b>276 405</b>	<b>6 413</b>	<b>1 823</b>	<b>1 593</b>	<b>1 605</b>	<b>352 145</b>	<b>279 833</b>

\* Includes impairment allowances of EUR 3,998 thousand covered by Portfolio Loss Reserve (Special Reserve Capital), which will be directly attributed to the reduction of the Portfolio Loss Reserve in the distribution of the 2020 profit, thus the 2020 result will improve.

## 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	
	30.06.2020. (unaudited)	31.12.2019. (audited)	30.06.2020. (unaudited)	31.12.2019. (audited)	30.06.2020. (unaudited)	31.12.2019. (audited)	30.06.2020. (unaudited)	31.12.2019. (audited)
<b>Financial assets at AC</b>								
Due from credit institutions and the Treasury	279 356	181 049	-	-	-	-	279 356	181 049
Impairment allowances	(2)	(2)	-	-	-	-	(2)	(2)
<b>Total net due from credit institutions and the Treasury</b>	<b>279 354</b>	<b>181 047</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>279 354</b>	<b>181 047</b>
Investment securities	442	439	-	-	3 924	3 926	4 366	4 365
Impairment allowances	-	-	-	-	(3 887)	(3 887)	(3 887)	(3 887)
<b>Total net investment securities</b>	<b>442</b>	<b>439</b>	<b>-</b>	<b>-</b>	<b>37</b>	<b>39</b>	<b>479</b>	<b>478</b>
Loans and receivables	216 346	186 175	37 210	18 239	29 574	35 998	283 130	240 412
Impairment allowances *	(5 939)	(2 548)	(4 279)	(2 646)	(10 769)	(15 089)	(20 987)	(20 283)
<b>Total net loans and receivables</b>	<b>210 407</b>	<b>183 627</b>	<b>32 931</b>	<b>15 593</b>	<b>18 805</b>	<b>20 909</b>	<b>262 143</b>	<b>220 129</b>
Grants	22 720	17 198	-	-	-	-	22 720	17 198
Impairment allowances	(12)	(12)	-	-	-	-	(12)	(12)
<b>Total net grants</b>	<b>22 708</b>	<b>17 186</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>22 708</b>	<b>17 186</b>
Other financial assets	1 810	1 830	-	-	3 548	3 341	5 358	5 171
Impairment allowances	(110)	(113)	-	-	(2 828)	(2 769)	(2 938)	(2 882)
<b>Total net other financial assets</b>	<b>1 700</b>	<b>1 717</b>	<b>-</b>	<b>-</b>	<b>720</b>	<b>572</b>	<b>2 420</b>	<b>2 289</b>
<b>Total financial assets at AC</b>	<b>520 674</b>	<b>386 691</b>	<b>37 210</b>	<b>18 239</b>	<b>37 046</b>	<b>43 265</b>	<b>594 930</b>	<b>448 195</b>
Impairment allowances	(6 063)	(2 675)	(4 279)	(2 646)	(17 484)	(21 745)	(27 826)	(27 066)
<b>Total net financial assets at AC</b>	<b>514 611</b>	<b>384 016</b>	<b>32 931</b>	<b>15 593</b>	<b>19 562</b>	<b>21 520</b>	<b>567 104</b>	<b>421 129</b>
<b>Financial assets at FVOCI</b>								
Investment securities	37 061	47 941	-	-	-	-	37 061	47 941
Impairment allowances	-	-	-	-	-	-	-	-
<b>Total net investment securities</b>	<b>37 061</b>	<b>47 941</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>37 061</b>	<b>47 941</b>
<b>Total financial assets at FVOCI</b>	<b>37 061</b>	<b>47 941</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>37 061</b>	<b>47 941</b>
Impairment allowances	-	-	-	-	-	-	-	-
<b>Total net financial assets at FVOCI</b>	<b>37 061</b>	<b>47 941</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>37 061</b>	<b>47 941</b>
<b>Off-balance sheet items and contingent liabilities</b>								
Outstanding guarantees	309 896	274 989	6 308	2 098	5 783	7 145	321 987	284 232
Impairment allowances *	(26 479)	(24 711)	(901)	(356)	(4 190)	(5 540)	(31 570)	(30 607)
<b>Total net outstanding guarantees</b>	<b>283 417</b>	<b>250 278</b>	<b>5 407</b>	<b>1 742</b>	<b>1 593</b>	<b>1 605</b>	<b>290 417</b>	<b>253 625</b>
Loan commitments	51 489	18 867	1 047	84	-	-	52 536	18 951
Impairment allowances *	(812)	(455)	(41)	(3)	-	-	(853)	(458)
<b>Total net loan commitments</b>	<b>50 677</b>	<b>18 412</b>	<b>1 006</b>	<b>81</b>	<b>-</b>	<b>-</b>	<b>51 683</b>	<b>18 493</b>
Grant commitments	10 056	7 726	-	-	-	-	10 056	7 726
Impairment allowances	(11)	(11)	-	-	-	-	(11)	(11)
<b>Total net grant commitments</b>	<b>10 045</b>	<b>7 715</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10 045</b>	<b>7 715</b>
<b>Total off-balance items and contingent liabilities</b>	<b>371 441</b>	<b>301 582</b>	<b>7 355</b>	<b>2 182</b>	<b>5 783</b>	<b>7 145</b>	<b>384 579</b>	<b>310 909</b>
Impairment allowances	(27 302)	(25 177)	(942)	(359)	(4 190)	(5 540)	(32 434)	(31 076)
<b>Total net off-balance items and contingent liabilities</b>	<b>344 139</b>	<b>276 405</b>	<b>6 413</b>	<b>1 823</b>	<b>1 593</b>	<b>1 605</b>	<b>352 145</b>	<b>279 833</b>

\* Includes impairment allowances of EUR 3,998 thousand covered by Portfolio Loss Reserve (Special Reserve Capital), which will be directly attributed to the reduction of the Portfolio Loss Reserve in the distribution of the 2020 profit, thus the 2020 result will improve.

## 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
<b>As at 31 December 2019 (audited)</b>	<b>2 548</b>	<b>2 646</b>	<b>15 089</b>	<b>20 283</b>	<b>186 175</b>	<b>18 239</b>	<b>35 998</b>	<b>240 412</b>
Movements with impact on credit loss allowance charge for the period:								
Transfers between stages:								
to lifetime (from Stage 1 to Stage 2)	(199)	690	-	491	(17 490)	17 314	-	(176)
to credit impaired (from Stage 1 and Stage 2 to Stage 3)	(8)	(254)	293	31	(659)	(879)	1 491	(47)
to lifetime (from Stage 3 to Stage 2)	-	698	(707)	(9)	-	1 811	(1 897)	(86)
to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	26	(73)	-	(47)	934	(992)	-	(58)
New originated or purchased	767	83	-	850	53 825	3 141	192	57 158
Derecognised during the period	(47)	(2)	(212)	(261)	(6 975)	(396)	(937)	(8 308)
Changes to ECL measurement model assumptions	2 962	720	87	3 769	-	-	-	-
Other movements	-	-	-	-	4	-	-	4
<b>Total movements with impact on credit loss allowance charge for the period:</b>	<b>3 501</b>	<b>1 862</b>	<b>(539)</b>	<b>4 824</b>	<b>29 639</b>	<b>19 999</b>	<b>(1 151)</b>	<b>48 487</b>
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	(3 393)	(3 393)	-	-	(3 393)	(3 393)
Foreign exchange gains and losses and other movements	-	-	-	-	-	-	-	-
Modification of contractual cash flows *	(110)	(229)	(388)	(727)	532	(1 028)	(1 880)	(2 376)
<b>Total movements without impact on credit loss allowance charge for the period:</b>	<b>(110)</b>	<b>(229)</b>	<b>(3 781)</b>	<b>(4 120)</b>	<b>532</b>	<b>(1 028)</b>	<b>(5 273)</b>	<b>(5 769)</b>
<b>As at 30 June 2020 (unaudited)</b>	<b>5 939</b>	<b>4 279</b>	<b>10 769</b>	<b>20 987</b>	<b>216 346</b>	<b>37 210</b>	<b>29 574</b>	<b>283 130</b>

\* Modification of contractual cash flows 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
<b>As at 31 December 2019 (audited)</b>	<b>24 711</b>	<b>356</b>	<b>5 540</b>	<b>30 607</b>	<b>274 989</b>	<b>2 098</b>	<b>7 145</b>	<b>284 232</b>
Movements with impact on credit loss allowance charge for the period:								
Transfers between stages:								
to lifetime (from Stage 1 to Stage 2)	(553)	729	-	176	(4 659)	4 328	-	(331)
to credit impaired (from Stage 1 and Stage 2 to Stage 3)	(25)	(12)	167	130	(188)	(42)	217	(13)
to lifetime (from Stage 3 to Stage 2)	-	-	(5)	(5)	-	5	(5)	-
to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	4	(256)	-	(252)	271	(271)	-	-
New originated or purchased	5 564	43	-	5 607	66 913	293	-	67 206
Derecognised during the period	(692)	(7)	(680)	(1 379)	(12 737)	(87)	(899)	(13 723)
Changes to ECL measurement model assumptions	75	50	70	195	-	-	-	-
Other movements	(7)	-	(562)	(569)	(32)	-	(675)	(707)
<b>Total movements with impact on credit loss allowance charge for the period:</b>	<b>4 366</b>	<b>547</b>	<b>(1 010)</b>	<b>3 903</b>	<b>49 568</b>	<b>4 226</b>	<b>(1 362)</b>	<b>52 432</b>
Movements without impact on credit loss allowance charge for the period:								
Foreign exchange gains and losses and other movements	-	-	-	-	-	-	-	-
Modification of contractual cash flows *	(2 598)	(2)	(340)	(2 940)	(14 661)	(16)	-	(14 677)
<b>Total movements without impact on credit loss allowance charge for the period:</b>	<b>(2 598)</b>	<b>(2)</b>	<b>(340)</b>	<b>(2 940)</b>	<b>(14 661)</b>	<b>(16)</b>	<b>-</b>	<b>(14 677)</b>
<b>As at 30 June 2020 (unaudited)</b>	<b>26 479</b>	<b>901</b>	<b>4 190</b>	<b>31 570</b>	<b>309 896</b>	<b>6 308</b>	<b>5 783</b>	<b>321 987</b>

\* Modification of contractual cash flows includes cash flows from repayment of principal



## 3 Risk Management (cont'd)

### (1) Credit Risk (cont'd)

Aging analysis of the loans issued by the Group / Company, without accrued interest, in thousands of euro:

	Group 30.06.2020. (unaudited)	Group 31.12.2019. (audited)	Company 30.06.2020. (unaudited)	Company 31.12.2019. (audited)
Performing	256 035	208 665	256 035	208 665
Past due up to 30 days	14 638	14 193	14 638	14 193
Past due from 31 to 60 days	246	2 278	246	2 278
Past due from 61 to 90 days	97	230	97	230
Past due over 90 days	12 114	15 045	12 114	15 045
<b>Total gross loans, without interest accrued on the loans</b>	<b>283 130</b>	<b>240 411</b>	<b>283 130</b>	<b>240 411</b>
Impairment allowances	(20 987)	(20 283)	(20 987)	(20 283)
<b>Total net loans</b>	<b>262 143</b>	<b>220 128</b>	<b>262 143</b>	<b>220 128</b>

In calculating the ECL due to default on loan principal or interest payments or other loss events the following is taken into account collateral, including real estate and commercial pledges measured at market value. The value of collateral is based on the valuations performed by independent valuers.

Information on the value of collateral assessed at fair value and position against net loan portfolio, in thousands of euro :

	Group 30.06.2020. (unaudited)	Group 31.12.2019. (audited)	Company 30.06.2020. (unaudited)	Company 31.12.2019. (audited)
Real estate (loans)	167 693	155 057	167 693	155 057
Real estate (leaseback)	18 242	14 774	18 242	14 774
Movable property	41 145	25 659	41 145	25 659
Guarantees	2 432	1 672	2 432	1 672
<b>Total collateral</b>	<b>229 512</b>	<b>197 162</b>	<b>229 512</b>	<b>197 162</b>
Loan portfolio, gross	283 130	240 411	283 130	240 411
Impairment allowances	(20 987)	(20 283)	(20 987)	(20 283)
Loan portfolio, net	262 143	220 128	262 143	220 128
<b>Exposed</b>	<b>12.45%</b>	<b>10.43%</b>	<b>12.45%</b>	<b>10.43%</b>

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 30.06.2020. (unaudited)	Group 31.12.2019. (audited)	Company 30.06.2020. (unaudited)	Company 31.12.2019. (audited)
<b>Assets exposed to credit risk</b>				
Due from credit institutions and the Treasury	279 354	181 199	279 354	181 047
Financial assets at fair value through other comprehensive income - investment securities	37 061	47 941	37 061	47 941
Financial assets at amortised cost:				
Investment securities	479	478	479	478
Loans and receivables	262 143	220 129	262 143	220 129
Grants	22 708	17 186	22 708	17 186
Investments in venture capital funds	50 255	52 543	50 255	52 543
Other assets	2 511	3 570	2 511	3 570
<b>Total</b>	<b>654 511</b>	<b>523 046</b>	<b>654 511</b>	<b>522 894</b>
<b>Off-balance sheet items exposed to credit risk</b>				
Contingent liabilities (Note 21)	321 987	284 232	321 987	284 232
Financial commitments (Note 21)	136 440	97 149	148 865	110 620
<b>Total</b>	<b>458 427</b>	<b>381 381</b>	<b>470 852</b>	<b>394 852</b>

Loans are secured mostly by real estate, to a lesser extent – by other types of assets or commercial pledges. Some loans, granted during lending campaigns, are partially covered by guarantees under the State aid programmes. In estimating the loan impairment, the expected cash flows from collateral are taken into account.

## 3 Risk Management (cont'd)

### (1) Credit Risk (cont'd)

As at 30 June 2020, part of the Group's / Company's assets in amount of EUR 112,882 thousand (31 December 2019: EUR 117,222 thousand) were pledged. Detailed information on the Group's / Company's outstanding loan agreement as at 30 June 2020 is provided in Note 16 and Note 17.

Article 37 of the Law on State Budget 2020 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. Actual amount as at 30 June 2020 was EUR 236,772 thousand (31 December 2019: EUR 250,144 thousand).

### (2) Liquidity Risk

Maturity profile of the Group's expected undiscounted future cash flows of financial liabilities, off-balance liabilities and liquid assets as at 30 June 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	8 726	16 489	-	-	-	25 215
Due to general governments	176	4 087	9 823	-	77 396	91 482
Issued debt securities	366	68 844	-	-	-	69 210
Support programme funding	19 973	1 966	82 554	9 758	31 899	146 150
Other liabilities	3 012	872	-	-	-	3 884
<b>Total financial liabilities</b>	<b>32 253</b>	<b>92 258</b>	<b>92 377</b>	<b>9 758</b>	<b>109 911</b>	<b>335 941</b>
Off-balance sheet items and contingent liabilities *	397 132	45 047	16 248	-	-	458 427
<b>Total financial liabilities, off-balance items and contingent liabilities</b>	<b>429 385</b>	<b>137 305</b>	<b>108 625</b>	<b>9 758</b>	<b>109 911</b>	<b>794 368</b>
Due from credit institutions and the Treasury	279 354	-	-	-	-	279 354
Investment securities	19 210	4 398	12 021	1 273	638	37 540
<b>Liquid assets</b>	<b>298 564</b>	<b>4 398</b>	<b>12 021</b>	<b>1 273</b>	<b>638</b>	<b>316 894</b>

\* According to IAS 7 "Financial Instruments: Disclosures" requirements the major part of the guarantee portfolio issued by the Group has been classified within maturity "Up to 1 year" thus Total financial liabilities, off-balance sheet items and contingent liabilities substantially exceeds Liquid assets with maturity of "Up to 1 year". Track records of claimed guarantee compensations presents that the volume of guarantees claimed within such terms are considerably less than the amount of the commitment disclosed in the above maturity analyses. As a consequence, the liquidity of the Group is not deteriorated.

Maturity profile of the 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
<b>Total financial liabilities</b>	<b>11 539</b>	<b>64 371</b>	<b>54 773</b>	<b>55 420</b>	<b>109 006</b>	<b>295 109</b>
Off-balance sheet items and contingent liabilities *	322 869	43 003	15 509	-	-	381 381
<b>Total financial liabilities, off-balance items and contingent liabilities</b>	<b>334 408</b>	<b>107 374</b>	<b>70 282</b>	<b>55 420</b>	<b>109 006</b>	<b>676 490</b>
Due from credit institutions and the Treasury	181 199	-	-	-	-	181 199
Investment securities	10 904	26 739	10 776	-	-	48 419
<b>Liquid assets</b>	<b>192 103</b>	<b>26 739</b>	<b>10 776</b>	<b>-</b>	<b>-</b>	<b>229 618</b>

\* According to IAS 7 "Financial Instruments: Disclosures" requirements the major part of the guarantee portfolio issued by the Group has been classified within maturity "Up to 1 year" thus Total financial liabilities, off-balance sheet items and contingent liabilities substantially exceeds Liquid assets with maturity of "Up to 1 year". Track records of claimed guarantee compensations presents that the volume of guarantees claimed within such terms are considerably less than the amount of the commitment disclosed in the above maturity analyses. As a consequence, the liquidity of the Group is not deteriorated.

## 3 Risk Management (cont'd)

### (2) Liquidity Risk (cont'd)

Maturity profile of the Company's expected undiscounted future cash flows of financial liabilities, off-balance liabilities and liquid assets as at 30 June 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	8 726	16 489	-	-	-	25 215
Due to general governments	176	4 087	9 823	-	77 396	91 482
Issued debt securities	366	68 844	-	-	-	69 210
Support programme funding	19 973	1 966	82 554	9 758	31 899	146 150
Other liabilities	3 012	872	-	-	-	3 884
<b>Total financial liabilities</b>	<b>32 253</b>	<b>92 258</b>	<b>92 377</b>	<b>9 758</b>	<b>109 911</b>	<b>335 941</b>
Off-balance sheet items and contingent liabilities *	399 245	52 626	18 981	-	-	470 852
<b>Total financial liabilities, off-balance items and contingent liabilities</b>	<b>431 498</b>	<b>144 884</b>	<b>111 358</b>	<b>9 758</b>	<b>109 911</b>	<b>806 793</b>
Due from credit institutions and the Treasury	279 354	-	-	-	-	279 354
Investment securities	19 210	4 398	12 021	1 273	638	37 540
<b>Liquid assets</b>	<b>298 564</b>	<b>4 398</b>	<b>12 021</b>	<b>1 273</b>	<b>638</b>	<b>316 894</b>

\* According to IAS 7 "Financial Instruments: Disclosures" requirements the major part of the guarantee portfolio issued by the Group has been classified within maturity "Up to 1 year" thus Total financial liabilities, off-balance sheet items and contingent liabilities substantially exceeds Liquid assets with maturity of "Up to 1 year". Track records of claimed guarantee compensations presents that the volume of guarantees claimed within such terms are considerably less than the amount of the commitment disclosed in the above maturity analyses. As a consequence, the liquidity of the Group is not deteriorated.

Maturity profile of the Company's expected undiscounted future cash flows of financial liabilities, off-balance liabilities and liquid assets as at 31 December 2019, in thousands of euro:

	Up to 1 year	1 to 5 years	5 to 10 years	10 to 15 years	Over 15 years and w/o maturity	Total
Due to credit institutions	8 761	20 828	-	-	-	29 589
Due to general governments	32	2 138	6 756	-	77 396	86 322
Issued debt securities	667	21 820	25 195	-	-	47 682
Support programme funding	-	18 878	22 822	55 420	31 610	128 730
Other liabilities	2 079	694	-	-	-	2 773
<b>Total financial liabilities</b>	<b>11 539</b>	<b>64 358</b>	<b>54 773</b>	<b>55 420</b>	<b>109 006</b>	<b>295 096</b>
Off-balance sheet items and contingent liabilities *	325 159	51 220	18 473	-	-	394 852
<b>Total financial liabilities, off-balance items and contingent liabilities</b>	<b>336 698</b>	<b>115 578</b>	<b>73 246</b>	<b>55 420</b>	<b>109 006</b>	<b>689 948</b>
Due from credit institutions and the Treasury	181 047	-	-	-	-	181 047
Investment securities	10 904	26 739	10 776	-	-	48 419
<b>Liquid assets</b>	<b>191 951</b>	<b>26 739</b>	<b>10 776</b>	<b>-</b>	<b>-</b>	<b>229 466</b>

\* According to IAS 7 "Financial Instruments: Disclosures" requirements the major part of the guarantee portfolio issued by the Group has been classified within maturity "Up to 1 year" thus Total financial liabilities, off-balance sheet items and contingent liabilities substantially exceeds Liquid assets with maturity of "Up to 1 year". Track records of claimed guarantee compensations presents that the volume of guarantees claimed within such terms are considerably less than the amount of the commitment disclosed in the above maturity analyses. As a consequence, the liquidity of the Group is not deteriorated.

## 3 Risk Management (cont'd)

### (2) Liquidity Risk (cont'd)

Breakdown of the Group's assets and liabilities by maturity profile as at 30 June 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
<b>Assets</b>							
Due from credit institutions and the Treasury	276 349	-	3 005	-	-	-	279 354
Financial assets at fair value through profit or loss	-	-	-	-	-	4 845	4 845
Investment securities *	35	106	84	22 938	3 619	10 758	37 540
Loans *	8 783	7 685	18 035	28 510	119 603	79 527	262 143
Grants	-	-	-	-	22 391	317	22 708
Deferred expense and accrued income	2 024	-	-	-	-	-	2 024
Investments in venture capital funds	-	-	-	6 545	25 005	18 705	50 255
Investment property	-	-	-	-	31 769	1 721	33 490
Property, plant and equipment	-	-	-	-	-	4 726	4 726
Intangible assets	-	-	-	-	-	1 371	1 371
Other assets	1 037	37	148	104	1 185	-	2 511
<b>Total assets</b>	<b>288 228</b>	<b>7 828</b>	<b>21 272</b>	<b>58 097</b>	<b>203 572</b>	<b>121 970</b>	<b>700 967</b>
<b>Liabilities</b>							
Due to credit institutions	-	4 374	-	4 340	16 488	-	25 202
Due to general governments	-	-	-	-	1 853	89 111	90 964
Issued debt securities	-	(1)	185	182	64 985	-	65 351
Deferred income and accrued expense	421	276	950	424	1 467	675	4 213
Provisions	32 434	-	-	-	-	-	32 434
Support programme funding	-	-	13 469	-	2 312	130 369	146 150
Other liabilities	2 945	-	67	-	872	-	3 884
<b>Total liabilities</b>	<b>35 800</b>	<b>4 649</b>	<b>14 671</b>	<b>4 946</b>	<b>87 977</b>	<b>220 155</b>	<b>368 198</b>
<b>Net liquidity</b>	<b>252 428</b>	<b>3 179</b>	<b>6 601</b>	<b>53 151</b>	<b>115 595</b>	<b>(98 185)</b>	<b>332 769</b>

\* 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
<b>Assets</b>							
Due from credit institutions and the Treasury	176 197	-	2 001	3 001	-	-	181 199
Financial assets at fair value through profit or loss	-	-	-	-	-	4 217	4 217
Investment securities *	90	1 149	1	9 664	26 739	10 776	48 419
Loans *	11 296	9 812	8 897	20 732	94 055	75 337	220 129
Grants	-	-	-	-	13 792	3 394	17 186
Deferred expense and accrued income	2 343	-	-	-	-	-	2 343
Investments in venture capital funds	1 508	-	7 051	-	27 236	16 748	52 543
Investment property	-	-	-	-	22 582	1 784	24 366
Property, plant and equipment	-	-	-	-	-	4 694	4 694
Intangible assets	-	-	-	-	-	1 395	1 395
Other assets	1 746	-	-	560	1 264	-	3 570
<b>Total assets</b>	<b>193 180</b>	<b>10 961</b>	<b>17 950</b>	<b>33 957</b>	<b>185 668</b>	<b>118 345</b>	<b>560 061</b>
<b>Liabilities</b>							
Due to credit institutions	-	4 375	-	4 339	20 828	-	29 542
Financial assets at fair value through profit or loss – derivatives	-	-	-	-	-	-	-
Due to general governments	-	-	-	-	2 118	84 154	86 272
Issued debt securities	-	269	-	58	20 013	25 008	45 348
Deferred income and accrued expense	361	259	303	582	1 379	685	3 569
Provisions	31 076	-	-	-	-	-	31 076
Support programme funding	-	-	-	-	18 878	109 852	128 730
Other liabilities	2 060	-	-	19	707	-	2 786
<b>Total liabilities</b>	<b>33 497</b>	<b>4 903</b>	<b>303</b>	<b>4 998</b>	<b>63 923</b>	<b>219 699</b>	<b>327 323</b>
<b>Net liquidity</b>	<b>159 683</b>	<b>6 058</b>	<b>17 647</b>	<b>28 959</b>	<b>121 745</b>	<b>(101 354)</b>	<b>232 738</b>

\* 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 30 June 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
<b>Assets</b>							
Due from credit institutions and the Treasury	276 349	-	3 005	-	-	-	279 354
Financial assets at fair value through profit or loss	-	-	-	-	-	-	-
Investment securities *	35	106	84	22 938	3 619	10 758	37 540
Loans *	8 783	7 685	18 035	28 510	119 603	79 527	262 143
Grants	-	-	-	-	22 391	317	22 708
Deferred expense and accrued income	2 024	-	-	-	-	-	2 024
Investments in venture capital funds	-	-	-	6 545	25 005	18 705	50 255
Investments in subsidiaries	-	-	832	-	-	3 483	4 315
Investment property	-	-	-	-	31 769	1 721	33 490
Property, plant and equipment	-	-	-	-	-	4 726	4 726
Intangible assets	-	-	-	-	-	1 371	1 371
Other assets	1 037	37	148	104	1 185	-	2 511
<b>Total assets</b>	<b>288 228</b>	<b>7 828</b>	<b>22 104</b>	<b>58 097</b>	<b>203 572</b>	<b>120 608</b>	<b>700 437</b>
<b>Liabilities</b>							
Due to credit institutions	-	4 374	-	4 340	16 488	-	25 202
Due to general governments	-	-	-	-	1 853	89 111	90 964
Issued debt securities	-	(1)	185	182	64 985	-	65 351
Deferred income and accrued expense	421	276	950	424	1 467	675	4 213
Provisions	32 434	-	-	-	-	-	32 434
Support programme funding	-	-	13 469	-	2 312	130 369	146 150
Other liabilities	2 945	-	67	-	872	-	3 884
<b>Total liabilities</b>	<b>35 800</b>	<b>4 649</b>	<b>14 671</b>	<b>4 946</b>	<b>87 977</b>	<b>220 155</b>	<b>368 198</b>
<b>Net liquidity</b>	<b>252 428</b>	<b>3 179</b>	<b>7 433</b>	<b>53 151</b>	<b>115 595</b>	<b>(99 547)</b>	<b>332 239</b>

\* 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
<b>Assets</b>							
Due from credit institutions and the Treasury	176 045	-	2 001	3 001	-	-	181 047
Financial assets at fair value through profit or loss	-	-	-	-	-	-	-
Investment securities *	90	1 149	1	9 664	26 739	10 776	48 419
Loans *	11 296	9 812	8 897	20 732	94 055	75 337	220 129
Grants	-	-	-	-	13 792	3 394	17 186
Deferred expense and accrued income	2 343	-	-	-	-	-	2 343
Investments in venture capital funds	1 508	-	7 051	-	27 236	16 748	52 543
Investments in subsidiaries	-	-	-	-	832	2 980	3 812
Investment property	-	-	-	-	22 582	1 784	24 366
Property, plant and equipment	-	-	-	-	-	4 694	4 694
Intangible assets	-	-	-	-	-	1 395	1 395
Other assets	1 746	-	-	560	1 264	-	3 570
<b>Total assets</b>	<b>193 028</b>	<b>10 961</b>	<b>17 950</b>	<b>33 957</b>	<b>186 500</b>	<b>117 108</b>	<b>559 504</b>
<b>Liabilities</b>							
Due to credit institutions	-	4 375	-	4 339	20 828	-	29 542
Financial assets at fair value through profit or loss – derivatives	-	-	-	-	-	-	-
Due to general governments	-	-	-	-	2 118	84 154	86 272
Issued debt securities	-	269	-	58	20 013	25 008	45 348
Deferred income and accrued expense	361	259	303	582	1 379	685	3 569
Provisions	31 076	-	-	-	-	-	31 076
Support programme funding	-	-	-	-	18 878	109 852	128 730
Other liabilities	2 060	-	-	19	694	-	2 773
<b>Total liabilities</b>	<b>33 497</b>	<b>4 903</b>	<b>303</b>	<b>4 998</b>	<b>63 910</b>	<b>219 699</b>	<b>327 310</b>
<b>Net liquidity</b>	<b>159 531</b>	<b>6 058</b>	<b>17 647</b>	<b>28 959</b>	<b>122 590</b>	<b>(102 591)</b>	<b>232 194</b>

\* 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

## 4 Interest income

All amounts in thousands of euro

	Group 01.01.2020.- 30.06.2020. (unaudited)	Group 01.01.2019.- 30.06.2019. (unaudited)	Company 01.01.2020.- 30.06.2020. (unaudited)	Company 01.01.2019.- 30.06.2019. (unaudited)
Interest on loans and guarantees	6 521	5 875	6 521	5 875
Interest on securities at fair value	749	760	749	760
Interest on securities at amortised cost	10	6	10	6
Other interest income	13	11	13	11
<b>Total interest income</b>	<b>7 293</b>	<b>6 652</b>	<b>7 293</b>	<b>6 652</b>

The Group's/Company's sub-item *Interest income on loans and guarantees* is reduced by EUR 459 thousand (6 months of 2019: EUR 230 thousand) according to the Mezzanine and Guarantee Fund Activity Agreement concluded with the Ministry of Economics in 2016 (Agreement No 2011/16) stipulating that the financing given by the Ministry of Economics must be increased by the income of the Mezzanine and Guarantee Fund from the placement of free funds, interest income from loans, premium income on issued guarantees, commissions, contractual penalties and other income.

## 5 Interest expense

All amounts in thousands of euro

	Group 01.01.2020.- 30.06.2020. (unaudited)	Group 01.01.2019.- 30.06.2019. (unaudited)	Company 01.01.2020.- 30.06.2020. (unaudited)	Company 01.01.2019.- 30.06.2019. (unaudited)
Interest on balances due to credit institutions	291	187	291	187
Interest on issued debt securities	333	216	333	216
Allocation of state support programmes' profit to support programme funding	332	736	332	736
Other commission expense	18	34	18	34
<b>Total interest expense</b>	<b>974</b>	<b>1 173</b>	<b>974</b>	<b>1 173</b>

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 un 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 aid programmes

All amounts in thousands of euro

	Group 01.01.2020.- 30.06.2020. (unaudited)	Group 01.01.2019.- 30.06.2019. (unaudited)	Company 01.01.2020.- 30.06.2020. (unaudited)	Company 01.01.2019.- 30.06.2019. (unaudited)
Compensation of expenses for management of state support programmes	1 001	1 145	1 001	1 145
Compensation of venture capital fund management fees	1 467	583	1 467	583
Compensation of expenses for management of state support programmes of the previous years	332	237	332	237
Compensation of expenses of capital congestion	100	-	100	-
<b>Total income from implementation of state support programmes</b>	<b>2 900</b>	<b>1 965</b>	<b>2 900</b>	<b>1 965</b>



## 7 Expenses to be compensated for implementation of state aid programmes

All amounts in thousands of euro

	Group 01.01.2020.- 30.06.2020. (unaudited)	Group 01.01.2019.- 30.06.2019. (unaudited)	Company 01.01.2020.- 30.06.2020. (unaudited)	Company 01.01.2019.- 30.06.2019. (unaudited)
Compensated staff costs	819	933	819	933
Compensated administrative expense	182	212	182	212
Compensated venture capital fund management fees	1 469	583	1 469	583
<b>Total compensated expense for implementation of state support programmes</b>	<b>2 470</b>	<b>1 728</b>	<b>2 470</b>	<b>1 728</b>

## 8 Other income

All amounts in thousands of euro

	Group 01.01.2020.- 30.06.2020. (unaudited)	Group 01.01.2019.- 30.06.2019. (unaudited) *	Company 01.01.2020.- 30.06.2020. (unaudited)	Company 01.01.2019.- 30.06.2019. (unaudited) *
Income from lease payments for operational leases	460	260 *	460	260 *
Income from lease payments for financial leases	316	-	316	-
Income from investment property revaluation	10	-	10	-
Income from sale of investment property	27	12 *	27	12 *
Income from sale of repossessed collateral	13	134 *	13	134 *
Other commission income	3	-	3	-
Other operating income	567	19 *	567	19 *
<b>Total other income</b>	<b>1 396</b>	<b>425</b>	<b>1 396</b>	<b>425</b>

\* comparatives reclassified as stated in Section (1) of Note 2.

## 9 Other expense

All amounts in thousands of euro

	Group 01.01.2020.- 30.06.2020. (unaudited)	Group 01.01.2019.- 30.06.2019. (unaudited) *	Company 01.01.2020.- 30.06.2020. (unaudited)	Company 01.01.2019.- 30.06.2019. (unaudited) *
Maintenance and service costs of Land Fund	143	110 *	143	110 *
Debt collection costs	76	59 *	76	59 *
Maintenance costs of repossessed collateral	3	10 *	3	10 *
Revaluation of repossessed collateral	27	-	27	-
Depreciation of right-of-use assets	68	42 *	68	42 *
Commission expense on investments in securities	45	39 *	45	39 *
Other commission expense	1	1	1	1
<b>Total other expense</b>	<b>363</b>	<b>261</b>	<b>363</b>	<b>261</b>

\* comparatives reclassified as stated in Section (1) of Note 2.

## 10 Impairment losses, net

All amounts in thousands of euro

	Group 01.01.2020.- 30.06.2020. (unaudited)	Group 01.01.2019.- 30.06.2019. (unaudited)	Company 01.01.2020.- 30.06.2020. (unaudited)	Company 01.01.2019.- 30.06.2019. (unaudited)
Impairment losses on:	8 277	3 567	8 277	3 567
Loans, net	4 279	2 069	4 279	2 069
<i>impairment losses (Note 13)</i>	6 744	3 341	6 744	3 341
<i>impairment losses covered by risk coverage reserve</i>	(2 465)	(1 272)	(2 465)	(1 272)
Disbursed guarantee compensations	-	-	-	-
<i>impairment losses (Note 15)</i>	-	519	-	519
<i>impairment losses covered by risk coverage reserve</i>	-	(519)	-	(519)
Grants	-	-	-	-
Other assets	-	-	-	-
Due from credit institutions and the Treasury	-	-	-	-
Financial assets related to loan agreements	2	-	2	-
Debt securities	-	-	-	-
Guarantees, net	3 383	1 359	3 383	1 359
<i>impairment losses (Note 19)</i>	6 975	5 638	6 975	5 638
<i>impairment losses covered by risk coverage reserve</i>	(3 592)	(4 279)	(3 592)	(4 279)
Loan commitments, net	613	139	613	139
<i>impairment losses (Note 19)</i>	770	320	770	320
<i>impairment losses covered by risk coverage reserve</i>	(157)	(181)	(157)	(181)
Grant commitments	-	-	-	-
Reversal of impairment on:	(4 848)	(5 031)	(4 848)	(5 031)
Loans, net	(2 309)	(2 924)	(2 309)	(2 924)
<i>reversal of impairment (Note 13)</i>	(2 648)	(3 435)	(2 648)	(3 435)
<i>reversal of impairment covered by risk coverage reserve</i>	339	511	339	511
Disbursed guarantee compensations	(88)	(1 155)	(88)	(1 155)
<i>reversal of impairment (Note 15)</i>	(96)	(1 161)	(96)	(1 161)
<i>reversal of impairment covered by risk coverage reserve</i>	8	6	8	6
Grants	-	-	-	-
Other assets	-	-	-	-
Due from credit institutions and the Treasury	-	-	-	-
Financial assets related to loan agreements	-	-	-	-
Debt securities	-	-	-	-
Guarantees, net	(2 235)	(905)	(2 235)	(905)
<i>reversal of impairment (Note 19)</i>	(5 520)	(2 457)	(5 520)	(2 457)
<i>reversal of impairment covered by risk coverage reserve</i>	3 285	1 552	3 285	1 552
Loan commitments, net	(216)	(47)	(216)	(47)
<i>reversal of impairment (Note 19)</i>	(375)	(766)	(375)	(766)
<i>reversal of impairment covered by risk coverage reserve</i>	159	719	159	719
Grant commitments	-	-	-	-
Total impairment losses / (reversal), net	3 429	(1 464)	3 429	(1 464)
Recovery of loans written off in previous periods	(497)	(1 114)	(497)	(1 114)
<b>Total impairment losses and (income) from recovery of loans written-off</b>	<b>2 932</b>	<b>(2 578)</b>	<b>2 932</b>	<b>(2 578)</b>

Additional information available in Note 3.1.

## 11 Due from credit institutions and the Treasury

All amounts in thousands of euro

	Group 30.06.2020. (unaudited)	Group 31.12.2019. (audited)	Company 30.06.2020. (unaudited)	Company 31.12.2019. (audited)
Due from credit institutions and State Treasury	279 356	181 201	279 356	181 049
<i>cash and cash equivalent</i>	276 350	176 199	276 350	176 047
Impairment allowances	(2)	(2)	(2)	(2)
<b>Net due from credit institutions and State Treasury</b>	<b>279 354</b>	<b>181 199</b>	<b>279 354</b>	<b>181 047</b>

Placing the funds within the Treasury of the Republic of Latvia and monetary financial institutions, the external credit ratings assigned to these financial institutions are evaluated. The evaluation of the financial institutions not having been assigned individual ratings is based on the ratings assigned to their parent banks as well as their financial and operational assessments. Once the contracts have been concluded, the Group / Company supervises the monetary financial institutions and follows that the assigned limits comply with credit risk assessment. All assets in this category represent Stage 1 for expected credit loss (hereafter - ECL) calculation purposes. There were no changes in staging during the reporting period as there were no changes in the calculated ECL during the reporting period..

Breakdown of the Group's balances due from credit institutions and the Treasury by credit rating categories based on Moody's ratings or their equivalent, in thousands of euro:

Ratings	Aaa	Aa1- Aa3	A1-A3	Baa1- Baa3	Ba1-Ba3	B1-B3	Caa-C	Withdrawn rating (WR)	Total
Due from credit institutions registered in the Republic of Latvia and the Treasury	-	12 435	138 364	23 973	6 427	-	-	-	181 199
<b>Total gross as at 31 December 2019 (audited)</b>	-	<b>12 435</b>	<b>138 364</b>	<b>23 973</b>	<b>6 427</b>	-	-	-	<b>181 199</b>
Due from credit institutions registered in the Republic of Latvia and the Treasury	-	3 533	243 515	23 968	8 338	-	-	-	279 354
<b>Total gross as at 30 June 2020 (unaudited)</b>	-	<b>3 533</b>	<b>243 515</b>	<b>23 968</b>	<b>8 338</b>	-	-	-	<b>279 354</b>

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
<b>Total gross as at 31 December 2019 (audited)</b>	-	<b>12 435</b>	<b>138 364</b>	<b>23 821</b>	<b>6 427</b>	-	-	-	<b>181 047</b>
Due from credit institutions registered in the Republic of Latvia and the Treasury	-	3 533	243 515	23 968	8 338	-	-	-	279 354
<b>Total gross as at 30 June 2020 (unaudited)</b>	-	<b>3 533</b>	<b>243 515</b>	<b>23 968</b>	<b>8 338</b>	-	-	-	<b>279 354</b>

As at 30 June 2020, the Group / Company held accounts with 4 banks and the Treasury of the Republic of Latvia.

As at 30 June 2020, the average interest rate on balances due from credit institutions was 0.0% (31 December 2019: -0.02%).

## 12 Investments in venture capital funds

The Group's / Company's investments in associates based on information provided by venture capital fund managers, in thousands of euro:

Company or venture capital fund generation	Country of incorporation	Equity of venture capital fund		Carrying Amount	
		30.06.2020. (unaudited)	31.12.2019. (audited)	30.06.2020. (unaudited)	31.12.2019. (audited)
The 1st generation VCFs	LV	-	2 387	-	1 508
The 2nd generation VCFs	LV	14 146	18 227	12 404	12 990
The 3rd generation VCFs	LV	18 501	21 493	19 146	21 308
The 4th generation VCFs	LV	8 653	4 294	2 357	2 636
Baltic Innovation fund	LU	71 240	72 190	15 431	13 851
Baltic Innovation fund II	LU	4 990	710	917	250
<b>Total investments in venture capital funds</b>		<b>117 530</b>	<b>119 301</b>	<b>50 255</b>	<b>52 543</b>

## 12 Investments in venture capital funds (cont'd)

As at 30 June 2020 the total VCF portfolio value at cost value was EUR 68,589 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 associates		BIF investments		Total	
	01.01.2020.- 30.06.2020. (unaudited)	01.01.2019.- 30.06.2019. (unaudited)	01.01.2020.- 30.06.2020. (unaudited)	01.01.2019.- 30.06.2019. (unaudited)	01.01.2020.- 30.06.2020. (unaudited)	01.01.2019.- 30.06.2019. (unaudited)
Carrying amount at the beginning of period	38 442	39 252	14 101	10 988	52 543	50 240
Invested	72	1 376	2 247	1 753	2 319	3 129
Refunded	(2 658)	(1 181)	-	-	(2 658)	(1 181)
Mezzanine interest received and realised gain on exit	(472)	(507)	-	-	(472)	(507)
Share of net loss of investment in joint venture and associate	(1 477)	623	-	-	(1 477)	623
Share of gain of investment in joint venture and associate at fair value through profit or loss	-	-	-	-	-	-
Carrying amount at the end of the period ended at 30 June	33 907	39 563	16 348	12 741	50 255	52 304
Impairment	-	-	-	-	-	-
<b>Net carrying amount at the period ended at 30 June</b>	<b>33 907</b>	<b>38 442</b>	<b>16 348</b>	<b>14 101</b>	<b>50 255</b>	<b>52 543</b>

In the reporting period, the Group's / Company's expenses included:

- Management fees for the 2nd and 3rd generation venture capital funds amounted EUR 459 thousand (6 months of 2019: EUR 531 thousand) which were compensated from the risk coverage reserve;
- Management fees for the 4th generation venture capital funds amounted EUR 384 thousand (6 months of 2019: EUR 240 thousand) which were compensated from the risk coverage reserve;
- Management fees for the Baltic Innovation Fund amounted EUR 47 thousand (6 months of 2019: EUR 47 thousand) which were compensated from the risk coverage reserve;
- Management fees for the Baltic Innovation Fund II amounted EUR 55 thousand (6 months of 2019: 0) which were compensated from the risk coverage reserve.

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 605 thousand (6 months of 2019: EUR 300 thousand) which were compensated from the risk coverage reserve.

## 13 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	Group	Company	Company
	30.06.2020. (unaudited)	31.12.2019. (audited)	30.06.2020. (unaudited)	31.12.2019. (audited)
SME and Midcaps	130 523	99 282	130 523	99 282
Agriculture	122 847	113 711	122 847	113 711
Individuals	8 718	9 578	8 718	9 578
Financial Intermediaries	2 228	2 573	2 228	2 573
Land Fund	18 814	15 268	18 814	15 268
<b>Total gross loans</b>	<b>283 130</b>	<b>240 412</b>	<b>283 130</b>	<b>240 412</b>
Impairment allowances	(20 987)	(20 283)	(20 987)	(20 283)
<b>Total net loans</b>	<b>262 143</b>	<b>220 129</b>	<b>262 143</b>	<b>220 129</b>

Analysis of the loan amount, equalling to or exceeding EUR 1,000 thousand, issued to one customer:

	Group	Group	Company	Company
	30.06.2020. (unaudited)	31.12.2019. (audited)	30.06.2020. (unaudited)	31.12.2019. (audited)
Number of customers	35	29	35	29
Total credit exposure of customers (EUR '000)	50 931	42 623	50 931	42 623
Percentage of total gross portfolio of loans	17.51%	17.73%	17.51%	17.73%

## 13 Loans (cont'd)

As at 30 June 2020 the average annual interest rate for the loan portfolio of the Group / Company was 4.08% (31 December 2019: 4.19%).

Breakdown of the Group's / Company's loans by industries, in thousands of euro:

	Group 30.06.2020. (unaudited)	Group 31.12.2019. (audited)	Company 30.06.2020. (unaudited)	Company 31.12.2019. (audited)
Agriculture and forestry	136 909	117 065	136 909	117 065
Manufacturing	58 539	50 035	58 539	50 035
Private individuals	8 718	12 909	8 718	12 909
Other industries	22 204	25 073	22 204	25 073
Retail and wholesale	22 363	10 208	22 363	10 208
Hotels and restaurants	7 024	4 375	7 024	4 375
Electricity, gas and water utilities	7 793	7 196	7 793	7 196
Transport, warehousing and communications	2 565	1 045	2 565	1 045
Real estate	8 509	7 543	8 509	7 543
Construction	6 420	2 309	6 420	2 309
Financial intermediation	514	681	514	681
Fishing	1 412	1 786	1 412	1 786
Municipal authorities	160	187	160	187
<b>Total gross loans</b>	<b>283 130</b>	<b>240 412</b>	<b>283 130</b>	<b>240 412</b>
Impairment allowances	(20 987)	(20 283)	(20 987)	(20 283)
<b>Total net loans</b>	<b>262 143</b>	<b>220 129</b>	<b>262 143</b>	<b>220 129</b>

Movement in the Group's / Company's impairment allowances, in thousands of euro:

	Group 01.01.2020.- 30.06.2020. (unaudited)	Group 01.01.2019.- 30.06.2019. (unaudited)	Company 01.01.2020.- 30.06.2020. (unaudited)	Company 01.01.2019.- 30.06.2019. (unaudited)
Allowances at the beginning of the period	20 283	19 376	20 283	19 376
Increase in impairment allowances (Note 10)	6 744	3 341	6 744	3 341
Decrease in impairment allowances (Note 10)	(2 648)	(3 435)	(2 648)	(3 435)
Write-off of loans	(3 392)	(1 181)	(3 392)	(1 181)
Currency change	-	-	-	-
<b>Allowances at the end of the period ended 30 June (unaudited)</b>	<b>20 987</b>	<b>18 101</b>	<b>20 987</b>	<b>18 101</b>
<i>Group's / Company's share of provisions</i>	14 188	12 617	14 188	12 617
<i>Provisions covered by risk coverage*</i>	6 799	5 484	6 799	5 484
Increase in impairment allowances	-	5 452	-	5 452
Decrease in impairment allowances	-	(2 462)	-	(2 462)
Write-off of loans	-	(808)	-	(808)
Currency change	-	-	-	-
<b>Allowances at the end of the period ended 31 December (audited)</b>	<b>-</b>	<b>20 283</b>	<b>-</b>	<b>20 283</b>
<i>Group's / Company's share of provisions</i>	-	14 916	-	14 916
<i>Provisions covered by risk coverage*</i>	-	5 367	-	5 367

## 14 Investment properties

All amounts in thousands of euro

	Group 30.06.2020. (unaudited)	Group 31.12.2019. (audited)	Company 30.06.2020. (unaudited)	Company 31.12.2019. (audited)
Carrying amount at the beginning of period	24 366	14 794	24 366	14 794
Acquired during the reporting period*	9 154	9 145	9 154	9 145
Disposals during the reporting period	(30)	(98)	(30)	(98)
Net gain from fair value adjustment	-	525	-	525
<b>Carrying amount at the end of the period</b>	<b>33 490</b>	<b>24 366</b>	<b>33 490</b>	<b>24 366</b>

All acquisitions of investment properties made in the reporting period were related to the activities of the Land Fund programme.

## 15 Other assets

All amounts in thousands of euro

	Group 30.06.2020. (unaudited)	Group 31.12.2019. (audited)	Company 30.06.2020. (unaudited)	Company 31.12.2019. (audited)
Financial assets	5 358	6 095	5 358	6 095
Other assets (repossessed collateral)	91	503	91	503
<b>Total other assets, gross</b>	<b>5 449</b>	<b>6 598</b>	<b>5 449</b>	<b>6 598</b>
Impairment allowances for financial assets	(2 938)	(3 028)	(2 938)	(3 028)
<i>Group's / Company's share of provisions</i>	<i>(1 904)</i>	<i>(2 204)</i>	<i>(1 904)</i>	<i>(2 204)</i>
<i>Provisions covered by risk coverage</i>	<i>(1 034)</i>	<i>(824)</i>	<i>(1 034)</i>	<i>(824)</i>
<b>Total financial assets, net</b>	<b>2 420</b>	<b>3 067</b>	<b>2 420</b>	<b>3 067</b>
<b>Total other assets, net</b>	<b>2 511</b>	<b>3 570</b>	<b>2 511</b>	<b>3 570</b>

The Group's / Company's sub-item *Other assets (repossessed collateral)* includes assets that have been taken over in the debt collection process and are held to be sold in the ordinary course of business.

Movement in the Group's / Company's net book value of financial assets in the 6 months of 2020, in thousands of euro:

	Disbursed guarantee compensations	Financial assets related to loan agreements	Other financial assets	Total
<b>Financial assets</b>				
At the beginning of period	2 361	163	3 571	6 095
Changes	(43)	(19)	(675)	(737)
As at 30 June 2020 (unaudited)	2 318	144	2 896	5 358
<b>Impairment provision</b>				
At the beginning of period	(2 361)	(143)	(524)	(3 028)
Changes in impairment allowances	43	48	(1)	90
As at 30 June 2020 (unaudited)	(2 318)	(95)	(525)	(2 938)
<b>Net book value at the beginning of period</b>	-	20	3 047	3 067
<b>Net book value as at 30 June 2020 (unaudited)</b>	-	46	2 371	2 420

## 16 Due to credit institutions

All amounts in thousands of euro

	Group 30.06.2020. (unaudited)	Group 31.12.2019. (audited)	Company 30.06.2020. (unaudited)	Company 31.12.2019. (audited)
Due to credit institutions registered in OECD countries	25 202	29 542	25 202	29 542
<b>Total due to credit institutions</b>	<b>25 202</b>	<b>29 542</b>	<b>25 202</b>	<b>29 542</b>

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 25,202 thousand (31 December 2019: EUR 29,542 thousand), of which EUR 29 thousand constitutes accrued interest expenses (31 December 2019: EUR 28 thousand). In the reporting period, the Group / Company repaid the principal in amount of EUR 4,340 thousand. The Ministry of Finance of the Republic of Latvia has issued a guarantee for the loan of EUR 25,202 thousand (31 December 2019: EUR 29,542 thousand), which is considered a parent guarantee on behalf of the Group / Company.

In December 2019, the Company entered into a new loan agreement with the EIB for the amount of EUR 18,000 thousand to fund loans for sustainable and climate change mitigation projects. In addition to financing of green bonds, this funding will allow loans to entrepreneurs and ESCOs to be offered with a significantly longer repayment period of up to 15 years, in line with the repayment period of the investment project. The loan disbursement has not been started yet.

As at 30 June 2020, the average interest rate for the balances Due to credit institutions was 0.37% (31 December 2019: 0.31%).

## 17 Due to general governments

All amounts in thousands of euro

	Group 30.06.2020. (unaudited)	Group 31.12.2019. (audited)	Company 30.06.2020. (unaudited)	Company 31.12.2019. (audited)
Loans received from Rural Support Service	5 552	5 565	5 552	5 565
Loans received from the Treasury	85 412	80 707	85 412	80 707
<b>Total due to general governments</b>	<b>90 964</b>	<b>86 272</b>	<b>90 964</b>	<b>86 272</b>

Subitem *Loans received 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 30 June 2020 the Group / Company liabilities to Rural Support Service consist of the principal amount of EUR 5,335 thousand (31 December 2019: EUR 5,337 thousand) and accrued interest – EUR 217 thousand (31 December 2019: EUR 288 thousand). The final repayment date is 31 January 2027. 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 30 June 2020 the principal amount of the loan EUR 67,399 thousand (as at 31 December 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 30 June 2020, according to the loan agreement the Company still is available the financing in the amount of EUR 8,979 thousand, the size and pace of its drawdown relates to the further volume of new loan transactions. As at 30 June 2020, the amount of the secured claim was EUR 67,400 thousand (31 December 2019: EUR 67,400 thousand).
- SME development programme: as at 30 June 2020 the principal amount of the loan EUR 9,997 thousand (31 December 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 30 June 2020, according to the loan agreement the Company still is available the financing in the amount of EUR 45,003 thousand, the size and pace of its drawdown relates to the further volume of new loan transactions. As at 30 June 2020, the amount of the secured claim was EUR 11,996 thousand (31 December 2019: EUR 11,996 thousand).
- Latvian Land Fund (the financing for the Fund's transactions): as at 30 June 2020 the principal amount of the loan EUR 8,015 thousand (31 December 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 30 June 2020, according to the loan agreement the Company still is available the financing in the amount of EUR 1,912 thousand, the size and pace of its drawdown relates to the further volume of new loan transactions. As at 30 June 2020, the amount of registered mortgage was EUR 8,284 thousand (31 December 2019: EUR 8,284 thousand).

The Company has also concluded the following loan agreements with the Treasury, the funding under which have not yet been used:

- 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.

As at 30 June 2020 the accrued interest on the loans received from the Treasury amounts to EUR 1,287 (31 December 2019: EUR 1,302).

## 18 Support programme funding

The Group's / Company's information on the risk coverage reserve included in the support programme funding and state aid, which can be used for covering the Group's / Company's credit risk losses, in thousands of euro:

Financial Instrument / Programme	30.06.2020.					
	Programme funding	Credit risk coverage	Provisions covered by risk coverage	Accrued liabilities on state aid	Fair value correction	Net programme funding
<b>Loans</b>						
ERDF II	13 113	3 495	(615)	3 093	(8 489)	7 102
ESF II	1 518	317	(108)	771	(1 320)	861
Microcredits of Swiss programme	5 602	436	(24)	331	(483)	5 426
ERDF I	416	121	(15)	27	(327)	101
ESF I	311	45	(34)	-	-	277
Microcredits	-	-	-	-	-	-
ERDF II (second round)	6 343	553	(108)	566	(1 223)	5 578
Incubators (from ESF II)	81	8	(1)	-	-	80
ERAF II 2 Public fund	285	58	(15)	-	-	270
Fund of Funds programme – Start-up loans	2 625	2 625	(471)	-	-	2 154
Fund of Funds programme – Microcredits	298	297	(33)	-	-	265
Fund of Funds programme – Parallel loans	3 425	3 425	(2 497)	-	-	928
Energy Efficiency Programme for Multi-apartment Buildings Loans	3 704	3 503	(43)	-	-	3 661
Start-up State Aid Cumulation Lending Programme	1 994	1 994	(378)	-	(16)	1 600
Other loans to start-ups	1 583	390	(86)	89	(254)	1 332
Mezzanine Programme – Loans	2 920	2 628	(2 426)	-	-	494
Guarantees and interest grants programme	4 234	4 234	-	-	-	4 234
SME energy efficiency loans	1 723	1 723	-	-	-	1 723
Parallel loans	2 000	2 000	(184)	-	-	1 816
Loans for enterprises in rural territories	6 304	599	(85)	-	-	6 219
Parallel loans to large entrepreneurs	-	-	-	-	-	-
<b>Total loans</b>	<b>58 479 *</b>	<b>28 451</b>	<b>(7 123)</b>	<b>4 877</b>	<b>(12 112)</b>	<b>44 121</b>
<b>Guarantees</b>						
Fund of Funds programme - Guarantees	27 264	27 263	(8 122)	-	-	19 142
Energy Efficiency Programme for Multi-apartment Buildings Guarantees	6 171	5 832	(986)	-	-	5 185
Housing Guarantee Programme	14 005	14 005	(8 659)	-	-	5 346
Guarantee Programme for Clients of State Aid Accumulation, Grace Period and Large Economic Operators	7 753	7 753	(1 508)	-	-	6 245
Mezzanine Programme - Guarantees	1 422	1 280	(981)	-	-	441
Portfolio Guarantee Fund	4 069	3 743	(1 352)	-	-	2 717
Export guarantees	2 477	2 477	(320)	-	-	2 157
Agricultural Guarantees	1 058	1 058	(444)	-	-	614
<b>Total guarantees</b>	<b>64 219</b>	<b>63 411</b>	<b>(22 372)</b>	<b>-</b>	<b>-</b>	<b>41 847</b>
<b>Grants</b>						
Energy Efficiency Programme for Multi-apartment Buildings Grants	25 567	-	-	-	-	25 567
Social Entrepreneurship Programme	713	-	-	-	-	713
Grants for development of energy efficiency projects	265	-	-	-	-	265
<b>Total grants</b>	<b>26 545</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>26 545</b>
<b>Venture Capital Funds</b>						
Fund of Funds and venture capital funds	29 310	16 120	-	-	-	29 310
Investment Fund Activity	1 218	609	-	-	(166)	1 052
Baltic Innovation Fund	2 000	600	-	-	-	2 000
Baltic Innovation Fund II	833	250	-	-	-	833
<b>Total venture capital funds</b>	<b>33 361</b>	<b>17 579</b>	<b>-</b>	<b>-</b>	<b>(166)</b>	<b>33 195</b>
<b>Other Activities</b>						
Energy Efficiency Fund	442	-	-	-	-	442
Regional Creative Industries Alliance	-	-	-	-	-	-
<b>Total other activities</b>	<b>442</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>442</b>
<b>Total support programme funding</b>	<b>183 046 **</b>	<b>109 441</b>	<b>(29 495)</b>	<b>4 877</b>	<b>(12 278)</b>	<b>146 150</b>

\* 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 18,735 thousand allocated for management costs of the Group / Company to be compensated from support programme funding.



## 18 Support programme funding (cont'd)

The Group's / Company's information on the risk coverage reserve included in the support programme funding and state aid, which can be used for covering the Group's / Company's credit risk losses, in thousands of euro:

Financial Instrument / Programme	31.12.2019.					
	Programme funding	Credit risk coverage	Provisions covered by risk coverage	Accrued liabilities on state aid	Fair value correction	Net programme funding
<b>Loans</b>						
ERDF II	13 324	4 318	(902)	3 093	(8 489)	7 026
ESF II	1 523	478	(132)	771	(1 320)	842
Microcredits of Swiss programme	5 610	718	(24)	331	(483)	5 434
ERDF I	886	138	(17)	27	(327)	569
ESF I	317	58	(37)	-	-	280
Microcredits	-	-	-	-	-	-
ERDF II (second round)	6 366	745	(124)	566	(1 223)	5 585
Incubators (from ESF II)	80	11	-	-	-	80
ERAF II 2 Public fund	285	129	(15)	-	-	270
Fund of Funds programme – Start-up loans	2 623	2 623	(355)	-	-	2 268
Fund of Funds programme – Microcredits	309	309	(29)	-	-	280
Fund of Funds programme – Parallel loans	3 425	3 425	(1 907)	-	-	1 518
Energy Efficiency Programme for Multi-apartment Buildings Loans	3 751	3 751	(14)	-	-	3 737
Start-up State Aid Cumulation Lending Programme	1 994	1 994	(277)	-	(16)	1 701
Other loans to start-ups	1 583	487	(91)	89	(254)	1 327
Mezzanine Programme – Loans	3 148	2 518	(1 626)	-	-	1 522
Guarantees and interest grants programme	4 184	4 184	-	-	-	4 184
SME energy efficiency loans	1 723	1 723	-	-	-	1 723
Parallel loans	2 000	2 000	(114)	-	-	1 886
Loans for enterprises in rural territories	6 304	599	(29)	-	-	6 275
Parallel loans to large entrepreneurs	-	-	-	-	-	-
<b>Total loans</b>	<b>59 435 *</b>	<b>30 208</b>	<b>(5 693)</b>	<b>4 877</b>	<b>(12 112)</b>	<b>46 507</b>
<b>Guarantees</b>						
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
<b>Total guarantees</b>	<b>57 984</b>	<b>56 465</b>	<b>(22 136)</b>	<b>-</b>	<b>-</b>	<b>35 848</b>
<b>Grants</b>						
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
<b>Total grants</b>	<b>26 992</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>26 992</b>
<b>Venture Capital Funds</b>						
Fund of Funds and venture capital funds	13 412	10 730	-	-	-	13 412
Investment Fund Activity	2 812	2 375	-	-	(166)	2 646
Baltic Innovation Fund	2 000	-	-	-	-	2 000
Baltic Innovation Fund II	833	-	-	-	-	833
<b>Total venture capital funds</b>	<b>19 057</b>	<b>13 105</b>	<b>-</b>	<b>-</b>	<b>(166)</b>	<b>18 891</b>
<b>Other Activities</b>						
Energy Efficiency Fund	492	-	-	-	-	492
Regional Creative Industries Alliance	-	-	-	-	-	-
<b>Total other activities</b>	<b>492</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>492</b>
<b>Total support programme funding</b>	<b>163 960 **</b>	<b>99 778</b>	<b>(27 829)</b>	<b>4 877</b>	<b>(12 278)</b>	<b>128 730</b>

\* 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.

## 18 Support programme funding (cont'd)

Based on the concluded programme implementation contracts, the funding received could be reduced by the outstanding principal amount of the loans classified as lost, non-repaid loan principal amount and / or disbursements of guarantee compensations. The Group / Company need not have to repay the reductions of funding to the funding provider.

Movement in the Group's / Company's support programme funding in the 6 months of 2020, in thousands of euro:

Financial Instrument / Programme	Financing, net	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
	31.12.2019.									30.06.2020.
<b>Loans</b>										
ERDF II	7 026	-	-	-	-	-	-	(211)	287	7 102
ESF II	842	-	-	-	-	-	-	(5)	24	861
Microcredits of Swiss programme	5 434	-	-	-	-	-	-	(8)	-	5 426
ERDF I	569	-	(470)	-	-	-	-	-	2	101
ESF I	280	-	-	-	-	-	-	(6)	3	277
Microcredits	-	-	-	-	-	-	-	-	-	-
ERDF II (second round)	5 585	-	-	-	-	-	-	(23)	16	5 578
Incubators (from ESF II)	80	-	-	-	-	-	-	1	(1)	80
ERAF II 2 Public fund	270	-	-	-	-	-	-	-	-	270
Fund of Funds programme – Start-up loans	2 268	-	11	-	-	-	-	(9)	(116)	2 154
Fund of Funds programme – Microcredits	280	-	-	-	-	-	-	(11)	(4)	265
Fund of Funds programme – Parallel loans	1 518	-	-	-	-	-	-	-	(590)	928
Energy Efficiency Programme for Multi-apartment Buildings – Loan Fund	3 737	-	-	-	(47)	-	-	-	(29)	3 661
Start-up State Aid Cumulation Lending Programme	1 701	-	-	-	-	-	-	-	(101)	1 600
Other loans to start-ups	1 327	-	-	-	-	-	-	-	5	1 332
Mezzanine Programme – Loans	1 522	-	-	-	-	-	149	(377)	(800)	494
Guarantees and interest grants programme	4 184	-	-	-	-	-	-	50	-	4 234
SME energy efficiency loans	1 723	-	-	-	-	-	-	-	-	1 723
Parallel loans	1 886	-	-	-	-	-	-	-	(70)	1 816
Loans for enterprises in rural territories	6 275	-	-	-	-	-	-	-	(56)	6 219
Parallel loans to large entrepreneurs	-	-	-	-	-	-	-	-	-	-
<b>Total loans</b>	<b>46 507</b>	<b>-</b>	<b>(459)</b>	<b>-</b>	<b>(47)</b>	<b>-</b>	<b>149</b>	<b>(599)</b>	<b>(1 430)</b>	<b>44 121</b>
<b>Guarantees</b>										
Fund of Funds programme - Guarantees	12 975	-	5 000	-	-	-	362	336	469	19 142
Energy Efficiency Programme for Multi-apartment Buildings - Guarantees	5 156	-	-	-	(73)	-	81	-	21	5 185
Housing Guarantee Programme	5 912	-	-	-	-	-	-	-	(566)	5 346
Guarantee Programme for Clients of State Aid Accumulation, Grace Period and Large Economic Operators	6 528	-	-	-	-	-	-	-	(283)	6 245
Mezzanine Programme - Guarantees	22	-	-	-	-	-	59	-	360	441
Portfolio Guarantee Fund	2 834	-	-	-	-	-	-	-	(117)	2 717
Export guarantees	1 715	-	470	-	-	-	-	-	(28)	2 157
Agricultural Guarantees	706	-	-	-	-	-	-	-	(92)	614
<b>Total guarantees</b>	<b>35 848</b>	<b>-</b>	<b>5 470</b>	<b>-</b>	<b>(73)</b>	<b>-</b>	<b>502</b>	<b>336</b>	<b>(236)</b>	<b>41 847</b>
<b>Grants</b>										
Energy Efficiency Programme for Multi-apartment Buildings – Grants	25 567	-	-	-	-	-	-	-	-	25 567
Social Entrepreneurship Programme	1 084	73	-	(371)	(73)	-	-	-	-	713
Grants for development of energy efficiency projects	341	-	-	(32)	(44)	-	-	-	-	265
<b>Total grants</b>	<b>26 992</b>	<b>73</b>	<b>-</b>	<b>(403)</b>	<b>(117)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>26 545</b>

## 18 Support programme funding (cont'd)

Movement in the Group's / Company's support programme funding in the 6 months of 2020, in thousands of euro: (cont'd)

Financial Instrument / Programme	Financing, net	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
	31.12.2019.									30.06.2020.
<b>Venture Capital Funds</b>										
Fund of Funds and venture capital funds	13 412	23 311	(5 011)	-	(1 964)	(438)	-	-	-	29 310
Investment Fund Activity	2 646	-	-	-	(494)	(1 598)	472	26	-	1 052
Baltic Innovation Fund	2 000	-	-	-	-	-	-	-	-	2 000
Baltic Innovation Fund II	833	-	-	-	-	-	-	-	-	833
<b>Total venture capital funds</b>	<b>18 891</b>	<b>23 311</b>	<b>(5 011)</b>	<b>-</b>	<b>(2 458)</b>	<b>(2 036)</b>	<b>472</b>	<b>26</b>	<b>-</b>	<b>33 195</b>
<b>Other Activities</b>										
Energy Efficiency Fund	492	-	-	-	(50)	-	-	-	-	442
Regional Creative Industries Alliance	-	21	-	-	(21)	-	-	-	-	-
<b>Total other activities</b>	<b>492</b>	<b>21</b>	<b>-</b>	<b>-</b>	<b>(71)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>442</b>
<b>Total support programme funding</b>	<b>128 730</b>	<b>23 405</b>	<b>-</b>	<b>(403)</b>	<b>(2 766)</b>	<b>(2 036)</b>	<b>1 123</b>	<b>(237)</b>	<b>(1 666)</b>	<b>146 150</b>

## 19 Provisions

Breakdown of the Group's / Company's impairment allowances for financial guarantees and off-balance sheet items, in thousands of euro:

	Group 30.06.2020. (unaudited)	Group 31.12.2019. (audited)	Company 30.06.2020. (unaudited)	Company 31.12.2019. (audited)
Provisions for financial guarantees	31 570	30 606	31 570	30 606
<i>Group's / Company's share of provisions</i>	10 233	9 294	10 233	9 294
<i>Provisions covered by risk coverage</i>	21 337	21 312	21 337	21 312
Provisions for loan commitments	853	458	853	458
<i>Group's / Company's share of provisions</i>	528	132	528	132
<i>Provisions covered by risk coverage</i>	325	326	325	326
Provisions for grant commitments	11	12	11	12
<i>Group's / Company's share of provisions</i>	11	12	11	12
<i>Provisions covered by risk coverage</i>	-	-	-	-
<b>Total provisions</b>	<b>32 434</b>	<b>31 076</b>	<b>32 434</b>	<b>31 076</b>
<i>Group's / Company's share of provisions</i>	10 772	9 438	10 772	9 438
<i>Provisions covered by risk coverage</i>	21 662	21 638	21 662	21 638

Movement in the Group's / Company's provisions for financial guarantees, in thousands of euro:

	Group 01.01.2020.- 30.06.2020. (unaudited)	Group 01.01.2019.- 30.06.2019. (unaudited)	Company 01.01.2020.- 30.06.2020. (unaudited)	Company 01.01.2019.- 30.06.2019. (unaudited)
Provisions at the beginning of the period	30 606	24 144	30 606	24 144
Increase in provisions (Note 10)	6 975	5 638	6 975	5 638
Decrease in provisions (Note 10)	(5 520)	(2 457)	(5 520)	(2 457)
Reclassification (Disbursed guarantee)	(491)	(1 615)	(491)	(1 615)
<b>Provisions at the end of the period ended 30 June (unaudited)</b>	<b>-</b>	<b>(1)</b>	<b>-</b>	<b>(1)</b>
<i>Group's / Company's share of provisions</i>	<b>31 570</b>	<b>25 709</b>	<b>31 570</b>	<b>25 709</b>
<i>Provisions covered by risk coverage</i>	10 233	9 955	10 233	9 955
Increase in provisions	21 337	15 754	21 337	15 754
Decrease in provisions	-	10 114	-	10 114
Reclassification (Disbursed guarantee)	-	(4 235)	-	(4 235)
Currency change	-	(982)	-	(982)
<b>Provisions at the end of the period ended 31 December (audited)</b>	<b>-</b>	<b>30 606</b>	<b>-</b>	<b>30 606</b>
<i>Group's / Company's share of provisions</i>	-	9 294	-	9 294
<i>Provisions covered by risk coverage</i>	-	21 312	-	21 312

## 20 Reserves

Analysis of the Group's reserves movements, in thousands of euro:

	Specific reserves			General reserve capital	Revaluation reserve of financial assets measured at fair value through other comprehensive income	Reserves
	Difference recognised in Group's reorganisation reserve	Reserve capital for Housing Guarantee Programme	Reserve capital for mitigating of impact of COVID-19 *			
<b>Reserves as of 31 December 2018 (audited)</b>	<b>(15 580)</b>	<b>11 807</b>	<b>-</b>	<b>11 738</b>	<b>3 597</b>	<b>11 562</b>
Decrease) in revaluation reserve of financial assets measured at fair value through other comprehensive income	-	-	-	-	(274)	(274)
Distribution of previous years profit	-	-	-	808	-	808
Distribution of 2018 year profit of the Company	-	-	-	4 092	-	4 092
<b>Reserves as of 30 June 2019 (unaudited)</b>	<b>(15 580)</b>	<b>11 807</b>	<b>-</b>	<b>16 638</b>	<b>3 323</b>	<b>16 188</b>
Decrease) in revaluation reserve of financial assets measured at fair value through other comprehensive income	-	-	-	-	(685)	(685)
Increase of reserve capital	-	3 700	-	-	-	3 700
<b>Reserves as of 31 December 2019 (audited)</b>	<b>(15 580)</b>	<b>15 507</b>	<b>-</b>	<b>16 638</b>	<b>2 638</b>	<b>19 203</b>
Decrease) in revaluation reserve of financial assets measured at fair value through other comprehensive income	-	-	-	-	(692)	(692)
Increase of reserve capital	-	-	100 000	-	-	100 000
Distribution of 2019 year profit of the Company	-	-	-	8 131	-	8 131
<b>Reserves as of 30 June 2020 (unaudited)</b>	<b>(15 580)</b>	<b>15 507</b>	<b>100 000</b>	<b>24 768</b>	<b>1 946</b>	<b>126 641</b>

Analysis of the Company's reserves movements, in thousands of euro:

	Specific reserves			General reserve capital	Revaluation reserve of financial assets measured at fair value through other comprehensive income	Reserves
	Difference recognised in Group's reorganisation reserve	Reserve capital for Housing Guarantee Programme	Reserve capital for mitigating of impact of COVID-19 *			
<b>Reserves as of 31 December 2018 (audited)</b>	<b>(15 935)</b>	<b>11 807</b>	<b>-</b>	<b>11 738</b>	<b>3 597</b>	<b>11 207</b>
Decrease) in revaluation reserve of financial assets measured at fair value through other comprehensive income	-	-	-	-	(274)	(274)
Distribution of previous years profit	-	-	-	791	-	791
Distribution of 2018 year profit of the Company	-	-	-	4 462	-	4 462
<b>Reserves as of 30 June 2019 (unaudited)</b>	<b>(15 935)</b>	<b>11 807</b>	<b>-</b>	<b>16 991</b>	<b>3 323</b>	<b>16 186</b>
Decrease) in revaluation reserve of financial assets measured at fair value through other comprehensive income	-	-	-	-	(685)	(685)
Increase of reserve capital	-	3 700	-	-	-	3 700
<b>Reserves as of 31 December 2019 (audited)</b>	<b>(15 935)</b>	<b>15 507</b>	<b>-</b>	<b>16 991</b>	<b>2 638</b>	<b>19 201</b>
Decrease) in revaluation reserve of financial assets measured at fair value through other comprehensive income	-	-	-	-	(692)	(692)
Increase of reserve capital	-	-	100 000	-	-	100 000
Distribution of 2019 year profit of the Company	-	-	-	8 131	-	8 131
<b>Reserves as of 30 June 2020 (unaudited)</b>	<b>(15 935)</b>	<b>15 507</b>	<b>100 000</b>	<b>25 121</b>	<b>1 946</b>	<b>126 639</b>

Specific reserve capital for mitigation of impact of COVID-19" was increased by EUR 100 million 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. of 25 March 2020. 122 "On the increase of the reserve capital". An increase in the reserve capital is planned for:

- EUR 50 million for the granting of support in the form of working capital to 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",

## 20 Reserves (cont'd)

- EUR 25 million to ensure the availability of guarantees for economic operators whose activities have been affected by the spread of the coronavirus disease Covid-19, 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 million 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".

The funds included in the reserve capital will be used to cover the expected credit losses of the programs listed above.

## 21 Off-balance sheet items and contingent liabilities

All amounts in thousands of euro

	Group 30.06.2020. (unaudited)	Group 31.12.2019. (audited)	Company 30.06.2020. (unaudited)	Company 31.12.2019. (audited)
Contingent liabilities:				
Outstanding guarantees	321 987	284 232	321 987	284 232
Financial commitments:				
Loan commitments	52 536	18 951	52 536	18 951
Grant commitments	10 056	7 701	10 056	7 701
Commitments to venture capital funds	73 848	70 497	86 273	83 968
<b>Total contingent liabilities</b>	<b>458 427</b>	<b>381 381</b>	<b>470 852</b>	<b>394 852</b>

Group's / Company's provisions for loan commitments, in thousands of euro:

	Group 30.06.2020. (unaudited)	Group 31.12.2019. (audited)	Company 30.06.2020. (unaudited)	Company 31.12.2019. (audited)
Unutilized loan facilities	52 536	18 951	52 536	18 951
Impairment allowances	(853)	(458)	(853)	(458)
<b>Total unutilized loan facilities, net</b>	<b>51 683</b>	<b>18 493</b>	<b>51 683</b>	<b>18 493</b>

Group's / Company's provisions for grant commitments, in thousands of euro:

	Group 30.06.2020. (unaudited)	Group 31.12.2019. (audited)	Company 30.06.2020. (unaudited)	Company 31.12.2019. (audited)
Grant commitments	10 056	7 701	10 056	7 701
Impairment allowances	(11)	(12)	(11)	(12)
<b>Total grant commitments, net</b>	<b>10 045</b>	<b>7 689</b>	<b>10 045</b>	<b>7 689</b>

Breakdown of the Group's off-balance sheet assets and contingent liabilities by remaining contractual maturities as at 30 June 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
<b>Contingent liabilities</b>							
Outstanding guarantees	321 987	-	-	-	-	-	321 987
<b>Financial commitments</b>							
Loan commitments	52 536	-	-	-	-	-	52 536
Grant commitments	10 056	-	-	-	-	-	10 056
Commitments to venture capital funds	628	1 883	2 511	7 533	45 047	16 246	73 848
<b>Total financial commitments</b>	<b>63 220</b>	<b>1 883</b>	<b>2 511</b>	<b>7 533</b>	<b>45 047</b>	<b>16 245</b>	<b>136 440</b>
<b>Total contingent liabilities and financial commitments</b>	<b>385 207</b>	<b>1 883</b>	<b>2 511</b>	<b>7 533</b>	<b>45 047</b>	<b>16 245</b>	<b>458 427</b>

## 21 Off-balance sheet items and contingent liabilities (cont'd)

Breakdown of the Group's off-balance sheet assets and contingent liabilities by remaining contractual maturities as at 31 December 2019, in thousands of euro:

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years and w/o maturity	Total
<b>Contingent liabilities</b>							
Outstanding guarantees	284 232	-	-	-	-	-	284 232
<b>Financial commitments</b>							
Loan commitments	18 951	-	-	-	-	-	18 951
Grant commitments	7 726	-	-	-	-	-	7 726
Commitments to venture capital funds	600	1 798	2 397	7 190	43 003	15 509	70 497
<b>Total financial commitments</b>	<b>27 277</b>	<b>1 798</b>	<b>2 397</b>	<b>7 190</b>	<b>43 003</b>	<b>15 509</b>	<b>97 174</b>
<b>Total contingent liabilities and financial commitments</b>	<b>311 509</b>	<b>1 798</b>	<b>2 397</b>	<b>7 190</b>	<b>43 003</b>	<b>15 509</b>	<b>381 406</b>

Breakdown of the Company's off-balance sheet assets and contingent liabilities by remaining contractual maturities as at 30 June 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
<b>Contingent liabilities</b>							
Outstanding guarantees	321 987	-	-	-	-	-	321 987
<b>Financial commitments</b>							
Loan commitments	52 536	-	-	-	-	-	52 536
Grant commitments	10 056	-	-	-	-	-	10 056
Commitments to venture capital funds	1 261	2 200	2 933	8 272	52 626	18 980	86 272
<b>Total financial commitments</b>	<b>63 853</b>	<b>2 200</b>	<b>2 933</b>	<b>8 272</b>	<b>52 626</b>	<b>18 980</b>	<b>148 864</b>
<b>Total contingent liabilities and financial commitments</b>	<b>385 840</b>	<b>2 200</b>	<b>2 933</b>	<b>8 272</b>	<b>52 626</b>	<b>18 980</b>	<b>470 851</b>

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
<b>Contingent liabilities</b>							
Outstanding guarantees	284 232	-	-	-	-	-	284 232
<b>Financial commitments</b>							
Loan commitments	18 951	-	-	-	-	-	18 951
Grant commitments	7 726	-	-	-	-	-	7 726
Commitments to venture capital funds	714	2 141	2 855	8 565	51 220	18 473	83 968
<b>Total financial commitments</b>	<b>27 391</b>	<b>2 141</b>	<b>2 855</b>	<b>8 565</b>	<b>51 220</b>	<b>18 473</b>	<b>110 645</b>
<b>Total contingent liabilities and financial commitments</b>	<b>311 623</b>	<b>2 141</b>	<b>2 855</b>	<b>8 565</b>	<b>51 220</b>	<b>18 473</b>	<b>394 877</b>

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.

## 22 Grants

All amounts in thousands of euro

	Group 30.06.2020. (unaudited)	Group 31.12.2019. (audited)	Company 30.06.2020. (unaudited)	Company 31.12.2019. (audited)
Energy Efficiency Programme for Multi-apartment Buildings	22 206	16 826	22 206	16 826
Social Entrepreneurship Programme	510	371	510	371
Grants for development of energy efficiency projects	4	1	4	1
<b>Total grants, gross</b>	<b>22 720</b>	<b>17 198</b>	<b>22 720</b>	<b>17 198</b>
Impairment allowances	(12)	(12)	(12)	(12)
<b>Total grants, net</b>	<b>22 708</b>	<b>17 186</b>	<b>22 708</b>	<b>17 186</b>

## 22 Grants (cont'd)

Movement in the Group's / Company's net book value of grants in the 6 months of 2020, in thousands of euro:

	Group 01.01.2020.- 30.06.2020. (unaudited)	Group 01.01.2019.- 30.06.2019. (unaudited)	Company 01.01.2020.- 30.06.2020. (unaudited)	Company 01.01.2019.- 30.06.2019. (unaudited)
<b>Grants</b>				
At the beginning of period	17 198	-	17 198	-
Changes	5 522	(8 754)	5 522	(8 754)
Reclassification	-	22 575	-	22 575
At the end of period ended 30 June (unaudited)	22 720	13 821	22 720	13 821
<b>Impairment provision</b>				
At the beginning of period	12	14	12	14
Changes	-	(2)	-	(2)
At the end of period ended 30 June (unaudited)	12	12	12	12
<b>Grants net book at the beginning of the period</b>	<b>17 186</b>	<b>(14)</b>	<b>17 186</b>	<b>-</b>
<b>Grants net book value at the end of the period ended 30 June (unaudited)</b>	<b>22 708</b>	<b>17 186</b>	<b>22 708</b>	<b>17 186</b>

## 23 Related party transactions

Related parties are defined as members of the Supervisory Council and the Management Board of the Group/Company, their close family members, as well as companies under their control. In accordance with International Accounting Standard (IAS) 24 "Related Party Disclosures", the key management personnel, directly or indirectly authorised and responsible for planning, management and control of the Group's / Company's operations are treated as related parties to the Group / Company. The powers granted to the heads of the structural units of the Group / Company do not entitle them to manage the operations of the Group / Company and decide on material transactions that could affect the Group's / Company's operations and/or result in legal consequences.

The Group's balances from transactions with related parties, including off-balance sheet financial liabilities, in thousands of euro:

	People with significant control (PSC)		Transactions with shareholders		Associates		Other companies owned by the Group's shareholders	
	30.06.2020. (unaudited)	31.12.2019. (audited)	30.06.2020. (unaudited)	31.12.2019. (audited)	30.06.2020. (unaudited)	31.12.2019. (audited)	30.06.2020. (unaudited)	31.12.2019. (audited)
Investments in venture capital funds – associates	-	-	-	-	50 255	51 410	-	-
Due to general governments	-	-	-	-	-	-	5 552	5 565
Support programme funding	-	-	147 728	128 480	-	-	35 317	35 480
Off-balance sheet financial liabilities for venture capital funds	-	-	-	-	73 848	70 497	-	-

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	
	30.06.2020. (unaudited)	31.12.2019. (audited)	30.06.2020. (unaudited)	31.12.2019. (audited)	30.06.2020. (unaudited)	31.12.2019. (audited)	30.06.2020. (unaudited)	31.12.2019. (audited)
Investments in venture capital funds – associates	-	-	50 255	51 410	-	-	-	-
Investments in subsidiaries	-	-	-	-	-	-	4 315	3 812
Due to general governments	-	-	-	-	5 552	5 565	-	-
Support programme funding	147 728	128 480	-	-	35 317	35 480	-	-
Off-balance sheet financial liabilities for venture capital funds	-	-	86 273	83 967	-	-	-	-

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.

## 23 Related party transactions (cont'd)

The Group's / Company's transactions with related parties, in thousands of euro:

	Received State aid funding		Issued State aid funding or funding paid back	
	01.01.2020.- 30.06.2020. (unaudited)	01.01.2019.- 30.06.2019. (unaudited)	01.01.2020.- 30.06.2020. (unaudited)	01.01.2019.- 30.06.2019. (unaudited)
<b>Transactions with shareholders</b>				
Ministry of Finance of the Republic of Latvia	4 705	389	4 705	-
Ministry of Economy of the Republic of Latvia	123 311	2 810	123 311	-
Ministry of Wealth Fair of the Republic of Latvia	-	-	-	-
<b>Associates</b>				
Venture capital funds	1 524	138	(636)	(553)
<b>Other companies owned by the Group's shareholders</b>				
Rural Support Service	-	-	-	-
Central Finance and Contracting Agency of the Republic of Latvia	300	-	300	300

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 275 thousand (6 months of 2019: EUR 152 thousand), incl. social insurance contributions..

## 24 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	
	30.06.2020. (unaudited)	31.12.2019. (audited)	30.06.2020. (unaudited)	31.12.2019. (audited)
<b>Assets</b>				
Due from credit institutions and the Treasury	279 354	181 199	279 356	181 198
Financial assets at fair value through profit or loss	4 845	4 217	4 845	4 217
Financial assets at fair value through other comprehensive income - investment securities	37 061	47 941	37 061	47 941
Financial assets at amortised cost:				
Investment securities	479	478	1 142	1 140
Individuals	262 143	220 129	256 208	216 113
Companies	8 072	11 820	2 761	8 417
Loans	254 071	208 309	253 447	207 696
Grants	22 708	17 186	22 708	17 186
Investments in venture capital funds – associates (investments in BIF)	15 431	13 851	15 431	13 851
Investment properties	33 490	24 366	33 490	24 366
Other assets	2 420	3 067	2 420	3 067
<b>Total assets</b>	<b>658 022</b>	<b>512 434</b>	<b>652 752</b>	<b>509 079</b>
<b>Liabilities</b>				
Due to credit institutions	25 202	29 542	25 202	29 542
Due to general governments	90 964	86 272	90 964	86 272
Financial liabilities at amortised cost - Issued debt securities	65 351	45 348	65 351	45 348
Support programme funding	146 150	128 730	146 150	128 730
<b>Total liabilities</b>	<b>327 667</b>	<b>289 892</b>	<b>327 667</b>	<b>289 892</b>



## 24 Fair values of assets and liabilities (cont'd)

The fair values of the Company's financial assets and financial liabilities and their differences to their carrying amount are presented below, in thousands of euro:

	Carrying Amount		Fair Value	
	30.06.2020. (unaudited)	31.12.2019. (audited)	30.06.2020. (unaudited)	31.12.2019. (audited)
<b>Assets</b>				
Due from credit institutions and the Treasury	279 354	181 047	279 356	181 046
Financial assets at fair value through profit or loss	-	-	-	-
Financial assets at fair value through other comprehensive income - investment securities	37 061	47 941	37 061	47 941
Financial assets at amortised cost:				
Investment securities	479	478	1 133	1 140
Individuals	262 143	220 129	256 208	216 113
Companies	8 072	11 820	2 761	8 417
Loans	254 071	208 309	253 447	207 696
Grants	22 708	17 186	22 708	17 186
Investments in venture capital funds – associates (investments in BIF)	15 431	13 851	15 431	13 851
Investments in subsidiaries	4 315	3 812	4 315	3 812
Investment properties	33 490	24 366	33 490	24 366
Other assets	2 420	3 067	2 420	3 067
<b>Total assets</b>	<b>657 401</b>	<b>511 877</b>	<b>652 122</b>	<b>508 522</b>
<b>Liabilities</b>				
Due to credit institutions	25 202	29 542	25 202	29 542
Due to general governments	90 964	86 272	90 964	86 272
Financial liabilities at amortised cost - Issued debt securities	65 351	45 348	65 351	45 348
Support programme funding	146 150	128 730	146 150	128 730
<b>Total liabilities</b>	<b>327 667</b>	<b>289 892</b>	<b>327 667</b>	<b>289 892</b>

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	
	30.06.2020. (unaudited)	31.12.2019. (audited)	30.06.2020. (unaudited)	31.12.2019. (audited)	30.06.2020. (unaudited)	31.12.2019. (audited)	30.06.2020. (unaudited)	31.12.2019. (audited)
<b>Assets measured at fair value</b>								
Financial assets at fair value through profit or loss	-	-	-	-	4 845	4 217	4 845	4 217
Financial assets at fair value through other comprehensive income - investment securities	24 142	35 021	12 919	12 920	-	-	37 061	47 941
Investments in venture capital funds – associates (investments in BIF)	-	-	-	-	15 431	13 851	15 431	13 851
Investment properties	-	-	-	-	33 490	24 366	33 490	24 366
<b>Assets with fair values disclosed</b>								
Due from credit institutions and the Treasury	-	-	279 356	181 198	-	-	279 356	181 198
Financial assets at amortised cost:								
Investment securities	-	-	1 142	1 140	-	-	1 142	1 140
Loans	-	-	-	-	256 208	216 113	256 208	216 113
Grants	-	-	-	-	22 708	17 186	22 708	17 186
Other assets	-	-	-	-	2 511	3 067	2 511	3 067
<b>Total assets</b>	<b>24 142</b>	<b>35 021</b>	<b>293 417</b>	<b>195 258</b>	<b>335 193</b>	<b>278 800</b>	<b>652 752</b>	<b>509 079</b>
<b>Liabilities measured at fair value</b>								
Support programme funding	-	-	-	-	146 150	128 730	146 150	128 730
<b>Liabilities with fair value disclosed</b>								
Due to credit institutions	-	-	-	-	25 202	29 542	25 202	29 542
Due to general governments	-	-	-	-	90 964	86 272	90 964	86 272
Financial liabilities at amortised cost - Issued debt securities	-	-	-	-	65 351	45 348	65 351	45 348
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>327 667</b>	<b>289 892</b>	<b>327 667</b>	<b>289 892</b>

## 24 Fair values of assets and liabilities (cont'd)

The hierarchy of the Company's financial assets and liabilities measured and disclosed at fair value, in thousands of euro:

	Level 1		Level 2		Level 3		Total	
	30.06.2020. (unaudited)	31.12.2019. (audited)	30.06.2020. (unaudited)	31.12.2019. (audited)	30.06.2020. (unaudited)	31.12.2019. (audited)	30.06.2020. (unaudited)	31.12.2019. (audited)
<b>Assets measured at fair value</b>								
Financial assets at fair value through profit or loss	-	-	-	-	-	-	-	-
Financial assets at fair value through other comprehensive income - investment securities	24 142	35 021	12 919	12 920	-	-	37 061	47 941
Investments in subsidiaries	-	-	-	-	4 315	3 812	4 315	3 812
Investments in venture capital funds – associates (investments in BIF)	-	-	-	-	15 431	13 851	15 431	13 851
Investment properties	-	-	-	-	33 490	24 366	33 490	24 366
<b>Assets with fair values disclosed</b>								
Due from credit institutions and the Treasury	-	-	279 356	181 046	-	-	279 356	181 046
Financial assets at amortised cost:								
Investment securities	-	-	1 133	1 140	-	-	1 133	1 140
Loans	-	-	-	-	256 208	216 113	256 208	216 113
Grants	-	-	-	-	22 708	17 186	22 708	17 186
Other assets	-	-	-	-	2 420	3 067	2 420	3 067
<b>Total assets</b>	<b>24 142</b>	<b>35 021</b>	<b>293 408</b>	<b>195 106</b>	<b>334 572</b>	<b>278 395</b>	<b>652 122</b>	<b>508 522</b>
<b>Liabilities measured at fair value</b>								
Support programme funding	-	-	-	-	146 150	128 730	146 150	128 730
<b>Liabilities with fair value disclosed</b>								
Due to credit institutions	-	-	-	-	25 202	29 542	25 202	29 542
Due to general governments	-	-	-	-	90 964	86 272	90 964	86 272
Financial liabilities at amortised cost - Issued debt securities	-	-	-	-	65 351	45 348	65 351	45 348
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>327 667</b>	<b>289 892</b>	<b>327 667</b>	<b>289 892</b>

### (1) 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.

### (2) 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.

### (3) 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 instrument's value.

## 24 Fair values of assets and liabilities (cont'd)

### (4) 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.

### (5) 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.

### (6) Investments in venture capital funds

The Group / Company have a number of investments in venture capital funds. The Group's / Company's investments in venture capital funds are classified as Associates or Investments in subsidiaries. Associate is the entity over which the Group / Company has significant influence, but no control. Significant influence is the power to participate in the financial and operating policy decisions of the investee. Subsidiary is the entity controlled by the Group / Company.

Investments in venture capital funds, except from investment in Baltic Innovation Fund, are measured using the equity method both at the Group and the Company level. Investments in Baltic Innovation Fund are measured at fair value through profit or loss statement.

### (7) Investment properties

The fair value of the Group's / Company's investment property is determined based on reports of independent appraisers, who hold a recognised and relevant professional qualification, and who have had recent experience of the valuation of property in similar locations and of similar category.

Investments in property are measured at fair value applying one or complex of the following three methods: (a) market approach, (b) income approach and (c) cost approach.

The appropriate valuation method is selected depending on the nature of property and acquisition purpose. Investment property represents agricultural land, which average selling price per hectare is 2,5 thsd euro.

### (8) Assets held for sale

Non-current assets or disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amount is recovered through a sale transaction rather than through continuing use. This condition is regarded to be met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, and the sale transaction must be classified as a completed sale within one year from the date of classification. The fair value of assets held for sale is based on selling price of underlying investment properties.

## 25 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 6 months of 2019 for the Land Fund services have been reclassified accordingly following the new segmentation in order to ensure comparability of information, Thus the Group's management considers that the Goup's operations are performed in 6 operational segments:

- Loan service
- Guarantee service,
- Venture capital fund service,
- Grant service,
- Land Fund service,
- Other services.

## 25 Segment Information (cont'd)

Other services include transaction, which are connected to the repossessed assets, new state aid development as well as transactions, which cannot be attributed to state aid programmes.

Segment information is prepared in a manner consistent with the internal management information provided to the chief operating decision maker. The chief operating decision maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Management board of the Company is the chief operating decision maker.

The Group doesn't provide detailed information on the type of transaction since all the transactions are external.

Analysis of the operating segments of the Group for the period from 1 January 2020 till 30 June 2020, in thousands of euro:

	Loan service	Guarantee service	Venture capital fund service	Grant service	Land Fund service	Other services	Total
Interest income	5 402	1 274	17	-	598	2	7 293
Interest expense	(728)	(16)	-	-	(230)	-	(974)
Net interest income	4 675	1 257	17	-	368	2	6 319
Income for implementation of state aid programmes	431	250	1 693	488	-	38	2 900
Expenses to be compensated for implementation of state aid programmes	(53)	(199)	(1 676)	(488)	-	(54)	(2 470)
Net income for implementation of state aid programmes	379	49	17	-	-	(15)	430
Gains from debt securities and foreign exchange translation	1	2	-	-	(1)	-	2
Share of (losses) of investment in joint venture and associate	-	-	(2 018)	-	-	-	(2 018)
Share of gain of investment in joint venture and associate at fair value through profit or loss	-	-	2 018	-	-	-	2 018
Gains less losses from liabilities at fair value through profit or loss	-	-	-	-	-	-	-
Other income	-	-	567	3	497	329	1 396
Other expense	(132)	(23)	(2)	(15)	(159)	(32)	(363)
<b>Operating income / (loss) before operating expenses</b>	<b>4 923</b>	<b>1 285</b>	<b>599</b>	<b>(12)</b>	<b>705</b>	<b>284</b>	<b>7 784</b>
Staff costs	(1 798)	(419)	20	(326)	(134)	(128)	(2 785)
Administrative expense	(503)	(146)	(22)	(168)	(35)	(39)	(913)
Amortisation of intangible assets and depreciation of property, plant and equipment	(209)	(83)	(14)	(77)	(17)	(16)	(416)
(Impairment) gain, net	(2 212)	(956)	-	-	238	(2)	(2 932)
Profit or (loss) from assets held for sale revaluation	-	-	-	-	-	-	-
<b>Total segment profit/(loss)</b>	<b>201</b>	<b>(319)</b>	<b>583</b>	<b>(583)</b>	<b>757</b>	<b>99</b>	<b>738</b>
Financial assets at fair value through profit or loss	-	-	-	-	-	-	-
Investments in venture capital funds - associates	-	-	-	-	-	-	-
Additions of property and equipment, intangible assets and investment property	426	122	22	181	9 186	30	9 967
<b>Total segment assets</b>	<b>363 468</b>	<b>111 309</b>	<b>95 710</b>	<b>31 594</b>	<b>63 554</b>	<b>35 332</b>	<b>700 967</b>
<b>Total segment liabilities</b>	<b>180 027</b>	<b>73 302</b>	<b>32 191</b>	<b>28 360</b>	<b>53 574</b>	<b>744</b>	<b>368 198</b>

## 25 Segment Information (cont'd)

Analysis of the operating segments of the Group for the period from 1 January 2019 till 30 June 2019, in thousands of euro:

	Loan service	Guarantee service	Venture capital fund service	Grant service	Land Fund service	Other services	Total
Interest income	5 143	1 130	56	-	323	-	6 652
Interest expense	(999)	(88)	-	-	(86)	-	(1 173)
Net interest income	4 144	1 042	56	-	237	-	5 479
Income for implementation of state aid programmes	237	216	857	645	-	10	1 965
Expenses to be compensated for implementation of state aid programmes	(46)	(215)	(887)	(556)	-	(24)	(1 728)
Net income for implementation of state aid programmes	191	1	(30)	89	-	(14)	237
Gains from debt securities and foreign exchange translation	39	46	9	-	-	-	94
Share of (losses) of investment in joint venture and associate	-	-	(623)	-	-	-	(623)
Share of gain of investment in joint venture and associate at fair value through profit or loss	-	-	623	-	-	-	623
Gains less losses from liabilities at fair value through profit or loss	-	-	-	-	-	-	-
Other income	-	-	-	-	271	154	425
Other expense	(102)	(20)	(3)	(11)	(114)	(11)	(261)
<b>Operating income / (loss) before operating expenses</b>	<b>4 272</b>	<b>1 069</b>	<b>32</b>	<b>78</b>	<b>394</b>	<b>129</b>	<b>5 974</b>
Staff costs	(1 462)	(316)	(5)	(250)	(105)	(80)	(2 218)
Administrative expense	(435)	(122)	(23)	(153)	(30)	(15)	(778)
Amortisation of intangible assets and depreciation of property, plant and equipment	(194)	(74)	(15)	(81)	(10)	(8)	(382)
(Impairment) gain, net	1 177	1 401	-	-	-	-	2 578
Profit or (loss) from assets held for sale revaluation	-	-	-	-	-	-	-
<b>Total segment profit/(loss)</b>	<b>3 358</b>	<b>1 958</b>	<b>(11)</b>	<b>(406)</b>	<b>249</b>	<b>26</b>	<b>5 174</b>
Financial assets at fair value through profit or loss	-	-	1 968	-	-	-	1 968
Investments in venture capital funds - associates	-	-	52 184	-	-	-	52 184
Additions of property and equipment, intangible assets and investment property	149	43	8	63	5 358	11	5 632
<b>Total segment assets</b>	<b>271 901</b>	<b>68 347</b>	<b>76 434</b>	<b>26 579</b>	<b>47 543</b>	<b>26 430</b>	<b>517 234</b>
<b>Total segment liabilities</b>	<b>133 971</b>	<b>71 184</b>	<b>20 239</b>	<b>24 876</b>	<b>39 868</b>	<b>554</b>	<b>290 692</b>

## 26 Events after the reporting date

As of the last day of the reporting period until the date of signing these financial statements there have been no other events which could produce a material effect on the financial position of the Group / Company.

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## OTHER NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

### KEY FINANCIAL AND PERFORMANCE INDICATORS

	2019 (audited)	2018 (audited)	2017 (corrected) *	2016 (corrected) *	2015 (corrected) *
<b>Key financial data</b>					
Net interest income (EUR '000) **	11 569	11 302**	11 602	11 024	16 419
Profit for the period (EUR '000)	8 131	4 092	8 709*	2 170	4 924
Cos to income ratio (CIR) ***	52.58%	74.84%***	50.3%*	88.40%	55.80%
Employees	203	222	230	242	282
Total assets (EUR '000)	560 061	495 939	453 668*	443 400*	406 918
<b>Tangible common equity (TCE) / Total tangible managed assets (TMA) ****</b>	<b>29.40%</b>	31.70%	35.1%*	36.50%	37.30%
Equity and reserves (EUR '000)	232 738	221 590	222 848*	210 406*	199 610
<b>Total risk coverage: (EUR '000)</b>	<b>87 456</b>	77 815	67 593*	66 508*	41 021
Risk coverage reserve	99 778	85 276	62 651	63 636*	40 662
Risk coverage reserve used for provisions	(27 829)	(19 268)	(4 753)	(4 323)	(1 276)
Portfolio loss reserve (specific reserve capital)	15 507	11 807	9 695	7 195	1 635
Liquidity ratio for 180 days *****	582%	227%	482%*	449%	352%
<b>Financial instruments (gross value)</b>					
<b>Outstanding (EUR '000) (by financial instrument)</b>					
Loans (excluding sales and leaseback transactions)	225 144	210 208	207 065	217 429	218 562
Guarantees	284 232	236 895	182 376	147 175	131 120
Venture capital funds	68 331	59 698	62 299	64 785	44 378
Land Fund, of which:	39 634	21 717	11 328	4 635	991
- sales and leaseback transactions	15 268	6 923	520	-	-
- investment properties	24 366	14 794	10 808	4 635	991
<b>Total</b>	<b>617 341</b>	<b>528 518</b>	<b>463 068</b>	<b>434 024</b>	<b>395 051</b>
Number of transactions	22 437	18 603	14 655	11 561	8 940
<b>Volumes issued (EUR '000) (by financial instrument)</b>					
Loans (excluding sales and leaseback transactions)	64 320	59 608	51 349	59 465	52 329
Guarantees	98 240	88 765	68 615	56 109	50 065
Venture capital funds	9 022	4 149	2 638	21 356	18 798
Land Fund, of which: *****	16 384	10 823	6 359	3 704	991
- sales and leaseback transactions	7 239	6 835	520	-	-
- investment properties	9 145	3 988	5 839	3 704	991
<b>Total</b>	<b>187 966</b>	<b>163 345</b>	<b>128 961</b>	<b>140 634</b>	<b>122 183</b>
Number of transactions	5 559	5 590	4 839	4 537	2 841
Leverage for raised private funding	142%	162%	185%	162%	104%
Volume of support programmes funding per employee (EUR '000)	3 041	2 381	2 013	1 793	1 401
Long-term rating assigned by Moody's Investors Service	Baa1	Baa1	Baa1	-	-

\* Due to change of accounting policy on investments in venture capital funds and adoption of IFRS 9 requirements that effects the accounting of public funding risk coverage the comparatives for 2017 and 2016 have been restated.

\*\* Due to reclassification of fees and commission related to lending activities following the industry practise, excludes fees and commission not related to lending activities, the comparatives for 2018 have been reclassified with subsequent ratio recalculation.

\*\*\* Due to reclassification of staff and administrative costs to be compensated as well as respective income on compensation, the comparatives for 2018 have been reclassified with subsequent ratio recalculation.

\*\*\*\* TMA includes off-balance sheet item outstanding guarantees.

\*\*\*\*\* Liquidity ratio calculation takes into account the previous experience and management estimate of expected amount and timing of guarantees claims

\*\*\*\*\* 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 operational volumes for 3 months of 2019 have been adjusted accordingly.

## Definitions of ratios

<i>Net income from interest, fees and commission</i>	<p>"Net income from interest, fees and commission" is equal to the item "Net interest income" in the Statement of Comprehensive Income. Until 2018 this ratio included the following items of the Statement of Comprehensive Income: "Net interest income" and "Net income from fees and commissions". In 2019 following the industry practise Fee and commission income from lending activities is reclassified to Interest income from "Net income from fees and commissions". Subsequently the fee and commission income not related to lending activities is reclassified within Other income and as such is not included in this ratio. The item "Net income from fees and commissions" is not applicable in The Statement of Comprehensive Income any more. The comparatives have been reclassified accordingly.. ALTUM uses this indicator as the key financial metric for profitability by evaluating ALTUM Group's net income amount generated by the portfolio of financial instruments and recognised in the Statement of Comprehensive income. ALTUM management measures and monitors the actual performance of this indicator on a quarterly basis compared to the approved level in ALTUM Group's budget.</p>
<i>Cost to income ratio (CIR)</i>	<p>"Cost to income ratio" (CIR) is calculated by dividing the amount of "Staff costs", "Administrative expense", "Amortisation of intangible assets and depreciation of property, plant and equipment" by "Operating income before operating expenses" included in the Statement of Comprehensive Income. ALTUM uses CIR to evaluate the operational efficiency. This is one of the measures of operational efficiency which ALTUM management assesses on a quarterly basis in the management reports to evaluate the outputs from different operational activities and efficiency improving measures.</p>
<i>Tangible common equity (TCE) / Tangible managed assets (TMA)</i>	<p>"Tangible Common Equity" (TCE) is calculated by subtracting the revaluation reserve of available for sale investments from total equity.</p> <p>The amount of "Total managed assets" (TMA) is calculated by adding the guarantees shown as off-balance sheet items to the total assets of ALTUM Group taking into account provisions for these guarantees and subtracting "Deferred expense", "Accrued income", "Property, plant and equipment", "Intangible assets", "Other assets" and "Assets held for sale".</p> <p>Data for the calculation of both indicators (TCE, TMA) are obtained from ALTUM Group's Financial statements: Statement of Financial Position and Consolidated Statement of Changes in Equity, notes - Off balance sheet items and contingent liabilities and Provisions. ALTUM uses the ratio "TCE/TMA" to evaluate ALTUM Group's capital position adequacy and to measure ALTUM Group's tangible common equity in terms of ALTUM Group's tangible managed assets including the off-balance sheet item Guarantee portfolio. The Risk and Liquidity Management Committee of ALTUM monitors its level on a quarterly basis.</p>
<i>Total risk coverage</i>	<p>"Total Risk Coverage" is the net funding available for covering the expected credit losses of the State aid programmes implemented by ALTUM. "Total Risk Coverage" is calculated as the total of "Risk Coverage Reserve" and "Portfolio Loss Reserve" (Specific Capital Reserves) less "Risk Coverage Reserve Used for Provisions". The expected losses are estimated before implementation of the respective State aid programme and part of the public funding received under respective State aid programme for coverage of expected losses on credit risk is transferred either to "Portfolio Loss Reserve" as ALTUM Group's specific capital reserve or accounted separately as provisions for risk coverage under liabilities item "Risk Coverage Reserve". "Portfolio Loss Reserve" (specific capital reserve) is disclosed in the Note on Reserves to the Financial statements of the ALTUM Group. "Risk Coverage Reserve" is disclosed in the Note on Support Programme Funding to the Financial statements of ALTUM Group. "Risk Coverage Reserve Used for Provisions" is the amount of "Risk Coverage Reserve" allocated to and used for provisioning for impairment loss on loan portfolio and guarantees which in its turn is disclosed in the Note on Loans and Note on Provisions to the Financial statements of ALTUM Group.</p> <p>"Total Risk Coverage" is key indicator to be used for assessment of ALTUM's risk coverage on implemented programmes and long-term financial stability.</p>
<i>180-day liquidity ratio</i>	<p>"180-days-liquidity ratio" is calculated by dividing the amount of the balances "Due from other credit institutions and the Treasury" with a maturity of up to 1 month and "Financial assets at fair value through other comprehensive income and Investment securities" by the amount of the total liabilities maturing within 6 months and total financial commitments maturing within 6 months (off-balance sheet items). The data required for the calculation of the "180-days liquidity ratio" is disclosed in the following ALTUM Group's Financial statements: Statement of Financial Position and notes – Maturity profile of assets and liabilities under the section of Risk Management, Off-balance sheet items and contingent liabilities. ALTUM uses the "180-days-liquidity ratio" to assess and monitor ALTUM Group's ability to fulfil ALTUM Group's contractual and/or contingent liabilities during 6 (six) month with the currently available liquidity resources. "180-days-liquidity ratio" helps to manage ALTUM Group's liquidity risk in line with ALTUM Group's/ALTUM's funding management objectives and risk framework. Risk and Liquidity Management Committee of ALTUM monitors its level on a quarterly basis.</p>
<i>Total contribution to the economy, including the participation of the final recipients, by volumes issued in the period</i>	<p>The 'total contribution to the economy, including the participation of the final recipients, by volumes issued in the period' is calculated by adding to the volumes issued by ALTUM the financing provided by the private co-financier and the project promoter.</p>



## Definition of ratios (cont'd)

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<i>Leverage for raised private funding</i>	"Leverage for raised private funding" indicates the amount of additional private funds invested in a project in addition to ALTUM's financing. "Leverage for raised private funding" is determined considering the financing invested by a private co-financier and a project's implementer, which, on average, makes up to 50 per cent for loans, up to 70 per cent for guarantees and venture capital (except for housing loan guarantees' programme for the first instalment with a ratio of 795 per cent) in addition to ALTUM's funding.
<i>Employees</i>	Average number of employees in the period excluding members of the Council and the Audit Committee.
<i>Volume of support programmes funding per employee</i>	"Support programmes funding per employee" is calculated by dividing the gross value of the Financial Instruments Portfolio by the average number of employees during the period, excluding members of the Supervisory Council and the Audit Committee.
<i>Venture capital</i>	The Venture Capital Funds presented at their gross value.

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