JSC DEVELOPMENT FINANCE INSTITUTION ALTUM

Annual Report for the year ended 31 December 2015 (The second reporting period)

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JSC Development Finance Institution Altum
Doma laukums 4
Riga, LV-1050, Latvia
phone: + 31767774010
facsimile: + 37167820143
Registration number: 50103744891

JSC DEVELOPMENT FINANCE INSTITUTION ALTUM
REPORT OF MANAGEMENT

Activity during reporting period

The joint stock company Development Finance Institution Altum (hereinafter referred to as Company) is a development finance institution that promotes economic development of Latvia by providing the state aid in an efficient and professional manner:

- within the framework of specific state aid programmes;
- to the target groups;
- through financial instruments (loans, guarantees, investments in venture capital funds, grants;
- and implementing also other, state-delegated functions.

During the reporting period the mission, vision and values of the Company were defined.

The mission of the Company is:
We help Latvia to thrive!

The main values of the Company are:

- excellence;
- team-work;
- responsibility.

The role of the development finance institution in the financial market is to:

- complement the financial market;
- fill in market gaps and rectify failures;
- operate, as delegated by the state, in the defined areas and segments;
- implement the programmes jointly with private market participants.

The vision of the Company is:
Co-operation partner and financial expert in the development of the national economy.

On October 30, 2014, to provide for an efficient operation of the development finance institution when implementing the state aid programmes and pursuing the state policy in the national economy, the Parliament of the Republic of Latvia adopted the Development Finance Institution Law.

As of March 1, 2015, when the Development Finance Institution Law came into effect, the structure of the Company's shareholders has changed. The Ministry of Finance holds 40% of the Company's shares, the Ministry of Economics and Ministry of Agriculture - 30% each.

As of April 15, 2015 the name of the Company has been changed from joint stock company Development Finance Institution to joint stock company Development Finance Institution Altum.

On April 15, 2015, as part of establishing a single development finance institution, the state-owned joint stock company Latvian Development Finance Institution Altum, limited liability company Latvian Guarantee Agency (hereinafter LGA) and state-owned joint stock company Rural Development Fund (hereinafter RDF) were merged into the joint stock company Development Finance Institution and ceased to exist without a liquidation process. All the rights and obligations of these companies were transferred to the joint stock company Development Finance Institution. In the process of reorganisation, continuity of the state aid programmes implemented by state-owned JSC Latvian Development Finance Institution Altum, LGA and RDF was ensured and new programmes were developed in co-operation with the line ministries in charge.

In year 2015, while undergoing re-organisation process, the Company ensured the operational continuity of the state aid programmes. Upon completion of the reorganization the Company, being a single development finance institution, continues to implement the government-approved state aid programmes and work at development of new programmes in co-operation with the line ministries. As at December 31, 2015 the Company's books and records hold a portfolio of financial instruments granted within the state aid programmes for the total value of 371.5 mln euros made up of 8,901 projects, including:

- net loan portfolio of 201.5 mln euros, the total number of transactions – 6 573;
- guarantee portfolio of 131.1 mln euros, the total number of transactions – 2 070;
- investments in venture capital funds for the total net value of 38.9 mln euros, the total number of projects financed by funds – 258.

REPORT OF MANAGEMENT (continued)

In February 2015 the Company started to implement the Housing Guarantee Programme. In year 2015 there were 1,176 guarantees issued for 7.220 mln euros.

On July 1, 2015 the Land Fund administered by the Company was put into action. In year 2015 the Land Fund purchased 39 properties with the total land area of 560 ha for 990 thsd euros.

The profit of JSC Development Finance Institution Altum made during 12 months of 2015 amounted to 2.20 mln euros.

In the Company's financial statements for year 2015, different methods and models than used previously in the financial statements of the reorganized companies have been applied for accounting of investments in venture capital funds and the fair value of guarantees.. According to the due diligence conducted in line with the International Financial Reporting Standards, the new methods and models are more appropriate for accounting for the operations of the Company that provides state aid through financial instruments.

The above changes to the accounting methods and models resulted in adjustments to the initially established reorganisation reserve (Note 31), compliance with the International Financial Reporting Standards, increased implementation transparency of the state aid programmes and improved understanding of the results of these programmes.

The Company's financial statements for 12 months include the financial results of JSC Development Finance Institution from January 1 to March 31, 2015 and financial results of JSC Development Finance Institution Altum from April 1 to December 31, 2015 (the single development finance institution after completion of the reorganisation of the state-owned JSC Latvian Development Finance Institution Altum, LGA and RDF).

The financial operations of the state-owned JSC Latvian Development Finance Institution Altum, LGA and RDF in the period from January 1 to March 31, 2015 are included in the closing statements and operational financial results of the aforementioned companies are recognised in the Company's balance-sheet under item Shareholder's Equity.

In year 2015 the Council approved a new composition of the Board of the Company: Inese Zīle, Reinis Bērziņš, Jēkabs Krieviņš, Juris Vaskāns, Rolands Paņko. Reinis Bērziņš was elected the Chairman of the Board. The new, expanded composition of the Board assumed office on October 12, 2015.

Future Outlook

Based on the market gap analysis the Company will keep developing and implementing new state aid programmes in co-operation with the ministries in charge.

The Company is an implementing body of the fund of funds. At the level of the fund of funds the total funding available from the European Regional Development Fund is estimated at 126 mln euros. The financial instruments financed by the fund of funds will have more financing attracted from the Company's resources or reflows of the programmes of the previous programming periods as well as funds of the financial intermediaries, as stipulated by financial instruments' state aid programmes.

The Company will be the implementing body for the Energy Efficiency Project of Multi-apartment Buildings. The total public funding (ERDF and state budget) of the programme is estimated at 166 mln euros. In addition to that, the funding of the Company and loans will be used.

Reinis Bērziņš
Chairman of the
Board

27 May 2016

THE SUPERVISORY COUNCIL AND THE BOARD OF DIRECTORS

The Supervisory Council

The Council was established by a Ministry of Finance order No 584 on 19 December 2013.

Name, surname	*Position*	*Date appointed*
Līga Kļaviņa	Chairperson of the Council	19/12/2013
Jānis Šnore	Council Member	19/12/2013
Gatis Sniedziņš	Council Member	19/12/2013

The Board was established by a Ministry of Finance order No 584 on 19 December 2013.

On October 2, 2015 the Council decided to re-elect to the Board the Board members - Juris Vaskāns and Jēkabs Krieviņš and elect a new Board member – Inese Zīle and new Chairman of the Board – Reinis Bērziņš. The Council also ruled that Rolands Paņko had to assume the duties of Board member as of October 12, 2015.

Name, surname	*Position*	*Date appointed / removed*
Reinis Bērziņš	Chairman of the Board	12/10/2015 - present
Rolands Paņko	Board Member	15/04/2014 – 12/10/2015 - Chairman of the Board; 12/10/2015 – present – Board Member
Jēkabs Krieviņš	Board Member	12/10/2015 - present
Juris Vaskāns	Board Member	12/10/2015 - present
Inese Zīle	Board Member	12/10/2015 - present
Ivars Gosts	Board Member	09/04/2014 - 23/01/2015
Aivis Ābele	Board Member	09/04/2014 - 23/01/2015

STATEMENT OF RESPONSIBILITY OF THE MANAGEMENT

Riga 27 May 2016

The Board of Directors (Management) is responsible for preparing the financial statements from the books of prime entry of the Company for each financial period that present fairly the state of affairs of the Company as at the end of the financial period and the results of their operations and cash flows for that period according to the International Financial Reporting Standards as adopted by the European Union. The judgments and estimates made by the Management in the preparation of the financial statements have been prudent and reasonable.

The Management confirms that suitable accounting policies have been used and applied consistently and reasonable and prudent judgments and estimates have been made in the preparation of the financial statements on pages 7 to 63 for the period from 1 January 2015 to 31 December 2015. The Management also confirms that applicable International Financial Reporting Standards as adopted in the EU have been used in preparation of the financial statements and that these financial statements have been prepared on a going concern basis.

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 Company and to prevent and detect fraud and other irregularities.

Reinis Bērziņš
Chairman of the
Board

Building a better working world

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

Reģ. Nr. 40003593454
PVN maksātāja Nr. LV40003593454

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

Reg. No: 40003593454
VAT payer code: LV40003593454

INDEPENDENT AUDITORS' REPORT

To the shareholders of JSC Development Finance Institution ALTUM

Report on the financial statements

We have audited the accompanying financial statements of JSC Development Finance Institution ALTUM (hereinafter - the Institution), which are set out on pages 7 through 63 of the accompanying 2015 Annual Report, which comprise the Institution's statement of comprehensive income, the statement of financial position as at 31 December 2015, the statement of changes in equity, the statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

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

Auditors' responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion
In our opinion, the financial statements give a true and fair view of the financial position of the Institution as of 31 December 2015, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Emphasis of matter
Without qualifying our opinion, we draw attention to Notes 1 and 2(2) in the financial statements which indicate that JSC Finance Development Institution was the parent entity of JSC Development Finance Institution Consolidated Group until 31.03.2015 and that consolidated financial statements prepared in accordance with International Financial Reporting Standards have been issued separately. We have audited the consolidated financial statements of the Consolidated Group as at 31.12.2015 and for the year then ended.

Report on other legal and regulatory requirements

Furthermore, we have read the management report for the year ended 31 December 2015 (set out on pages 2 through 3 of the accompanying 2015 Annual Report) and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2015.

SIA Ernst & Young Baltic
Licence No. 17

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

Riga, 27 May 2015

FINANCIAL STATEMENTS
STATEMENT OF COMPREHENSIVE INCOME
(all amounts in thousands of euro)

	Notes	01/01/2015-31/12/2015	27/12/2013-31/12/2014
Interest income	4	15,075	1
Interest expense	5	(569)	-
Net interest income		**14,506**	**1**
Fees and commissions income	6	378	-
Fees and commissions expense	7	(270)	-
Net income from fees and commissions		**108**	**-**
Net trading income	8	23	-
Other income	9	1,765	-
Operating profit		**16,402**	**1**
Staff costs	10	(5,060)	(328)
Administrative expense	11	(3,920)	(51)
Amortisation of intangible assets and depreciation of property, plant and equipment	21,22	(532)	(1)
Net provisions for impairment	12	(4,682)	-
Profit / (loss) before corporate income tax		**2,208**	**(379)**
Corporate income tax	13	-	-
Profit / (loss) for the period		**2,208**	**(379)**
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Net loss on available for sale investments	34	(3,124)	-
Other comprehensive (loss) for the year, net of tax		**(3,124)**	**-**
Total comprehensive (loss) for the period		**(916)**	**(379)**

The notes on pages 11 to 63 are an integral part of these financial statements.

Reinis Bērziņš
Chairman of the Board

27 May 2016

STATEMENT OF FINANCIAL POSITION
(all amounts in thousands of euro)

	Notes	**31.12.2015**	**31.12.2014**
Assets			
Due from other credit institutions and the State Treasury	16, 33	46,148	218
Investment securities - available for sale	14	97,276	-
Investment securities – held to maturity	14	1,541	-
Loans	19	201,518	-
Investments in venture capital funds	18	38,964	-
Deferred expense and accrued income	24	1,561	
Investments in subsidiaries	20	646	204,293
Investment property	15	1,225	-
Property, plant and equipment	22	4,628	3
Intangible assets	21	123	-
Corporate income tax overpaid	13	523	-
Other assets	23	9,824	1
Total assets		**403,977**	**204,515**
Liabilities			
Due to credit institutions	25	67,166	-
Derivatives	17	346	-
Due to general governments	26	39,561	-
Deferred income and accrued expense	30	1,663	8
Support programme funding	27	54,174	-
State aid	27	16,166	-
Provisions	28	17,327	-
Other liabilities	29	6,516	24
Total liabilities		**202,919**	**32**
Capital and reserves			
Share capital	31	204,862	204,862
Reserves	31	14,300	-
Available for sale reserve	34	8,667	-
Accumulated profit/ (loss)		1,829	(379)
Total capital and reserves		**201,058**	**204,483**
Total liabilities		**403,977**	**204,515**

The notes on pages 11 to 63 are an integral part of these financial statements.

Reinis Bērziņš
Chairman of the
Board

27 May 2016

STATEMENT OF CHANGES IN EQUITY FOR THE COMPANY

(all amounts in thousands of euro)

	Notes	Share capital	Reserves	Available for sale reserve	Retained earnings	Total capital
as at 27 December 2013		-	-	-	-	-
Losses for the period		-	-	-	(379)	**(379)**
Other comprehensive income	34	-	-	-	-	-
Total comprehensive (loss) for the period		-	-	-	(379)	**(379)**
Issue of share capital		569	-	-	-	**569**
Increase of share capital	31	204,293	-	-	-	**204,293**
as at 31 December 2014		**204,862**	-	-	**(379)**	**204,483**
Profit for the period		-	-	-	2,208	2,208
Other comprehensive income	31,34	-	-	(3,124)	-	(3,124)
Total comprehensive income/ (loss)			**-**	**(3,124)**	**2,208**	**(916)**
Decrease / increase of reorganisation reserve	31,34	-	(15,935)	11,791	-	(4,144)
Increase of reserve capital	31	-	1,635	-	-	1,635
as at 31 December 2015		**204,862**	**(14,300)**	**8,667**	**1,829**	**201,058**

The notes on pages 11 to 63 are an integral part of these financial statements.

CASH FLOW STATEMENT (all amounts in thousands of euro)

	Notes	01/01/2015-31/12/2015 Company	27/12/2013-31/12/2014 Company
Profit / (loss) before taxes		**2,208**	**(379)**
Amortisation of intangible assets and depreciation of property, plant and equipment	21,22	405	1
Increase in provisions for impairment		4,682	-
Increase in provisions for impairment of investments in venture capital funds		2,965	-
Increase in deferred income and accrued expense		956	-
Increase in deferred expense and accrued income		3,100	-
Decrease / (increase) of other assets		(2,655)	(1)
Increase in other liabilities		(25,794)	32
Decrease of cash and cash equivalents used before changes in assets and liabilities		**(14,133)**	**(347)**
Due from credit institutions decrease		11,725	-
Decrease of loans		12,866	-
Increase in Due to credit institutions		(10,137)	-
Corporate income tax		-	-
Net cash flow from operating activities		**321**	**(347)**
Cash flows from investment activities			
Sale of investment securities		11,308	-
Acquisition of property, plant and equipment and intangible assets		(288)	(4)
Purchase of investment properties		(991)	
Investments in venture capital funds, net		(14,235)	-
Net cash flow of investment activities		**(4,206)**	**(4)**
Cash flows from financing activities			
Increase in reserve capital	31	1,635	569
Net cash flow from financing activities		**1,635**	**569**
(Decrease) /increase in cash and cash equivalents		**(2,250)**	218
Acquired through reorganisation process	44	45,748	-
Cash and cash equivalents at the beginning of period		218	-
Cash and cash equivalents at the end of period	33	**43,716**	**218**

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The notes on pages 11 to 63 are an integral part of these financial statements

NOTES TO FINANCIAL STATEMENTS

APPROVAL OF FINANCIAL STATEMENTS

The management of the Company has approved these financial statements on 27 May 2016. 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. The shareholders of the Parent Company have the power to amend the financial statements after issue.

1 GENERAL INFORMATION

(1) Background information

The Joint-stock company Development Finance Institution (Company) was established on 27 December 2013 by a Cabinet decision.

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

The establishment of the integrated Development Finance Institution was accomplished in two stages. The first stage was the transferring of the equity of LAF, LGA and ALTUM to the Company, thus establishing a group of development finance institutions. This stage successfully accomplished on 11 September 2014, when all shares of ALTUM, LGA and LAF were invested in the equity capital of the Company as investment in kind.
The second stage encompassed reorganization of the Company, ALTUM, LGA and LAF thus establishing an integrated development finance institution. For this purpose, on 28 October 2014, ALTUM, LGA and LAF signed a reorganization agreement on merging these companies with the JSC Development Finance Institution.
This stage was successfully completed by registration with the Enterprise Register of the Republic of Latvia on April 15, 2015. In turn, ALTUM, LGA, LAF and Company's accounting records were merged on 1 April 2015.The newly established integrated development finance institution will implement the state aid programmes and financial instruments of ALTUM, LGA and LAF and together with policy makers will develop new programmes and financial instruments.

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

The establishment of the Company and reorganization of the development finance institutions ALTUM, LGA and LAF do not affect the continuity of the current support programmes.`

2 ACCOUNTING POLICIES

(1) Basis of preparation

These financial statements are separate 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 the financial statements on a going concern basis the management considered the Company's financial position, access to financial resources and analysed the impact of the external factors on future operations of the Company.

The financial statements are prepared under the historical cost convention as modified by the fair valuation of financial assets held as available-for-sale, trading securities, derivative financial instruments and investment properties.
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.
In the financial statements the amounts are given in thousands of euros, unless specified otherwise.
The functional currency of the Company has been the euro.

NOTES TO FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

(2) Consolidation, reorganisation and investments in subsidiaries

The current financial statements use different methods and models for recording of the historical cost of guarantees and investments in venture capital funds than were applied in the previous consolidated financial statements of the Company. According to the due diligence conducted in line with the International Financial Reporting Standards the new methods and models are more appropriate for presentation of the operations of the Group's companies as well as Company itself that, after reorganization of the Group, delivers state aid via financial instruments.

The historical cost of guarantee contracts is established using a method that measures the underived income that the Company will not receive on the guarantees that have been issued within the state aid programs at the rates below the market rates, as stipulated by the provisions of these programs. The underived income includes the underived funds at discounted value calculated as the difference between actual income to be received over the term of the guarantee as per concluded guarantee contracts, and income that would be derived had these guarantees been issued at the market rate. The Company accumulates provisions for the onerous contracts (see Note 2 (21) and Note 28).`

In accordance with the method used by the Company's Group in the Company's consolidated annual report for the year 2014 prepared in compliance with IFRS and audited by Deloitte Audits Latvia SIA, the underived income was calculated based on a different model – discounted value of the receivable premiums. The underived income amounted to EUR 1,846 thsd and was included in the balance sheet under the items Deferred income and Deferred expenses with no impact on the equity capital.

When recording, already after the Group's reorganization, the carrying value of the taken-over LGA's guarantee portfolio that was issued before reorganization, the underived future income of EUR 8,546 thsd was included, as stipulated by the current accounting policy of the Group and Company (see Note 31), in the calculation of the reorganization reserve since it referred to the periods before reorganization, which reduced the equity capital of the Company. The Accounting Policy aa stipulates gradual amortization of the underived income over the remaining term of the guarantee contract as income.

In the previous period, based on IFRS compliant method, the Company's Group measured the investments in venture capital funds at the fair value. Hence the fund management fees were recognized initially in the income statement, but when measuring the investment in the venture capital fund at the fair value at the end of the reporting period and recognising the increase of the fair value of investment (if any) in the income statement, the net impact on the income statement was nearly neutral with a respective increase of the value of the investments in venture capital funds in the balance sheet.

Due to relatively new investment portfolio of venture capital funds and the funds being in the phase of active investing when it is difficult to apply the fair value model, the Company's Group changed the method used for measuring the investments in venture capital funds to the cost less impairment method.

Upon reorganization of the Group, when recording the carrying value of the taken-over LGA's portfolio of investments in venture capital funds that was issued before reorganization, the fund management fees of EUR 5,417 thsd referring to pre-reorganization periods were distinguished from the value of investment, as stipulated by the current accounting policy of the Group and Company. In accordance with the agreement dated December 23, 2015 concluded with the Ministry of Economics on amendments to the Agreement on Implementation of the Holding Fund, the fund management fees were linked to the reduction of the liabilities towards the Ministry of Economics and not reorganization reserve. The Company recorded the management fees of EUR 1,323 thsd having originated from April 1, 2015 to December 31, 2015 under the expenses item of the income statement of which EUR 1,120 thsd were offset by reducing the liabilities of the Company, as foreseen by the above mentioned agreement.

The above changes to the accounting methods and models of the Company's Group increase implementation transparency of the state aid programs and give a fairer understanding of the implementation results of these programs.

NOTES TO FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

(2) Consolidation, reorganisation and investments in subsidiaries

Consolidation

For the period from 11 September 2014 to 31 December 2014 the Company has prepared consolidated financial statements of the Group, which consisted of Company, LGA, LAF and ALTUM. These financial statements weres based on IFRS and it was the first year of IFRS implementation by the Company.

The Company also prepared consolidated financial statements for the year ended 31 December 2015 which are issued separately. The consolidated financial statements are obtainable at the Company's main office upon request.

Investments in subsidiaries

Subsidiaries are entities over which the Company directly or indirectly has power to exercise control over financial and operating policies, and where operating volumes are substantial.

Investments in subsidiaries are accounted at cost less impairment, if any, in the Company's separate financial statements and are consolidated by adding together similar types of assets, liabilities, income and expenses in Group's financial statements.

Reorganization

Upon the legal merger of LGA, RDF and ALTUM the transferred assets and assumed liabilities as of the effective date of the legal merger, were recognised in these separate financial statements at the carrying amounts included in the consolidated financial statements as of that date. When preparing the consolidated financial statements as of the date of the legal merger, the Company used the audited closing financial statements of the subsidiaries for the financial position as at March 31, 2015. The statement of financial position and statement of comprehensive income of LGA, RDF and ALTUM closing financial statements are available under Note 44 to this report. When the accounting policies used by LGA, RDF and ALTUM differed from the Company's accounting policy, the accounting policy of the Company was applied.

The acquisition method for business combinations, as described in IFRS 3, was not applied in these separate financial statements of the Company upon the merger, as all entities were already controlled by the same entity or entities both before and after the reorganisation. The reorganisation has no commercial substance.

The difference between the amounts assigned to the assets and liabilities in the Company's separate financial statements after the legal merger (those previously used in the consolidated financial statements), and the carrying amounts of the investments in the merged subsidiaries before the legal merger were recognised directly in equity (available-for-sale reserve and reserve capital, i.e. reorganisation reserve) in the separate financial statements of the Company.

Investments in associates

Associates are all entities over which the Company has significant influence but not control. Investments in associates are accounted for at cost in the Company's separate financial statements, and using the equity method in Group's consolidated financial statements (see Note 5).

(3) Foreign currency translation

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

The applicable rates for the principal currencies held by the Company were as follows:

31 December 2015
1 USD = EUR 1.08870
1 GBP = EUR 0.73395
1 CHF = EUR 1.08350
1 NOK = EUR 9.60300

NOTES TO FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

(4) Income and expense recognition

Income and expense accounting of the 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.

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 Company estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but do 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 following the following complementary principles:

- interest accrual calculation uses various day accounting methods, specified in agreements with customers (30/360 or actual days / 360);
- when loan is 90 days past due, the accrued interest past 90 days is accounted off-balance sheet, rather than including it in the statement of financial position and in profit or loss. The management considers that after 90 days the financial standing of the borrower becomes uncertain and, based on the principle of prudency, believes that receipt of interest income after 90 days is unlikely. Also the lending institutions of Latvia adhere to a similar principle.

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

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

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

- loan processing and disbursement commissions (including loan application fee) together with related direct costs – straight line over the loan term;
- other commissions (loan account management, amendment of terms, reservation fee, etc.) – are recognised on an accrual basis.

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

- commissions from granted financial guarantees – according to principles described in Note 2 (21);
- other commissions – are recognised on an accrual basis.

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

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

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

NOTES TO FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

(5) Financial instruments - initial recognition and subsequent measurement

(i) Date of recognition

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

(ii) Initial measurement of financial instruments

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

(iii) Trading and investment securities

Trading and investment securities are comprised of the following categories:

- *Trading securities* comprise fixed income securities and equity shares held by the Company for trading purposes. They are accounted for at fair value and all gains and losses arising from changes in the fair value are included in the profit or loss as part of net trading income.
- *Investment securities available-for-sale* comprise treasury bills and other fixed income securities held by the Company for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. They are stated at fair value with all gains and losses from revaluation recognised in the other comprehensive income, except for impairment losses, which are recognized in the profit or loss until derecognition. The cumulative change recognised as other comprehensive income is presented as Available for sale reserve under equity. The Company reviews its debt securities classified as available-for-sale investments at each statement of financial position date to assess whether they are impaired. This requires similar estimates applied to the individual assessment of loans and advances. The Company also records impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Company evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.
- Investment securities held-to-maturity comprise debt securities with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. They are carried at amortised cost, that is calculated based on the purchase price of the securities adjusted by discount or premium amortised over the tem of the securities, using the effective interest rate method. If the Company was to sell or reclassify more than an insignificant amount of held-to-maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the Company would be prohibited from classifying any financial asset as held to maturity during the following two years.

NOTES TO FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

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

(i) Investment in venture capital funds

The Company has significant influence over the venture capital funds in which it participates. The Company's investments in venture capital funds are treated as associates and recognized at cost less any impairment in value.

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

The Company's management checks regularly that the value of the underlying investments of the venture capital funds is properly reflected and that there are no changes to the value of these investments (value impairment) compared to the assessment of the fund's manager and initial acquisition cost. Also the Company's management verifies that a venture capital fund has had adequate information about the investment supporting the manager's assessment.

When the underlying investment in the venture capital funds is measured at the acquisition cost:

- the Company makes sure that the venture capital fund has a business plan for the investment or other supporting and sufficient information confirming that the acquisition value agrees to market terms or
- based on the available information, the Company subsequently establishes whether the operations of the enterprise proceed as planned (for example, if losses are earmarked in the estimated cash flows for the first years, it has to be verified that the actual losses are not higher and that operational results follow the proposed targets). Should materially adverse differences be identified in the actual operations, the Company has to establish whether the venture capital fund possesses adequate supporting information confirming that the investment is not facing value impairment. The Company has to decide whether, for example, deviations point to the Company's inability to achieve the planned results. The fact that the actual cash flows tally with the estimated indicates an absence of value impairment of the investment. The actual cash flows used for making of the estimates are assessed by comparing them with the available financial statements. Value impairment is recognised in the financial statements of the Company in line with the methodology described in Note 2 (9).

If the recoverable amount of the underlying investment in the venture capital funds is measured based on the discounted cash flow calculation, the calculation and underlying data are examined. The Company doesn't recognise in its financial statements a change to the value of the investment if it exceeds acquisition cost.

If the impairment test is prepared by a third party, the Company checks that the assessment has not been done more than a year ago.

Should another method be used, the Company checks on the substantiation of the choice of the method provided by manager, data and indicators used.

As foreseen by the new wording of the agreement No 2015/15 On Implementation of the Holding Fund dated December 23, 2015 concluded between the Company and Ministry of Economics, the 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 received reimbursement is netted against the borrowing from the State. The above risk cover mechanism is valid only for the second and third generation venture capital funds, such as limited partnership BaltCap LatviaVenture Capital Fund, Imprimatur Capital Technology Venture Fund, Imprimatur Capital Seed Fund, ZGI-3 fund, FlyCap Investment Fund I and Expansion Capital Fund (Note 18).

NOTES TO FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

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

(ii) Loans and receivables

For purposes of this section, loans are:

- direct lending products, i.e., the Company grants a loan to a borrower, who is the end beneficiary of funds;
- indirect lending products without assuming risk, i.e., the 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 Company recognizes loan impairment loss only when resulting from solvency problems of the intermediary;
- indirect lending products with risk assumption, i.e., the 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 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.

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

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

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

In addition to provisions for individual loans, provisions for homogeneous groups of loans based on similarities of credit risk involved, loan size, quality and loan terms are also established. The provision for loan impairment losses for those loans included within homogeneous groups have been estimated based upon historical patterns of losses in each group, the historic pattern of timeliness of payments and reflecting the current economic climate in which the borrowers operate (Note 19).

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

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

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

When the Company has doubt in receipt of interest income on loans in due time, provisions are built for the accrued interest income.

(iii) Due from other credit institutions and State Treasury

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

NOTES TO FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

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

(iv) 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 Company does not use hedge accounting.

(v) Financial liabilities carried at amortised cost

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

(6) Derecognition of financial assets

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

(7) Fair values of financial assets and liabilities

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

If the market for a financial asset or liability is not active (and for unlisted securities), the 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 Company, the fair values of financial assets and liabilities differ materially from their book values, such fair values are separately disclosed in the notes to the accounts. The Company measures financial instruments such as derivatives and non-financial assets such as investment properties at fair value at each balance sheet date. Fair value relates disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed are summarised in the following notes:

• Disclosures for valuation methods, significant estimates and assumptions	Note 2 (5), 2 (12), 2 (18), 2 (22), 2 (23)
• Quantitative disclosures of fair value measurement hierarchy	Note 37
• Investment property	Note 2 (13)
• Financial instruments (including those carried at amortised cost)	Note 2 (5), 2 (9), 2 (21),

(8) Off-setting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position balance sheet 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.

NOTES TO FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

(9) Impairment of financial assets

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

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

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

The Company reviews their financial assets to assess impairment not less than once in a quarter. In determining whether an impairment loss should be recorded in the profit or loss, the Company makes judgments as to whether there is any objective indication that there is a measurable decrease in the estimated future cash flows before the decrease can be identified with an individual financial asset. The Management uses estimates based on historical loss experience for assets with similar credit risk characteristics and current economic climate in which the borrowers operate. The methodology and assumptions used are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Nevertheless, it is reasonably possible, based on the current experience and existing knowledge that outcomes within the next financial year will differ from the current assumptions, whereby the carrying amount of the asset or liability affected might require a material adjustment.

(i) Available for sale financial instruments

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

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

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

NOTES TO FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

(9) Impairment of financial assets (continued)

(ii) Restructured loans

Where possible, the Company seeks to restructure loans rather than take possession of collateral. This mostly involves adjusting payment made by a borrower in a manner matching such a borrower's financial capacity (temporarily reducing principal repayments, extending payment terms) and the agreement of new loan conditions. Once the terms have been renegotiated and executed a loan is no longer considered non-performing as long as a borrower complies with the renegotiated terms and conditions. Such loans are continuously reviewed to ensure that all criteria are met and that future payments are likely to occur and interest and fee income is accrued and recognised as for other performing loans.

If the terms of the financial assets have been reviewed, each restructured loan is assessed quarterly to identify possible impairment that otherwise would be treated as overdue or impaired. When a loan is restructured, it is also assessed whether there should be derecognition (See Note 2 (6) on derecognition of assets policy).

(10) 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. These costs are amortised on the basis of their expected useful lives (5 years). Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred.

(11) Property, plant and equipment and depreciation

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

The annual depreciation rates are as follows:

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

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

(12) Impairment of non-financial assets

The 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 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.

NOTES TO FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

(12) Impairment of non-financial assets (continued)

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 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.

(13) 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 Company or otherwise held for sale. Property held under operating lease is classified as investment property if, and only if, it meets the definition of an investment property.

Investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for 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 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.

(14) Inventory (included in other assets)

Inventory includes movable assets, lands and buildings that have been acquired in the debt collecting process, for the purpose to hold them and sell in an ordinary course of business. Inventory is reported at the lower of cost or net realizable value. Net realizable value is a selling price during an ordinary course of business of the Company less selling expenses. Depreciation of Inventory is not calculated. Changes in value of Inventory are recognised in the statement of profit or loss. The value of Inventory is measured at least once per year. The inventory consists of properties taken over with an aim to sell those in nearest time.

(15) Leases - when the Company is a lessor

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

Lease income is recognized evenly over the term of the lease using the net investment method which reflects a constant periodic rate of return.

Assets under operating leases are recognised as property, plant and equipment at historical cost net of accumulated depreciation. Depreciation is calculated on a straight-line basis to write off the cost of each asset to its residual value over the estimated useful life of property, plant and equipment fixed assets that are determined based on useful lives of similar assets of the Company.

(16) Corporate income tax

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

Deferred tax is provided in full, using liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The deferred tax is calculated based on currently enacted tax rates that are expected to apply when the temporary differences reverse. The principal temporary differences arise from different fixed asset depreciation rates, revaluation of investment properties, as well as tax losses carried forward.

Where an overall deferred taxation asset arises, it is only recognised in the financial statements where it is probable that future taxable profit will be available against which the temporary differences can be utilised.

NOTES TO FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

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

Due from other credit institutions and the State Treasury comprise cash and demand deposits with the Bank of Latvia and other credit institutions with original maturity of 3 months or less (See Note 33) and demand deposits with the Bank of Latvia and other credit institutions with original maturity more than 3 months.

(18) Provisions

The Company utilises off-balance sheet financial instruments that include granting loans, financial guarantees and commercial letters of credit. Such financial transactions are recorded in the financial statements as of the respective agreement dates.

Provisions for such off-balance sheet financial instruments are recognised when the Company has a present legal or constructive obligation as a result of past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliableestimate of the amount of the obligation can be made.

Movements in provisions are recognised in the profit or loss.

(19) Vacation reserve

Provisions for employee leaves are recognised on an accrual basis.

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

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

(20) Employee benefits

The 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 Company pays fixed contributions determined by the law and they will have 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.

(21) Financial guarantees

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

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

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

NOTES TO FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

(22) State aid

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

Now, just as earlier, the implementing body of each state aid programme is identified as a result of selection of applicants. The management of each applicant, including also JSC Development Finance Institution Altum, hereinafter referred to as Altum or Company, (or any of 3 companies existing before reorganisation and establishment of Altum – state-owned JSC Latvian Development Finance Institution ALTUM, Ltd Latvian Guarantee Agency or state-owned JSC Rural Development Fund), decides to participate in the selection by signing and submitting the project application and business plan for the selection of the implementing body of the specific state aid programme.

The funding of the state aid programmes 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 conditions for use of the public funding of each state aid programme, including covering of the management expenses and credit risk losses, are stipulated by agreement between the implementing body and line ministry and/or state-owned Central Finance and Contracting Agency.

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

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

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

NOTES TO FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

(23) Critical accounting estimates and judgements

The Company makes estimates and assumptions that affect the reported amounts of the assets and liabilities in the next financial year. The estimates and assumptions are evaluated regularly and are based on the historic experience and other factors, including expectations of future events that are believed to be reasonable under the current circumstances. Such estimates are made below:

- ***Impairment losses of loans and advances.*** In order to assess impairment allowance, the management needs to make assumptions regarding the estimated cash flows and their timing related to loans. Significant estimates need to be made in relation to value of the collateral of the loans and advances. The assessment of the collateral includes the amounts of such impairment losses covered by the state. The management has not significantly changed the estimates made during the prior period. Further details disclosed in Note 19.
- ***Impairment of non-financial assets.*** The Company has evaluated its non-financial assets for impairment. Given the ongoing reorganisation of the Company, the management have identified that property, plant and equipment and other assets, not within the scope of IAS 39 could be subject to impairment due to uncertainties with the structure of the Company in the future. The management has assessed the need for impairment by comparing the fair value less cost to sell to the carrying value of the group of assets, as the management has assessed them as one cash generating unit, except for certain Property, plant and equipment which will not be used in the Company's operations and have been impaired as disclosed in Notes 2 (12) and (21, 22). More information on the value of property, plant and equipment and intangible assets is disclosed in Note 22 and Note 21.
- ***Impairment allowance for securities held to maturity and available for sale.*** The Company performs credit risk evaluation of the issuer of securities on a regular basis for a timely identification of eventual loss events, which might occur due to issuer's default (for details, please see Note 14). The Company shall use the following criteria in the evaluation process of the quality of securities and building of provisions:
  - changes in credit risk of the securities issuer since the moment of financial asset procurement, upon evaluation of changes in internal or external international credit ratings;
  - changes in the fair value of the respective security and the potential losses, if the respective security would be sold at the market price on a regulated market;
  - changes in estimated future cash flow and date of maturity due to late payments (except for cases when delays caused by payment system errors) or due to negative changes in creditworthiness of the issuer, bankruptcy, liquidation or reorganization of the issuer.

Such judgments are outlined below:

- **Classification of venture capital funds** The Company considers that it does not control the venture capital funds even though it owns more than 50% in majority of the funds. Instead, it has been concluded that the Company has significant influence over venture capital funds and therefore investments in venture capital funds are classified as associates and are measured at cost, less impairment, in the separate financial statements of the Company. The Company has invested in several venture capital funds having ownerships of 20% and 33% in two of the funds and 64%- 100% in rest of them (for more details, please see Note 18). The main reason for Altum to invest in these funds is to implement a public funding function imposed by the government. Despite the high direct investments and ownership above 50% in most of the funds, Altum's ability to exercise its power over the venture capital funds is limited by the terms of the agreements signed between Altum and the fund managers. Altum is forbidden to take part in the management of the Funds' businesses. However, Altum's representatives are present in different bodies of the funds (e.g. Advisory Board, Investment Committee etc) granting it a right to approve or reject certain limited transactions and advising the fund manager. Altum doesn't control the funds but can exercise significant influence over them. Altum is obliged to implement the Investment Fund in line with the business plan and the agreement signed with the State. Altum 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 Company could stop the cooperation with the fund managers only in cases when the fund managers cease their operations or illegal actions would be discovered. Under these circumstances, the funds in question would be

NOTES TO FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

(23) Critical accounting estimates and judgements (continued)

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 State support 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 the 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 Company given it is a finance development institution. The management of the Company considers 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 to be a hurdle in exercising its power over venture capital funds. This is a significant judgment exercised in concluding that the Company does not control the venture capital funds.

- ***Deferred tax asset.*** Deferred tax assets are recognized in respect to tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Judgement is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. For further details please see Note 13.

- **Agent vs Principal.** For majority of state aid programs, the Company acts as a *Principal.* The management of the Company believes that the 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 Company's statement of financial positon. The investments made comply with a definition of an asset. The Company is responsible for providing of the service and can affect the interest rate. However, some programmes have been imposed a limit on the interest rates that cannot be exceeded.

  The Company recognises its expenses due to impairment of the loans, guarantees or venture capital funds in profit or loss for the portion of impairment that refers to the Company (ranging from 20% to 50%). The portion of losses that the government reimburses by decreasing the amount of the loan repayable to the government, does not affect the Company's profit or loss as the loan received from government is debited.

  In Loan Fund Programme, the Company acts as an *Agent.* The Company in this case is intermediator and no risk is borne. The interest income received on the loans issued from the Loan Fund includes the amounts collected on behalf of and for the benefit of other entities that do not increase the equity capital of the Company and therefore cannot be considered as the Company's income. For this reason, the Company carries as income only that part of the financial resources of the Loan Fund that is used to cover the management costs of the Loan Fund and this amount is included in the profit or loss calculation.

- **Below market rate loans.** Altum implements the state aid programs by pursuing the government's policy in the national economy and by 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 in order to implement the programs, e.g. by 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 the proceeds received is treated as a government grant related to income.

NOTES TO FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

(23) Critical accounting estimates and judgements (continued)

Although a fraction of the public funding of some of the state aid programmes implemented by Altum may include the state budget funds and funds from Altum's shareholders, this type of the government grant is not treated as a shareholder's equity contribution since the amount of the public funding earmarked for implementation of the specific state aid programme is received *in the capacity of the implementing body of the specific state aid programme chosen as a result of public selection* and not in the capacity of entity implementing the assignment or instructions of its shareholder. For more details on the accounting policy applied, please see Note 2 (22). Further details on guarantees are disclosed in Notes 12, 18, 30, 32

The funding received from the state can be classified into three categories – equity financing (guarantees, see Notes 2 (22), 12, 18, 30, 32, loans (Notes 26, 27) and grants (state aid, Note 27)

(24) Adoption of new or revised standards and interpretations and new accounting pronouncements

The following new and/or amended IFRSs have been adopted by the Company as of 1 January 2015:

- Annual Improvements to IFRSs 2011 – 2013 Cycle
- IFRIC Interpretation 21: Levies

Annual Improvements to IFRSs 2011 – 2013 Cycle is a collection of amendments to the following IFRSs:

- **IFRS 3** ***Business Combinations*****:** This improvement clarifies that IFRS 3 excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.
- **IFRS 13** ***Fair value Measurement:*** This improvement clarifies that the scope of the portfolio exception defined in paragraph 52 of IFRS 13 includes all contracts accounted for within the scope of IAS 39 Financial Instruments: Recognition and Measurement or IFRS 9 Financial Instruments, regardless of whether they meet the definition of financial assets or financial liabilities as defined in IAS 32 Financial Instruments: Presentation.
- **IAS 40** ***Investment property*****:** This improvement clarifies that determining whether a specific transaction meets the definition of both a business combination as defined in IFRS 3 Business Combinations and investment property as defined in IAS 40 Investment Property requires the separate application of both standards independently of each other.

IFRIC Interpretation 21 Levies
This interpretation addresses the accounting for levies imposed by governments. Liability to pay a levy is recognized in the financial statements when the activity that triggers the payment of the levy occurs. The implementation of this standard had no effect on the financial statements of the Company.

Standards issued but not yet effective

The Company has not applied the following IFRS and IFRIC interpretations that have been issued as of the date of authorization of these financial statements for issue, but which are not yet effective:

Amendments to IAS 1 ***Presentation of financial statements: Disclosure Initiative*** (effective for financial years beginning on or after 1 January 2016)
The amendments to IAS 1 further encourage companies to apply professional judgment in determining what information to disclose and how to structure it in their financial statements. The Company has not yet evaluated the impact of the implementation of this standard.

Amendments to IAS 7 ***Statement of Cash Flows: Disclosure Initiative*** (effective for financial years beginning on or after 1 January 2017, once endorsed by the EU)

The amendments improve information provided to users of financial statements about an entity's financing activities. Entities are required to disclose changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes, for example, by providing reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities. The implementation of these amendments will not have any impact on the financial position or performance of the Company but may result in changes in disclosures.

NOTES TO FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

(24) Adoption of new or revised standards and interpretations and new accounting pronouncements

(continued)

Amendments to IAS 12 ***Income Taxes: Recognition of Deferred Tax Assets for Unrealized Losses*** (effective for financial years beginning on or after 1 January 2017, once endorsed by the EU)

The amendments clarify how to account for deferred tax assets for unrealized losses on debt instruments measured at fair value. The Company has not yet evaluated the impact of the implementation of this standard.

Amendments to IAS 16 ***Property, Plant & Equipment*** **and IAS 38** ***Intangible assets: Clarification of Acceptable Methods of Depreciation and Amortization*** (effective for financial years beginning on or after 1 January 2016)

The amendment provides additional guidance on how the depreciation or amortisation of property, plant and equipment and intangible assets should be calculated. It is clarified that a revenue-based method is not considered to be an appropriate manifestation of consumption. The implementation of this amendment will have no impact on the financial statements of the Company, as the Company does not use revenue-based depreciation and amortisation methods.

Amendments to IAS 19 ***Employee Benefits*** (effective for financial years beginning on or after 1 February 2015)
The amendments address accounting for the employee contributions to a defined benefit plan. Since the Company's employees do not make such contributions, the implementation of this amendment will not have any impact on the financial statements of the Company.

Amendments to IAS 27 ***Equity method in separate financial statements*** (effective for financial years beginning on or after 1 January 2016)
The amendments reinstate the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements. The Company has not yet evaluated the impact of the implementation of this standard.

Amendment to IFRS 11 ***Joint arrangements: Accounting for Acquisitions of Interests in Joint Operations*** (effective for financial years beginning on or after 1 January 2016)
IFRS 11 addresses the accounting for interests in joint ventures and joint operations. The amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business in accordance with IFRS and specifies the appropriate accounting treatment for such acquisitions. The implementation of this amendment will have no impact on the financial statements of the Company, as the Company does not have joint arrangements.

IFRS 9 ***Financial Instruments*** (effective for financial years beginning on or after 01.01.2018, once endorsed by the EU)
IFRS 9 replaces IAS 39 and introduces new requirements for classification and measurement, impairment and hedge accounting. The Company has not yet evaluated the impact of the implementation of this standard.

Amendments to IFRS 10, IFRS 12 and IAS 28 - ***Investment Entities: Applying the consolidation exception*** (effective for financial years beginning on or after 1 January 2016, once endorsed by the EU)
The amendments address issues that have arisen in the context of applying the consolidation exception for investment entities. Since the Company is not an investment entity, the implementation of this amendment will not have any impact on the financial statements of the Company.

Amendments to IFRS 10 and IAS 28 – ***Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*** (endorsement deferred indefinitely)
The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business and partial gain or loss is recognized when a transaction involves assets that do not constitute a business. The Company has not yet evaluated the impact of the implementation of this standard.

IFRS 14 ***Regulatory Deferral Accounts*** (effective for financial years beginning on or after 1 January 2016, once endorsed by the EU)
IFRS 14 provides first-time adopters of IFRS with relief from derecognizing rate-regulated assets and liabilities.

NOTES TO FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

(24) Adoption of new or revised standards and interpretations and new accounting pronouncements

(continued)
However, to enhance comparability with entities that already apply IFRS and do not recognize such amounts, the standard requires that the effect of rate regulation must be presented separately from other items. An entity that already presents IFRS financial statements is not eligible to apply the standard. The implementation of this standard will not have any impact on the Company.

IFRS 15 ***Revenue from Contracts with Customers*** (effective for financial years beginning on or after 1 January 2018, once endorsed by the EU)
IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer, regardless of the type of revenue transaction or the industry. Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. The implementation of this standard might have an impact on the Company.

IFRS 16 ***Leases*** (effective for financial years beginning on or after 1 January 2019, once endorsed by the EU)
IFRS 16 replaces IAS 17 and specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessor accounting is substantially unchanged. The implementation of this standard will not have any impact on the Company.

Improvements to IFRSs

In December 2013 IASB issued the Annual Improvements to IFRSs 2010 – 2012 Cycle (effective for financial years beginning on or after 1 February 2015):

- IFRS 2 *Share-based Payment*;
- IFRS 3 *Business Combinations*;
- IFRS 8 *Operating Segments;*
- IFRS 13 *Fair value Measurement;*
- IAS 16 *Property, Plant and Equipment*;
- IAS 24 *Related Party Disclosures;*
- IAS 38 *Intangible Assets.*

In September 2014 IASB issued the Annual Improvements to IFRSs 2012 – 2014 Cycle (effective for financial years beginning on or after 1 January 2016):

- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operation*;
- IFRS 7 *Financial Instruments: Disclosures*;
- IAS 19 *Employee Benefits*;
- IAS 34 *Interim Financial Reporting.*

The adoption of these amendments may result in changes to accounting policies or disclosures but will not have any impact on the financial position or performance of the Company.

The Company plans to adopt the above mentioned standards and interpretations on their effectiveness date provided they are endorsed by the EU.

NOTES TO FINANCIAL STATEMENTS

3 RISK MANAGEMENT

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

The following major principles in risk management are followed:

- risk management is a component of every-day functions;
- the Company identifies and assesses the probable risks before launching of new products or services;
- while assuming the risks of the Company is capable of implementing the aims and delegated assignments in the long-run;
- the Company does not enter into transactions, operations, etc. that entail risks that endanger their operational stability or may result in substantial damage to their reputation.

In risk management of the Company make use of various risk analysis methods and instruments as well as establishes risk limits and restrictions.

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

Credit Risk

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

The key principle of credit risk management in the Company is the ability of the customers or cooperation partners to meet their liabilities towards the Company, which is achieved by assessment of the customer and co-operation partner prior to transaction, as well as further continuous monitoring and evaluation. The Company reduces its exposure to credit risk by securing a pledge or other collateral adequate to the risk transaction and provisions of the state aid and promotional programmes as well as by provisioning for the expected loss originating from the increased credit risk inherent to implementation of the state aid and promotional programmes from the public funding.

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

The analysis of the assets and off-balance sheet liabilities subject to the credit risk is outlined in the notes to the financial statements (Note 36).

Liquidity Risk

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

The goal of liquidity risk management is to provide adequate liquidity in normal operating environment as well as stress situations without material expenses or losses. The Company maintains that the liquid assets were sufficient to meet their liabilities.

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

Note 38 to the financial statements provides data on the assets and liabilities of the Company by their maturity profile.

NOTES TO FINANCIAL STATEMENTS

3 RISK MANAGEMENT (continued)

Operational Risk

The operational risk results from intentional or unintentional deviations from the standards adopted in daily operation of the 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 Company's financials as much as possible and to maintain the operational continuity of them. This is achieved by the Company via identification of operational risk causes, and taking preventive and corrective measures to eliminate the causes of operational risks.

NOTES TO FINANCIAL STATEMENTS

4 INTEREST INCOME

	2015	27/12/2013-31/12/2014
Interest income:		
- interest on balances due from credit institutions	128	1
- interest on loans and guarantees	8,616	-
including on impaired loans (see Note 19)	*778*	-
- interest on investments of venture capital funds	308	-
- interest on securities at amortised cost	58	-
- interest on securities at fair value	2,773	-
- other interest income*	3,192	-
	15,075	**1**

* Item *Other interest income* includes state aid interest of EUR 3,192 thsd. In July 2015 the Company signed amendments to the agreement No 2DP/2.2.1.4/09/IPIA/EM/001/001 concluded with the Ministry of Economics concerning the updated investments of the parties in the Loan Fund. As a result, the amount of the state aid was recalculated for the Structural Funds' investments in the capital of the Company.

5 INTEREST EXPENSE

	2015	27/12/2013-31/12/2014
Interest expense:		
- interest on balances due to credit institutions	372	-
- other interest expense	197	-
	569	**-**

6 FEE AND COMMISSION INCOME

	2015	27/12/2013-31/12/2014
Fee and commission income:		
- from lending activities	365	-
- other fee and commission income	13	-
	378	**-**

7 FEE AND COMMISSION EXPENSE

	2015	27/12/2013-31/12/2014
Fee and commission expense:		
- on venture capital fund management fee*	203	
- on securities portfolio maintenance	47	-
- on asset management **	13	-
- other fee and commission expense	7	-
	270	**-**

NOTES TO FINANCIAL STATEMENTS

7 FEE AND COMMISSION EXPENSE (continued)

*As regards the Holding Fund Programme the expenses of the Company for the reporting period include management fees of the venture capital funds amounting to 1,323 thsd euros of which 1,120 thsd euros were reimbursed. The reimbursement scheme is stipulated by the new wording of the agreement No 2011/15 On Implementation of the Holding Fund dated December 23, 2015.
The management fee of 203 thsd euros includes the management fees of the first generation venture capital funds where the fee of the limited partnership *Otrais EKO fonds* accounts for 8 thsd euros and fee of the Baltic Innovation Fund -194 thsd euros.

** As regards the Holding Fund Programme the expenses of the Company for the reporting period include the management fees of 54 thsd euros of the financial intermediaries JSC SEB and JSC Swedbank that, according to the agreement No 2011/15 On Implementation of the Holding Fund, were reimbursed for 41 thsd euros.
The management fee of the financial intermediaries amounting to 13 thsd euros is considered as non-eligible and non-reimbursable expense and recognised in the Company's profit or loss. See Note 2 (5) *i.*

8 NET TRADING INCOME

	2015	27/12/2013-31/12/2014
Loss from trading securities	(235)	-
Profit from sales of available for sale securities	125	-
Loss on currency exchange and trade and revaluation of other financial instruments, net	133	-
	23	**-**

9 OTHER INCOME

	2015	27/12/2013-31/12/2014
Income from property privatisation services	390	-
Compensations*	676	-
Income from lease payments for operational leases**	144	-
Other operating income***	555	-
	1,765	**-**

* Compensations include the compensation for management expenses of state aid programs implemented by the Company in amount of EUR 164 thsd. Expenses in amount of EUR 164 thsd are compensated to the Company according to terms and budget of each particular programme.

Whereas EUR 263 thsd are related to reimbursement of the organisation expenses of the Innovative Business Conference "Access to Finance for Research, Innovation and SMEs 2015" held during Latvian Presidency of the Council of the European Union. The conference was organized on behalf of the Ministry of Economics based on the decision of the Company's Council dated October 15, 2014. The total amount of the compensation consists of EUR 57 thsd for remuneration of staff (Note 10) and EUR 206 thsd – administrative expenses (Note 11).
The remaining EUR 249 thsd are compensation of the Holding Fund's management expenses. The total amount of the compensation consists of EUR 161 thsd for remuneration of staff (Note 10) and EUR 88 thsd – administrative expenses (Note 11).

**A significant portion of the income from the premises' rentals is derived from the real estates of the Company that are recognised as property and equipment in this financial statement, whereas the only property that was classified as an investment property yielded insignificant rentals.

** Item *Other income* includes compensations of loan funds for the provisions of EUR 351 thsd built by the Company. In the reporting period the Company wrote off the loan principals of 1,137 thsd euros from the loan funds under its management of which only 351 thsd euros were reimbursed.

NOTES TO FINANCIAL STATEMENTS

10 STAFF COSTS

	2015	27/12/2013-31/12/2014
Remuneration to the Council and the Board	180	61
Remuneration to staff	3,906	208
Social security contributions	974	59
	5,060	**328**

Remuneration to staff includes the Company's expenses of EUR 57 thsd related to organization of the Innovative Business Conference "Access to Finance for Research, Innovation and SMEs 2015" held during Latvian Presidency of the Council of the European Union (Note 9) to be 100% reimbursed by the European Union. The Company has concluded an agreement No Līg.- 2015/15 with the Ministry of Economics On Implementation of the Holding Fund. In accordance with the agreement the Company is reimbursed the management expenses of the Holding Fund of which EUR 161 thsd are personnel remuneration, including social insurance contributions (Note 9).

During the reporting period the average number of staff employed by the Company was 197 (the average number of staff in a company – 14).

11 ADMINISTRATIVE AND OTHER OPERATING EXPENSE

	2015	27/12/2013-31/12/2014
Premises and equipment maintenance expense	615	3
Information system and communication expense	784	-
Professional services	168	25
Advertising and public relations	438	14
Training and other staff expense	235	5
Real estate tax	144	-
Revaluation of assets that have been taken over in the debt collection process*	402	-
Expense of assets that have been taken over in the debt collection process	580	-
Conference expense**	303	-
Other expense	251	4
	3,920	**51**

* The accounting policy of the assets that have been taken over in the debt collection process is described in Note 2 (14).
** Item *Conference expense* includes the Company's expenses of EUR 206 thsd (Note 9) related to organization of the Innovative Business Conference "Access to Finance for Research, Innovation and SMEs 2015" held during Latvian Presidency of the Council of the European Union to be 100% reimbursed by the European Union.
The last reimbursement payment of EUR 97 thsd is expected in 2016.

The Company has concluded an agreement No Lig.- 2015/15 with the Ministry of Economics On Implementation of the Holding Fund. In accordance with the agreement the Company is reimbursed the management expenses of the Holding Fund that include EUR 88 thsd of administrative expenditure (Notes 9).

NOTES TO FINANCIAL STATEMENTS

12 PROVISIONS FOR IMPAIRMENT

	2015	27/12/2013-31/12/2014
Provisions for impairment on:		
- loans	4,744	-
- other assets	6,932	-
- guarantees	8,842	-
	20,518	**-**
Release of provisions for impairment on:		
- loans	(3,266)	-
- other assets	(3,803)	
- provisions debt securities	(195)	-
- guarantees	(7,423)	-
	(14,687)	**-**
Recovery of loans written off in previous periods	**(1,149)**	**-**
Total provisions for impairment expense	**4,682**	**-**

13 CORPORATE INCOME TAX

	2015	27/12/2013-31/12/2014
Corporate income tax	-	-
Deferred tax	-	-
Total corporate income tax (income)	**-**	**-**

	31/12/15	31/12/14
Income / (loss) before tax	**2,208**	
Theoretically calculated tax at a tax rate of 15%	331	-
Net income / expenses non-deductible for tax purposes	401	-
Change in unrecognized deferred tax asset	(732)	-
Tax (income) / expense for the year ended 31 December	**-**	**-**

Movements in the provision for deferred tax liability:

	31/12/15	31/12/14
Deferred tax asset at the beginning of the reporting year	**-**	**-**
Change in deferred tax asset	-	-
Deferred tax asset at the end of the reporting year	**-**	**-**

NOTES TO FINANCIAL STATEMENTS

13 CORPORATE INCOME TAX (continued)

Calculation of deferred tax:

	31/12/15	31/12/14
Deferred tax liabilities:	**(531)**	**-**
Temporary difference of depreciation of property, plant and equipment	(531)	-
Other temporary differences	-	-
Deferred tax assets:	**44,203**	**59**
Provision for employee holiday pay	48	1
Other temporary differences	1,697	1
Tax loss carried forward	42,458	57
Net deferred tax asset	43,672	-
Provisions for unrecognized deferred tax asset	(43,672)	(59)
Recognized deferred tax asset*	**-**	**-**

* Deferred tax asset was not fully recognized according to the policy described in Accounting Policies Note 2 (23).

Significant part of the accrued corporate income tax losses of ALTUM, LAF and LGA were taken over by the Company after the reorganization was completed. According to Latvian legislation, losses calculated for taxation purposes can be settled from future profits over an unlimited period of time.

14 INVESTMENT SECURITIES

	31/12/15	31/12/14
Held to maturity		
Latvian Treasury bills and government bonds	439	-
Non-OECD government bonds	1,027	-
OECD corporate bonds	4,852	-
Total securities held to maturity	**6,318**	**-**
Impairment allowance	(4,777)	-
Net securities held to maturity	**1,541**	**-**
Available for sale		
Latvian Treasury bills and government bonds	88,002	-
Open – ended investment funds registered in Latvia	9,274	-
Total net securities available-for-sale	**97,276**	**-**
Total net investment securities	**98,817**	**-**

When making investments in securities, the Company analyses the credit ratings assigned to these financial institutions and entities externally and their financial and operational standing. Once funds are placed, the Company monitors the monetary financial institutions and follows the compliance of the imposed limits to the credit risk rating. The following table provides the Company's debt securities profile by the assigned long-term credit ratings (*Moody`s Investors Service*) as at 31 December 2015:

	Available-for-sale	Held to maturity	Total net
A1 - A3	88,002	439	88,441
Baa1 - Baa3	-	1,027	1,027
Unrated	9,274*	75	9,349
Total	**97,276**	**1,541**	**98,817**

NOTES TO FINANCIAL STATEMENTS

14 INVESTMENT SECURITIES (continued)

*9,274 thsd euros refer to the investments in the investment funds whose accounting policies are described in Note 2 (5).
Investments in shares of open – ended investment funds are values based on net redemption prices.

All securities, except open-ended investment funds, are quoted. The average yield on debt securities was 4% as at 31 December 2015.

15 INVESTMENT PROPERTY

	31/12/15	31/12/14
Carrying amount at the beginning of period	-	-
Acquired through companies' reorganisation	234	-
Acquired during the financial period*	991	
Net gain/(loss) from fair value adjustment	-	-
Carrying amount at the end of period	**1,225**	**-**

The value of investment property acquired though reorganization has not changed throughout the year. The investment property acquired during the financial period is measured at fair value which corresponds to its acquisition cost.

* The Land Fund was established on July 1, 2015. According to the Cabinet of Ministers decree dated March 11, 2015 the 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.

In year 2015 there were 39 properties purchased with a total area of 560 ha and total amount of the purchases amounted to EUR 991 thsd.

The Company keeps a separate accounting for the Land Fund, including a segregated bookkeeping. The Company provides complete information on the operational results and financial standing of the Land Fund. The accounting policy for Land Fund's properties is described in Note 2 (13).

NOTES TO FINANCIAL STATEMENTS

16 DUE FROM OTHER CREDIT INSTITUTIONS AND THE STATE TREASURY

	31/12/15	31/12/14
Due from credit institutions registered		
in OECD countries*	8	-
in Latvia and the State Treasury	46,140	218
	46,148	**218**

*When placing funds with monetary financial institutions and the State Treasury of the Republic of Latvia and imposing the limits on the financial transactions, the Company analyses the credit ratings assigned to these financial institutions externally and their financial and operational standing. Once funds are placed, the Company monitors the monetary financial institutions and follow the compliance of the imposed limits to the credit risk rating:

Moody`s ratings	**Aaa**	**Aa1-Aa3**	**A1-A3**	**Baa1-Baa3**	**Ba1-Ba3**	**B1-B3**	**Caa-C**	**WR**
Credit risk level	very low risk	low risk	risk below average	average risk	risk above average	high risk	very high risk	Rating cancelled

The distribution of balances due from credit institutions and the State Treasury of the Republic of Latvia of the Company as at 31 December 2015 by categories is as follows:

Moody`s rating	**Aaa**	**Aa1-Aa3**	**A1-A3**	**Baa1-Baa3**	**Ba1-Ba3**	**B1-B3**	**Caa-C**	**WR**	**Total**
Due from credit institutions registered in OECD countries	-	-	8	-	-	-	-	-	**8**
Due from credit institutions registered in Latvia and State treasury	-	8,241	34,424	-	-	3,475	-	-	**46,140**
Total	**-**	**8,241**	**34,432**	**-**	**-**	**3,475**	**-**	**-**	**46,148**

The distribution of balances due from credit institutions and the State Treasury of the Republic of Latvia of the Company as at 31 December 2014 by categories is as follows:

Moody`s reitingi	**Aaa**	**Aa1-Aa3**	**A1-A3**	**Baa1-Baa3**	**Ba1-Ba3**	**B1-B3**	**Caa-C**	**WR**	**Total**
Credit institutions registered in Latvia	-	-	-	-	-	218	-	-	**218**
Total	**-**	**-**	**-**	**-**	**-**	**218**	**-**	**-**	**218**

The Company has accounts with 6 banks and with the Treasury of the Republic of Latvia at 31 December 2015.

The average interest rate on balances due from credit institutions was 0.029% as at 31 December 2015.

For amount of cash and cash equivalents, please refer to Note 33.

NOTES TO FINANCIAL STATEMENTS

17 DERIVATIVE FINANCIAL INSTRUMENTS

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

The notional contract values and fair values of derivative instruments are provided in the table below:

	31/12/15			31/12/14		
	Notional contract value	Fair value		Notional contract value	Fair value	
		Assets	Liabilities		Assets	Liabilities
Currency forwards	12,153	-	346	-	-	-
Total		**-**	**346**		**-**	**-**

The contract is inforce up to 4 March of 2016.

18 INVESTMENTS IN VENTURE CAPITAL FUNDS

	31/12/15	31/12/14
Carrying amount at the beginning of period	-	-
Acquired through companies' reorganisation	35,560	-
Invested	16,351	-
Management fee*	(6,740)	-
Refunded	(793)	-
Allowance for impairment loss	(5,414)	-
Carrying amount at the end of period	**38,964**	**-**

*Having taken over the accounting from LGA in relation to the venture capital funds, the Company separated the management fees of each venture capital fund from the investments. The management fees of 5,417 thsd euros taken over from LGA linked to the reduction of the liabilities towards the Ministry for Economics in accordance with the agreement dated December 23, 2015 regarding amendments to the Agreement on Implementation of the Holding Fund. Whereas, the management fees of 1,323 thsd euros generated between April 1, 2015 and December 31, 2015 were included in the Company's profit or loss.

The table below provides analytical information on the Company's investments into venture capital funds as at 31 December 2015:

	Ownership %	Invested, thsd EUR	Management fee, thsd EUR	Refunded, thsd EUR	Allowance for impairment loss, thsd EUR	Total, thsd EUR
Second Eko fund	33%	1,671	(163)	-	(395)	**1,113**
ZGI Fund	65%	1,833	(93)	-	(1,740)	**-**
BaltCap LatviaVentureCapitalFund	67%	13,846	(2,326)	-	(1,394)	**10,126**
Imprimature Capital Technology Venture Fund	67%	3,849	(579)	(403)	-	**2,867**
Imprimatur Capital Seed Fund	100%	7,170	(865)	(200)	(859)	**5,246**
ZGI-3fund	95%	4,855	(722)	(190)	(428)	**3,515**
FlyCap Investment Fund I	95%	6,578	(722)	-	-	**5,856**
Expansion Capital fund	95%	8,535	(722)	-	(78)	**7,735**
Invento fund	45%	520	-	-	(520)	**-**
Baltic Innovation Fund	20%	3,054	(548)	-	-	**2,506**
Total		**51,911**	**(6,740)**	**(793)**	**(5,414)**	**38,964**

NOTES TO FINANCIAL STATEMENTS

18 INVESTMENTS IN VENTURE CAPITAL FUNDS (continued)

Venture capital funds are classified as associates in these financial statements and their accounting policy is described in Note 2 (5). For judgments made in relation to classification of the investments as associates please see Note 2 (24).

19 LOANS

The loan portfolio of the Company can be attributed to the following state aid activities:

- *State aid programmes' loans* - Company provides support by means of financial instruments, primarily – loans. Beneficiaries of the promotional programmes are entrepreneurs, primarily – SMEs and business start-ups. The main state aid programmes are:
  - *Start-up programme,*
  - *Microlending programme,*
  - *Microlending programme of small and medium enterprises (SME),*
  - *SME growth loans,*
  - *Programme for improvement of the competitiveness of businesses,*
  - *Working capital loans to farmers.*

  This loan portfolio's gross volume is EUR 171,766 thsd as at 31 December 2015.
  - *Loans for Acquisition of Land* – Under this activity, Company grants loans to rural entrepreneurs for acquisition of agricultural land. Funds for implementation of the programme according to the loan agreement concluded on 25 June 2012, the Company borrows from the State Treasury and further grants loans to aid beneficiaries. The gross value of the Land Acquisition loan portfolio is EUR 32,649 thsd as at 31 December 2015.
- *Loan Fund loans* - By 2013, the Loan Fund granted loans to rural entrepreneurs for agricultural, rural and fish-farming development investment projects via credit institutions. At present, no new loans are granted under the Loan Fund. The gross volume of the Loan Fund is EUR 3,406 thsd as at 31 December 2015.
- *Mezzanine loans* – Under the Mezzanine loan programme, Company grants loans subordinated to loans granted by commercial banks, to small and medium enterprises of Latvia. The gross volume of mezzanine loans is EUR 9,213 thsd as at 31 December 2015.
- *Loans to credit institutions for further lending to SMEs* – The Company's loan portfolio includes loans of EUR 1,246 thsd, which are part of the Holding fund that the Company (before – LGA) took over from the European Investment Fund on 2 January 2012. Under this activity, Company granted loans to credit institutions and to non-bank lending companies for further commercial lending to small and medium enterprises by these credit institutions. Two credit institutions are involved in this programme – SEB and Swedbank, as well as two non-bank lending companies – JS Crand Gredit and JS Capitalia. No new loans are issued under this programme.
- *Other loans that didn't meet accepted programme criteria* – The Company took over the loan portfolio that had't been approved by Economic Ministry, this portfolio's gross volume is EUR 282 thsd as at 31 December 2015.

Loans by type of borrower:

	31/12/15	31/12/14
Private companies	187,902	-
Individuals	24,895	-
Financial institutions	4,572	
Local governments	397	-
Public and religious institutions	218	-
Accrued interest on loans	578	-
Total gross loans	**218,562**	**-**
Allowance for impairment loss	(17,044)	-
Total net loans	**201,518**	**-**

Loans granted by the Company are loans to residents of Latvia.

NOTES TO FINANCIAL STATEMENTS

19 LOANS (continued)

Granted loans by economic sectors:

	31/12/15	31/12/14
Manufacturing	47,956	
Agriculture and forestry	74,938	-
Retail and wholesale	19,385	-
Private individuals	24,895	-
Electricity, gas and water utilities	7,773	-
Hotels and restaurants	9,044	-
Transport, warehousing and communications	5,294	-
Real estate	6,532	-
Construction	3,285	-
Fishing	614	-
Municipal authorities	397	-
Financial intermediation	3,363	-
Other industries	14,508	-
Accrued interest on loans	578	-
Total gross loans	**218,562**	**-**

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

	31/12/15	31/12/14
Number of customers	29	-
Total credit exposure of customers	52,338	-
Share of total gross portfolio of loans	23.8%	-

Loans issued by the Company by type of valuation:

	31/12/15			31/12/14		
	Individuals	**Companies**	**Total loans**	**Individuals**	**Companies**	**Total loans**
Individually assessed loans	6,841	148,631	155,472	-	-	-
Collectively assessed loans	18,137	44,953	63,090	-	-	-
Total gross loans	**24,978**	**193,584**	**218,562**	**-**	**-**	**-**
Allowance for impairment loss of individual assessment loans	(1,151)	(15,769)	(16,920)	-	-	-
Allowance for impairment loss of pool assessment loans	(63)	(61)	(124)	-	-	-
Total net loans	**23,764**	**177,754**	**201,518**			**-**

NOTES TO FINANCIAL STATEMENTS

19 LOANS (continued)

Loans granted by the Company by their quality assessment:

	31/12/15			31/12/14		
	Individuals	**Companies**	**Total loans**	**Individuals**	**Companies**	**Total loans**
Neither past due nor impaired	19,534	135,688	155,222	-	-	-
Past due but not impaired	2,676	19,324	22,000	-	-	-
Impaired	2,768	38,572	41,340	-	-	-
Total loans	**24,978**	**193,584**	**218,562**	-	-	-
Allowance for impairment loss	(1,214)	(15,830)	(17,044)	-	-	-
Total net loans	**23,764**	**177,754**	**(201,518)**	-	-	-

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

	31/12/15			31/12/14		
	Individuals	**Companies**	**Total loans**	**Individuals**	**Companies**	**Total loans**
Past due up to 30 days	1,524	13,668	15,192	-	-	-
Past due 30 – 60 days	260	1,039	1,299	-	-	-
Past due 60 – 90 days	69	243	312	-	-	-
Past due over 90 days	823	4,374	5,197	-	-	-
Total gross loans	**2,676**	**19,324**	**22,000**	-	-	-

Movement in Company's impairment allowance for loans:

	31/12/15	**31/12/14**
Provisions at the beginning of period	-	-
Acquired through company's reorganisation	21,021	-
Impairment allowance increase	6,864	-
Impairment allowance decrease	(3,266)	
Accrued interest (Note 4)	(778)	-
Write-off of loans	(6,797)	-
Provisions at the end of period	**17,044**	-

NOTES TO FINANCIAL STATEMENTS

19 LOANS (continued)

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

Information about value of collateral and position against net loan portfolio as at December 31, 2015 is provided below:

	31/12/2015	31/12/2014
Real estate	164 639	-
Movable property	22 507	
Guarantees	216	-
Risk coverage of loan funds	1 276	-
Total collateral	**188 638**	-
Loan portfolio, gross	218 562	
Provisions	(17 044)	-
Loan portfolio, net	201 518	-
Exposed	**6.39%**	-

According to the Company's estimates as at December 31, 2015 the loan loss provisions should amount to 18,085 thsd euros, apart from the risk coverage amount which equals to 1,276 thsd. euros.

The average annual interest rate for the loan portfolio of the Company was 4.22% as at 31 December 2015.

20 INVESTMENTS IN SUBSIDIARIES

On 11 September 2014, equity shares of Latvian Guarantee Agency Ltd (SIA „Latvijas Garantiju aģentūra" – LGA), and shares of the SJSC Rural Development Fund (VAS „Lauku attīstības fonds" – LAF) and the SJSC Latvian Development Finance Institution ALTUM (VAS „Latvijas attīstības finanšu institūcija ALTUM" – ALTUM) were invested in the equity capital of the Company as investment in kind. The goal of the investment was merging the SJSC Rural Development Fund, Latvian Guarantee Agency Ltd and the SJSC Latvian Development Finance Institution ALTUM into a single aid providing institution. The value of the investment in kind was established based on valuation of subsidiaries as at 30 June 2014, carried out by independent certified valuators. For more information see Note 1 (1).

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

	Company's shareholding (%)	Investments in subsidiaries 31/12/2015	Investments in subsidiaries 31/12/2014
Latvian Guarantee Agency Ltd	100	-	111,417
SJSC Rural Development Fund	100	-	12,850
SJSC Latvian Development Finance Institution ALTUM	100	-	80,026
Risk Investment Company Ltd	100	711	-
Risk Investment Company Ltd impairment provision	-	(65)	-
Total:		**646**	**204,293**

In year 2014 the following companies formed the group of SJSC Latvian Development Finance Institution ALTUM: Risk Investment Company Ltd (100% - direct investment) and Riga Centre House Management Company Ltd (100% - indirect investment though Risk Investment Company Ltd).

NOTES TO FINANCIAL STATEMENTS

20 INVESTMENTS IN SUBSIDIARIES (continued)

In April 2015 the Company's subsidiaries - Latvian Guarantee Agency Ltd, SJSC Rural Development Fund and SJSC Latvian Development Finance Institution ALTUM were reorganized in accordance with the Commercial Law.

As at 31 December, 2015 there were no subsidiaries for other entities except the Company.

On December 22, 2015 Riga City Vidzeme suburb court ruled that liquidation process of Riga Centre House Management Company Ltd was finished. Meanwhile on February 24, 2015 the Board' Meeting of the Company decided that Risk Investment Company Ltd was to be placed in liquidation.

21 INTANGIBLE ASSETS

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

	31/12/15	31/12/14
Computer software	123	-
Total intangible assets	**123**	**-**

The following table presents movements in the Company's net book value of intangible assets:

	31/12/15	31/12/14
Historical cost		
At the beginning of period	-	-
Acquired through companies' reorganisation	5,699	-
Additions	67	-
Disposals	-	-
As at 31 December	**5,766**	**-**
Accumulated amortisation		
At the beginning of period	-	-
Acquired through companies' reorganisation	5,465	-
Amortisation charge for the period	138	-
Disposals	-	-
As at 31 December	**5,603**	**-**
Impairment provision*		
At the beginning of period	-	-
Acquired through companies' reorganisation	(115)	
Changes in provisions	75	-
As at 31 December	**(40)**	**-**
Net book value at the beginning of period	**-**	**-**
Net book value as at 31 December	**123**	**-**

*Impairment provision policy is described in Note 2 (12)

Fully depreciated assets

A number of assets that have been fully depreciated are still in active use by the Company. The total original cost value of these assets as at the end of the year was EUR 4,368 thsd.

NOTES TO FINANCIAL STATEMENTS

22 PROPERTY, PLANT AND EQUIPMENT

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

	Land and buildings	**Vehicles**	**Office equipment***	**Leasehold improvements**	**Total**
Historical cost					
At the beginning of period	-	-	4	-	4
Acquired through companies' reorganisation	5,436	994	7,863	380	**14,673**
Additions	84	-	137	-	**221**
Disposals	-	-	(178)	-	**(178)**
as at 31 December 2015	**5,520**	**994**	**7,826**	**380**	**14,720**
Accumulated depreciation					
At the beginning of period	-	-	1	-	**1**
Acquired through companies' reorganisation	1,405	958	7,131	284	**9,778**
Depreciation charge for the period	88	18	277	12	**395**
Disposals	-	-	(177)	-	**(177)**
as at 31 December 2015	**1,493**	**976**	**7,232**	**296**	**9,997**
Impairment provision					
At the beginning of period	-	-	-	-	-
Acquired through companies' reorganisation	-	-	(79)	(69)	**(148)**
Changes in provisions	-	-	45	8	**53**
as at 31 December 2015	-	-	**(34)**	**(61)**	**(95)**
Net book value at the beginning of period	-	-	**3**	-	**3**
Net book value as at 31 December 2015	**4,027**	**18**	**560**	**23**	**4,628**

*Office equipment includes such fixed assets categories as *Furniture and fittings* and *Computers and equipment*, Note 2 (11).

NOTES TO FINANCIAL STATEMENTS

23 OTHER ASSETS

	31/12/15	31/12/14
Financial assets	24,590	1
Other assets (inventory)	6,896	-
Total other assets (gross)	**31,486**	
Impairment provision for financial assets	(21,662)	-
Total other assets (net)	**9,824**	**1**

Item *Financial assets* includes the following assets generated by:

- disbursed state-guaranteed compensations amounting to EUR 14,851 thsd for which provisions of EUR 13,983 thsd were accumulated. This asset position includes a claim of EUR 1,164 thsd against one debitor, arising under "Liabilities Settlement Procedure Agreement" of 30 December 2011, defining the procedure for recovery of the disbursed amount of guarantee compensation. The repayment term lasts until 31 December 2016;
- term deposits of EUR 7,648 thsd of JSC Latvijas Krājbanka (Savings Bank of Latvia) being in liquidation that were 100% provisioned for;
- financial assets of EUR 46 thsd. provisioned for EUR 31 thsd. The financial assets include the payments made on behalf of clients, as stipulated by loan agreements.
- other financial assets of EUR 2,045 thsd.

Other assets - assets, that have been taken over in the debt collection process for the purpose to hold them and sale in an ordinary course of business. Method of assets accountings described in Note 2 (14).

24 DEFERRED EXPENSE AND ACCRUED INCOME

	31/12/15	31/12/14
Deferred expense	572	-
Accrued income	989	-
Total	**1,561**	**-**

The largest amounts under the item *Deferred expenses* account management fees of 141 thousand euros paid in advance for the following venture capital funds: limited partnerships BaltCap Latvia Venture Capital Fund and Imprimatur Capital Seed Fund.

Accrued income primarily consists of income from implementation of state aid loan programmes of EUR 690 thsd.

25 DUE TO CREDIT INSTITUTIONS

	31/12/15	31/12/14
Due to credit institutions:		
registered in OECD area	67,166	-
Total	**67,166**	**-**

Credit institutions registered in OECD area include loans received by Company from the European Investment Bank (EIB) of EUR 67,166 thsd. Opposite the loan guarantee has been issued from the Ministry of Finance.

The average interest rate for Due to credit institutions as at 31 December 2015 was 0.33%.

NOTES TO FINANCIAL STATEMENTS

26 DUE TO GENERAL GOVERNMENTS

	31/12/15	31/12/14
Liabilities due to government entities	3,769	-
Loans received from Rural Support Service	12,979	-
Loans received from Treasury of Latvia	22,813	-
Total due to general governments	**39,561**	**-**

Liabilities due to government entities obligations worth EUR 3,769 thsd., which originate from reduction of capital of ERDFII and ESFII loan funds effected in year 2013 by ALTUM, whereby a share of public financing of ERDFII and ESFII was not repaid to the investors (state companies), although, an agreement was reached with the investors about accounting that amount outside the Statement of financial position of ERDFII and ESFII loan funds, i.e. on the liabilities side of the ALTUM Statement of financial position.

Loans received from Rural Support Service – Based on the Cabinet regulation No 664 of 20 July 2010 "Procedure for administrating and monitoring the national and European Union support to development of agriculture, rural and fish-farming" and the agreement concluded between the Ministry of Agriculture and Rural Support Service (Lauku Atbalsta Dienests - LAD), LAF on 7 September 2010, Loans fund was established. On 16 September 2010, for Loan Fund management, LAF received from LAD the EU funds assigned by the Ministry of Agriculture – EUR 37,596 thsd for programmes' EAFRD activities and EUR 7,114 thsd for EFF activities. As at December 31, 2015 the item Due to Rural Support Service includes accrued interest of 66 thsd euros.
The granted financing is to be repaid by 31 December 2030.

Loans received from the Treasury of Latvia includes the loan of EUR 22,814 thsd received by the LAF for implementation of land acquisition programmes. In compliance with Articles 9 and 13 of the Cabinet regulation No 381 "Procedure of granting state aid for procurement of agricultural land for producing agricultural produce" of 29 May 2012, the Republic of Latvia and LAF concluded loan agreement *No A1/1/F12/296* and the State Treasury on 25 June 2012.

The Company has granted 725 loans of EUR 32,820 thsd as at 31 December 2015. The loan to the Company matures on 31 December 2040, and its interest rate consists of 0.149% as the cost of the State Treasury's resources and the fee set by the State Treasury for origination and maintenance of the Loan is 0.50% (fifty hundredths per cent) per annum.

27 SUPPORT PROGRAMME FUNDING AND STATE AID

	31/12/15	31/12/14
Support programme funding	**54,174**	**-**
State aid	**16,166**	**-**

Support programme funding is considered a liability of the Company while state aid is a grant. The co-financing received by ALTUM and LGA for implementation of state aid programmes. The major state aid programmes benefiting from the received financing are:

- ERDFII – 38,501 thsd euros;
- ESFII – 7,749 thsd euros;
- Holding Fund - 8,408 thsd euros;
- Transition facilities – 15,681 thsd euros.

The terms for use of the public funding of each state aid programme, including covering of the management expenses and credit risk losses, are stipulated by agreement between the implementing body and line ministry and/or state-owned Central Finance and Contracting Agency. See Note 2 (22).
The support programme funding is provided with zero interest rate. The repayment terms for the co-financing received by ALTUM and LGA for implementation of largest state aid programs are presented below:

- ERAFII – till the end of 2020;
- ESFII – till the end of 2020;
- Investment fund – till the end of 2026.

NOTES TO FINANCIAL STATEMENTS

28 PROVISIONS

	31/12/15	31/12/14
Provisions for:		
Loan guarantees to rural entrepreneurs for agricultural	1,057	-
Guarantees *under the Mezzanine loan programme*	750	-
Guarantee activity	2,645	
Housing Guarantee Programme	323	
Other guarantee programmes	3,742	
Provision (onerous contracts)	8,810	-
	17,327	**-**

The provisions for loan guarantees account for EUR 8,158 thsd of the total provisions whereas provisions for export guarantees make up EUR 359 thsd.
Provision (onerous contracts) includes the loss from the concession which is the discounted difference between total of actual receivable commissions and total of commissions under market rate. Onerous contracts relate to issued guarantees which are measured at fair value based on equivalent market rates. For accounting treatment see Note 2 (21).

Guarantee gross and net amounts

	31/12/15	31/12/14
Total gross nominal value of issued guarantee (Note 32)	131,120	-
Provisions for guarantees	(8,517)	-
Off-balance sheet amount of guarantee	**122,603**	-

More information about guarantee amounts and categories are provided in Note 32.
Guarantee accounting methodology is described in Note 2 (21).

29 OTHER LIABILITIES

	31/12/15	31/12/14
Due to customers of Company	3,233	-
Other liabilities*	3,283	24
	6,516	**24**

Due to customers of Company include short-term funds, which are connected with privatization processes and other liabilities.
Other liabilities include funds received from clients to be used for repayment of the loans at a later stage.

30 DEFERRED INCOME AND ACCRUED EXPENSE

	31/12/15	31/12/14
Deferred income	603	-
Accrued expense	1,060	8
Total	**1,663**	**8**

Deferred income consists of Company's income from commissions from guarantees for which the prepayments have been received where EUR 120 thsd is discounted deferred income for receives commissions attributable to the period starting from 1 January 2017.
The item *Accrued expenses* includes the accrued expenses for the bonuses of the Company's employees and Board amounting to 397 thsd euros (including the social tax), expenses for audit services amounting to 36 thsd euros and other expenditure related to the economic activities of the Company.

NOTES TO FINANCIAL STATEMENTS

31 SHARE AND RESERVE CAPITAL

The share capital of the Company was as follows:

	31/12/15		31/12/14	
	Quantity	**EUR**	**Quantity**	**EUR**
Fully paid share capital				
Ordinary shares	204,862,332	204,862,332	204,862,332	204,862,332
Total fully paid share capital	**204,862,332**	**204,862,332**	**204,862,332**	**204,862,332**

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

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 EUR 204,862,333. The face value of each share is EUR 1.

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.

The movement of Company's reserve after merging of LGA, RDF and ALTUM into the Company:

	Company's shareholding (%)	Investment value	Net assets of company at the moment of acquisition (Note 44)	Difference, carried to Company's reorganisation reserve	Available for sale reserve	Reserves, total
Latvian Guarantee Agency Ltd	100	111,417	107,327	(14,699)	10,609	(4,090)
SJSC Rural Development Fund	100	12,850	13,854	1,004	-	1,004
SJSC Latvian Development Finance Institution ALTUM	100	80,026	78,968	(2,240)	1,182	(1,058)
Total:		**204,293**	**200,149**	**(15,935)**	**11,791**	**(4,144)**

See information about the Company's reserves movements below:

	Difference recognised in Company's reorganisation reserve	Reserve of available for sale investments	Reserve capital	Reserves, total
Reorganisation reserve as at the moment of reorganisation	(6,504)	11,791	-	5,287
Increase of reserve capital	-	-	1,635	1,635
Decrease of available for sale reserve	-	(3,124)	-	(3,124)
Adjustments				
Change of guarantee accounting method *	(8,546)	-	-	(8,546)
Updating of balances **	(885)	-	-	(885)
Reserves as at 31/12/2015.	**(15,935)**	**8,667**	**1,635**	**(5,633)**

NOTES TO FINANCIAL STATEMENTS

31 SHARE AND RESERVE CAPITAL (continued)

* Difference, carried to Company's reserves from LGA, includes 8,546 thsd euros from guarantee onerous contracts. See Note 2 (21) This sum is calculated as difference between discounted values of the guarantee commission and discounted fair market value of commission.

** Updating of balances is done due to periodisation of the management fees of the venture capital funds (in the amount of 603 thsd euros). The Company identified that 269 thsd euros of the value impairment of the venture capital funds refer also to the pre-reorganisation period. The remaining 13 thsd euros are referable to the adjustment of LGA financial results of the 1st quarter of 2015.

The second part of Company's reserve capital is related to *Housing Guarantee Programme.* To implement this programme the Company's reserve capital was increased up to EUR 1,635 thsd by the Company's shareholders as a cash contribution.

32 OFF BALANCE SHEET ITEMS AND CONTINGENT LIABILITIES

The guarantees issued by Company account for the largest sum in the Company's off-balance sheet items.
The guarantees, just as another financial instrument – loans, have been granted to the Company's clients within the framework of the state aid programmes:.

- *Loan guarantees to rural entrepreneurs for agricultural* are issued for loans granted by credit institutions to rural entrepreneurs having insufficient loan collateral. 244 loan guarantees of EUR 14,222 thsd worth were outstanding as at 31 December 2015.
- Company issues *guarantees under the Mezzanine loan programme* - loan guarantees to loans and export loan guarantees to foreign partner defaults on payment. As at 31 December 2015 this programme's guarantees portfolio volume was EUR 32,239 thsd.
- *Guarantees programme* includes loan guarantees to loans and export loan guarantees. The volume of guarantees portfolio is EUR 37,226 thsd as at 31 December 2015. No new guarantees are issued under this programme.
- Item *Housing Guarantee Programme* within the framework of which state guarantees are extended to the housing loans taken out by families with children. As at December 31, 2015 there were 1,176 guarantees extended. The value of the guarantee portfolio of the programme is EUR 7,225 thsd.
- Item *Other guarantee programmes* includes guarantees of the old, closed guarantee programmes as well as guarantees unrelated to the state aid programmes. As at December 31, 2015 the value of this guarantee portfolio was EUR 40,209 thsd.

	31/12/15	31/12/14
Contingent liabilities		
outstanding guarantees	131,120	-
Financial commitments		-
unutilised loan facilities	5,899	-
commitments to venture capital funds*	34,320	
other liabilities	137	-
Total	**171,476**	**-**

**Commitments to venture capital funds* are contingent liabilities, which are based on contractual agreements between the Company and a venture capital fund that obligates the Company to contribute money to the fund. Information regarding provisions built for guarantees issued is provided in Note 28.

33 CASH AND CASH EQUIVALENTS

	31/12/15	31/12/14
Demand deposits with other credit institutions	37,426	16
Deposits with credit institutions with original maturity of less than 3 months	6,290	202
	43,716	**218**

For complete balances due from credit institutions and the State Treasury of the Republic of Latvia of the Company as at 31 December 2015 please see Note 16.

NOTES TO FINANCIAL STATEMENTS

34 MOVEMENT IN REVALUTION RESERVE OF INVESTMENT SECURITIES AVAILABLE FOR SALE

	31/12/15	31/12/14
At 1 January	-	-
Acquired through companies' reorganisation*	**11,791**	-
(Profit) from sales (Note 8)	(125)	-
Gain from changes in fair value	(2,999)	-
Other comprehensive income	**(3,124)**	-
At 31 December	**8,667**	-

*As a result of reorganisation , the revaluation reserve on the financial instruments of ALTUM and LGA is classified as available for sale and contains overtaken ALTUM share in amount of 1,182 thsd euros and LGA – 10,615 thsd euros.

Information regarding revaluation of investment securities is provided in Note 2 (5).

35 RELATED PARTY TRANSACTIONS

Related parties are defined as Council and Board members of the Company, their close relatives, as well as companies under their control.
In accordance with the International Accounting Standards (IAS) 24 *Related Party Disclosures* also the managing personnel, directly or indirectly authorised and responsible for planning, management and control of the Company's operations are treated as related parties to the Company.
The powers granted to the heads of the Company's structural units do not allow them to manage the operations of the Company and decide on material transactions that could affect the Company's operations and/or result in legal consequences.

The remuneration of the members of the Company's Council and Board in the reporting period amounted to EUR 221 thsd.

The Company has entered into number of transactions with other government entities. The most significant being obtaining financing from Investment and Development Agency of Latvia, Ministry of Finance, Ministry of Economics, Rural Support Service, and Central Finance and Contracting Agency, which is used to co-finance development programmes of the Company. The total amount of financing is provided in Note 27 and 2 (23).

NOTES TO FINANCIAL STATEMENTS

36 MAXIMUM EXPOSURE TO CREDIT RISK

The credit risk is a risk that a customer or cooperation partner of the Company is unable or unwilling to meet its liabilities towards the Company in full and within the established term.
The table below shows credit risk exposures relating to balance and off-balance sheet items (before collateral held or other credit security):

	31/12/15	31/12/14
Statement of financial position assets exposed to credit risk		
Investment securities – held to maturity	1,541	-
Investment securities - available for sale	97,276	-
Due from other credit institutions and the State Treasury	46,148	218
Loans	201,518	-
Investments in venture capital funds	38,964	
Other assets	2,928	1
Total	**388,375**	**219**
Off-balance sheet items exposed to credit risk		
Contingent liabilities	131,120	-
Financial commitments	40,356	-
Total	**171,476**	**-**

As at December 31, 2015 a part of the Company's assets were pledged. On June 16, 2015 the commercial pledge stemming from the loan agreement No A/1/F12/296 and its amendments concluded between the Company and Ministry of Finance of the Republic of Latvia was renewed. The commercial pledge is related to the loans granted by Company in compliance with the Cabinet of Ministers Regulations No 381 dated May 29, 2012 *Procedure for Granting State Aid when Acquiring Farmland for Agricultural Production* as well as future components of the aggregation of property. The maximum claim amount is EUR 40 000 thsd.

Transactions with derivatives, in effect at 31 December 2015, had been concluded seeking to cushion the effect of exchange rate fluctuations on the value of balance-sheet assets (see Note 17).

None of financial assets, except for Loans to customers, have been collateralised. Loans are mostly secured by real estate collateral, to a lesser extent – by other assets or commercial pledge. Some loans, granted during lending campaigns, are partially covered by guarantees of state aid programmes. Loan loss impairment estimates take into account the expected cash flows from collateral. Loan quality is described in Note 19.

The total amount of ALTUM's entitlements considered as an aggregate property in favour of the Ministry of Finance was EUR 67,013 thsd as at 31 December 2015.

NOTES TO FINANCIAL STATEMENTS

37 FAIR VALUES OF ASSETS AND LIABILITIES

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

	31/12/15	
	Carrying amount	**Fair value**
Assets		
Due from other credit institutions and the State Treasury	46,148	46,148
Debt securities	88,002	88,002
Open-ended investment funds	9,274	9,274
Investment securities - available for sale	97,276	97,276
Individuals	23,764	23,811
Companies	177,754	177,333
Loans	201,518	201,144
Debt securities	1,541	1,890
Investment securities – held to maturity	1,541	1,890
Investments in venture capital funds	38,964	38,964
Investment property	1,225	1,225
Liabilities		
Due to credit institutions	67,166	67,166
Derivatives	346	346
Due to general governments	39,561	39,561
Support program funding	54,174	54,174

Assets

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

Liabilities

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

NOTES TO FINANCIAL STATEMENTS

37 FAIR VALUES OF ASSETS AND LIABILITIES (continued)

The following table shows the hierarchy of the Company's financial assets and liabilities assessed and recognised at fair value as at 31 December 2015:

	Level 1	Level 2	Level 3	Total
Assets measured at fair value:				
Investment property (Note 15)	-	-	1,225	**1,225**
Debt securities - available for sale (Note 14)	63 213	24,789	-	**88,002**
Open-ended investment funds (Note 14)	-	-	9,274	**9,274**
Assets for which fair values are disclosed:				
Loans (Note 19)	-	-	201,144	**201,144**
Due from other credit institutions and the State Treasury (Note 16, 33)	46,148	-	-	**46,148**
Total	**109,361**	**24,789**	**211,643**	**345,793**
Liabilities measured at fair value:				
Derivatives (Note 17)	-	346	-	**346**
Liabilities for which fair values are disclosed:				
Due to credit institutions (Note 25)	-	-	67,166	**67,166**
Due to general governments (Note 26)	-	-	39,561	**39,561**
Support program funding (Note 27)	-	-	54,174	**54,174**
Total	**-**	**346**	**160,901**	**161,247**

Fair value hierarchy of financial assets and liabilities

The Company classifies valuations of fair value by applying a fair value hierarchy, which reflects the significance of the data used in evaluation. The fair value hierarchy of the Company has 3 levels:

- *the first level* includes listed financial instruments having an active market, if the Company, to determine their fair value, uses unadjusted quoted market prices, obtained from the stock-exchange or reliable information systems;
- *the second level* includes financial instruments traded over the counter and financial instruments having no active market or the active market is being lost, and the bulk of determining their fair value is constituted by observable data (e.g., similar instruments, benchmark financial instruments, credit risk insurance transaction rates, etc.);
- *the third level* includes financial instruments, the fair value of which is determined by using observable data, which are to be making a significant adjustment, on the grounds of non-observable data, and financial instruments, the fair value of which is determined primarily on the grounds of non-observable data on the active market, based on assumptions and estimates of the Company that enable a credible determination of a financial instrument's value.

Debt securities

Debt securities are valued using quoted prices or some valuation techniques using both market observable and unobservable input data and a combination of two. Majority of investments in debt securities at fair value are investments in Latvian government debt securities, which have quoted price, but are traded in active market. The management has estimated that quoted price is reasonable approximation of their fair value by reference to yield of similar risk investments.

Derivatives

Derivatives valued using a valuation technique with market observable data is mainly currency swaps and forward exchange contracts. Most frequently applied valuation techniques include discounted cash flow calculations, where inputs include foreign exchange spot and forward rates and interest rate curves.

Open - ended investment funds

Investments in shares of open – ended investment funds are values based on net redemption price as these investments are made in open-ended investment funds.

NOTES TO FINANCIAL STATEMENTS

37 FAIR VALUES OF ASSETS AND LIABILITIES (continued)

Investment property

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

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

(a) market approach;

(b) income approach

(c) Depreciated replacement cost method.

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

38 LIQUIDITY RISK

The table below provides the maturity structure of undiscounted future cash flows of the Company's financial liabilities, off-balance liabilities and liquid assets as at 31 December 2015:

	Up to 1 year	1 – 5 years	Over 5 years and w/o date	**Total**
Due to credit institutions	11,521	36,262	21,170	68,953
Due to general governments	126	504	42,080	42,710
Support programme funding			54,174	54,174
Other liabilities	-	-	6,516	6,516
Total financial liabilities	**11,647**	**36,766**	**123,940**	**172,353**
Off-balance items and contingent liabilities	78,644	66,701	38,579	183,924
Total financial liabilities, off-balance items and contingent liabilities	**90,291**	**103,467**	**162,519**	**356,277**
Liquid assets	**71,500**	**19,475**	**53,990**	**144,965**

NOTES TO FINANCIAL STATEMENTS

39 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below allocates the Company's assets and liabilities to maturity groupings as at 31 December 2015 based on the time remaining from the balance sheet date to the contractual maturity dates.

	Up to 1 year	1 to 5 years	Over 5 years and undated	**Total**
ASSETS				
Due from other credit institutions and the State Treasury	46,148	-	-	46,148
Investment securities	25,352	19,476	53,989	98,817
Loans	52,816	95,373	53,329	201,518
Investments in venture capital funds	-	38,964	-	38,964
Deferred expense and accrued income	1,545	6	10	1,561
Investment property	-	-	1,225	1,225
Property, plant and equipment	-	-	4,628	4,628
Intangible assets	-	-	123	123
Investment in subsidiaries	-	-	646	646
Deferred tax asset	-	-	523	523
Other assets	2,200	7,299	848	10,347
Total assets	128,063	161,116	114,798	403,977
LIABILITIES AND SHAREHOLDERS EQUITY				
Due to credit institutions	11,241	35,092	20,833	67,166
Derivatives	346	-	-	346
Due to general governments	3,769	-	35,792	39,561
Deferred income and accrued expense	1,663	-	-	1,663
Support programme funding	2,786	47,942	19,612	70,340
Provisions for off-balance sheet commitments	8,517	-	-	8,517
Other liabilities	5,815	9,458	53	15,326
Capital and reserves	-	-	201,058	201,058
Total liabilities	34,137	92,492	277,348	403,977
Net liquidity	93,926	68,624	(162,550)	-

NOTES TO FINANCIAL STATEMENTS

39 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

The table below allocates the Company's assets and liabilities to maturity groupings as at 31 December 2014 based on the time remaining from the balance sheet date to the contractual maturity dates.

	Up to 1 year	1 to 5 years	Over 5 years and undated	Total
ASSETS				
Due from other credit institutions and the State Treasury	218	-	-	**218**
Investment securities	-	-	-	**-**
Loans	-	-	-	**-**
Investments in venture capital funds	-	-	-	**-**
Deferred expense and accrued income	-	-	3	**3**
Investment property	-	-	-	**-**
Property, plant and equipment	-	-	-	**-**
Intangible assets	-	-	-	**-**
Investment in subsidiaries	-	-	204,293	**204,293**
Deferred tax asset	-	-	-	-
Other assets	1	-	-	**1**
Total assets	**219**	**-**	**204,296**	**204,515**
LIABILITIES AND SHAREHOLDERS EQUITY				
Due to credit institutions	-	-	-	**-**
Derivatives	-	-	-	**-**
Due to general governments	-	-	-	**-**
Deferred income and accrued expense	8	-	-	**8**
Support programme funding	-	-	-	**-**
Provisions for off-balance sheet commitments	-	-	-	**-**
Other liabilities	24	-	-	**24**
Capital and reserves	-	-	204,483	**204,483**
Total liabilities	**32**	**-**	**204,483**	**204,515**
Net liquidity	187	-	(187)	-

NOTES TO FINANCIAL STATEMENTS

40 ASSETS AND LIABILITIES BY CURRENCY PROFILE

The table below provides data of the Company's assets, liabilities and shareholders' equity as well as off-balance sheet items outstanding as at 31 December 2015 by currency profile:

	EUR	USD	Other	Total
ASSETS				
Due from other credit institutions and the State Treasury	46,148	-	-	**46,148**
Investment securities	86,040	12,777	-	**98,817**
Loans	200,935	583	-	**201,518**
Investments in venture capital funds	38,964	-	-	**38,964**
Deferred expense and accrued income	1,560	1	-	**1,561**
Investment property	1,225	-	-	**1,225**
Property, plant and equipment	4,628	-	-	**4,628**
Intangible assets	123	-	-	**123**
Investment in subsidiaries	646	-	-	**646**
Deferred tax asset	523	-	-	**523**
Other assets	9,824	-	-	**9,824**
Total assets	**390,616**	**13,361**	**-**	**403,977**
LIABILITIES AND SHAREHOLDERS EQUITY				
Due to credit institutions	67,166	-	-	**67,166**
Derivatives	346	-	-	**346**
Due to general governments and	39,561	-	-	**39,561**
Deferred income and accrued expense	1,661	2	-	**1,663**
Support programme funding	70,340	-	-	**70,340**
Provisions for off-balance sheet commitments	8,431	86	-	**8,517**
Other liabilities	15,326	-	-	**15,326**
Capital and reserves	199,536	1,522	-	**201,058**
Total liabilities	**402,367**	**1,610**	**-**	**403,977**
Forward foreign exchange receivables / (payables)	(2,905)	2,560	-	(345)
Currency position	**(14,656)**	**14,311**		**(345)**

NOTES TO FINANCIAL STATEMENTS

40 ASSETS AND LIABILITIES BY CURRENCY PROFILE (continued)

The table below provides data of the Company's assets, liabilities and shareholders' equity as well as off-balance sheet items outstanding as at 31 December 2014 by currency profile:

	EUR	USD	Other	**Total**
ASSETS				
Due from other credit institutions and the State Treasury	218	-	-	**218**
Investments in associates and subsidiaries	204,293	-	-	204,293
Property, plant and equipment	3	-	-	**3**
Other assets	1	-	-	**1**
Total assets	**204,515**	**-**	**-**	**204,515**
LIABILITIES AND SHAREHOLDERS EQUITY				
Deferred income and accrued expense	8	-	-	**8**
Other liabilities	24	-	-	**24**
Capital and reserves	204,483	-	-	**204,483**
Total liabilities	**204,515**	**-**	**-**	**204,515**
Currency position	-	-	-	-

41 MINIMUM FUTURE LEASE PAYMENTS

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

	Company
Year 2016	64
Year 2017	62
Year 2018	55
Year 2019	50
Year 2020	46
Total for 5 years	**277**
Year 2021 and later	**126**

NOTES TO FINANCIAL STATEMENTS

42 FINANCIAL ASSETS AND LIABILITIES BY CLASSIFICATION PRINCIPLES

The assets and liabilities of the Company as at 31 December 2015 by classification principles are as follows:

	Financial assets un liabilities held to trading	Financial assets available for sale	Amortised cost	At cost	Total book value
ASSETS					
Investment securities	-	97,276	1,541	-	98,817
Due from other credit institutions and the State Treasury	-	-	46,148	-	46,148
Loans	-	-	201,518	-	201,518
Venture capital funds	-	-	-	38,964	38,964
Other financial assets	-	-	10,347	-	10,347
Total financial assets	**-**	**97,276**	**259,554**	**38,964**	**395,794**
Non-financial assets	-	-	7,537	646	8,183
Total assets	**-**	**97,276**	**267,091**	**39,610**	**403,977**
LIABILITIES					
Due to credit institutions	-	-	67,166	-	67,166
Due to general governments	-	-	39,561	-	39,561
Support programme funding	-	-	70,340	-	70,340
Derivatives	346	-	-	-	346
Other financial liabilities	-	-	25,506	-	25,506
Total financial liabilities	**346**	**-**	**202,573**		**202,919**
Non-financial liabilities	-	-	201,058	-	201,058
Total liabilities	**346**	**-**	**403,631**	**-**	**403,977**

The assets and liabilities of the Company as at 31 December 2014 by classification principles are as follows:

	Financial assets and liabilities held to trading	Financial assets available for sale	Amortised cost	At cost	Total book value
ASSETS					
Due from other credit institutions and the State Treasury	-	-	218	-	**218**
Other financial assets	-	-	1	-	**1**
Total financial assets	**-**	**-**	**219**	**-**	**219**
Non-financial assets	-	-		204,296	204,296
Total assets	**-**	**-**	**219**	**204,296**	**204,515**
LIABILITIES					
Other financial liabilities	-	-	24	-	**24**
Total financial liabilities	**-**	-	**24**	**-**	**24**
Non-financial liabilities	-	-	204,491	-	**204,491**
Total liabilities	**-**	-	**204,515**	**-**	**204,515**

NOTES TO FINANCIAL STATEMENTS

43 SUBSEQUENT EVENTS

On February 22, 2016 the Central Finance and Contracting Agency (hereinafter CFCA) passed a decision on repayment of non-eligible expenditure of 216 thsd euros. CFCA informed that it had received a report No OF/2013/1112/B5 (hereinafter – Report) from the European Anti-Fraud Office (hereinafter – OLAF). According to the Report, OLAF had investigated the project No VPD1/ERAF/CFLA/05/NP/2.4.3./0001/000001 Development of Venture Capital System (hereinafter – Project) under measure 2.4. Access to Finance for SMEs of 2004 – 2006 programming period. OLAF established that the venture capital fund *Otrais Eko fonds* (hereinafter the Fund) had made investments (co-financed within the framework of the Project by European Regional Development Fund) in the companies connected to the Board members of the Fund's manager (JSC *Eko investors*) resulting in a conflict of interest. Since the Fund's manager had entered a conflict of interests, as defined by Article 52 (2) of the Council Regulation No 1995/2006, due to investing in JSC *PET Baltija* and JSC *Eko Riga*, the ERDF co-financing of 216 thsd euros that the Fund had invested in JSC *PET Baltija* and JSC *Eko Riga* was considered non-eligible expenditure. Based on Section 20 of the Cabinet of Ministers Regulations No 706 of June 30, 2009 *Procedure for Reporting Irregularities in Implementation of the Projects Financed by Structural Funds and Deciding on Usage of the Allotted Financing*, CFCA ordered the Company, having taken over the obligations of LGA, to repay the non-eligible expenditure by May 23, 2016.

On February 8, 2016 the extraordinary meeting of shareholders decided to increase the reserve capital of the Company by 700 000 (seven hundred thousand) euros to provide for further implementation of the First Housing Program and covering of the estimated losses.

On May 3, 2016, the Republic of Latvia Enterprise Register has made the decision on liquidation of the Company's subsidiary Risk Investment Company Ltd.
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 Company, except the information regarding reorganization of the Company, mentioned above.

NOTES TO FINANCIAL STATEMENTS

44 LGA, RDF AND ALTUM ABRIDGED CLOSING FINANCIAL STATEMENTS

LGA abridged closing financial statement
Statement of other comprehensive income for the period from January 1, 2015 to March 31, 2015

		01.01.2015-31.03.2015 EUR	2014 EUR
Net turnover		1,231,883	6,149,581
Cost of services received		(101,669)	(302,239)
Gross profit		**1,130,214**	**5,847, 342**
Administrative expense		(348,189)	(951,315)
Other operating income		995, 233	1,234,782
Other operating expense		(1,449,434)	(3,290,669)
Profit before taxes		**327, 824**	**2,840,140**
Corporate income tax	7	243,400	(243,400)
Net profit for the reporting period		**571,224**	**2,596,740**

Statement of financial position as at March 31, 2015

	31.03.2015. EUR	31.12.2014. EUR
Assets		
Non-current assets		
Intangible assets	2,954	3,527
Property and equipment	22,001	26,695
Non-current financial assets	103,124,551	101,218,807
Total non-current assets:	**103,149,506**	**101,249,029**
Current assets		
Accounts receivable	2,526,388	2,177,164
Current financial assets	17,233,097	19,935,531
Cash:	6,942,794	6,395,450
Total current assets:	**26,702,279**	**28,508,145**
Total assets	**129,851,785**	**129,757,174**
Liabilities		
Equity capital:		
Share capital	112,549,206	112,549,206
Other reserves	1	1
Retained earnings/ (accrued losses):		
1) losses brought forward	(6,971,017)	(9,567,757)
2) profit for the period	571,224	2,596,740
Total equity capital:	**106,149,414**	**105,578,190**
Total provisions:	**5,738,318**	**5,930,294**
Liabilities:		
Non-current liabilities	12,828	16,403
Current liabilities	17,951,225	18,232,287
Total liabilities:	**17,964,053**	**18,823,296**
Total equity and liabilities	**129,851,785**	**129,757,174**

NOTES TO FINANCIAL STATEMENTS

44 LGA, RDF AND ALTUM ABRIDGED CLOSING FINANCIAL STATEMENTS (continued)

RDF abridged closing financial statement
Statement of other comprehensive income for the period from January 1, 2015 to March 31, 2015

	01.01.2015-31.03.2015 EUR	2014 EUR
Net turnover	191,814	592,152
Gross profit or loss	**191,814**	**592,152**
Administrative expense	(182,407)	(580,544)
Other operating income	104,430	81
Other operating expense	(22,507)	(81,017)
Income on securities and loans constituting non-current assets	-	-
Interest payable and similar expense	43,033	18, 636
Write-off of value of non-current financial assets and short-term securities		-
Interest payable and similar expense	(7,852)	(34,904)
Profit before taxes	**126,511**	**79,404**
Corporate income tax for the reporting period	-	-
Profit for the reporting period	**126,511**	**79,404**

Statement of financial position as at March 31, 2015

Assets	**31.03.2015 EUR**	**2014 EUR**
Non-current assets		
Intangible assets	823	1,153
Property, plant and equipment	3,202	4,294
Non-current financial assets	33,274,605	31,284,995
Total non-current assets	**33,278,630**	**31,290,442**
Current assets		
Inventories	-	**47**
Receivables	**16,507,968**	**11,867,166**
Cash and cash equivalents	**2,182,142**	**8,328,706**
Total current assets	**18,690,110**	**20,195,919**
Total assets	**51,968,740**	**51,486,361**
Liabilities		
Equity		
Share capital	16,363,026	16,363,026
Reserves:		
reserves according to the Articles of Association	4,291,246	4,291,246
other reserves	-	-
Retained earnings:		
brought forward	(6,926,505)	(7,005,909)
for the reporting period	126,511	79,404
Total equity	**13,854,278**	**13,727,767**
Total provisions	**1,626,696**	**2,055,055**
Liabilities		
Non-current liabilities	34,748,222	33,953,631
Current liabilities	1,739,544	1,749,908
Total liabilities	**36,487,766**	**35,703,539**
Total equity and liabilities	**51,968,740**	**51,486,361**

NOTES TO FINANCIAL STATEMENTS

44 LGA, RDF AND ALTUM ABRIDGED CLOSING FINANCIAL STATEMENTS (continued)

ALTUM abridged closing financial statement
Statement of other comprehensive income for the period from January 1, 2015 to March 31, 2015

	01.01.2015-31.03.2015	01.01.2014-31.12.2014
Net turnover	2,798,776	13,10, 996
Cost of services received	(1,115,898)	(3,769,244)
Gross profit	**1,682,878**	**9,332,752**
Administrative expense	(2,344,778)	(11,231,287)
Other operating income	1,424,710	12,324,416
Other operating expense	(671,875)	(8,673,959)
Profit before taxes	**9, 935**	**1,751,922**
Corporate income tax	-	-
Net profit for the reporting period	**90, 935**	**1,751,922**

Statement of financial position as at March 31, 2015

	31.03.2015	31.12.2014
Assets		
Non-current assets		
Intangible assets	116,465	148,493
Property and equipment	4,719,336	4,787,479
Non-current financial assets	124,455,899	133,639,440
Total non-current assets	**129,291,700**	**138,575,412**
Total current financial assets	**77,491,338**	**79,553,552**
Total current assets	**3,202,181**	**3,032,618**
Due from other credit institutions and State Treasury	**36,617,918**	**31,552,055**
Total assets	**246,603,137**	**252,713,637**
Capital and reserves		
Share capital	308,195,899	308,195,899
Reserve capital	2,935,801	2,935,801
Revaluation reserve on available for sale investments	1,182,515	1,235,122
Accumulated loss	(233,345,942)	(233,436,877)
Total equity and reserves	**78,968,273**	**78,929,945**
Total provisions	**47,207**	**47,207**
Total non-current financial liabilities	**140,856,640**	**147,802,868**
Total current financial liabilities	**26,731,017**	**25,933,617**
Total liabilities	**246,603,137**	**252,713,637**