JSC DEVELOPMENT FINANCE INSTITUTION ALTUM

Annual Report for the year ended 31 December 2016
(The 3rd reporting period)

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JSC Development Finance Institution Altum
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JSC DEVELOPMENT FINANCE INSTITUTION ALTUM
REPORT OF MANAGEMENT

Activity during reporting period

The joint stock company Development Finance Institution Altum (hereinafter referred to as the Company) is a state-owned development finance institution that provides state aid to specific target groups by means of financial instruments (loans, guarantees, investments in venture capital funds, a.o.). By way of implementing the state aid programmes the Company fills in the market gaps and ensures accessibility to the funding in the areas the state has identified as priority.
The mission of the Company is – We help Latvia to thrive!
The vision of the Company is – Co-operation partner and financial expert in the development of the national economy.
The role of the development finance institution in the financial market is to:

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

The Development Finance Institution Law governs the operations of the Company. The Ministry of Finance holds 40% of the Company's shares, the Ministry of Economics and Ministry of Agriculture – 30% each.
During 12 months of 2016 the Company made a profit of 4,025 mln euros.

Operational Volumes

As at 31 December 2016 the Company's books and records held a portfolio of the financial instruments granted within the state aid programmes for the total value of 430,9 mln euros made up of 11 449 projects, including:

- guarantee portfolio of 147,2 mln euros, the total number of transactions – 4 937;
- loan portfolio of 217,4 mln euros, the total number of transactions – 6 327;
- investments in venture capital funds for the total value of 65,4 mln euros, the total number of projects financed by funds – 185.

Promotion of Business

In the reporting period lasting from 1 January 2016 till 31 December 2016 the funding granted within the state aid programmes amounted to 131,5 mln euros (increase by 11.4% compared to year 2015), the total number of supported projects – 4,461 (increase by 58.2% compared to year 2015). In year 2016 the increase in the number of projects was due to the high demand for the Housing Guarantee Programme developed for families with children. In year 2016, apart from the aid provided to natural persons (Housing Guarantee Programme), the aid provided to businesses amounted to 111,6 mln euros supporting 1643 business projects.
Fund of funds. On 8 June 2016, in order to introduce new financial instruments for the benefit of the Latvian companies, the Company signed a covenant with the Central Finance and Contracting Agency (CFCA) on implementation of the Fund of funds. It is estimated that the total funding of the European Regional and Development Fund (ERDF) available through the aid programmes under the Fund of funds will amount to 126 mln euros. In addition, private funds will be attracted to implementation of the Fund of funds programmes increasing the total funding available to the entrepreneurs under these programmes to 376 mln euros.
The Start-up Programme, Micro-lending Programme, Credit Guarantee Programme for Businesses and Parallel Loan Programme were launched within the framework of the Fund of funds in June, 2016. By December-end the Fund of funds programmes had approved 134 loans totalling 2,86 mln euros and issued 68 guarantees for 13,6 mln euros.
European Strategic Investment Fund. As part of promoting use of the funds of the European Strategic Investment Fund (EFSI) in Latvia and implementation of the large investment projects (above 50 mln euros), the Company, in co-operation with the European Investment Bank and Representation of the European Commission in Latvia, organises on a regular basis informative campaigns and consults the large projects on EFSI funds. On 14 October 2016 the Company concluded an agreement with the European Investment Fund (EIF) on the counter-guarantees of InnovFIN Facility for the guarantee portfolio worth 30 mln euros. The risk cover provided by counter-guarantees allows the Company to issue guarantees to the eligible projects at lower rates, thus reducing the costs for attracting financing for these projects. As at December 31, 2016 there were 2 guarantees for 0.8 mln euros issued under InnovFIN Facility. Within EFSI co-operation framework the Company has submitted to EIF an application for COSME programme to obtain counter-guarantees for the guarantee portfolio worth 15 mln euros.
Venture capital investments. In the reporting period the following expansion venture capital funds - **Expansion Capital, FlyCap and ZGI-3** funds, having been in the business since 2013, **closed their investment periods**. The aforementioned funds were financed within the Structural Funds **2007-2013** Programming Period with Altum being the largest investor. The funding of the European Union Structural

REPORT OF THE BOARD OF DIRECTORS (continued)

Funds earmarked for investments in companies has been fully absorbed with 35,7 mln euros invested in 81 companies. In terms of branch representation, the majority of investments – 44% were made in development of production projects.
Starting a business. Promotion of start-ups is a significant business segment of the Company. In the reporting period the start-ups were granted loans totalling 4,3 mln euros financing 223 start-ups projects under the Start-ups Programme. In year 2016, in order to inform the start-ups about the state aid options, the Company, having involved the governmental and private sector partners, organised free of charge informative workshops in Riga and regional cities.

Aid for Improvement of Energy Efficiency of Multi-apartment Buildings

In year 2016 the Company started to implement the Energy Efficiency Programme of Multi-apartment Buildings. The total earmarked public funding (ERDF and state budget) of the programme is 166 mln euros to be supplemented by the funds of Company and loan.

In April 2016 the Company opened stage one of the programme – consulting about the conditions, aid options and required documents. In view of the structure of the programme and project implementation conditions, extensive free of charge consultations were provided in co-operation with the Ministry of Economics and other partners in the cities of Latvia and Altum Competence Centre. In year 2016, to consult about the programme:

- 54 workshops with 2 350 participants were organized in 21 towns of Latvia;
- 694 consultations were held at the Altum Competence Centre.

On 13 September 2016 a co-operation agreement on participation in the programme and receipt of grant was signed with CFCA whereby the Company was entitled to conclude co-operation agreements with the commercial banks. On 28 September 2016 the Company started to accept the grant, loan and guarantee applications for the Energy Efficiency Programme of Multi-apartment Buildings.

Support to Families with Children for Buying Housing

As at 31 December 2016, the Housing Guarantee Programme had granted 4 106 guarantees worth 27 mln euros to the families with children. The demand for guarantees has remained high throughout the reporting period with an upward tendency. Around 75% of the volume of guarantees has been granted to the families residing in Rīga and adjacent regions. Breakdown of data by cities shows that guarantees for the housing loans are used actively also by families with children in Liepāja, Jelgava, Ventspils, Jūrmala and Daugavpils. The families having received programme's guarantees have 6122 children among them.

Activities of Land Fund of Latvia

As at 31 December 2016, the balance sheet of the Land Fund administered by Company enlisted 112 properties with the total land area of 2,038 ha worth 4,635 mln euros.
In year 2016 the activities of the Land Fund had exceeded the estimated figures both in terms of property acquisition offers and demand for lease of the land parcels owned by the fund. As at 31 December 2016, 92% of the fund's properties had been found the lessees – farmers, including ten newly established farmers, in need of agricultural land for development of their economic activities.

The Land Fund has bought agricultural land in all regions of Latvia:

- in Zemgale – 863 ha;
- in Vidzeme – 475 ha;
- in Kurzeme – 238 ha;
- in Latgale – 180 ha;
- in Rīga region – 282 ha.

In the reporting period the preparations were made for introduction of new type of state aid under the Land Fund – reverse rent whereby a farmer could sell its property to the Land Fund and continue using it for production purposes by subsequently renting the property from the fund.

Risk Management

In order to have an adequate risk management, Altum has developed the Risk Management System that provides both preventive risk management and timely implementation of risk mitigation or prevention

REPORT OF THE BOARD OF DIRECTORS (continued)

measures. While assuming the risks, Altum remains capable of implementing the established operational targets and assignments in the long run. In its risk management Altum makes use of various risk management methods and instruments as well as establishes risk limits and restrictions. The risk management methods are chosen based on materiality of the particular risk and its impact on Altum's operations. The Development Finance Institution Law stipulates that a finance institution has to prepare an assessment of the programme's impact, risks and expected losses, financial results and implementation costs prior to its approval by Cabinet of Ministers.
The Cabinet of Ministers approves the programmes and lays down their implementation procedures, funding, eligible operations and expenditure, including funding for covering the expenses of the finance institution.

Future Outlook

The Company, based on the market gap analysis and in co-operation with the responsible ministries, drafts and implements new state aid programmes.
Within the framework of the Fund of funds the Company has initiated selection process of the managers of accelerator funds. Acceleration is an activity not yet practised in Latvia intended to support the companies being in a very early development stage. ERDF funding of 15 mln euros is earmarked for the activity. Around 120 perspective ideas will receive accelerator and investment services. Selection of financial intermediaries for the seed, start-up and expansion-stage funds is scheduled to start in year 2017.
In year 2017 the volume of new transactions performed with Altum's financial instruments is estimated at 180 mln euros with support to be provided to more than 5 500 business projects. The financed projects will create more than 3100 new work places. The total investment of the Altum's financial instruments, including the co-financing of the aid beneficiaries, in the national economy, is expected to be around 290 mln euros.

Reinis Bērziņš
Chairman of the Board

24 April 2017

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 – 18/12/2016 29/12/2016 - present
Jānis Šnore	Council Member	19/12/2013 - 18/12/2016 29/12/2016 - present
Kristaps Soms	Council Member	29/12/2016 - present
Gatis Sniedziņš	Council Member	19/12/2013 – 04/10/2016

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 – 14/04/2017 – 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

STATEMENT OF RESPONSIBILITY OF THE MANAGEMENT

Riga 24 May 2017

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 68 for the period from 1 January 2015 to 31 December 2016. 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

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

	Notes	2016	2015
Interest income	4	12,584	15,075
Interest expense	5	(1,604)	(569)
Net interest income		**10,980**	**14,506**
Fees and commissions income	6	446	378
Fees and commissions expense	7	(299)	(270)
Net income from fees and commissions		**147**	**108**
Net trading income	8	(203)	23
Other income	9	5,528	1,765
Operating income before operating expenses		**16,452**	**16,402**
Staff costs	10	(6,782)	(5,060)
Administrative expense	11	(5,580)	(3,920)
Amortisation of intangible assets and depreciation of property, plant and equipment	21,22	(529)	(532)
Net provisions for impairment	12	464	(4,682)
Profit before corporate income tax		**4,025**	**2,208**
Corporate income tax	13	-	-
Profit for the period		**4,025**	**2,208**
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Net profit/ (loss) on available for sale investments	35	425	(3,124)
Other comprehensive income / (loss) for the year, net of tax		**425**	**(3,124)**
Total comprehensive income / (loss) for the period		**4,450**	**(916)**

The notes on pages 11 to 69 are an integral part of these financial statements.

Reinis Bērziņš
Chairman of the Board

Marina Baranovska
Chief accountant

24 April 2017

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

	Notes	**31.12.2016**	**31.12.2015**
Assets			
Due from other credit institutions and the State Treasury	16, 34	89,408	46,148
Investment securities - available for sale	14	64,294	88,002
Investment securities – held to maturity	14	1,531	1,541
Loans and receivables	19	201,250	201,518
Investments in venture capital funds – associates	18	56,722	38,964
Deferred expense and accrued income	24	2,060	1,561
Investments in subsidiaries	20	10,376	9,920
Investment property	15	4,869	1,225
Property, plant and equipment	22	3,507	4,628
Intangible assets	21	168	123
Corporate income tax overpaid	13	-	523
Other assets	23	3,875	9,824
Assets held for sale	25	1,367	-
Total assets		**439,427**	**403,977**
Liabilities			
Due to credit institutions	26	56,195	67,166
Derivatives	17	855	346
Due to general governments	27	46,914	39,561
Deferred income and accrued expense	31	1,975	1,663
Support programme funding	28	94,425	54,174
State aid	28	6,849	16,166
Provisions	29	16,864	17,327
Other liabilities	30	4,282	6,516
Total liabilities		**228,359**	**202,919**
Capital and reserves			
Share capital	32	204,862	204,862
Reserves	32	(6,911)	(14,300)
Available for sale reserve	32, 35	9,092	8,667
Accumulated profit		4,025	1,829
Total capital and reserves		**211,068**	**201,058**
Total liabilities, capital and reserves		**439,427**	**403,977**

The notes on pages 11 to 69 are an integral part of these financial statements.

Reinis Bērziņš
Chairman of the Board

Marina Baranovska
Chief accountant

24 April 2017

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 31 December 2014		**204,862**	**-**	**-**	**(379)**	**204,483**
Profit for the year		-	-	-	2,208	2,208
Other comprehensive income	32,35	-	-	(3,124)	-	(3,124)
Total comprehensive income/ (loss)			**-**	**(3,124)**	**2,208**	**(916)**
Decrease / increase of reorganisation reserve	32,35	-	(15,935)	11,791	-	(4,144)
Increase of reserve capital	32	-	1,635	-	-	1,635
as at 31 December 2015		**204,862**	**(14,300)**	**8,667**	**1,829**	**201,058**
Profit for the year		-	-	-	4,025	4,025
Other comprehensive income	32,35	-	-	425	-	425
Total comprehensive income			**-**	**425**	**4,025**	**4,450**
Increase of reserve capital	32	-	5,560	-	-	5,560
Distribution of the profit of the previous year		-	1,829	-	(1,829)	-
as at 31 December 2016		**204,862**	**(6,911)**	**9,092**	**4,025**	**211,068**

The notes on pages 11 to 69 are an integral part of these financial statements.

CASH FLOW STATEMENT (all amounts in thousands of euro)

	Notes	01/01/2016-31/12/2016	01/01/2015-31/12/2015
Profit before taxes		**4,025**	**2,208**
Amortisation of intangible assets and depreciation of property, plant and equipment	21,22	529	405
Interest income	4	(12,584)	(15,075)
Interest received		10,713	9,553
Interest expenses		1,607	569
Interests paid		(620)	(652)
Increase in provisions for impairment of loans, guarantees, other assets and investment securities held to maturity		(717)	4,682
Increase in provisions for impairment of investments in venture capital funds		253	2,965
Increase in deferred income and accrued expense		312	956
(Increase) / decrease in deferred expense and accrued income		(499)	3,100
Decrease / (increase) of other assets		9,579	(2,656)
Increase in other liabilities		20,648	(25,710)
Decrease of cash and cash equivalents used before changes in assets and liabilities		**33,246**	**(19,655)**
Due from credit institutions decrease/ (increase)		(2,568)	11,725
Decrease/ (increase) of loans		(2,042)	13,444
Increase/ (decrease) in Due to credit institutions		7,355	(6,945)
Corporate income tax		-	-
Net cash flow from operating activities		**35,991**	**(1,431)**
Cash flows from investment activities			
Sale of investment securities		24,420	13,060
Acquisition of property, plant and equipment and intangible assets		(777)	(288)
Investments in venture capital funds, net	18	(20,887)	(991)
Purchase of investment properties, net	15	(3,615)	(14,235)
Net cash flow of investment activities		**(859)**	**(2,454)**
Cash flows from financing activities			
Increase in reserve capital	32	5,560	1,635
Net cash flow from financing activities		**5,560**	**1,635**
(Decrease) /increase in cash and cash equivalents		**40,692**	**(2,250)**
Acquired through reorganisation process		-	45,748
Cash and cash equivalents at the beginning of period		43,716	218
Cash and cash equivalents at the end of period	34	**84,408**	**43,716**

The notes on pages 11 to 69 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 24 May 2017. The Commercial Law of the Republic of Latvia as well as Development finance institution Law stipulates that the shareholders' meeting is entitled to pass a decision on approval of the financial statements.

1 GENERAL INFORMATION

(1) Background information

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

The mission of the Company is 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.

Altum is the only development finance institution in Latvia governed by Development Finance Institution Law.

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 and investments in subsidiaries

Consolidation

The Company also prepared consolidated financial statements for the year ended 31 December 2016 which are issued separately. The consolidated financial statements are obtainable at the Company's main office upon request.

Investments in subsidiaries

An Company controls an subsidiary when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Thus, an Company controls an subsidiary if and only if the investor has all the following:

- power over the investee;
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect the amount of the investor's returns.

Investments in subsidiaries are accounted at cost less impairment, if any, in the Company's separate financial statements, except investments in investment funds.

Investment funds are Company's subsidiaries, which are classified as *Investments available-for-sale.*

These investments are 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, which is reclassified to profit/loss in subsequent periods, except for impairment losses, which are recognized in the profit or loss until derecognition. The cumulative change recognised as other comprehensive income is presented as *Available for sale reserve* under equity. The Company reviews investments funds 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.

Investments in associates

Associates are all entities over which the Company has significant influence but not control. Significant influence usually defined as owning between 20% and 50% of the shareholding interest. 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 2 (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:

as at 31 Dec 2016	as at 31 Dec 2015
1 USD = EUR 1.05410	1 USD = EUR 1.08870
1 GBP = EUR 0.85618	1 GBP = EUR 0.73395
1 CHF = EUR 1.07390	1 CHF = EUR 1.08350
1 NOK = E UR 9.08630	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);

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.

Interest accrued on loans and commissions from financial guarantees exclude pricing for credit risk if such is covered by allocated support programme funding. See Note 28.

Other commission income and expense, which are not related to financial guarantees, are recognized as they occur.
Income and expense in foreign currencies are calculated and presented in euro by the official exchange rate as set by the European Central Bank on the respective day.

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

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, which is reclassified to profit/loss in subsequent periods, except for impairment losses, which are recognized in the profit or loss until derecognition. The cumulative change recognised as other comprehensive income is presented as Available for sale reserve under equity. The 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.

(iv) 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.

NOTES TO FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

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

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).

(v) 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.

NOTES TO FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

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

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

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. 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.

(vi) 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.

(vii) 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.

(viii) 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.

NOTES TO FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

(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 AFS securities, derivatives and non-financial assets such as investment properties at fair value at each balance sheet date. The information about financial and non-financial assets, which are measured at fair value or which values are disclosed, are summarised in the following notes:

• Disclosures for valuation methods, significant estimates and assumptions	Note 2 (5), 2 (12), 2 (18), 2 (22), 2 (23), 2 (24)
• Quantitative disclosures of fair value measurement hierarchy	Note 38
• 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.

(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

NOTES TO FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

(9) Impairment of financial assets (continued)

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.

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

NOTES TO FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

(11) Property, plant and equipment and depreciation

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

The annual depreciation rates are as follows:

Category	Depreciation rate
Land and buildings	2% p.a.
Furniture and fittings	10 - 20% p.a.
Computers and equipment	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.

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.

NOTES TO FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

(13) Investment property (continued)

Revenue on sale of investment properties is recognised at sale as the difference between revaluation and acquisition cost as at the moment of sale.

(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.

Realised gains and losses on sale of the properties taken over are recognised at sale as the difference between revaluation of inventory and acquisition cost as at the moment of sale.

(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. The tax rate of corporate income tax in the end of reporting period is 15%.

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.

(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 committments to grant loans and commercial letters of credit. Such financial transactions are recorded in the financial statements as of the respective agreement dates.

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

NOTES TO FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

(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 the prepayment for upcoming 12-18 months, and linearly recognizes the income to profit or loss (estimated to largely reflect the Effective Interest rate (EIR) amortisation). The difference between the present value of total commissions receivable for the guarantee and 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).

(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.

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

NOTES TO FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

(22) State aid (continued)

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.

(23) Critical accounting estimates and judgements

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

The estimates and assumptions are evaluated regularly and are based on the historic experience and other factors, including expectations of future events that are believed to be reasonable under the current circumstances. Such estimates are 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 support programme funding provided by state, see Note 28. The management has not significantly changed the estimates made during the prior period. Further details disclosed in Note 19.
- ***Impairment losses of investments in venture capital funds.*** The Company's management checks regularly that the value of the underlying investments of the venture capital funds is properly reflected. If the information about investments' evaluation is not sufficient or does not confirm the value, the management needs to make assumptions about the value impairment of venture capital funds. The management has not significantly changed the estimates made during the prior period. Further details disclosed in Note 18.
- ***Impairment of non-financial assets.*** The Company has evaluated its non-financial assets, such as property, plant and equipment and other assets (hereinafter referred to as the group of assets), for impairment, which is not within the scope of IAS 39. 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 uses 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.

NOTES TO FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

(23) Critical accounting estimates and judgements (continued)

Such judgments are outlined below:

- ***Revaluation of investment properties.*** The Company carries its investment properties at fair value, with changes in fair value being recognised in the statement of profit or loss. The Company engaged an independent valuation specialist to assess fair value as at 31 December 2016 for investment properties. For investment properties, a valuation methodology based on a discounted cash flow (DCF) model was used, as there is a lack of comparable market data because of the nature of the properties. In addition, it measures the office property at revalued amounts, with changes in fair value being recognised in the statement of profit or loss. The office property was valued by reference to transactions involving properties of a similar nature, location and condition. More information is provided in Notes 2 (13) and 15.
- ***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 would be closed - the liquidation process would be initiated, no new investments would be made or a search for a new fund manager would be initiated through public tender. The selection of a fund manager for implementation of 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

NOTES TO FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

(23) Critical accounting estimates and judgements (continued)

programmes have been imposed with a limit on the interest rates that cannot be exceeded.

The Company believes that the Company is a *Principal* also for state aid programs, which are based on guarantee productsThe 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 100%). 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*, as well as in some *Fund of funds'* and *Energy Efficiency Programme's of Multi-apartment Buildings* activities, the Company acts as an *Agent*. The Company in this case is intermediator and no material risk is borne. The interest income received on the loans issued from *above mentioned activities and programs* includes the amounts collected on behalf of and for the benefit of other entities that do not increase the equity capital of the 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.

  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, 31, 33.

  The funding received from the state can be classified into three categories – equity financing (guarantees, see Notes 2 (22), 12, 18, 31, 33, loans (Notes 27, 28) and grants (state aid, Note 28)

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

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

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

  As of 31 October 2016, with regard to the sub-activity 2.2.1.4.2. *Mezzanine Loans and Guarantees for Improvement of Competitiveness of Economic Operators*, Altum is entitled to use the funding attracted to implementation of the programme to cover the implementation-related losses once the funding has been absorbed. The funding may be used both for the losses having originated from the issued guarantees and

NOTES TO FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

(23) Critical accounting estimates and judgements (continued)

expected losses on the new guarantees (IAS 37). As at 31 December 2016 the available funding amounted to 5,3 mln euros. Since the contract stipulates that the funding earmarked for covering of the losses can be used also for the credit risk, Altum holds a view that the co-financing offsets the credit risk component in the calculation of the market rate by reducing it and that the funding may be used to build the required provisions for onerous contracts. The amount of the available funding is reduced at the moment when the credit risk manifests itself i.e. when the guarantee is written off as lost or disbursed.

- ***State aid.*** 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.

  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, could be any of the ministries through which the public funding of the specific state aid programme is channelled, this type of the government grant has never been/currently cannot be treated as a shareholder's equity contribution since the amount of the public funding earmarked for implementation of the specific state aid programme is received *in the capacity of the implementing body of the specific state aid programme chosen as a result of public selection* and not in the capacity of entity implementing the assignment or instructions of its shareholder.

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

  In assessment of expected loss for the programme the Company evaluates incorporated credit risk, operational risk and other risks like market risks. For coverage of the programme's expected loss on credit risk respective portion of public funding available for that programme is allocated at full or partial extent of total expected credit loss depending on the agreed programme's structure. That public funding part allocated for the coverage of programme's expected loss on credit risk is transferred to particular support programme reserve capital within the Company's Reserve capital, for example Reserve capital for Housing Cuarantee Programme (see Note 32), or accounted separately as provisions for risk coverage (Risk coverage reserve) classified within the liabilities (see Note 28).

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

  Support programme reserve capital concept has been implemented in 2015. However *Risk coverage reserve* concept has been implemented as of 2016. Accordingly comparatives for *Risk coverage reserve* have been disclosed as at 31 December 2016, without any reclassification effect on comparatives since included in *Support programme funding* position in the liabilities both as at 31 December 2016 and 31 December 2015.

NOTES TO FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

(24) Assets held for sale

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

The resulting profit or loss (after taxes) is recognized separately in the statement of comprehensive income.

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

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Company as of 1 January 2016:

- **Amendments to IAS 1 Presentation of financial statements: Disclosure Initiative**

  The amendments aim at clarifying IAS 1 to address perceived impediments to preparers exercising their judgment in presenting their financial reports.. The implementation of this amendment has no impact on the financial statements of the Company.

- **Amendments to IAS 16 Property, Plant & Equipment and IAS 38 Intangible assets: Clarification of Acceptable Methods of Depreciation and Amortization**

  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 has 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**

  The amendment addresses accounting for the employee contributions to a defined benefit plan. The objective of the amendment is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. The implementation of this amendment has no impact on the financial statements of the Company.

- **Amendments to IAS 27 Equity method in separate financial statements**

  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. Management had not made use of this amendment.

- **Amendment to IFRS 11 Joint arrangements: Accounting for Acquisitions of Interests in Joint Operations**

  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 Company had no transactions in scope of this amendment.

- The IASB has issued the Annual Improvements to IFRSs 2010 – 2012 Cycle which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 February

NOTES TO FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

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

2015. None of these had an effect on the Company's financial statements:
- 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.

- The IASB has issued the Annual Improvements to IFRSs 2012 – 2014 Cycle, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2016. None of these had an effect on the Company's financial statements:
  - IFRS 7 Financial Instruments: Disclosures;
  - IAS 19 Employee Benefits;
  - IAS 34 Interim Financial Reporting.

  The implementation of the following amendment has no significant impact on the financial statements of the Company.
  - IFRS 5 Non-current Assets Held for Sale and Discontinued Operation

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:

IFRS 9 Financial Instruments (effective for financial years beginning on or after 01.01.2018)

IFRS 9 replaces IAS 39 and introduces new requirements for classification and measurement, impairment and hedge accounting. The Company plans to adopt the new standard on the required effective date. During 2016, the Company has performed preliminary assessment of IFRS 9 to the Company's assets and liabilities classifications.The Company expects that IFRS 9 implementation will not have a significant impact on classification of financial assets and financial liabilities in the separate financial statements of Altum.

The Company expects a higher loss allowance resulting in a negative impact on equity and will perform a detailed assessment in the future to determine the extent.
Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory.

IFRS 15 Revenue from Contracts with Customers (effective for financial years beginning on or after 1 January 2018)

IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer, 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.
During 2016, the Group performed a preliminary assessment of IFRS 15. IFRS 15 implementation is not expected to have a significant impact on the recognition and measurement principles of Altum revenue as Altum has no bundled packages falling under the scope of IFRS 15. Neither the requirements for extensive disclosures is expected to have a significant impact on the financial statements as these refer mostly to disaggregation of contracts and principles applied to allocation of the transaction price.

NOTES TO FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

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

IFRS 15: Revenue from Contracts with Customers (Clarifications) (effective for annual periods beginning on or after 1 January 2018, once endorsed by the EU).

The objective of the Clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15 Revenue from Contracts with Customers, particularly the accounting of identifying performance obligations amending the wording of the "separately identifiable" principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The Clarifications also provide additional practical expedients for entities that either apply IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach. The implementation of the following amendment is not expected to have a significant impact on the financial statements of 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. Management has not assessed impact of this amendment on the financial statements of the Company.

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.

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.

IFRS 2: Classification and Measurement of Share based Payment Transactions (Amendments) (effective for financial years beginning on or after 1 January 2018, once endorsed by the EU)

The Amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The Company has not yet evaluated the impact of the implementation of this standard.

Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting.)

The amendments 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 recognised when a transaction involves a business and partial gain or loss is recognised 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.

NOTES TO FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

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

Amendments to IAS 40: Transfers to Investment Property (effective for financial years beginning on or after 1 January 2018, once endorsed by the EU)

The Amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The Amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The implementation of the following amendment will have no impact on the financial statements of the Company.

IFRIC INTERPETATION 22: Foreign Currency Transactions and Advance Consideration (effective for financial years beginning on or after 1 January 2018, once endorsed by the EU)

The Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The implementation of the following amendment will have no impact on the financial statements of the Company.

The IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2017 for IFRS 12 Disclosure of Interests in Other Entities and on or after 1 January 2018 for IFRS 1 First-time Adoption of International Financial Reporting Standards and for IAS 28 Investments in Associates and Joint Ventures. Earlier application is permitted for IAS 28 Investments in Associates and Joint Ventures. These annual improvements have not yet been endorsed by the EU. Management has assessed that there will no significant impact of the Annual Improvements on the Company's financial statements.

- **IFRS 1 First-time Adoption of International Financial Reporting Standards**: This improvement deletes the short-term exemptions regarding disclosures about financial instruments, employee benefits and investment entities, applicable for first time adopters.
- **IAS 28 Investments in Associates and Joint Ventures:** The amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.
- **IFRS 12 Disclosure of Interests in Other Entities:** The amendments clarify that the disclosure requirements in IFRS 12, other than those of summarized financial information for subsidiaries, joint ventures and associates, apply to an entity's interest in a subsidiary, a joint venture or an associate that is classified as held for sale, as held for distribution, or as discontinued operations in accordance with IFRS 5.

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 37).

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 39 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.

Interest risk

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

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

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

Foreign currency risk

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

NOTES TO FINANCIAL STATEMENTS

4 INTEREST INCOME

	2016	2015 adjusted**
Interest income:		
- interest on balances due from credit institutions	47	128
- interest on loans and guarantees***	10,286	8,924
including on impaired loans (see Note 19)	*1,005*	*778*
- interest on investments of venture capital funds *	-	-
- interest on securities at amortised cost	78	58
- interest on securities at fair value ***	2,173	2,773
- other interest income****	-	3,192
	12,584	**15,075**

*Based on the Investment Fund Activity Agreement (agreement No Līg.2011/15) concluded with the Ministry of Economics, the financing given by the Ministry of Economics must be increased by net interest and other income as stipulated by contracts with financial intermediaries, including from the venture capital funds. In year 2016 the financial intermediaries contributed 431 thsd euros (2015: 308 thsd euros) of which 100% were added to the financing given by Ministry of Economics. That's why the item *Interest on investments of venture capital funds* equal to zero.
**In view of the above, the sub-items *Interest income on venture capital funds* was reduced by 308 thsd euros and *Interest income on loans and guarantees* was increased for 308 thsd euros in year 2015 that did not affect the sum total of the Interest income item.
*** Based on the Mezzanine and Guarantee Fund Activity Agreement concluded with the Ministry of Economics (agreement No 2011/16) in year 2016, the financing given by the Ministry of Economics must be increased by income of the Mezzanine and Guarantee Fund on placement of the free funds, interest income on the loans, premium income on the issued guarantees, commissions, contractual penalties, etc. As a result, the Company's sub-item *Interest income on loans and guarantees* is reduced by 646 thsd euros and sub-item *Interest income on securities at fair value* is reduced by 531 thsd euros.
**** 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.
The information about state aid interest, which refers to 2016 year, is disclosed in Note 5. For more information see Note 2 (22) and 2 (23).

5 INTEREST EXPENSE

	2016	2015
Interest expense:		
- interest on balances due to credit institutions	314	372
- other interest expense*	1,290	197
	1,604	**569**

* Item *Other interest expense* includes the state aid interest of 1,060 thsd euros. The increase in state aid interest is connected with new state funding received in 2016. See Note 2 (22).

6 FEE AND COMMISSION INCOME

	2016	2015
Fee and commission income:		
- from lending activities	433	365
- other fee and commission income	13	13
	446	**378**

NOTES TO FINANCIAL STATEMENTS

7 FEE AND COMMISSION EXPENSE

	2016	2015
Fee and commission expense:		
- on venture capital fund management fee*	226	203
- on securities portfolio maintenance	59	47
- on asset management **	13	13
- other fee and commission expense	1	7
	299	**270**

*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 2,066 thsd euros (2015: 1,323 thsd euros) of which 1,840 thsd euros (2015: 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 226 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 5 thsd euros and fee of the Baltic Innovation Fund - 221 thsd euros.
** As regards the Holding Fund Programme the expenses of the Company for the reporting period include the management fees of 43 thsd euros of the financial intermediaries JSC SEB and JSC Swedbank that, according to the agreement No 2011/15 On Implementation of the Holding Fund, were reimbursed for 30 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

	2016	2015
Loss from trading securities	4	(235)
Profit from sales of available for sale securities	-	125
Loss on currency exchange and trade and revaluation of other financial instruments, net	(207)	133
	(203)	**23**

9 OTHER INCOME

	2016	2015
Compensations*	2,324	676
Other operating income**	2,559	204
Income from property privatisation services	254	390
Income from investment property revaluation	29	-
Income from lease payments for operational leases***	195	144
Income from compensation for loan provisions****	167	351
	5,528	**1,765**

* Compensations include the compensation for management expenses of state aid programs implemented by the Company in amount of EUR 2,324 thsd. Increase in received compensations during 2016 is connected with new state aid programs' realisation such as Fund of funds and Energy Efficiency Programme of Multi-apartment Buildings.
The compensation for management expenses includes personnel expenses of 1,733 thsd euros (Note 10) and administrative and other operating expenses of 591 thsd euros (Note 11).
Expenses in amount of EUR 1,583 thsd are compensated to the Company according to terms and budget of each particular programme.
** Item *Other operating income* includes income of 2,453 thsd euros from sale of properties taken over.
***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.
***This item also includes compensations of loan funds for the provisions of EUR 167 thsd (2015: EUR 351 thsd) built by the Company. In the reporting period the Company wrote off the loan principals of EUR 492 thsd euros (2015: 1,137 thsd euros) from the loan funds under its management of which only 26 thsd euros (2015: 351 thsd euros) were reimbursed.

NOTES TO FINANCIAL STATEMENTS

10 STAFF COSTS

	2016	2015*
Remuneration to the Council and the Board	268	180
Remuneration to the Council	*23*	*19*
Remuneration to the Board	*245*	*161*
Remuneration to staff	5,235	3,906
Social security contributions	1,279	974
	6,782	**5,060**

In year 2016, based on the implementation agreements of the state aid programmes concluded with the Responsible Institutions, the Company was compensated the personnel expenses of 1,733 thsd euros (Note 9).

During the reporting period the average number of staff employed by the Company was:

	2016	2015*
Board members	5	5
Council members	3	3
Staff	234	189
	242	**197**

* In year 2015, Item *Staff costs* includes staff costs expenses of JSC "Development Finance Institution" for the period from the 1 of January till the 31 of Match and staff costs expenses of JSC "Development Finance Institution Altum" for the period from the 1 of April till the 31 of December (merged development financial institution after ALTUM, LGA and LAF reorganisation).

11 ADMINISTRATIVE AND OTHER OPERATING EXPENSE

	2016	2015*
Information system and communication expense	1,085	784
Expense of assets that have been taken over in the debt collection process	991	580
Premises and equipment maintenance expense	857	615
Other expense**	760	251
Revaluation of assets that have been taken over in the debt collection process***	612	402
Advertising and public relations	495	438
Professional services****	388	168
Training and other staff expense	243	235
Real estate tax	149	144
Conference expense	-	303
	5,580	**3,920**

* In year 2015, Item *Administrative and other operating expense* includes expenses of JSC "Development Finance Institution" for the period from the 1 of January till the 31 of Match and expenses of JSC "Development Finance Institution Altum" for the period from the 1 of April till the 31 of December (merged development financial institution after ALTUM, LGA and LAF reorganisation).

NOTES TO FINANCIAL STATEMENTS

11 ADMINISTRATIVE AND OTHER OPERATING EXPENSE (continued)

** Largest amounts under item *Other expense*:

- 216 thsd euros related to the decision passed by Central Finance and Contracting Agency (CFCA) on repayment of non-eligible expenditure based on the report No OF/2013/1112/B5 (Report) of the European Anti-Fraud Office (OLAF).
  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.
  The Company complied with the requirement and repaid the aforementioned amount.
- 254 thsd euros was VAT on sale of the Company's movable property where the Company lost its right to recover the property.

In year 2016, based on the implementation agreements of the state aid programmes concluded with the Responsible Institutions, the Company was compensated the administrative and other operating expenses of 591 thsd euros (Note 9).

*** The accounting policy of the assets that have been taken over in the debt collection process is described in Note 2 (14).

**** Item *Professional services* includes expense for the *Services of Auditors*. The table below provides information about total remuneration calculated for the Company's sworn auditors in the reporting year presented by type of the provided service, incl. VAT:

	2016	2015*
Compulsory audit (review) of the annual report	21	19
Other audit assignments	6	-
Tax consulting	6	-
Performance of other specialist tasks	5	2
	38	**21**

12 PROVISIONS FOR IMPAIRMENT

	2016	2015
Provisions for impairment on:		
- loans	6,474	4,744
- other assets*	883	6,932
- investments in subsidiaries	5	-
- debt securities	24	-
- guarantees	12,397	8,842
	19,783	**20,518**
Release of provisions for impairment on:		
- loans	(2,674)	(3,266)
- other assets	(3,168)	(3,803)
- debt securities	(481)	(195)
- guarantees	(12,957)	(7,423)
	(19,280)	**(14,687)**
Recovery of loans written off in previous periods	**(967)**	**(1,149)**
Total provisions for impairment expense	**(464)**	**4,682**

* Item *Provisions for impairment on other assets* are included value impairment on venture capital funds 253 thsd euros (2015: 853 thsd euros) and *disbursed guaranteed compensations* 630 thsd euros (2015: 6,079 thsd euros).

NOTES TO FINANCIAL STATEMENTS

13 CORPORATE INCOME TAX

	2016	2015
Corporate income tax	-	-
Deferred tax	-	-
Total corporate income tax (income)	**-**	**-**

	31/12/16	31/12/15
Income before tax	**4,025**	**2,208**
Theoretically calculated tax at a tax rate of 15%	604	331
Net income / expenses non-deductible for tax purposes	1,165	401
Change in unrecognized deferred tax asset	(1,769)	(732)
Tax (income) / expense for the year ended 31 December	**-**	**-**

Movements in the provision for deferred tax liability:

	31/12/16	31/12/15
Deferred tax asset at the beginning of the reporting year	**-**	**-**
Change in deferred tax asset	-	-
Deferred tax asset at the end of the reporting year	**-**	**-**

Calculation of deferred tax:

	31/12/16	31/12/15
Deferred tax liabilities:	**(493)**	**(531)**
Temporary difference of depreciation of property, plant and equipment	(493)	(531)
Other temporary differences	-	-
Deferred tax assets:	**42,396**	**44,203**
Provision for employee holiday pay	56	48
Other temporary differences	1,468	1,697
Tax loss carried forward	40,872	42,458
Net deferred tax asset	41,903	43,672
Provisions for unrecognized deferred tax asset	(41,903)	(43,672)
Recognized deferred tax asset*	**-**	**-**

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

The Company is not subject to special tax treatment.

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. Deferred tax asset was not fully 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. According to Latvian legislation, losses calculated for taxation purposes can be settled from future profits over an unlimited period of time. Tax losses available for the Company to be carried forward amount to 272,480 thsd euros.

NOTES TO FINANCIAL STATEMENTS

14 INVESTMENT SECURITIES

	31/12/16	31/12/15
Held to maturity		
Latvian Treasury bills and government bonds	459	439
Non-OECD government bonds	1,027	1,027
OECD corporate bonds	4,516	4,852
Total securities held to maturity	**6,002**	**6,318**
Impairment allowance	(4,471)	(4,777)
Net securities held to maturity	**1,531**	**1,541**
Available for sale		
Latvian Treasury bills and government bonds	64,294	88,002
Total net securities available-for-sale	**64,294**	**88,002**
Total net investment securities	**65,825**	**98,543**

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 2016:

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

NOTES TO FINANCIAL STATEMENTS

14 INVESTMENT SECURITIES (continued)

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	-	75	75
Total	**88,002**	**1,541**	**98,543**

All securities, except open-ended investment funds, are quoted. The average yield on debt securities was 3.59% as at 31 December 2016 (2015: 4%).

15 INVESTMENT PROPERTY

	31/12/16	31/12/15
Carrying amount at the beginning of period	**1,225**	-
Acquired through companies' reorganisation	-	234
Acquired during the financial period*	3,704	991
Disposals during the financial period	(89)	-
Net gain from fair value adjustment	29	-
Carrying amount at the end of period	**4,869**	**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 2016 there were 74 (2015:39) properties purchased with a total area of 1,560 ha (2015: 560 ha) and total amount of the purchases amounted to EUR 3,704 thsd (2015: EUR 991 thsd).

One real estate object of the Land Fund was sold in the reporting period.

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

	31/12/16	31/12/15
Due from credit institutions registered		
in OECD countries	2	8
in Latvia and the State Treasury	89,406	46,140
	89,408	**46,148**

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

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 2016 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	-	2	-	-	-	-	-	-	2
Due from credit institutions registered in Latvia and State treasury	-	23,360	63,367	-	-	2,679	-	-	**89,406**
Total	-	**23,362**	**63,367**	-	-	**2,679**	-	-	**89,408**

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 Company has accounts with 6 banks and with the Treasury of the Republic of Latvia at 31 December 2016.

The average interest rate on balances due from credit institutions was 0.07% as at 31 December 2016 (2015:0.029%).

For amount of cash and cash equivalents, please refer to Note 34.

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:

	31/12/16			31/12/15		
	Notional contract value	**Fair value**		**Notional contract value**	**Fair value**	
		Assets	**Liabilities**		**Assets**	**Liabilities**
Currency forwards	12,330	-	855	12,153	-	346
Total		**-**	**855**		**-**	**346**

The contract is inforce up to 6 March of 2017. In order to minimize the impact of the currency risk, a new currency forward contract has been concluded after 6 March of 2017.

18 INVESTMENTS IN VENTURE CAPITAL FUNDS

	31/12/16	**31/12/15**
Carrying amount at the beginning of period (gross)	**44,378**	**-**
Acquired through companies' reorganisation	-	35,560
Invested	23,159	16,351
Management fee (Note 7)*	(2,066)	(6,740)
Refunded	(205)	(793)
Carrying amount at the end of period (gross)	**65,266**	**44,378**
Allowance for impairment loss	(8,024)	(5,414)
Written off	(520)	-
Carrying amount at the end of period (net)	**56,722**	**38,964**

*In 2015 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 were 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 management fees which have been paid to venture capital funds during the 2016 year amounted to 2,066 thsd euros.

NOTES TO FINANCIAL STATEMENTS

18 INVESTMENTS IN VENTURE CAPITAL FUNDS (continued)

The table below provides analytical information on the Company's investments into venture capital funds as at 31 December 2016:

	Owner ship %	Carrying amount (gross), thsd. EUR	Invested, thsd. EUR	Management fee, thsd. EUR	Refunded, thsd. EUR	Written off, thsd. EUR	Allowance for impairment loss, thsd. EUR	Total, thsd. EUR
KS Otrais Eko Fonds	33%	1,508	5	(5)	-	-	(644)	864
KS ZGI Fonds	65%	1,740	-	-	-	-	(1,740)	-
KS Baltcap Latvia Venture Capital Fund	67%	11,520	780	(279)	-	-	(2,731)	9,290
KS Imprimatur Capital Technology Venture Fund	67%	2,868	280	(80)	-	-	(396)	2,672
KS Imprimatur Capital Seed Fund	100%	6,105	1,289	(277)	-	-	(1,744)	5,373
KS ZGI-3	95%	3,944	5,061	(314)	(38)	-	(302)	8,351
KS FlyCap investment Fund	95%	5,856	6,219	(450)	-	-	-	11,625
KS Expansion Capital fund	95%	7,813	6,045	(440)	(167)	-	(464)	12,787
KS Invento*	45%	520	-	-	-	(520)	-	-
Baltic Innovation Fund	20%	2,504	3,480	(221)	-	-	(3)	5,760
Total		**44,378**	**23,159**	**(2,066)**	**(205)**	**(520)**	**(8,024)**	**56,722**

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**

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 (23). The information about commitments to venture capital funds is presented in Note 33.

As regards assessment of venture capital funds, each investment made by venture capital funds was measured. The value of the investment was established based on the most appropriate technique from the International Private Equity and Venture Capital Valuation Guidelines. The cost of acquisition and discounted cash flow methods were used to estimate the reduction of principal value. The employed methods included third party assessments, Industry Valuation Benchmarks and other.

All venture capital funds, except Baltic Innovation Fund, are registered in Latvia. Baltic Innovation Fund ir registered in Luxembourg.

NOTES TO FINANCIAL STATEMENTS

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 156,843 thsd as at 31 December 2016 (2015: EUR 171,766 thsd.)

  On June 8, 2016 the Company signed a covenant with the Central Finance and Contracting Agency on implementation of the Fund of funds. The Company is an implementing body of the Fund of funds. Within the framework of the Fund of funds, on June 15, 2016, the following programmes were launched: Start-up Programme, Micro-lending Programme and Credit Guarantee Programme for Businesses. As at December 31, 2016 the gross loan portfolio of the programmes of the Fund of funds totalled 1,227 thsd euros.

  On September 28, 2016 the Company started to accepting the grant, loan and guarantee applications for the Energy Efficiency Programme of Multi-apartment Buildings. As at December 31, 2016 no loans were issued under the programme.
- *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 44,195 thsd as at 31 December 2016 (2015: EUR 32,649 thsd).
- *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 2,950 thsd as at 31 December 2016 (2015: EUR 3,406 thsd).
- *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 11,355 thsd as at 31 December 2016 (2015: EUR 9,213 thsd).
- *Loans to credit institutions for further lending to SMEs* – The Company's loan portfolio includes loans of EUR 727 thsd (2015: 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 132 thsd as at 31 December 2016 (2015: EUR 282 thsd).

NOTES TO FINANCIAL STATEMENTS

19 LOANS (continued)

Loans by type of borrower:

	31/12/16	31/12/15
Private companies	188,245	187,902
Individuals	24,490	24,895
Financial institutions	3,655	4,572
Local governments	344	397
Public and religious institutions	172	218
Accrued interest on loans	523	578
Total gross loans	**217,429**	**218,562**
Allowance for impairment loss	(16,179)	(17,044)
Total net loans	**201,250**	**201,518**

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

Granted loans by economic sectors:

	31/12/16	31/12/15
Agriculture and forestry	83,048	74,938
Manufacturing	47,104	47,956
Private individuals	24,490	24,895
Retail and wholesale	16,901	19,385
Other industries	14,871	14,508
Hotels and restaurants	7,653	9,044
Electricity, gas and water utilities	6,734	7,773
Transport, warehousing and communications	4,620	5,294
Real estate	4,310	6,532
Construction	3,818	3,285
Financial intermediation	2,443	3,363
Fishing	570	614
Municipal authorities	344	397
Accrued interest on loans	523	578
Total gross loans	**217,429**	**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:

	31/12/16	31/12/15
Number of customers	**26**	**29**
Total credit exposure of customers	43,740	52,338
Share of total gross portfolio of loans	**20.0%**	**23.8%**

NOTES TO FINANCIAL STATEMENTS

19 LOANS (continued)

Loans issued by the Company by type of impairment valuation:

	31/12/16			31/12/15		
	Individuals	**Companies**	**Total loans**	**Individuals**	**Companies**	**Total loans**
Individually assessed loans	6,728	145,964	152,692	6,841	148,631	155,472
Collectively assessed loans	17,821	46,916	64,737	18,137	44,953	63,090
Total gross loans	**24,549**	**192,880**	**217,429**	**24,978**	**193,584**	**218,562**
Allowance for impairment loss of individual assessment loans	(1,105)	(14,902)	(16,007)	(1,151)	(15,769)	(16,920)
Allowance for impairment loss of pool assessment loans	(57)	(115)	(172)	(63)	(61)	(124)
Total net loans	**23,387**	**177,863**	**201,250**	**23,764**	**177,754**	**201,518**

Loans granted by the Company by their quality assessment:

	31/12/16			31/12/15		
	Individuals	**Companies**	**Total loans**	**Individuals**	**Companies**	**Total loans**
Neither past due nor impaired	19,839	137,487	157,326	19,534	135,688	155,222
Past due but not impaired	2,376	18,217	20,593	2,676	19,324	22,000
Impaired	2,334	37,176	39,510	2,768	38,572	41,340
Total loans	**24,549**	**192,880**	**217,429**	**24,978**	**193,584**	**218,562**
Allowance for impairment loss	(1,161)	(15,018)	(16,179)	(1,214)	(15,830)	(17,044)
Total net loans	**23,388**	**177,862**	**201,250**	**23,764**	**177,754**	**201,518**

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

	31/12/16			31/12/15		
	Individuals	**Companies**	**Total loans**	**Individuals**	**Companies**	**Total loans**
Past due up to 30 days	1,228	10,935	12,163	1,524	13,668	15,192
Past due 30 – 60 days	337	607	944	260	1,039	1,299
Past due 60 – 90 days	121	100	221	69	243	312
Past due over 90 days	690	6,575	7,265	823	4,374	5,197
Total gross loans	**2,376**	**18,217**	**20,593**	**2,676**	**19,324**	**22,000**

NOTES TO FINANCIAL STATEMENTS

19 LOANS (continued)

Movement in Company's impairment allowance for loans:

	31/12/16	31/12/15
Provisions at the beginning of period	**17,044**	-
Acquired through company's reorganisation	-	21,021
Impairment allowance increase	6,474	6,864
Impairment allowance decrease	(2,674)	(3,266)
Accrued interest (Note 4)	(1,005)	(778)
Write-off of loans	(3,660)	(6,797)
Provisions at the end of period	**16,179**	**17,044**

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 (based on fair value as at December 31, 2016) and position against net loan portfolio as at December 31, 2016 is provided below:

	31/12/2016	31/12/2015
Real estate	157,796	164,639
Movable property	25,702	22,507
Guarantees	450	216
Risk coverage of loan funds	3,105	1,276
Total collateral	**187,053**	**188,638**
Loan portfolio, gross	217,429	218,562
Provisions	(16,179)	(17,044)
Loan portfolio, net	201,250	201,518
Exposed	**7.05%**	**6.39%**

According to the Company's estimates as at December 31, 2016 the loan loss provisions should amount to 19,076 thsd euros (2015: 18,085 thsd euros), apart from the risk coverage amount which equals to 3,105 thsd euros (2015: 1,276 thsd. euros).

There is no net credit risk exposure of a single transaction and cannot be negative since when calculating, the fair value of the collateral never exceeds the value of the risk transaction.

The average annual interest rate for the loan portfolio of the Company was 4.15% as at 31 December 2016 (2015: 4.22%).

NOTES TO FINANCIAL STATEMENTS

20 INVESTMENTS IN SUBSIDIARIES

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

	Company's shareholding (%)	Investments in subsidiaries 31/12/2016	Investments in subsidiaries 31/12/2015
Investment funds Hipo Latvia Real Estate Fund I*	100	9,116	7,997
Investment funds Hipo Latvia Real Estate Fund II*	100	1,260	1,277
Risk Investment Company Ltd**	100	711	711
Risk Investment Company Ltd impairment provision		(69)	(65)
Written off		(642)	-
Total:		**10,376**	**9,920**

*Investments funds are clasified as *Investments in subsidiaries* valued at fair value, which is based on investment funds shares net redemption prices. Accounting policies of Investment funds are described in Note 2 (2).

**On May 3, 2016 the Register of Enterprises of the Republic of Latvia ruled on liquidation of the Company's subsidiary Risk Investment Company Ltd.

21 INTANGIBLE ASSETS

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

	31/12/16	**31/12/15**
Computer software	168	123
Total intangible assets	**168**	**123**

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

	31/12/16	**31/12/15**
Historical cost		
At the beginning of period	**5,766**	-
Acquired through companies' reorganisation	-	5,699
Additions	113	67
Disposals	(88)	-
As at 31 December	**5,791**	**5,766**
Accumulated amortisation		
At the beginning of period	**5,603**	-
Acquired through companies' reorganisation	-	5,465
Amortisation charge for the period	108	138
Disposals	(88)	-
As at 31 December	**5,623**	**5,603**
Impairment provision*		
At the beginning of period	**(40)**	-
Acquired through companies' reorganisation	-	(115)
Changes in provisions	40	75
As at 31 December	**-**	**(40)**
Net book value at the beginning of period	**123**	**-**
Net book value as at 31 December	**168**	**·123**

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

NOTES TO FINANCIAL STATEMENTS

21 INTANGIBLE ASSETS (continued)

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 5,525 thsd euros (2015: 4,368 thsd euros).

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

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

**The office building worth 1,367 thsd euros, situated at Elizabetes iela 41/43 in Rīga, has been excluded from the item *Land and Buildings* due to the change of the holding purpose of the building. On 1 November 2016 the building was reclassified as an asset held for sale. See Notes 2 (24) and 25.

NOTES TO FINANCIAL STATEMENTS

23 OTHER ASSETS

	31/12/16	31/12/15
Financial assets	11,132	24,590
Other assets (inventory)	3,113	6,896
Total other assets (gross)	**14,245**	**31,486**
Impairment provision for financial assets	(10,370)	(21,662)
Total other assets (net)	**3,875**	**9,824**

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

- disbursed guaranteed compensations amounting to EUR 2,713 thsd (2015: EUR 14,851 thsd) for which provisions of EUR 2,686 thsd (2015: EUR 13,983 thsd) were accumulated. In year 2016 the disbursed guarantees worth 9.3 mln euros that were disbursed for the closed period ended 2015.12.31. were written off as lost (as at 2015.12.31. the provisions for these guarantees amounted to 9.3 mln euros) resulting in a significant decrease of provisions;
- 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 191 thsd (2015: EUR 46 thsd.) provisioned for EUR 26 thsd (2015: EUR 31 thsd). The financial assets include the payments made on behalf of clients, as stipulated by loan agreements.
- other financial assets of EUR 580 thsd (2015: EUR 2,045 thsd) provisioned for EUR 10 thsd (2015: EUR 0).

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

	31/12/16	31/12/15
Deferred expense	413	572
Accrued income	1,647	989
Total	**2,060**	**1,561**

The largest amounts under the item *Deferred expenses* account management fees of 168 thousand euros paid in advance for the following venture capital funds: limited partnerships FlyCap Investment Fund, BaltCap Latvia Venture Capital Fund and ZGI 3 Fund.

Accrued income primarily consists of income from compensation for management expenses of state aid programs in amount of EUR 1,634 thsd.

25 ASSETS HELD FOR SALE

	31/12/16	31/12/15
Land and building	1,367	-
Total	**1,367**	**-**

In November 2016 the Company decided to reclassify the real estate situated at Elizabetes iela 41/43 in Rīga, from the item *Property, Plant and Equipment* to the item *Assets Held for Sale*. The reclassification was due to the change of the holding purpose of the asset, i.e. the sale process of the asset was started and expected to be completed within one year. For the purpose of transferring the asset to the item *Assets Held for Sale* the Company relied on the asset's book value effective on 1 November 2016.
The accounting method used for recording of the asset is outlined in Note 2 (24).

NOTES TO FINANCIAL STATEMENTS

26 DUE TO CREDIT INSTITUTIONS

	31/12/16	31/12/15
Due to credit institutions:		
registered in OECD area	56,195	67,166
Total	**56,195**	**67,166**

Credit institutions registered in OECD area include loans received by Company from the European Investment Bank (EIB) of EUR 56,195 thsd, where EUR 93 thsd are accrued interest expenses. As security for the loan the guarantee has been issued from the Ministry of Finance in amount of EUR 56,111 thsd (Note 37). This is parent guarantee issued on behalf of Company.

The average interest rate for Due to credit institutions as at 31 December 2016 was 0.33% (2015: 0.33%).

27 DUE TO GENERAL GOVERNMENTS

	31/12/16	31/12/15
Liabilities due to government entities	1,723	3,769
Loans received from Rural Support Service	12,990	12,979
Loans received from Treasury of Latvia	32,201	22,813
Total due to general governments	**46,914**	**39,561**

Liabilities due to government entities obligations worth EUR 1,723 thsd (2015: 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.

Item *Loans from RSS* – in accordance with the Cabinet Regulation No 664 dated 20 July 2010 *Procedure for Administering and Supervising the State and European Union Aid for Agriculture, Rural and Fisheries Development through Establishment of the Loan Fund* and Financing Agreement dated 7 September 2010 concluded among the Ministry of Agriculture, Rural Support Service and ALTUM stipulating the provisions for establishment, operation and supervision of the Loan Fund, absorption of the funds and performance of the Business Plan and its purpose, ALTUM was granted 44, 711 thsd euros (7,114 thsd euros from the European Fisheries Fund (EFF); 37,596 thsd euros – European Agricultural Fund for Rural Development (EAFRD)) to transfer these resources of the Loan Fund to the eligible beneficiaries via financial intermediaries.
As at 31 December 2016, based on the requests for funds received from the Ministry of Agriculture, ALTUM has repaid to the Rural Support Service 31,798 thsd euros, of which 11,855 thsd euros (EFF – 2,503 thsd euros; EAFRD – 9,352 thsd euros) are undisbursed funds and 19,943 thsd euros (EFF – 2,415 thsd euros; EAFRD – 17,528 thsd euros) are the principle amounts repaid by financial intermediaries.

The interest calculated on the granted loans since the start of the Loan Fund amounted to 283 thsd euros of which 206 thsd euros were paid to the Rural Support Service in 2013.

As at the end of year 2016 ALTUM liabilities towards RSS consist of the principal amount of 12,913 thsd euros and accrued interest – 77 thsd euros.

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

Loans received from the Treasury of Latvia includes the loan of 32,201 thsd euros received by the 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 1,018 loans (2015: 725 loans) of 44,195 thsd euros as at 31 December 2016 (2015: 32,649 thsd euros). These assets are pledged. The claim amount is 32,201 thsd euros. For more information see Note 37.

NOTES TO FINANCIAL STATEMENTS

28 SUPPORT PROGRAMME FUNDING AND STATE AID

	31/12/16	31/12/15
Support programme funding	**94,425**	**54,174**
State aid	**6,849**	**16,166**

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

- Fund of funds – 29,638 thsd euros;
- Energy Efficiency Programme of Multi-apartment Buildings (EEPMB) – 5,563 thsd euros;
- ERDFII – 25,746 thsd euros;
- ESFII – 9,466 thsd euros;
- Holding Fund – 9,083 thsd euros;
- Other support programmes finance – 14,929 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:

- Fund of funds – till the end of 2029
- Programme for improving energy efficiency in multi-apartment residential buildings – till the end of 2034;
- ERAFII – till the end of 2020;
- ESFII – till the end of 2020;
- Investment fund – till the end of 2026.

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

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

NOTES TO FINANCIAL STATEMENTS

28 SUPPORT PROGRAMME FUNDING AND STATE AID (continued)

The table below presents Risk Coverage Reserve included in Support programme funding and State aid which can be used for coverage Company's credit risk losses as at 31 December 2015:

Programme	**Programme funding, thsd EUR**	**Programme's loan portfolio thsd EUR**	**Credit riks cover %**	**Credit risk cover on 31/12/2015, thsd EUR**
ERDFII	40,233	17,569	66%	11,596
ESF II	6,564	7,787	80%	6,229
Microcredits of Swiss programme	7,495	3,154	80%	2,523
ERAF I	1,604	2,392	50%	1,196
ESF I	941	412	90%	371
Microcredits	624	23	80%	18
ERAF II (second round)	5,151	6,576	68%	4,472
Incubators (from ESF II)	1,962	204	100%	1,962
ERAF II 2 Public fund	28,124	2,195	100%	2,195
Investment Fund Activity	8,408	-	96%	8,072
Risk Coverage Reserve	**101,106**			**38,634**

Based on the concluded programme implementation contracts, the received funding could be reduced for the principal amount of the outstanding obligations of the loans classified as lost and / or disbursements of guarantee compensations. The Company does not have to repay the reductions of funding to the provider of funding. See more information in Note 2 (23).

29 PROVISIONS

	31/12/16	**31/12/15**
Provisions for:		
Loan guarantees to rural entrepreneurs for agricultural	827	1,057
Guarantees *under the Mezzanine loan programme*	402	750
Guarantee activity	2,553	2,645
Housing Guarantee Programme	41	323
Other guarantee programmes	4,022	3,742
Provision (onerous contracts)	9,019	8,810
	16,864	**17,327**

Provision (onerous contracts) includes the loss from the concession which is the discounted difference between total of actual receivable commissions and total of commissions under market rate. Onerous contracts relate to issued guarantees which are measured at fair value based on equivalent market rates **at initial recognition**. The difference between market rate and spot rate of guarantee commissions under onerous contracts amounts of EUR 6,194 for the current period included in Provision (onerous contracts) above. For accounting treatment see Note 2 (21).

Movement in Company's provisions for guarantees:

	31/12/16	**31/12/15**
Provisions at the beginning of period	**8,517**	-
Acquired through company's reorganisation	-	7 152
Impairment allowance increase	5,310	5 804
Impairment allowance decrease	(5,987)	(4,438)
Currency change	5	(1)
Provisions at the end of period*	**7,845**	**8,517**

*According to the Company's estimates as at December 31, 2016 the guarantee provisions should amount to 10,557 thsd euros, apart from the risk coverage amount which equals to 1,218 thsd euros (2015: 0 euros).

The guarantee provisions are measured at the highest of the unamortised amount and impairment amount which amounts to 7,845 thsd euros as at 31 Dec 2016.

NOTES TO FINANCIAL STATEMENTS

29 PROVISIONS (continued)

Movement in Company's provisions (*onerous contracts*) for guarantees:

	31/12/16	31/12/15
Provisions at the beginning of period	**8,810**	**-**
Acquired through company's reorganisation	-	8,546
Impairment allowance increase	7,178	2,553
Impairment allowance decrease	(6,969)	(2,289)
Provisions at the end of period	**9,019**	**8,810**

Guarantee gross and net amounts

	31/12/16	31/12/15
Maximum exposure to credit for off balance sheet amount (Note 33)	147,175	131,120
Provisions for guarantees	(7,845)	(8,517)
Off-balance sheet amount of guarantee	**139,330**	**122,603**

More information about guarantee amounts and categories are provided in Note 33.

Guarantee accounting methodology is described in Note 2 (21).

30 OTHER LIABILITIES

	31/12/16	31/12/15
Due to customers of Company	2,945	3,233
Other liabilities*	1,337	3,283
	4,282	**6,516**

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

31 DEFERRED INCOME AND ACCRUED EXPENSE

	31/12/16	31/12/15
Deferred income	777	603
Accrued expense	1,198	1,060
Total	**1,975**	**1,663**

The item *Accrued expenses* includes the accrued expenses for the bonuses of the Company's employees and Board amounting to 444 thsd euros (including the social tax), expenses for audit services amounting to 11 thsd euros and other expenditure related to the economic activities of the Company.

NOTES TO FINANCIAL STATEMENTS

32 SHARE AND RESERVE CAPITAL

The share capital of the Company was as follows:

	31/12/16		31/12/15	
	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 in 2015:

	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)**

NOTES TO FINANCIAL STATEMENTS

32 SHARE AND RESERVE CAPITAL (continued)

See information about the Company's reserves movements below:

	Difference recognised in Company's reorganisation reserve, thsd EUR	Reserve of available for sale investments, thsd EUR	Reserve capital for Housing Guarantee Programme, thsd EUR	Reserve capital, thsd EUR	Reserves, total thsr EUR
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)**
Increase of available for sale reserve	-	425	-	-	**425**
Distribution of 2015 year profit	-	-	-	1,829	**1,829**
Increase of reserve capital	-	-	5,560	-	**5,560**
Reserves as at 31/12/2016	**(15,935)**	**9,092**	**7,195**	**1,829**	**2,181**

* 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 in 2015 and up to EUR 9,024 thsd in 2016. See more information in Note 2 (23).

33 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. 179 loan guarantees (2015: 244 loan guarantees) of EUR 10,838 thsd worth were outstanding as at 31 December 2016 (2015: EUR 14,222 thsd).
- 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 2016 this programme's guarantees portfolio volume was EUR 37,764 thsd (2015: EUR 32,239 thsd).
- *Guarantees programme* includes loan guarantees to loans and export loan guarantees. The volume of guarantees portfolio is EUR 25,863 thsd (2015:EUR 37,226 thsd) as at 31 December 2016. 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, 2016 there were 4,096 guarantees extended (2015: 1,176 guarantees). The value of the guarantee portfolio of the programme is EUR 26,519 thsd (2015: EUR 7,225 thsd).
- Company issues *loan guarantees under the Fund of funds programme.* As at 31 December 2016 this programme's guarantees portfolio volume was EUR 12,803 thsd (2015: 0).

NOTES TO FINANCIAL STATEMENTS

33 OFF BALANCE SHEET ITEMS AND CONTINGENT LIABILITIES (continued)

- 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, 2016 the value of this guarantee portfolio EUR 33,388 thsd (2015: EUR 40,209 thsd).

	31/12/16	31/12/15
Contingent liabilities		
outstanding guarantees*	147,175	131,120
Financial commitments		
unutilised loan facilities	6,324	5,899
commitments to venture capital funds**	28,940	34,320
other liabilities	142	137
Total	**182,581**	**171,476**

* Portfolio of *Outstanding guarantees* in amount of EUR 147,175 thsd is oversecured by the state funding in amount of EUR 200,000 thsd according to Law on State Budget 2017 (2016: EUR 100,247 thsd).
** *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.

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

	Contract period	Commitment, thsd EUR	Sum of commitment, which is not contributed to the fund 31.12.2016., thsd EUR	Sum of commitment, which is not contributed to the fund 31.12.2015., thsd EUR
BaltCap LatviaVentureCapital Fund,KS	22.01.2020.	20,000	4,401	5,154
AIF Impr.Cap.Technol.Vent.Fund,KS	11.06.2020.	4,966	836	1,117
AIF Imprimatur Capital Seed Fund,KS	11.06.2020.	10,000	41	1,330
ZGI-3,KS	31.12.2020.	11,800	1,648	4,885
FlyCap Investment Fund I AIF,KS	31.12.2020.	15,000	2,135	3,422
EXPANSION CAPITAL FUND AIF,KS	31.12.2020.	15,000	412	1,465
Baltic Innovation Fund	01.01.2029.	26,000	19,467	16,947
	Total	**102,766**	**28,940**	**34,320**

Information regarding provisions built for guarantees issued is provided in Note 29.

34 CASH AND CASH EQUIVALENTS

	31/12/16	31/12/15
Demand deposits with other credit institutions	79,408	37,426
Deposits with credit institutions with original maturity of less than 3 months	5,000	6,290
	84,408	**43,716**

For complete balances due from credit institutions and the State Treasury of the Republic of Latvia of the Company as at 31 December 2016 please see Note 16.

NOTES TO FINANCIAL STATEMENTS

35 MOVEMENT IN REVALUATION RESERVE OF INVESTMENT SECURITIES AVAILABLE FOR SALE

	31/12/16	31/12/15
At 1 January	**8,667**	**-**
Acquired through companies' reorganisation*	**-**	**11,791**
(Profit) from sales (Note 8)	-	(125)
Gain from changes in fair value**	425	(2,999)
Other comprehensive income	**425**	**(3,124)**
At 31 December	**9,092**	**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.
** The position *Gain from changes in fair value* includes the revaluation of Latvian Treasury bills and government bonds as well as Open – ended investment funds registered in Latvia.

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

36 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 268 thsd euros (Note 10).

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

NOTES TO FINANCIAL STATEMENTS

36 RELATED PARTY TRANSACTIONS (continued)

The following table provides the total amount of transactions that have been entered into with related parties for the relevant financial year.

		Received state aid financing, thsd EUR	Granted state aid financing or repayment of the financing, thsd EUR	Received reserve capital, thsd EUR
Transactions with shareholders:				
Ministry of Finance	2016	-	-	5,559
	2015	366	(9,085)	1,635
Ministry of Economics	2016	29,610	-	-
	2015	-	-	-
Entity with sighnificant influence:				
Investment funds	2016	-	-	-
	2015	-	-	-
Associates:				
Venture capital funds	2016	-	(22,932)	-
	2015	793	(16,557)	-
Other companies owned by Altum shareholders				
Rural Support Service	2016	(9,387)	-	-
	2015	-	(1,035)	-
Central Finance and Contracting Agency	2016	5,563	-	-
	2015	-	-	-

The following table provides the total amount of transactions that have been entered into with related parties for the relevant financial year.

		Interest received, thsd EUR	Interest paid, thsd EUR	Other expenses, thsd. EUR
Associates:				
Venture capital funds	2016	365	-	-
	2015	307	-	-
Transactions with shareholders:				
Ministry of Finance	2016	-	(167)	-
	2015	-	(98)	-
Other companies owned by Altum shareholders				
Central Finance and Contracting Agency	2016	-	-	(216)

The total amount of financing is provided in Note 28 and 2 (23).

NOTES TO FINANCIAL STATEMENTS

37 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):

	31/12/16	31/12/15
Statement of financial position assets exposed to credit risk		
Investment securities – held to maturity	1,531	1,541
Investment securities - available for sale	64,294	88,002
Due from other credit institutions and the State Treasury	89,408	46,148
Loans and receivables	201,250	201,518
Investments in venture capital funds	56,722	38,964
Other assets	762	2,928
Total	**413,967**	**379,101**
Off-balance sheet items exposed to credit risk		
Contingent liabilities	147,175	131,120
Financial commitments	35,406	40,356
Total	**182,581**	**171,476**

As at December 31, 2016 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 claim amount is EUR 32,201 thsd (Note 27).

Based on the loan agreement No A1/1/F16/474 dated 24 November 2016 between the Company and Treasury of the Republic of Latvia a commercial pledge agreement was concluded on the same date. The commercial pledge refers to the loan funds the Company received from the Treasury and used to grant loans according to the Cabinet Regulation No 469 dated 15 July 2016 On Parallel Loans for Improvement of Competitiveness of Businesses. The maximum secured claim amount is 24,000 thsd euros. The composition of the commercial pledge: claim rights and their future components resulting from the aforementioned loans the Company has granted. At the end of year 2016 the Company had not started to use the Treasury's loan as yet. During 2017 year the Company is planning to grant loans in a amount of 4,700 thsd euros, while the period after 2017 till 2021 year the Company is planning to grant loans in a amount of 15,000 thsd euros.

On 29 December 2016 a commercial pledge agreement was concluded based on the following two loan agreements: loan agreement No A1/1/15/698 dated 18 December 2015 and loan agreement No A1/1/16/395 dated 26 September 2016.

The loan agreement No A1/1/15/698 dated 18 December 2015 was concluded between the Company and Treasury of the Republic of Latvia. The commercial pledge refers to the loan funds the Company received from the Treasury and used to grant loans according to the Cabinet Regulation No 1065 dated 15 September 2009 On Loans for Promoting the Development of Micro, Small and Medium Sized Merchants and Agricultural Service Co-operative Societies.

The loan agreement No A1/1/16/395 dated 26 September 2016 was concluded between the Company and Treasury of the Republic of Latvia. The commercial pledge refers to the loan funds the Company received from the Treasury and used to grant loans according to the Cabinet Regulation No 328 dated 31 May 2016 On Micro Loans and Start-up Loans.

The total maximum secured claim amount is 39,600 thsd euros. The composition of the commercial pledge: claim rights and their future components resulting from the aforementioned loans the Company has granted. At the end of year 2016 the Company had not started to use the Treasury's loan as yet. During 2017 year the Company is planning to grant loans in amount of 15,000 thsd euros, while the period after 2017 till 2021 year the Company is planning to grant loans in amount of 18,000 thsd euros.
Transactions with derivatives, in effect at 31 December 2016, had been concluded seeking to cushion the effect of exchange rate fluctuations on the value of balance-sheet assets (see Note 17).

NOTES TO FINANCIAL STATEMENTS

37 MAXIMUM EXPOSURE TO CREDIT RISK (continued)

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 56,111 thsd as at 31 December 2016 (2015:EUR 67,013 thsd) (Note 26).

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

- under the Funding Covenant concluded with the Central Finance and Contracting Agency (contract dated 08/06/2016) on implementation of the fund of funds the guarantees are available under specific support objective 3.1.1.1 with the earmarked funding of 15 mln euros;
- funding of 10 mln euros is earmarked for the guarantees for state aid combination for the small and medium-sized enterprises sourced from repayments made on sub-activity 2.2.1.4.1. *Support in the Form of Loan for Improvement of Competitiveness of Businesses*; as regards the guarantees for large companies – 3 mln euros of the national public funding channelled through the development finance institution are available.
- Loan guarantees of 4,3 mln euros are available to the farmers;
- By 31 May guarantees were granted under sub-activity 2.2.1.4.2. *Mezzanine Loans and Guarantees for Improvement of Competitiveness of Economic Operators* where the total funding available for the guarantees, including export credit guarantees and mezzanine loans, was 27,026 thsd euros (agreement concluded with the Ministry of Economics on 21/11/2011)
- InnovFIN Facility guarantees are available to the innovative companies complying with the conditions of specific support objective 3.1.1.1. as well as large companies. There is an agreement (dated 13/10/2016) concluded with the European Investment Fund on InnovFIN Facility counter-guarantees for 30 mln euros.

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:

	31/12/16		**31/12/15**	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Assets				
Due from other credit institutions and the State Treasury	89,408	89,392	46,148	46,148
Debt securities	64,294	64,294	88,002	88,002
Investment securities - available for sale	**64,294**	**64,294**	**88,002**	**88,002**
Individuals	22,722	22,684	23,764	23,811
Companies	178,528	177,644	177,754	177,333
Loans and receivables	**201,250**	**200,328**	**201,518**	**201,144**
Debt securities	1,531	3,315	1,541	1,890
Investment securities – held to maturity	**1,531**	**3,315**	**1,541**	**1,890**
Investments in subsidiaries	10,376	10,376	9,274	9,274
Investments in venture capital funds	56,722	56,722	38,964	38,964
Investment property	4,869	4,869	1,225	1,225
Assets held for sale	1,367	3,488	-	-
Liabilities				
Due to credit institutions	56,195	56,195	67,166	67,166
Derivatives	855	855	346	346
Due to general governments	46,914	46,914	39,561	39,561
Support program funding	94,425	94,425	54,174	54,174

NOTES TO FINANCIAL STATEMENTS

38 FAIR VALUES OF ASSETS AND LIABILITIES (continued)

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.

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

	Level 1	Level 2	Level 3	Total
Assets measured at fair value:				
Investment property (Note 15)	-	-	4,869	**4,869**
Debt securities - available for sale (Note 14)	39,026	25,268	-	**64,294**
Investments in subsidiaries (Note 20)	-	-	10,376	**10,376**
Assets for which fair values are disclosed:				
Loans and receivables (Note 19)	-	-	200,328	**200,328**
Due from other credit institutions and the State Treasury (Note 16, 34)	79,292	-	10,100	**89,392**
Total	**118,318**	**25,268**	**225,673**	**369,259**
Liabilities measured at fair value:				
Derivatives (Note 17)	-	855	-	**855**
Liabilities for which fair values are disclosed:				
Due to credit institutions (Note 26)	-	-	56,195	**56,195**
Due to general governments (Note 27)	-	-	46,914	**46,914**
Support program funding (Note 28)	-	-	94,425	**94,425**
Total	**-**	**855**	**197,534**	**198,389**

NOTES TO FINANCIAL STATEMENTS

38 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**
Investments in subsidiaries (Note 20)	-	-	9,274	**9,274**
Assets for which fair values are disclosed:				
Loans and receivables (Note 19)	-	-	201,144	**201,144**
Due from other credit institutions and the State Treasury (Note 16, 34)	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 26)	-	-	67,166	**67,166**
Due to general governments (Note 27)	-	-	39,561	**39,561**
Support program funding (Note 28)	-	-	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 due from other credit institutions and the State Treasury as well as 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.

Investments in subsidiaries

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

NOTES TO FINANCIAL STATEMENTS

38 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.

39 LIQUIDITY RISK

The table below provides the maturity structure of expected undiscounted future cash flows of the Company's financial liabilities, off-balance liabilities and liquid assets, which are included balances of due from other credit institutions and the State Treasury and investment securities as at 31 December 2016. The presentation is based on the expected future cash flows based on payment schedules and includes interest while the maturity analysis presented in Note 40 discloses the term structure of actual balances of liabilities and assets.

	Up to 1 year	1 – 5 years	Over 5 years and w/o date	**Total**
Due to credit institutions	9,483	35,368	12,293	57,144
Due to general governments	163	653	50,017	50,833
Support programme funding	-	-	94,425	94,425
Other liabilities	-	-	4,282	4,282
Total financial liabilities	**9,646**	**36,021**	**161,017**	**206,684**
Off-balance items and contingent liabilities	63,019	56,967	75,782	195,768
Total financial liabilities, off-balance items and contingent liabilities	**72,665**	**92,988**	**236,799**	**402,452**
Due from other credit institutions and the State Treasury	89,408	-	-	89,408
Investment securities	1,027	50,176	14,622	65,825
Liquid assets	**90,435**	**50,176**	**14,622**	**155,233**

The table below provides the maturity structure of expected undiscounted future cash flows of the Company's financial liabilities, off-balance liabilities and liquid assets as at 31 December 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**
Due from other credit institutions and the State Treasury	46,148	-	-	46,148
Investment securities	25,352	10,201	53,990	89,543
Liquid assets	**71,500**	**10,201**	**53,990**	**144,965**

NOTES TO FINANCIAL STATEMENTS

40 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analysed according to when they are settled according to contractual maturity.With regard to loans and advances to customers, the Altum uses the same basis of expected repayment behaviour as used for estimating the EIR. Issued debt reflect the contractual coupon amortisations.
The table below allocates the Company's assets and liabilities to maturity groupings as at 31 December 2016 based on the time remaining from the balance sheet date to the contractual maturity dates.

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

NOTES TO FINANCIAL STATEMENTS

40 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

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 month	1 - 3 months	3 - 6 months	6 - 12 months	1 – 5 years	more than 5 years and undated	Total
ASSETS							
Due from other credit institutions and the State Treasury	38,566	5,150	430	2,002	-	-	**46,148**
Investment securities	-	-	-	25,353	10,201	53,989	**89,543**
Loans and receivables	11,688	10,463	10,293	20,373	95,372	53,329	**201,518**
Investments in venture capital funds	-	-	-	-	38,964	-	**38,964**
Deferred expense and accrued income	417	1	-	1,127	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	-	-	-	-	9,274	646	**9,920**
Corporate income tax overpaid	-	-	-	-	-	523	**523**
Other assets	1,305	-	295	77	7,299	848	**9,824**
Total assets	**51,976**	**15,614**	**11,018**	**48,932**	**161,116**	**115,321**	**403,977**
LIABILITIES							
Due to credit institutions	-	6,747	-	4,494	35,092	20,833	**67,166**
Derivatives	-	346	-	-	-	-	**346**
Due to general governments	3,769	-	-	-	-	35,792	**39,561**
Deferred income and accrued expense	638	22	32	971	-	-	**1,663**
Support programme funding and state aid	240	-	-	2,546	47,942	19,612	**70,340**
Provisions for off-balance sheet commitments	217	1,494	1,195	14,421	-	-	**17,327**
Other liabilities	5,432	373	10	-	648	53	**6,516**
Total liabilities	**10,296**	**8,982**	**1,237**	**22,432**	**83,682**	**76,290**	**202,919**
Net liquidity	**41,680**	**6,632**	**9,781**	**26,500**	**77,434**	**39,031**	**201,058**

NOTES TO FINANCIAL STATEMENTS

41 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 2016 by currency profile:

	EUR	USD	Other	Total
ASSETS				
Due from other credit institutions and the State Treasury	89,114	294	-	**89,408**
Investment securities	52,876	12,949	-	**65,825**
Loans and receivables	200,775	475	-	**201,250**
Investments in venture capital funds	56,722	-	-	**56,722**
Deferred expense and accrued income	2,060	-	-	**2,060**
Investment property	4,869	-	-	**4,869**
Property, plant and equipment	3,507	-	-	**3,507**
Intangible assets	168	-	-	**168**
Investment in subsidiaries	10,376	-	-	**10,376**
Corporate income tax overpaid	-	-	-	**-**
Other assets	1,367	-	-	**1,367**
Asset held for sale	3,875	-	-	**3,875**
Total assets	**425,709**	**13,718**	**-**	**439,427**
LIABILITIES				
Due to credit institutions	56,195	-	-	**56,195**
Derivatives	855	-	-	**855**
Due to general governments and	46,914	-	-	**46,914**
Deferred income and accrued expense	1,973	2	-	**1,975**
Support programme funding and state aid	101,274	-	-	**101,274**
Provisions for off-balance sheet commitments	16,784	80	-	**16,864**
Other liabilities	4,281	1	-	**4,282**
Capital and reserves	209,771	1,297	-	**211,068**
Total liabilities and shareholders'equity	**438,047**	**1,380**	**-**	**439,427**
Forward foreign (payables)	(847)	(8)	-	(855)
Currency position	**(13,185)**	**12,330**	**-**	**(855)**

NOTES TO FINANCIAL STATEMENTS

41 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 2015 by currency profile:

	EUR	USD	Other	Total
ASSETS				
Due from other credit institutions and the State Treasury	46,148	-	-	**46,148**
Investment securities	76,766	12,777	-	**89,543**
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	9,920	-	-	**9,920**
Corporate income tax overpaid	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 and state aid	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 and shareholders'equity	**402,367**	**1,610**	**-**	**403,977**
Forward foreign exchange receivables / (payables)	(2,905)	2,560	-	(345)
Currency position	**(14,656)**	**14,311**	**-**	**(345)**

42 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 2017	59
Year 2018	51
Year 2019	49
Year 2020	45
Year 2021	31
Total for 5 years	**235**
Year 2022 and later	**95**

NOTES TO FINANCIAL STATEMENTS

43 FINANCIAL ASSETS AND LIABILITIES BY CLASSIFICATION PRINCIPLES

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

	Financial assets un liabilities held to trading	Financial assets available for sale	Amortised cost	At cost	Total book value
ASSETS					
Investment securities	-	64,294	1,531	-	65,825
Due from other credit institutions and the State Treasury	-	-	89,408	-	89,408
Loans and receivables	-	-	201,250	-	201,250
Investments in venture capital funds	-	-	-	56,722	56,722
Investments in subsidiaries	-	10,376	-	-	10,376
Other financial assets	-	-	12,171	-	12,171
Total financial assets	**-**	**74,670**	**304,360**	**56,722**	**435,752**
Non-financial assets	-	-	3,675	-	3,675
Total assets	**-**	**74,670**	**308,035**	**56,722**	**439,427**
LIABILITIES					
Due to credit institutions	-	-	56,195	-	56,195
Due to general governments	-	-	46,914	-	46,914
Support programme funding and state aid	-	-	101,274	-	101,274
Derivatives	855	-	-	-	855
Other financial liabilities	-	-	23,121		23,121
Total financial liabilities	**855**	**-**	**227,504**		**228,359**
Non-financial liabilities	-	-	211,068	-	211,068
Total liabilities	**855**	**-**	**438,572**	**-**	**439,427**

NOTES TO FINANCIAL STATEMENTS

43 FINANCIAL ASSETS AND LIABILITIES BY CLASSIFICATION PRINCIPLES (continued)

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	-	88,002	1,541	-	98,817
Due from other credit institutions and the State Treasury	-	-	46,148	-	46,148
Loans and receivables	-	-	201,518	-	201,518
Investments in venture capital funds	-	-	-	38,964	38,964
Investments in subsidiaries	-	9,274	-	-	9,274
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 and state aid	-	-	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**

44 PROPOSAL FOR DISTRIBUTION OF PROFIT

Based on Section 16 and Section 15 (2) 5) of the Development Finance Institution Law, it is planned to transfer the profit for the reporting year to the Company's reserve capital.

45 SUBSEQUENT EVENTS

On 27 February 2017 ALTUM received a decision passed by the Ministry of Economics (MoE) requiring repayment of non-eligible public funding expenditure of 217 thsd euros under activity *2.2.1.1. Holding Fund for Investments in Guarantees, High-risk Loans, Venture Capital Funds and other Financial Instruments* of the programme *Entrepreneurship and Innovations*.
MoE, being the institution responsible for the activity, performed a comprehensive audit on JSC *Capitalia* that had concluded a co-operation agreement dated 7 July 2014 with Latvian Guarantee Agency (LGA) on granting of micro loans under the activity. The audit established that out of 83 micro loans totalling 832 thsd euros (incl. 416 thsd euros of public funding) that JSC *Capitalia* had granted to the entrepreneurs, 41 loan recipients (totalling 403 thsd euros, incl. 202 thsd euros of the Holding Fund's financing) owed to the State Revenue Service taxes or levies as at the moment the loans were disbursed. As a result, non-compliance with sub-paragraph 7.1 of the Cabinet of Ministers Regulation No 327 was identified implying non-eligibility for funding of the EU Structural Funds.
Also MoE treated the management fees of JSC Capitalia and LGA (now – Company) - for 13 thsd euros and 2 thsd euros respectively - as non-eligible expenditure.
In view of the identified non-compliances, MoE ordered the Company to review immediately its internal control procedures and their implementation quality as well as repay within 10 working days the non-eligible expenditure of 217 thsd euros.

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.

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of JSC Development Finance Institution ALTUM

Opinion

We have audited the accompanying financial statements of JSC Development Finance Institution ALTUM (the Institution, set out on pages 7 to 69 of the accompanying annual report, which comprise the statement of financial position as at December 31, 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements of JSC Development Finance Institution ALTUM give a true and fair view of financial position of the Institution as at December 31, 2016, 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.

Basis for Opinion

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

Reporting on other information

The other information comprises the Management Report and Statement of Responsibility of the Management Board as set out on pages 2 to 4 of the accompanying annual report, but does not include the financial statements and our auditors report thereon. Management is responsible for the other information.

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

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

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

Other reporting responsibilities in accordance with local legislation

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

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

Riga, 24 April 2017