# JSC DEVELOPMENT FINANCE INSTITUTION ALTUM

## Annual report of the Group for the period from 1 January 2015 to 31 December 2015 (the 2nd reporting period)

**TABLE OF CONTENTS**



JSC Development Finance Institution Altum
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# JSC DEVLOPMENT FINANCE INSTITUTION
# REPORT OF THE BOARD OF DIRECTORS OF THE GROUP

**Activity during reporting period**

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

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

From 1 January 2015 to 15 April 2015 the Group included:

- the leading company – JSC Development Finance Institution and its subsidiaries:
- state-owned JSC Latvian Development Finance Institution Altum;
- limited liability company Latvian Guarantee Agency (hereinafter – LGA);
- state-owned JSC Rural Development Fund (hereinafter – RDF).

JSC Development Finance Institution was 100% holder of the shares and capital shares of the subsidiaries.

On 15 April 2015, as part of establishing a single development finance institution, the state-owned joint stock company Latvian Development Finance Institution Altum, LGA and RDF were merged into the joint stock company Development Finance Institution and ceased to exist without a liquidation process. All the rights and obligations of the subsidiaries were transferred to the joint stock company Development Finance Institution.

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

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

The mission of the Group is:

We help Latvia to thrive!

The main values of the Group are:

- excellence;
- team-work;
- responsibility.

The role of the Group in the financial market is to:

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

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

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

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

In the process of reorganisation, continuity of the state aid programmes implemented by state-owned JSC Latvian Development Finance Institution Altum, LGA and RDF was ensured and new programmes were developed in co-operation with the line ministries in charge.

**REPORT OF THE BOARD OF DIRECTORS** (continued)

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

- net loan portfolio of EUR 201.5 mln, the total number of transactions – 6 573;
- guarantee portfolio of EUR 131.1 mln, the total number of transactions – 2 070;
- investments in venture capital funds for the total net value of EUR 42.1 mln, the total number of projects financed by funds – 258.

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

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

The profit of the Group made during 12 months of 2015 amounted to EUR 8.5 mln.

Concerning accounting for fair value of guarantees and investments in venture capital funds the Group's financial statements for year 2015 use methods and models different from those applied to the financial statements of the reorganized companies. According to the due diligence conducted in line with the International Financial Reporting Standards, the new methods and models are suitable for accounting for the operations of the Group that provides state aid through financial instruments.

Application of adequate accounting methods has eliminated non-compliance of the accounting policy to the International Financial Reporting Standards that originated due to the accounting being organised in line with the national legislation, especially as regards reorganisation changes when the Group took over LGA liabilities for the issued guarantees and investments in venture capital funds.

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

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

**Future Outlook**

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

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

**REPORT OF THE BOARD OF DIRECTORS** (continued)

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

Reinis Bērziņš
Chairman of the Board

27 May 2016

## SUPERVISORY COUNCIL AND BOARD OF DIRECTORS

### Supervisory Council

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

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

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

On 2 October 2015 the Council decided to re-elect to the Board as of 12 October 2015 the following 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 12 October 2015.

| *Name, surname* | *Position* | *Date appointed / removed* |
|---|---|---|
| Reinis Bērziņš | Chairman of the Board | 12/10/2015 – to date |
| Rolands Paņko | Board Member | 15/04/2014 – 12/10/2015 - Chairman of the Board; 12/10/2015 – to date – Board Member |
| Jēkabs Krieviņš | Board Member | 12/10/2015 - to date |
| Juris Vaskāns | Board Member | 12/10/2015 - to date |
| Inese Zīle | Board Member | 12.10.2015. - to date |
| Ivars Golsts | Board Member | 09/04/2014 – 23/01/2015 |
| Aivis Ābele | Board Member | 09/04/2014 – 23/01/2015 |

## STATEMENT OF RESPONSIBILITY OF THE MANAGEMENT

Riga 27 May 2016

The management of the Group (Management) is responsible for preparing the financial statements from the books of prime entry for each financial period that present fairly the state of affairs of the Group 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 8 to 65 for the period from 1 January 2015 to 31 December 2015. The Management also confirms that applicable International Financial Reporting Standards, as adopted in the EU, have been used in preparation of the financial statements of the Group 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 Group and to prevent and detect fraud and other irregularities.

Reinis Bērziņš
Chairman of the Board

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# INDEPENDENT AUDITORS' REPORT

To the shareholders of JSC Development Finance Institution ALTUM

## Report on the financial statements

We have audited the accompanying consolidated financial statements of JSC Development Finance Institution ALTUM and its subsidiaries (the "Group"), which are set out on pages 8 through 64 of the accompanying 2015 Annual Report, which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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

## Report on other legal and regulatory requirements

Furthermore, we have read the management report for the year ended 31 December 2015 (set out on pages 2 through 4 of the accompanying 2015 Annual Report) and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2015.

SIA Ernst & Young Baltic
Licence No. 17

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

Riga, 27 May 2016

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

| | Notes | 01/01/2015 - 31/12/2015 | 27/12/2013- 31/12/2014 Adjusted |
|---|---|---|---|
| Interest income | 4 | 18,610 | 5,143 |
| Interest expense | 5 | (2,342) | (1,195) |
| **Net interest income** | | **16,268** | **3,948** |
| Fee and commission income | 6 | 703 | 464 |
| Fee and commission expense | 7 | (552) | (545) |
| **Net income from fees and commissions** | | **151** | **(81)** |
| Net trading income | 8 | 983 | 412 |
| Revaluation result on investments in venture capital funds | 18 | 1,543 | (980) |
| Other income | 9 | 7,294 | 1,482 |
| **Operating profit** | | **26,239** | **4,781** |
| Staff costs | 10 | (6,679) | (2,690) |
| Administrative expense | 11 | (5,129) | (1,859) |
| Amortisation of intangible assets and depreciation of property, plant and equipment | 21, 22 | (743) | (287) |
| Net impairment provisions | 12 | (5,148) | (2,243) |
| **Profit / (loss) before corporate income tax** | | **8,540** | **(2,298)** |
| Corporate income tax | 13 | - | 76 |
| **Profit / (loss) for the period** | | **8,540** | **(2,222)** |
| Net loss on available for sale investments | 34 | (1,988) | (305) |
| **Total comprehensive profit / (loss) for the period** | | 6,552 | (2,527) |

The notes on pages 12 to 65 are an integral part of these financial statements.

Reinis Bērziņš
Chairman of the Board

27 May 2016

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

| | Notes | **31/12/2015** | **31/12/2014** Adjusted |
|---|---|---|---|
| **Assets** | | | |
| Due from other credit institutions and Treasury | 16 | 46,882 | 60,245 |
| Investment securities - available for sale | 14 | 88,002 | 102,536 |
| Investment securities – held to maturity | 14 | 1,541 | 4,911 |
| Loans | 19 | 201,518 | 215,770 |
| Investments in venture capital funds | 18 | 42,135 | 25,342 |
| Deferred expense and accrued income | 24 | 1,561 | 2,714 |
| Investment property | 15 | 12,247 | 11,704 |
| Property, plant and equipment | 22 | 4,628 | 4,822 |
| Intangible assets | 21 | 123 | 153 |
| Deferred tax asset | 13 | - | 253 |
| Corporate income tax overpaid | | 523 | 26 |
| Other assets | 23 | 9,964 | 6,884 |
| **Total assets** | | **409,124** | **435,360** |
| **Liabilities** | | | |
| Due to credit institutions | 25 | 67,166 | 80,208 |
| Derivatives | 17 | 345 | 1,218 |
| Due to general governments | 26 | 39,561 | 42,680 |
| Deferred income and accrued expense | 30 | 1,664 | 1,500 |
| Provisions | 28 | 17,327 | 14,760 |
| Support programme funding | 27 | 54,174 | 84,956 |
| State aid | 27 | 16,166 | 9,477 |
| Other liabilities | 29 | 8,791 | 4,737 |
| **Total liabilities** | | **205,194** | **239,536** |
| **Capital and reserves** | | | |
| Share capital | 31 | 204,862 | 204,862 |
| Reserves | 20 | (15,875) | (17,429) |
| Available for sale reserve | 34 | 8,625 | 10,613 |
| Profit / (loss) for the period | | 6,318 | (2,222) |
| **Capital and reserves of the Group's shareholders** | | **203,930** | **195,824** |
| Minority shareholders | | | - |
| **Total capital and reserves** | | **203,930.** | **195,824** |
| **Total liabilities** | | **409,124** | **435,360** |

The notes on pages 12 to 65 are an integral part of these financial statements.

Reinis Bērziņš
Chairman of the Board

27 May 2016

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(all amounts in thousands of euro)

| | Share capital | Reserves | Available for sale reserve | Retained earnings | Total capital |
|---|---|---|---|---|---|
| **As at 27 December 2013** | - | - | - | - | - |
| Issue of share capital | 569 | - | - | - | **569** |
| Increase of share capital | 204,293 | - | - | - | **204,293** |
| Reserve capital (see Note 20) | - | (17,429) | 10,918 | - | **(6,511)** |
| Other comprehensive (loss) (see Note 34) | - | - | (305) | - | **(305)** |
| Losses for the period | - | - | - | (2,222) | **(2,222)** |
| **Total losses for the period** | **-** | **-** | **(305)** | **(2,222)** | **(2,527)** |
| **As at 31 December 2014** | **204,862** | **(17,429)** | **10,613** | **(2,222)** | **195,824** |
| Changes to increase of reserve capital (see Note 20) | - | (81) | - | - | **(81)** |
| Increase of reserve capital (see Note 20) | - | 1,635 | - | - | **1,635** |
| Other comprehensive (loss) | - | - | (1,988) | - | **(1,988)** |
| Profit for the period | - | - | - | 8,540 | **8,540** |
| **Total profit / (loss) for the period** | **-** | **-** | **(1,988)** | **8,540** | **6,552** |
| **As at 31 December 2015** | **204,862** | **(15,875)** | **8,625** | **6,318** | **203,930** |

The notes on pages 12 to 65 are an integral part of these financial statements.

**CASH FLOW STATEMENT OF GROUP** (all amounts in thousands of euro)

| | Notes | **01/01/2015-31/12/2015** | **27/12/2013-31/12/2014** |
|---|---|---|---|
| **Profit / (loss) before taxes** | | 8,540 | (2,222) |
| Amortisation of intangible assets and depreciation of property, plant and equipment | 20, 21 | 564 | 287 |
| Increase in provisions for impairment | 12 | 5,148 | 2,243 |
| Revaluation of investments in venture capital funds | | (1,543) | (980) |
| Increase in deferred income and accrued expense | | 164 | 538 |
| Increase in deferred expense and accrued income | | 1,153 | 6,030 |
| Decrease / (increase) of other assets | | (5,075) | 2,999 |
| Increase in other liabilities | | (33,167) | 22,777 |
| **Decrease of cash and cash equivalents used before changes in assets and liabilities** | | **(24,216)** | **31,672** |
| Due from credit institutions (increase)/decrease | | 7,064 | (10,230) |
| Decrease of loans | | 13,057 | 10,008 |
| Due to credit institutions increase / (decrease) | | (3,119) | (33,029) |
| Corporate income tax | | - | (37) |
| **Net cash flow from operating activities** | | **(7,214)** | **(1,616)** |
| **Cash flows from investment activities** | | | |
| Sale of investment securities, net | | 18,099 | 7,640 |
| Acquisition of property, plant and equipment and intangible assets | | (340) | (160) |
| Purchase of investment properties | | (991) | - |
| Investments in venture capital funds, net | | (17,488) | (5,283) |
| **Net cash flow of investment activities** | | **(720)** | **2,197** |
| **Cash flows from financing activities** | | | |
| Increase in share capital | | 1,635 | 569 |
| **Net cash flow from financing activities** | | **1,635** | **569** |
| **Acquired through reorganisation process** | | **-** | **48,865** |
| **Increase in cash and cash equivalents** | | **(6,299)** | 50,015 |
| Cash and cash equivalents at the beginning of period | | 50,015 | - |
| **Cash and cash equivalents at the end of period** | 33 | **43,716** | **50,015** |

# NOTES TO FINANCIAL STATEMENTS

## APPROVAL OF FINANCIAL STATEMENTS

The management of the Group has approved these financial statements on 27 May 2016. The Commercial Law of the Republic of Latvia as well as Development Finance Institution Law stipulates that the shareholders' meeting is entitled to pass a decision on approval of the financial statements. The shareholders of the Group have the power to amend the financial statements after issue.

## 1 GENERAL INFORMATION

### (1) Background information

The joint-stock company Development Finance Institution Altum (Company) was established on 27 December 2013 based on the decision of the Cabinet of Ministers.

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

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

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

The establishment of the Group and reorganization of the development finance institutions - ALTUM, LGA and RDF did not affect continuity of the existing aid programmes.

## 2 ACCOUNTING POLICIES

### (1) Basis of preparation

These financial statements are 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 Group's financial position, access to financial resources and analysed the impact of the external factors on future operations of the Group.

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 the general accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and valuation of the off—balance items at the date of the financial statements and the reported amounts of revenues and expenses recognized 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.

**2 ACCOUNTING POLICIES** (continued)

**NOTES TO FINANCIAL STATEMENTS**

**(1) Basis of preparation** (continued)

In the financial statements the amounts are given in thousands of euros, unless specified otherwise. The functional currency of the Group has been the euro.

**(2) Consolidation and investments in subsidiaries**

*Consolidation*

The subsidiaries where the Group has direct or indirect control over the financial and operational policies and whose operational volumes are substantial have been consolidated in these statements by merging the respective assets, liabilities, income and expense items.

The consolidated financial statement doesn't contain the mutual balances and transactions presented in the profit or loss statement of the consolidated companies forming the Group, inter alia interest income and expense and unrealised profit and loss on reciprocal transactions. Where necessary, the accounting policies of the subsidiaries were altered to comply with the policies adopted by Group.

When purchasing or investing of the subsidiary's shares was done among the parties controlled by the same entity or entities, the difference between the investments in the subsidiary's equity in the Group's unconsolidated financial statement and subsidiary's net asset value at the acquisition date was recognised straight into the consolidated equity capital as Reserve capital.

*Reorganisation*

When merging the accounting of LGA, RDF and Altum, the Company relied on the audited financial closing statements of the financial position as at 31 March 2015. The statements of financial position and comprehensive income of LGA, RDF and ALTUM closing financial statements are available under Note 43 to this report.

When the accounting policies used by LGA, RDF and ALTUM differed from the Company's accounting policy, the accounting policy of the Company was applied.

The acquisition method for business combinations, as described in IFRS 3, was not applied. The Group has not reviewed the comparative financial data of a comparable period before acquisition of control.

*Investments in associates*

Associates are all entities over which the Company has significant influence but no control. The investments in associates are accounted for using the equity method.

**(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 at the end of the reporting period were the following:

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

**2 ACCOUNTING POLICIES** (continued)

**(4) Income and expense recognition**

## NOTES TO FINANCIAL STATEMENTS

Income and expense accounting of the Group is based on accrual basis and the principle of prudency, 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 settlement;
- 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.

Income and expense in foreign currency are measured and presented in euro based on the foreign exchange rate of the European Central Bank on the respective day.

Income and expense due to exchange rate fluctuations are recognised in the profit or loss of the reporting period.

Any material income and expense are recognised in profit or loss 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 based on allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options), but does not consider future 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, including any transaction costs and all other premiums or discounts.

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

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

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

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

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

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

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

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

*Other commission income and expense*, which are not related to financial guarantees, are recognized in the profit or loss on the day of the underlying transaction.

**2 ACCOUNTING POLICIES** (continued)

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

***(i) Date of recognition***

## NOTES TO FINANCIAL STATEMENTS

Purchase and sale of trading securities and investment securities that require delivery within the time frame established by regulation or market convention ("regular way" purchase and sale), are recognised on the settlement date, which is the date, when the asset is delivered or given to the Group. Any change in the fair value of the asset during the period between the purchase date and settlement date is recognised in the profit or loss or statement of other comprehensive income, as appropriate. Otherwise, such transactions are treated as derivatives until the settlement time.

### *(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 debt securities and listed equity shares held by the Group for trading purposes with an aim to profit from short-term price fluctuations. They are accounted for at fair value and all gains and losses arising from revaluation or trading are included in the profit or loss as part of net trading income.
- *Investment securities available-for-sale* comprise treasury bills and other debt securities held by the Group for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates or exchange rates. They are stated at fair value with all gains and losses from revaluation recognised in the other comprehensive income, except for impairment losses, which are recognized in the profit or loss. The cumulative change recognised as other income, which is not included in the profit or loss, is presented as Available for sale reserve under equity. The Group reviews its debt securities classified as available-for-sale investments at each statement of financial position date to assess whether they are impaired. This requires estimates similar to those applied to the individual assessment of loans and advances. The Group also records impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Group evaluates, among other factors, historical share price fluctuations and duration and extent to which the fair value of an investment is less than its cost.
- *Investment securities held-to-maturity* comprises debt securities with fixed or determinable payments and fixed maturities that the Group has a positive intention and ability to hold to maturity. They are carried at amortised cost, that is calculated based on the purchase price of the securities adjusted by discount or premium amortised over the term of the securities, using the effective interest rate method. If the Group was to sell or reclassify more than an insignificant amount of held-to-maturity investments before maturity, the entire category would have to be reclassified as available-for-sale. Furthermore, the Group would be prohibited from classifying any financial asset as held to maturity during the following two years.

## NOTES TO FINANCIAL STATEMENTS

### 2 ACCOUNTING POLICIES (continued)

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

#### *(iv) Investment in venture capital funds*

The Group has significant influence over the venture capital funds in which it participates. The Group's investments in venture capital funds are treated as associates. An associate is a company in which the Group has significant influence. Significant influence is defined as the power to affect the financial and operating policy decisions of the investee without entitlement to control any such policies. Significance of influence is classified based on similar parameters that are applied to the branches. The Group's investments in an associate are initially recognised at acquisition cost using the equity method. The carrying value of the investment is adjusted to recognise changes in the Group's net assets in the associate since acquisition date. Associate-related goodwill risk is included in the carrying value of investment without verifying impairment. The profit or loss shows the Group's share in the operational results of the associate. Changes to the investees' other comprehensive income are presented as part of the Group's other comprehensive income.

Moreover, if the changes have been recognised directly in the capital of the associate, the Group, if required, recognises its share of changes in the statement of changes in equity. The unrealised gains and losses on transactions between the Group and associate are eliminated in proportion to the equity share in the associate. The financial statements of the associate and Group cover the same reporting period. Adjustments are made, if necessary, to co-ordinate the accounting policy of the associate with accounting policy of the Group.

Once the equity method has been applied, the Group decides on recognition of impairment of the investments in the associate. On the reporting dates the Group establishes whether there is an impartial evidence of impairment of the investments in the associate.

The Group makes sure that the venture capital fund has a business plan for the investment or other supporting and sufficient information confirming that the recoverable amount is not below the carrying value. 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 significantly higher and that operational results meet the proposed targets). Should materially adverse differences be identified in the actual operations, the Group has to establish whether the venture capital fund possesses adequate supporting information confirming that the investment is not facing value impairment. The Group has to decide whether, for example, deviations may result in the investee'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. If the recoverable amount of the venture capital fund investment has been established based on the discounted cash flow calculation, the calculation and supporting data are verified.

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

Should another method be used, the Group checks on the substantiation of the choice of the method provided by the fund's manager, data and indicators used.

If there is evidence of value impairment, the Group calculates impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the loss in the profit or loss calculation.

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

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

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

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

## NOTES TO FINANCIAL STATEMENTS

## 2 ACCOUNTING POLICIES (continued)

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

#### *(v) Loans and receivables*

For purposes of this section, loans are:

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

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

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

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

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

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

The methodology and assumptions used to determine the provision for loan impairment and possible losses are reviewed regularly to eliminate any differences between loss estimates and actual loss experience.

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

When the Group has doubts about receipt of interest income on loans in due time, provisions are built for the accrued interest income.

## NOTES TO FINANCIAL STATEMENTS

## 2 ACCOUNTING POLICIES (continued)

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

#### *(vi) Due from other credit institutions and Treasury*

Amounts due from other credit institutions and Treasury are recorded when the Group 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 or discounted cash flow models as appropriate. All derivatives are carried as assets when their fair value is positive and liabilities when the fair value is negative. Changes in the fair value of derivatives are reported in the profit or loss. The Group does not use hedge accounting.

#### *(viii) Financial liabilities carried at amortised cost*

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

### (6) Derecognition of financial assets

The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Group 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 when selling an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. Fair values of financial assets and liabilities, including derivative financial instruments, are based on market prices quoted in active markets.

If the market for a financial asset or liability (and for unlisted securities) is not active, the Group establishes fair value by using valuation techniques. These include the use of discounted cash flow analysis, option pricing models and recent comparative transactions as appropriate. Where, in the opinion of the Management of the Group, 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 Group measures financial instruments, such as derivatives, and non-financial assets, such as investment properties, at fair value at each balance sheet date. Information about financial instruments and non-financial assets that are measured at fair value or whose fair values are disclosed is summarised in the following notes:

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

## 2 ACCOUNTING POLICIES (continued)

## NOTES TO FINANCIAL STATEMENTS

### (8) Off-setting financial instruments

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

### (9) Impairment of financial assets

The Group first assesses whether objective evidence of impairment exists individually for financial assets at amortised cost (such as due from credit institutions, 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 Group determines that no objective evidence of impairment exists for an individually assessed financial asset, it is included in a group of loans with similar credit risk characteristics and collectively assessed for impairment. For the purposes of a collective evaluation of impairment the loans are grouped on a basis of similar credit risk characteristics.

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

The Group reviews impairment of its financial assets at least once a quarter. In determining whether an impairment loss should be recorded in the profit or loss, the Group makes judgments as to whether there is any objective indication that the decrease in the estimated future cash flows is possible and measurable 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 impairment 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*

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

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

## NOTES TO FINANCIAL STATEMENTS

### 2 ACCOUNTING POLICIES (continued)

**(9) Impairment of financial assets** (continued)

The Group reviews its debt securities classified as available-for-sale investments at each statement of financial position date to assess whether they are impaired. This requires similar judgment as applied to the individual assessment of loans and advances. The Group also records impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Group evaluates, among other factors, historical share price fluctuations and duration and extent to which the fair value of an investment is less than its cost.

*(ii) Restructured loans*

Where possible, the Group seeks to restructure loans rather than take possession of collateral. This mostly involves adjusting payments made by a borrower in a manner matching such a borrower's financial capacity (temporarily reducing principal repayments, extending payment terms) and agreement of new loan conditions. Once the terms have been renegotiated and executed a loan is no longer considered non-performing as long as a borrower complies with the renegotiated terms and conditions. Such loans are continuously reviewed to ensure that all criteria are met and that future payments are likely to occur and interest and fee income is accrued and recognised as for other performing loans. If the terms of the financial assets have been 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 for derecognition (See Note 2 (6)).

**(10) Intangible assets**

Acquired computer software and licences are recognised as intangible assets on the basis of the costs incurred to acquire and bring to use the software. These costs are amortised on the basis of their expected useful lives (5 years). The costs associated with developing or maintaining computer software programs are recognised as an expense when incurred.

**(11) Property, plant and equipment and depreciation**

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

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

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

### 2 ACCOUNTING POLICIES (continued)

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

## NOTES TO FINANCIAL STATEMENTS

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

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

### (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 Group or otherwise held for sale. Property held for the operating lease purposes is classified as investment property if, and only if, it meets the definition of an investment property.

Investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, to any difference in the nature, location or condition of the asset. The fair value of investment property is based on a valuation by an independent and experienced valuator who holds a relevant professional qualification. If this information is not available, the Group 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.

### (14) Inventory (included in Other assets)

Inventory includes movable assets, lands and buildings that have been acquired in the debt collecting process and are being held for the purpose to sell in an ordinary course of business. Inventory is reported at the lower of cost or net realizable value. Net realizable value is an estimated selling price during an ordinary course of business of the Group less selling expenses. Depreciation of Inventory is not calculated. Changes in carrying 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 them in the near future.

### (15) Leases - when the Group 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 Other 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. The property, plant and equipment of the Group are used in its ordinary course of business. Depreciation is calculated on a straight-line basis over the estimated useful life of property, plant and equipment to write off the cost of each asset to its estimated residual value that is determined based on useful lives of similar assets of the Group.

## NOTES TO FINANCIAL STATEMENTS

**2 ACCOUNTING POLICIES** (continued)

**(16) Corporate income tax**

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

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

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

**(17) Due from other credit institutions and Treasury**

Item *Due from other credit institutions and Treasury* comprises cash and demand deposits equivalent to cash with other credit institutions, deposits with other credit institutions with original maturity of 3 months or less (See Note 33),claims against other credit institutions and deposits with other credit institutions with original maturity of more than 3 months.

**(18) Provisions**

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

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

Movements in provisions are recognised in the profit or loss.

**(19) Vacation reserve**

Provisions for employee leaves are recognised on an accrual basis.

The volume of provisions for leaves is calculated, based on the number of leave days earned but unused by the staff members of the Group, 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 Group pays social security contributions for state pension insurance and to the state funded pension scheme in accordance with Latvian legislation. State funded pension scheme is a defined contribution plan under which the Group pays fixed contributions determined by the law and has no legal or constructive obligations to pay further contributions if the state pension insurance system or state funded pension scheme are not able to settle their liabilities to employees. The social security contributions are recognised as an expense on an accrual basis and are included within staff costs.

**(21) Financial guarantees**

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

The Group accounts for the guarantee commissions received in deferred income, to the extent they relate to prepayment for upcoming 12-18 months, and linearly recognizes the income in profit or loss

**2 ACCOUNTING POLICIES** (continued)

**NOTES TO FINANCIAL STATEMENTS**

**(21) Financial guarantees** (continued)

. The difference between the present value of total commissions receivable for the guarantee and market price of those commissions, is recognised as a loss in profit or loss on the day of guarantee issuance, and written off on a straight line basis as commission income over the life of the guarantee.

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

**(22) State aid**

The Group 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 other aims crucial for development of the economy are not attained.

Now, just as earlier, the implementing body of each state aid programme is identified as a result of selection of applicants. The management of each applicant, including also JSC Development Finance Institution Altum (or any of 3 companies existing before reorganisation and establishment of the Company – 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 on behalf of the respective company the project application and business plan for the selection of the implementing body of the specific state aid programme.

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

The Group recognises the state aid when there is reasonable assurance of receipt of the government grant and compliance with all the related conditions. According to IAS 20.12 the government grants are recognised on a systematic basis as income over the period necessary to match them with the related costs, for which they are intended to compensate. The Group receives government grants provided it complies with all the grant related conditions and obligations. For this reason the grants are recognised in income and matched with the related expenses for which they are intended to compensate. Thus the Group 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 Group makes estimates and assumptions that affect the reported amounts of the assets and liabilities in the next financial year. The estimates and assumptions are evaluated regularly and are based on the historic experience and other factors, including expectations of future events that are believed to be reasonable under the current circumstances. Such estimates are made below:

- ***Impairment losses of loans and advances***. In order to assess impairment allowance, the management needs to make assumptions regarding the estimated cash flows and their timing related to loans. Significant estimates need to be made by the management in relation to value of the collateral of the loans and advances. The management has not significantly changed the estimates during the reporting period;
- ***Impairment of non-financial assets***. The Group has evaluated its non-financial assets for impairment. Given the ongoing reorganisation of the Group, the management has identified that property, plant and

**2 ACCOUNTING POLICIES** (continued)

**(23) Critical accounting estimates and judgements** (continued)

NOTES TO FINANCIAL STATEMENTS

equipment and other assets, not within the scope of IAS 39, could be subject to impairment due to uncertainties with the structure of the Group in the future. As this group of assets has been measured as one cash generating unit, 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, except for certain Property, plant and equipment which will not be used in the Group's operations and have been impaired as disclosed in Notes 2 (12), (21), (22).

- ***Impairment allowance for securities held to maturity and available for sale***. The Group 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. The Group uses the following criteria for evaluation of quality of securities and building of provisions:
  - changes in credit risk of the issuer of securities 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 potential losses, if the respective security would be sold at a 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 were caused by payment system errors) or due to negative changes in creditworthiness of the issuer, bankruptcy, liquidation or reorganization of the issuer.

Such judgments are outlined below:

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

## 2 ACCOUNTING POLICIES (continued)

### (23) Critical accounting estimates and judgements (continued)

- ***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

## NOTES TO FINANCIAL STATEMENTS

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.

- ***Agent vs. Principal.*** For the purposes of income recognition in the profit or loss, the Group is considered to act as a *Principal*. The management of the Group believes that the Group is a *Principal* since the loan agreements concluded with the clients entail contractual rights to loan repayments from the borrowers or other beneficiaries of the investments. Moreover, the loan agreements are concluded for full amount of the loan and granted loans are carried as assets in the Group's statement of financial position. The investments made comply with a definition of an asset. The Group is responsible for providing of the service and can affect the interest rate. However, some programmes have been imposed a limit on the interest rates that cannot be exceeded.

  The Group 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 Group (ranging from 20% to 50%). The portion of losses that the government reimburses by decreasing the amount of the loan repayable to the government, does not affect the Group's profit or loss as the loan received from the government is debited.

  The Group acts as a *Principal* in all state aid programmes except for the Loan Fund Programme where the Group acts as an *Agent*. In this case the Group is an intermediator and no risk is borne.

  The interest income received on the loans issued from the Loan Fund includes the amounts collected on behalf of and for the benefit of other entities that do not increase the equity capital of the Group and therefore cannot be considered as the Group's income. For this reason, the Group carries as income only that part of the financial resources of the Loan Fund that is used to cover the management costs of the Loan Fund and this amount is included in the profit or loss calculation.

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

  Although a fraction of the public funding of some of the state aid programmes implemented by Group may include the state budget funds and funds from Group'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, see Note 2 (22). Further details on guarantees are disclosed in Notes 12, 18, 30, 32.

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

## NOTES TO FINANCIAL STATEMENTS

### 2 ACCOUNTING POLICIES (continued)

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

*Standards issued but not yet effective*

***Adoption of new and/or revised interpretations of the International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC)***

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

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

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

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

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

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

**Amendments to IAS 1 *Presentation of financial statements: Disclosure Initiative*** (effective for financial years beginning on or after 1 January 2016)

The **amendments to IAS 1** further encourage the Group to apply professional judgment in determining what information to disclose and how to structure it in its financial statements. The Group has not yet evaluated the impact of the implementation of this standard.

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

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

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

## NOTES TO FINANCIAL STATEMENTS

### 2 ACCOUNTING POLICIES (continued)

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

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

**Amendments to IAS 16 *Property, Plant & Equipment* and IAS 41 *Agriculture: Bearer plants*** (effective for financial years beginning on or after 1 January 2016)
The amendments clarify that bearer plants are to be recognised in accordance with IAS 16 Property, Plant & Equipment and are subject to all the requirements of the standard. The implementation of this amendment will have no impact on the financial statements of the Group, as the Group does not have any bearer plants.

**Amendments to IAS 19 *Employee Benefits*** (effective for financial years beginning on or after 1 February 2015)

The amendments address accounting for the employee contributions to a defined benefit plan. Since the Group's employees do not make such contributions, the implementation of this amendment will not have any impact on the financial statements of the Group.

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

**Amendments to IFRS 11 *Joint arrangements: Accounting for Acquisitions of Interests in Joint Operations*** (effective for financial years beginning on or after 1 January 2016)
IFRS 11 addresses the accounting for interests in joint ventures and joint operations. The amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business in accordance with IFRS and specifies the appropriate accounting treatment for such acquisitions. The Group has not yet evaluated the impact of the implementation of this amendment.

**IFRS 9 *Financial Instruments*** (effective for financial years beginning on or after 1 January 2018, once endorsed by the EU)
IFRS 9 replaces IAS 39 and introduces new requirements for classification and measurement, impairment and hedge accounting. The Group has not yet evaluated the impact of the implementation of this standard.

**Amendments to IFRS 10, IFRS 12 and IAS 27 - *Investment Entities: Applying the consolidation exception*** (effective for financial years beginning on or after 1 January 2016, once endorsed by the EU)
The amendments address issues that have arisen in the context of applying the consolidation exception for investment entities. The Group has not yet evaluated the impact of the implementation of this amendment.

**Amendments to IFRS 10 and IAS 28 – *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*** (endorsement deferred indefinitely)
The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business and partial gain or loss is recognized when a transaction involves assets that do not constitute a business. The management has evaluated that implementation of this standard will not impact the financial statements of the Group.
This is a temporary standard that provides the first-time IFRS adopters with relief from derecognizing rate-regulated assets and liabilities.

**NOTES TO FINANCIAL STATEMENTS**

**2 ACCOUNTING POLICIES** (continued)

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

**IFRS 14** ***Regulatory Deferral Accounts*** (effective for financial years beginning on or after 1 January 2016, once endorsed by the EU)
IFRS 14 provides first-time adopters of IFRS with relief from derecognizing rate-regulated assets and liabilities. However, to enhance comparability with entities that already apply IFRS and do not recognize such amounts, the standard requires that the effect of rate regulation must be presented separately from other items. An entity that already presents IFRS financial statements is not eligible to apply the standard. The implementation of this standard will not have any impact on the Group.

**IFRS 15** ***Revenue from Contracts with Customers*** (effective for financial years beginning on or after 1 January 2018, once endorsed by the EU)
IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer, regardless of the type of revenue transaction or the industry. Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. The Group has not yet evaluated the impact of the implementation of this amendment.

**IFRS 16** ***Leases*** (effective for financial years beginning on or after 1 January 2019, once endorsed by the EU)

IFRS 16 replaces IAS 17 and specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessor accounting is substantially unchanged. The implementation of this standard will not have any impact on the Group.

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

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

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

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

The adoption of these amendments may result in changes to accounting policies or disclosures but will not have any impact on the financial position or performance of the Group.
The Group plans to adopt the above mentioned standards and interpretations on their effectiveness date provided they are endorsed by the EU.

**(25) Changes and adjustments for errors in comparative indicators**

The accounting methods of fair value of the guarantee contracts and investments in venture capital funds were changed in the financial statements for year 2015. As a result of in-depth analysis, the methods were aligned with IFRS to improve implementation transparency and understanding of the results of the state aid programmes.

**NOTES TO FINANCIAL STATEMENTS**

**2 ACCOUNTING POLICIES** (continued)

**(25) Changes and adjustments for errors in comparative indicators** (continued)

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

In the consolidated financial statements of year 2014 the underived income was calculated based on a different model – discounted value of the receivable premiums and recorded on the balance-sheet under Other assets and Deferred expense and accrued income without impact on the equity capital.

The investments in venture capital funds were presented at fair value in the consolidated financial statements of year 2014. The in-depth analysis concluded that, despite the Group's substantial participation in the equity of the venture capital funds, the Group has no control, but significant influence in these entities. In accordance with IFRS such investments are treated as associates and measured using the equity method (see Note 2 (5) (iv)).

For more information on the accounting methodology of the fair value of the guarantee contracts see Note 2 (21) and for information on the accounting methodology for the investments in venture capital funds see Note 2 (5) (iv).

Impact of the incorrectly applied accounting methodologies was corrected retrospectively that resulted in consequent changes to the balances / turnovers in the financial statements of the previous reporting period.

Details about the adjustments made are available below:

| | Notes | Initial amount as at 31/12/2014 (EUR, thsd) | Adjustment (EUR, thsd) | Adjusted amount as at 31/12/2014 (EUR, thsd) |
|---|---|---|---|---|
| **Items adjusted in Financial Position Statement:** | | | | |
| Retained earnings for the period | | 95 | (2,317) | (2,222) |
| Investments in venture capital funds | Note 18 | 28,384 | (3,042) | 25,342 |
| Deferred expense and accrued income | impact from the new guarantee accounting methodology Note 24, the new methodology explained in Note 2 (21) | 6,168 | (3,454) | 2,714 |
| Other assets | error in guarantee accounting methodology Note 23, the new methodology explained in Note 2 (21) | 8,730 | (1,846) | 6,884 |
| Due to general governments | Note 26, reclassification of amount | 51,765 | (9,085) | 42,680 |
| Provisions | impact from the new guarantee accounting methodology, Note 28, the new methodology explained in Note 2 (21) | 6,322 | 8,438 | 14,760 |
| Support programme funding | Note 27, reclassification of amount | 75,871 | 9,085 | 84,956 |
| Reserve capital | Note 20 | 7,952 | (25,381) | (17,429) |
| Revaluation reserve on available-for-sale investments | Note 20, Note 34, reclassification of amount | - | 10,613 | 10,613 |

## NOTES TO FINANCIAL STATEMENTS

## 2 ACCOUNTING POLICIES (continued)

### (25) Changes and adjustments for errors in comparative indicators (continued)

| | Notes | Opening balance in 2014 | Adjustmen t | Amount of adjustmen t in 2014 |
|---|---|---|---|---|
| **Items adjusted in Comprehensive Income Statement:** | | | | |
| Fee and commission income | Impact from the new guarantee accounting, Note 6, the new methodology explained in Note 2 (21). | 477 | (13) | 464 |
| Fee and commission expense | Reclassification of amount from item *Administrative expense* as well as adjustment of amount by EUR 33 thsd, Note 7. | (145) | (400) | (545) |
| Revaluation result on investments in venture capital funds | Impact from the equity method, Note 18, the new methodology explained in Note 2 (21). | 443 | (1,423) | (980) |
| Administrative expense | Sum total of the item *Administrative expense* was reduced by EUR 443 thsd due to management fees of the venture capital funds. The amount was adjusted to EUR 400 thsd and reclassified to the item *Fee and commission expense* (Note 7).<br>At the same time the sum total of the item *Administrative expense* was increased by EUR 144 thsd due to revaluation of the properties taken over that was reclassified from Note 12 *Provisions for Impairment, net,* Note 11. | (2,158) | 299 | (1,859) |
| Provisions for impairment, net | Changes to the item *Provisions for Impairment*:<br>- EUR 144 thsd related to the provisions for value impairment of the taken-over real estate were excluded from this item. The amount was reclassified to *Administrative expense* (Note 11);<br>- the provisions for guarantees were increased from EUR 411 thsd to EUR 1,628 thsd due to the change of the guarantee accounting methodology (see the new methodology in Note 2 (21));<br>- the item was supplemented by EUR 229 thsd due to value impairment of the venture capital funds (see Note 18).<br>The item *Release of impairment expense* was increased under sub-item *Guarantees* from EUR 1,002 thsd to EUR 1,528 thsd. The difference of EUR 526 thsd is due to the change of the guarantee accounting methodology (the new methodology explained in Note 2 (21)). | (1,463) | (780) | (2,243) |

## NOTES TO FINANCIAL STATEMENTS

## 3 RISK MANAGEMENT

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

The following major risk management principles are followed:

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

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

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

### Credit Risk

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

The key principle of credit risk management in the Group is the ability of the customers or cooperation partners to meet their liabilities towards the Group, which is achieved by assessment of the customer and co-operation partner prior to transaction, as well as further continuous monitoring and evaluation. The Group reduces its exposure to credit risk by securing a pledge or other collateral adequate to the risk transaction and provisions of the target programme.

Within the framework of credit risk management, the Group 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 companies.

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

### Liquidity Risk

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

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 Group maintains liquid assets sufficient for meeting its liabilities at all times.

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

Note 38 to the financial statements provides data on the Group's assets and liabilities by maturity profile.

## NOTES TO FINANCIAL STATEMENTS

### Operational Risk

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

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

## NOTES TO FINANCIAL STATEMENTS

### 4 INTEREST INCOME

| | 01/01/2015 - 31/12/2015 | 27/12/2013 - 31/12/2014 |
|---|---|---|
| **Interest income:** | | |
| - interest on balances due from credit institutions | 142 | 102 |
| - interest on loans and guarantees | 11,314 | 3,496 |
| *including on impaired loans* (see Note 19) | *1 076* | *366* |
| - interest on investments of venture capital funds | | |
| - interest on securities at amortised cost | 175 | 1,544 |
| - interest on securities at fair value | 3,743 | 1 |
| - other interest income* | 3,236 | - |
| | **18,610** | **5,143** |

*Item *Other interest income* includes state aid interest of EUR 3,192 thsd. In July 2015 the Group 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 Group.

### 5 INTEREST EXPENSE

| | 01/01/2015 - 31/12/2015 | 27/12/2013 - 31/12/2014 |
|---|---|---|
| Interest expense: | | |
| - interest on balances due to credit institutions | 479 | 242 |
| - other interest expense | 1,863 | 953 |
| | **2,342** | **1,195** |

### 6 FEE AND COMMISSION INCOME

| | 01/01/2015 - 31/12/2015 | 27/12/2013 - 31/12/2014 Adjusted |
|---|---|---|
| Fee and commission income: | | |
| - from lending activities | 526 | 240 |
| - other fee and commission income | 177 | 224* |
| | **703** | **464** |

* Item *Other fee and commission income* was adjusted for 13 thsd euros due to the changes to the guarantee accounting methodology (see Note 2 (25)).

## NOTES TO FINANCIAL STATEMENTS

### 7 FEE AND COMMISSION EXPENSE

| | 01/01/2015 - 31/12/2015 | 27/12/2013 - 31/12/2014 Adjusted |
|---|---|---|
| Fee and commission expense: | | |
| - on venture capital fund management fee* | 479 | 400 |
| - on securities portfolio maintenance | 51 | 10 |
| - on administration of land programme | - | 67 |
| - other fee and commission expense | 22 | 68 |
| | **552** | **545** |

* As regards the Holding Fund Programme the expenses of the Group for the reporting period include management fees of the venture capital funds amounting to EUR 1,599 thsd (2014: EUR 980 thsd) of which EUR 1,396 thsd were reimbursed (no reimbursements in 2014). The reimbursement scheme is stipulated by the new wording of the agreement No 2011/15 On Implementation of the Holding Fund dated 23 December 2015.
Item *Fee and commission expense* was adjusted for the previous reporting period under item *Venture capital fund management fee* (see Note 2 (25)).

### 8 NET TRADING INCOME

| | 01/01/2015 - 31/12/2015 | 27/12/2013 - 31/12/2014 |
|---|---|---|
| Profit from sales of available for sale securities | 1,120 | 726 |
| Dividends | - | 64 |
| Loss on trade and revaluation of other financial instruments and foreign exchange, net | (137) | (378) |
| | **983** | **412** |

### 9 OTHER INCOME

| | 01/01/2015 - 31/12/2015 | 27/12/2013 - 31/12/2014 |
|---|---|---|
| Income from property privatisation services | 572 | 185 |
| Compensations* | 906 | 201 |
| Rental income** | 144 | 55 |
| Revaluation of investment properties | - | 32 |
| Other income *** | 5,672 | 1,009 |
| | **7,294** | **1,482** |

* Compensations include the compensation of EUR 394 thsd for the management expenses of the state aid programs implemented by the Group according to the terms and budget approved for each programme.

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

The remaining EUR 249 thsd are compensation of the Holding Fund’s management expenses. The total amount of the compensation consists of EUR 161 thsd for remuneration of staff (Note 10) and EUR 88 thsd – administrative expenses (Note 11).

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

## NOTES TO FINANCIAL STATEMENTS

### 9 OTHER INCOME (continued)

***Item *Other income* includes compensations from the loan funds for the provisions of EUR 351 thsd built by the Group. In the reporting period the loan funds under Group's management wrote off 1,137 thsd euros of loan principals of which only 51 thsd euros were reimbursed (2014: EUR 696 thsd).
Item *Other income* includes a compensation of EUR 4,815 thsd for the management fees of the venture capital funds that originated until reorganization date due to reduction of non-current liabilities in respect of the Ministry of Economics (Note 18).

### 10 STAFF COSTS

| | **01/01/2015 - 31/12/2015** | **27/12/2013 - 31/12/2014** |
|---|---|---|
| Remuneration to the Council and the Board | 224 | 163 |
| Remuneration to staff | 5,164 | 2,032 |
| Social security contributions | 1,291 | 495 |
| | **6,679** | **2,690** |

Item *Remuneration to staff* includes the Group's expenses of EUR 57 thsd related to organization of the Innovative Business Conference 'Access to Finance for Research, Innovation and SMEs 2015' held during Latvian Presidency of the Council of the European Union to be 100% reimbursed by the European Union (Note 9).

The Group has concluded an agreement No.Lig-2015/15 with the Ministry of Economics On Implementation of the Holding Fund. In accordance with the agreement the Group is reimbursed the management expenses of the Holding Fund of which EUR 161 thsd are personnel remuneration, including social insurance contributions (Note 9).

During the reporting period the Group employed 282 employees on average (2014: 298).

### 11 ADMINISTRATIVE AND OTHER OPERATING EXPENSE

| | **01/01/2015 - 31/12/2015** | **27/12/2013 - 31/12/2014** **Adjusted** |
|---|---|---|
| Premises and equipment maintenance expense | 886 | 258 |
| Information system and communication expense | 1,062 | 292 |
| Accrued reorganization expense* | - | 195 |
| Professional services | 205 | 40 |
| Advertising and public relations | 445 | 112 |
| Training and other staff expense | 339 | 51 |
| Real estate tax | 189 | 45 |
| Revaluation of assets taken over ** | 402 | 144 |
| Expense of assets taken over | 303 | - |
| Conference expense*** | 1,298 | 722 |
| **Other expenses** | **5,129** | **1,859** |

*Item *Accrued reorganisation expense* includes expenses for probable litigation due to interpretation of Article 6.10. of LGA collective agreement.

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

*** The Group's expenses of EUR 206 thsd (Note 9) related to organization of the Innovative Business Conference 'Access to Finance for Research, Innovation and SMEs 2015' held during Latvian Presidency of the Council of the European Union have been reimbursed by the European Union in 2015. The last payment of EUR 94 thsd is expected in 2016.

The Group has concluded an agreement No Lig.-2015/15 with the Ministry of Economics On Implementation of the Holding Fund. In accordance with the agreement the Group is reimbursed the management expenses of the Holding Fund of which EUR 88 thsd are administrative expense (Note 9).

## NOTES TO FINANCIAL STATEMENTS

Item *Administrative and other operating expense* was adjusted for the previous period (for more details see Note 2 (25)).

## 12 IMPAIRMENT PROVISIONS, NET

| | 01/01/2015 - 31/12/2015 | 27/12/2013 - 31/12/2014 Adjusted |
|---|---|---|
| Provisions for impairment on: | | |
| - loans | 6,094 | 4,075 |
| - other assets | 6,968 | 515 |
| - investments in venture capital funds | 125 | 229 |
| - guarantees | 10,032 | 1,628 |
| | **23,219** | **6,447** |
| Release of provisions for impairment on: | | |
| - loans | (3,314) | (625) |
| - debt securities | (195) | (208) |
| - other assets | (4,769) | - |
| - guarantees | (8,208) | (1,528) |
| | **(16,486)** | **(2,361)** |
| Recovery of loans written off in previous periods | **(1,585)** | **(1,843)** |
| **Total provisions for impairment** | **5,148** | **2,243** |

Item *Provisions for impairment* was adjusted for the previous period (see Note 2 (25)).

## 13 CORPORATE INCOME TAX

| | 01/01/2015 - 31/12/2015 | 27/12/2013 - 31/12/2014 |
|---|---|---|
| Corporate income tax | - | - |
| Deferred tax | - | (76) |
| **Total corporate income tax (income)** | **-** | **(76)** |

## NOTES TO FINANCIAL STATEMENTS

### 13 CORPORATE INCOME TAX (continued)

Change in provisions for deferred tax assets:

| | 31/12/2015 | 31/12/2014 |
|---|---|---|
| **Deferred tax asset at the beginning of the reporting year** | **253** | **-** |
| Taken over as part of establishment of Group | - | 177 |
| Change in deferred tax asset | (253) | 76 |
| **Deferred tax asset at the end of the reporting year** | **-** | **253** |

Calculation of deferred tax:

| | 31/12/2015 | 31/12/2014 |
|---|---|---|
| **Deferred tax liabilities:** | **(531)** | **(589)** |
| Temporary difference of depreciation of property, plant and equipment | (531) | (587 |
| Other temporary differences | - | (2) |
| **Deferred tax assets:** | **44,203** | **40,694** |
| Provision for employee holiday pay | 48 | 59 |
| Other temporary differences | 1,697 | 1942 |
| Tax loss carried forward | 42,458 | 38,693 |
| Provisions for unrecognized deferred tax asset | (43,672) | (39,852) |
| **Recognized deferred tax asset *** | **-** | **253** |

* Deferred tax asset was not fully recognized according to Note 2 (23).

Once the reorganization was completed the Group took over the accrued corporate income tax losses of ALTUM, RDF and LGA. According to Latvian legislation, losses calculated for taxation purposes can be settled from future profits over an unlimited period of time.

## NOTES TO FINANCIAL STATEMENTS

### 14 INVESTMENT SECURITIES

| | 31/12/2015 | 31/12/2014 |
|---|---|---|
| **Held to maturity** | | |
| Latvian Treasury bills and government bonds | 439 | 392 |
| Non-OECD government bonds | 1,027 | 3,423 |
| Bonds of OECD credit institutions | 4,852 | 4,544 |
| Bonds of non-OECD credit institutions | - | 1,026 |
| **Total securities held to maturity** | **6,318** | **9,385** |
| Impairment allowance | (4,777) | (4,474) |
| **Net securities held to maturity** | **1,541** | **4,911** |
| **Available for sale** | | |
| Latvian Treasury bills and government bonds | 88,002 | 101,997 |
| OECD government bonds | - | 539 |
| **Total securities available-for-sale** | **88,002** | **102,536** |
| **Total investment securities** | **89,543** | **107,447** |

When making investments in securities, the Group analyses the external credit ratings assigned to these financial institutions and entities and their financial and operational standing. Once the business relations are initiated, the Group monitors the monetary financial institutions and follows the compliance of the imposed limits to the credit risk rating.

The following table provides the Group'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 | | | |
| Baa1 - Baa3 | 88,002 | 439 | 88,441 |
| Below Baa3 | - | 1,027 | 1,027 |
| Unrated | | 75 | 75 |
| **Total** | **88,002** | **1,541** | **89,543** |

The following table provides the Group's debt securities profile by the assigned long-term credit ratings (*Moody`s Investors Service*) as at 31 December 2014:

| | Available-for-sale | Held to maturity | Total net |
|---|---|---|---|
| A1 - A3 | | | |
| Baa1 - Baa3 | 101,997 | 3,815 | 105,812 |
| Below Baa3 | 539 | 1,026 | 1,565 |
| Unrated | - | 70 | 70 |
| **Total** | **102,536** | **4,911** | **107,447** |

All securities are quoted. As at 31 December 2015 the average yield on debt securities was 4% (2014: 4,3%).

**NOTES TO FINANCIAL STATEMENTS**

## 15 INVESTMENT PROPERTY

| | 31/12/2015 | 31/12/2014 |
|---|---|---|
| Carrying amount at the beginning of period | **11,704** | **-** |
| Acquired through reorganisation | - | 11,690 |
| Acquired during the period | 991 | - |
| Net gain from fair value adjustment | (448) | 14 |
| Carrying amount at the end of period | **12,247** | **11,704** |

## 16 DUE FROM OTHER CREDIT INSTITUTIONS AND TREASURY

| | 31/12/2015 | 31/12/2014 |
|---|---|---|
| Due from credit institutions registered | 8 | 9 |
| in OECD countries* | 46,874 | 60,236 |
| in Latvia and Treasury | **46,882** | **60,245** |

*When placing funds with monetary financial institutions and Treasury of the Republic of Latvia and imposing the limits on the financial transactions, the Group analyses the external credit ratings assigned to these financial institutions and their financial and operational standing. Once the business relations are initiated, the Group monitors the monetary financial institutions and follows that the imposed limits comply with credit risk rating.

The distribution of Group's balances due from credit institutions and Treasury of the Republic of Latvia as at 31 December 2015:

| Moody`s ratings | 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 | - | 8,241 | 34,516 | - | - | 4,117 | - | - | **46,874** |
| **Total** | **-** | **8,241** | **34,524** | **-** | **-** | **4,117** | **-** | **-** | **46,882** |

The distribution of Group's balances due from credit institutions and Treasury of the Republic of Latvia as at 31 December 2014:

| Moody`s ratings | Aaa | Aa1-Aa3 | A1-A3 | Baa1-Baa3 | Ba1-Ba3 | B1-B3 | Caa-C | WR | Total |
|---|---|---|---|---|---|---|---|---|---|
| Due from credit institutions registered in OECD countries | - | - | 9 | - | - | - | - | - | **9** |
| Due from credit institutions registered in Latvia | - | 13,707 | 20,200 | 911 | - | 25,418 | - | - | **60,236** |
| **Total** | **-** | **13,707** | **20,209** | **911** | **-** | **25,418** | **-** | **-** | **60,245** |

As at 31 December 2015 the Group had accounts with 6 banks and Treasury of the Republic of Latvia.

As at 31 December 2015 the average yield on balances due from credit institutions was 0.029% (2014: 0.09%).

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

## NOTES TO FINANCIAL STATEMENTS

## 17 DERIVATIVE FINANCIAL INSTRUMENTS

The Group 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:

| | 31/12/2015 | | | 31/12/2014 | | |
|---|---|---|---|---|---|---|
| | **Notional contract value** | **Fair value** | | **Notional contract value** | **Fair value** | |
| | | **Assets** | **Liabilities** | | **Assets** | **Liabilities** |
| Currency swaps | 12,153 | - | 345 | 12,690 | - | 1,218 |
| **Total** | | **-** | **345** | | **-** | **1,218** |

## 18 INVESTMENTS IN VENTURE CAPITAL FUNDS

| | **31/12/2015** | **31/12/2014** Adjusted |
|---|---|---|
| **Carrying amount at the beginning of period** | **26,258** | **-** |
| Taken over as part of establishment of Group | - | 21,955 |
| Invested | 18,603 | 5,468 |
| Refunded | (1,115) | (185) |
| Revaluation result | 1,543 | (980) |
| **Carrying amount at the end of period** | **45,289** | **26,258** |
| Provisions | (3,154) | (916) |
| **Net value at the end of period** | **42,135** | **25,342** |

In the previous reporting period the Group measured the investments in venture capital funds at fair value based on IFRS compliant method. Accordingly the management fees of venture capital funds were recognised initially in the profit or loss. However, when measuring the venture capital fund investment at fair value at the end of the reporting period and recording the fair value increase (if any) of the investment in the profit of loss, the net impact on the profit or loss was nearly neutral, resulting in an increase of the book value of the investments in venture capital funds. Whereas in year 2015, in view of the relatively new investment portfolio of venture capital funds and fact that the funds were in the active investment phase, when it is difficult to apply the fair value model, the Group changed the method for measurement of the investments in venture capital funds to equity method. The equity method is suitable for entities where the Group has significant influence, but not control (see Note 2 (5)). By not applying fair value changes to investments, the initially recognised fund management fees remain presented in the profit or loss. Upon reorganisation of the Group, when presenting the carrying value of LGA portfolio of investments in venture capital funds, pursuant to the current accounting policy of the Group, the funds' management fees of EUR 5,500 thsd referring to the reporting periods prior to the reorganisation were excluded from the investment value. In accordance with the agreement dated 23 December 2015 regarding amendments to the Agreement on Implementation of the Holding Fund concluded with the Ministry of Economics, the management fees were linked to EUR 4,815 thsd reduction of the liabilities towards the Ministry of Economics (see Note 9).

The Group presented the management fees of EUR 1 599 thsd originated in 2015 as expense in the profit or loss of which EUR 1,396 thsd were reimbursed in accordance with the aforementioned agreement reducing the Group's non-current liabilities towards the Ministry of Economics (see Note 7).

Item *Investments in venture capital funds* was adjusted for the previous period (see Note 2 (25)).

## NOTES TO FINANCIAL STATEMENTS

### 18 INVESTMENTS IN VENTURE CAPITAL FUNDS (continued)

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

| | Opening balance, EUR, thsd | Investments/ refunds, EUR, thsd | Revaluation result, EUR, thsd | Closing balance, EUR, thsd |
|---|---|---|---|---|
| KS ZGI Fonds | 741 | - | (703) | 38 |
| KS Otrais Eko Fonds | 1,057 | - | - | 1,057 |
| KS Invento | - | - | - | - |
| KS Baltcap Latvia Venture Capital Fund | 10,517 | 2,680 | 1,969 | 15,166 |
| KS Imprimatur Capital Seed Fund | 4,744 | 844 | (417) | 5,171 |
| KS Imprimatur Capital Technology Venture Fund | 2,636 | 94 | 168 | 2,898 |
| KS Expansion Capital Fund | 2,777 | 5,014 | 196 | 7,987 |
| KS ZGI-3 | 905 | 3,104 | 208 | 4,217 |
| KS Flycap Investment Fund | 1,658 | 4,201 | 144 | 6,003 |
| Baltic Innovation Fund | 1,223 | 1,551 | (22) | 2,752 |
| **Total** | **26,258** | **17,488** | **1,543** | **45,289** |

The table below provides information on the value impairment of the venture capital funds in the reporting period:

| | Closing gross value, EUR, thsd | Provisions for reporting period, EUR, thsd | Provisions for previous reporting period, EUR, thsd | Net value, EUR, thsd |
|---|---|---|---|---|
| KS ZGI Fonds | 38 | - | - | 38 |
| KS Otrais Eko Fonds | 1,057 | (125) | (269) | 663 |
| KS Invento | - | - | - | - |
| KS Baltcap Latvia Venture Capital Fund | 15,166 | (1,258) | (137) | 13,771 |
| KS Imprimatur Capital Seed Fund | 5,171 | - | (510) | 4,661 |
| KS Imprimatur Capital Technology Venture Fund | 2,898 | - | - | 2,898 |
| KS Expansion Capital Fund | 7,987 | (78) | - | 7,909 |
| KS ZGI-3 | 4,217 | (349) | - | 3,868 |
| KS Flycap Investment Fund | 6,003 | (428) | - | 5,575 |
| Baltic Innovation Fund | 2,752 | - | - | 2,752 |
| **Total** | **45,289** | **(2,238)** | **(916)** | **42,135** |

*The total provisions for value impairment of the venture capital funds built in year 2015 amounted to EUR 2,238 thsd, of which EUR 2,113 thsd were reimbursed based on the Agreement No Lig-2015/15 on Implementation of the Holding Fund concluded with the Ministry of Economics.

**NOTES TO FINANCIAL STATEMENTS**

## 18 INVESTMENTS IN VENTURE CAPITAL FUNDS (continued)

The table below provides analytical information on the Group's investments into venture capital funds from 11 September 2014 to 31 December 2014:

| | Opening balance, EUR, thsd | Investments/ refunds, EUR, thsd | Revaluation result, EUR, thsd | Closing balance, EUR, thsd |
|---|---|---|---|---|
| KS ZGI Fonds | 1,079 | - | (338) | 741 |
| KS Otrais Eko Fonds | 2,339 | - | (1,282) | 1,057 |
| KS Invento | - | - | - | - |
| KS Baltcap Latvia Venture Capital Fund | 9,196 | 233 | 1,088 | 10,517 |
| KS Imprimatur Capital Seed Fund | 4,894 | 340 | (490) | 4,744 |
| KS Imprimatur Capital Technology Venture Fund | 2,188 | 637 | (189) | 2,636 |
| KS Expansion Capital Fund | 547 | 2,276 | (47) | 2,776 |
| KS ZGI-3 | 661 | 295 | (51) | 905 |
| KS Flycap Investment Fund | 153 | 1,502 | 3 | 1,658 |
| Baltic Innovation Fund | 898 | - | 326 | 1,224 |
| **Total** | **21,955** | **5,283** | **(980)** | **26,258** |

The table below provides information on the value impairment of the venture capital funds from 11 September 2014 to 31 December 2014:

| | Closing gross value, EUR, thsd | Provisions for reporting period, EUR, thsd | Provisions for previous reporting period, EUR, thsd | Net value, EUR, thsd |
|---|---|---|---|---|
| KS ZGI Fonds | 741 | - | - | 741 |
| KS Otrais Eko Fonds | 1,057 | (67) | (202) | 788 |
| KS Invento | - | - | - | - |
| KS Baltcap Latvia Venture Capital Fund | 10,517 | (34) | (103) | 10,380 |
| KS Imprimatur Capital Seed Fund | 4,744 | (128) | (382) | 4,234 |
| KS Imprimatur Capital Technology Venture Fund | 2,636 | - | - | 2,636 |
| KS Expansion Capital Fund | 2,776 | - | - | 2,776 |
| KS ZGI-3 | 905 | - | - | 905 |
| KS Flycap Investment Fund | 1,658 | - | - | 1,658 |
| Baltic Innovation Fund | 1,224 | - | - | 1,224 |
| **Total** | **26,258** | **(229)** | **(687)** | **25,342** |

## NOTES TO FINANCIAL STATEMENTS

## 19 LOANS

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

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

  The gross volume of the portfolio comprising all the above loans, as well as the total of inactive programme portfolios is EUR 171,766 thsd as at 31 December 2015.
  - *Loans for Acquisition of Land.* Under this activity, the Group 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 Group borrows from the Treasury and further grants loans to aid beneficiaries. The gross value of the Land Acquisition loan portfolio is EUR 32,649 thsd as at 31 December 2015.
- *Loan Fund loans.* By 2013, the Loan Fund granted loans to rural entrepreneurs for agricultural, rural and fish-farming development investment projects via credit institutions. At present, no new loans are granted under the Loan Fund. The gross volume of the Loan Fund is EUR 3,406 thsd as at 31 December 2015;
- *Mezzanine loans.* Under the Mezzanine loan programme, the Group grants loans subordinated to loans granted by commercial banks, to small and medium enterprises of Latvia. The gross volume of mezzanine loans is EUR 9,213 thsd as at 31 December 2015.
- *Loans to credit institutions for further lending to SMEs.* The Group's loan portfolio includes loans of EUR 1,246 thsd, which are part of the Holding fund that LGA took over from the European Investment Fund on 2 January 2012. Under this activity, the Group granted loans to credit institutions 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 – Ltd Grand Credit and Ltd Capitalia. No new loans are issued under this programme.
- *Other loans that didn't meet accepted programme criteria.* The Group maintains the loan portfolio that hadn't been approved by Ministry of Economics; this portfolio's gross volume was EUR 282 thsd as at 31 December 2015.

Loans by type of borrower:

| | **31/12/2015** | **31/12/2014** |
|---|---|---|
| Private companies | 192,474 | 211,538 |
| Individuals | 24,895 | 25,497 |
| Local governments | 397 | 1,061 |
| Public and religious institutions | 218 | 441 |
| Accrued interest | 578 | 928 |
| **Total gross loans** | **218,562** | **239,465** |
| | | |
| Allowance for impairment loss | (17,044) | (23,695) |
| **Total net loans** | **201,518** | **215,770** |

## NOTES TO FINANCIAL STATEMENTS

### 19 LOANS (continued)

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

Granted loans by branches of economy:

| | 31/12/2015 | 31/12/2014 |
|---|---|---|
| Manufacturing | 47,956 | 59,470 |
| Agriculture and forestry | 74,938 | 73,567 |
| Retail and wholesale | 19,385 | 21,540 |
| Private individuals | 24,895 | 23,271 |
| Electricity, gas and water utilities | 7,773 | 9,093 |
| Hotels and restaurants | 9,044 | 9,871 |
| Transport, warehousing and communications | 5,294 | 4,979 |
| Real estate | 6,532 | 6,191 |
| Construction | 3,285 | 5,378 |
| Fishing | 614 | 659 |
| Municipal authorities | 397 | 449 |
| Financial intermediation | 3,363 | 10,767 |
| Other industries | 14,508 | 13,302 |
| Accrued interest on loans | 578 | 928 |
| **Total gross loans** | **218,562** | **239,465** |

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

| | 31/12/2015 | 31/12/2014 |
|---|---|---|
| Number of customers | 29 | 36 |
| Total credit exposure of customers | 52,338 | 75,202 |
| Percentage of total gross portfolio of loans | 23.8% | 31% |

Loans issued by the Group by type of assessment:

| | 31/12/2015 | | | 31/12/2014 | | |
|---|---|---|---|---|---|---|
| | **Individuals** | **Companies** | **Total loans** | **Individuals** | **Companies** | **Total loans** |
| Individually assessed loans | 6,841 | 148,631 | 155,472 | 7,129 | 171,367 | 178,496 |
| Collectively assessed loans | 18,137 | 44,953 | 63,090 | 16,142 | 44,827 | 60,969 |
| **Total gross loans** | **24,978** | **193,584** | **218,562** | **23,271** | **216,194** | **239,465** |
| Allowance for impairment loss - individually assessed | (1,151) | (15,769) | (16,920) | (1,169) | (22,400) | (23,569) |
| Allowance for impairment loss - collectively assessed | (63) | (61) | (124) | (46) | (80) | (126) |
| **Total net loans** | **23,764** | **177,754** | **201,518** | **22,056** | **193,714** | **215,770** |

## NOTES TO FINANCIAL STATEMENTS

### 19 LOANS (continued)

Loans granted by the Group by their quality assessment:

| | 31/12/2015 | | | 31/12/2014 | | |
|---|---|---|---|---|---|---|
| | **Individuals** | **Companies** | **Total loans** | **Individuals** | **Companies** | **Total loans** |
| Neither past due nor impaired | 19,534 | 135,688 | 155,222 | 17,470 | 148,656 | 166,126 |
| Past due but not impaired | 2,676 | 19,324 | 22,000 | 2,687 | 28,755 | 31,442 |
| Impaired | 2,768 | 38,572 | 41,340 | 3,114 | 38,782 | 41,897 |
| **Total loans** | **24,978** | **193,584** | **218,562** | **23,271** | **216,193** | **239,465** |
| Allowance for impairment loss | (1,214) | (15,830) | (17,044) | (1,216) | (22,478) | (23,695) |
| **Total net loans** | **23,764** | **177,754** | **201,518** | **220,55** | **193,715** | **215,770** |

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

| | 31/12/2015 | | | 31/12/2014 | | |
|---|---|---|---|---|---|---|
| | **Individuals** | **Companies** | **Total loans** | **Individuals** | **Companies** | **Total loans** |
| Past due up to 30 days | 1,524 | 13,668 | 15,192 | 1,516 | 20,247 | 21,763 |
| Past due 30 – 60 days | 260 | 1,039 | 1,299 | 309 | 1,229 | 1,538 |
| Past due 60 – 90 days | 69 | 243 | 312 | 133 | 397 | 530 |
| Past due over 90 days | 823 | 4,374 | 5,197 | 729 | 6,882 | 7,611 |
| **Total gross loans** | **2,676** | **19,324** | **22,000** | **2,687** | **28,755** | **31,442** |

Movement in the Group's impairment allowance for loans:

| | **31/12/2015** | **31/12/2014** |
|---|---|---|
| **Provisions at the beginning of period** | **23,695** | - |
| Acquired through company's reorganisation | - | 33,801 |
| Impairment allowance increase | 8,219 | 4,075 |
| Impairment allowance decrease | (3,314) | (625) |
| Accrued interest (Note 4) | (1,076) | (366) |
| Write-off of loans | (10,480) | (13,190) |
| **Provisions at the end of period** | **17,044** | **23,695** |

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 market value as well as the risk coverage pertinent to the products in question. The assessment is based on valuations performed by accredited independent valuer.

As at 31 December 2015 the average annual interest rate of the Group's loan portfolio was 4.22% (2014: 4.8%).

**NOTES TO FINANCIAL STATEMENTS**

## 20 RESERVE CAPITAL

On 11 September 2014, the equity shares of Latvian Guarantee Agency Ltd (LGA) and shares of JSC Rural Development Fund (RDF) and state-owned JSC Latvian Development Finance Institution ALTUM (ALTUM) were invested in the equity capital of the Group as investment in kind. The goal of the investment was merging RDF, LGA and ALTUM into a single aid providing institution. The value of the investment in kind was established based on valuation of subsidiaries as at 30 June 2014, carried out by independent certified valuators. For more information see Note 1 (1).

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

| | Investment value | Difference, carried to Group's reserve **before adjustment** | Available for sale revaluation reserve (ASRR) | Difference, carried to Group's reserve **without ASRR before adjustment** | Difference, carried to Group's reserve **after adjustment* 31/12/2014** |
|---|---|---|---|---|---|
| | 1. | 2. | 3. | 4.=2.-3. | 5. |
| Latvian Guarantee Agency Ltd | 111,417 | 7,093 | 9,378 | (2,285)* | (17,053)* |
| State-owned JSC Rural Development Fund | 12,850 | 916 | - | 916 | 916 |
| State-owned JSC Latvian Development Finance Institution ALTUM | 80,026 | (57) | 1,235 | (1,292) | (1,292) |
| **Total** | **204,293** | **7,952** | **10,613** | **(2,661)** | **(17,429)** |

The table below explains and justifies the changes made:
The changes refer only to LGA reorganization reserve that was re-calculated due to change of the accounting methods for venture capital funds and guarantee fees.

*** Summary of changes:**

| | |
|---|---|
| **LGA difference recognized in the Group's reserve without ASRR** | **(2,285)** |
| Impact from the previous accounting method for guarantee fees withdrawn | (4,007) |
| Adjustments due to change of accounting method for venture capital funds | (2,021) |
| Impact from the new guarantee fees' method | (7,747) |
| Impact from impairment of venture capital funds (Note 18) | (687) |
| Other adjustments | (306) |
| **LGA adjusted difference recognized in the Group's reserve without ASRR** | **(17,053)** |

For more information on the changes in the previous reporting period see Note 2 (25).

The Group's shareholders increased its reserve capital by EUR 1,635 thsd to implement the Housing Guarantee Programme.

## NOTES TO FINANCIAL STATEMENTS

### 21 INTANGIBLE ASSETS

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

| | 31/12/2015 | 31/12/2014 |
|---|---|---|
| Computer software | 123 | 153 |
| **Total intangible assets** | **123** | **153** |

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

| | 31/12/2015 | 31/12/2014 |
|---|---|---|
| Historical cost | | |
| At the beginning of period | 5,703 | - |
| Taken over as part of establishment of Group | - | 5,706 |
| Additions | 69 | 9 |
| Disposals | (15) | (12) |
| **As at 31 December** | **5,757** | **5,703** |
| Accumulated amortisation | | |
| At the beginning of period | **5,398** | **-** |
| Taken over as part of establishment of Group | - | 5,335 |
| Amortisation charge for the period | 208 | 75 |
| Disposals | (12) | (12) |
| **As at 31 December** | **5,594** | **5,398** |
| Impairment provision* | | |
| At the beginning of period | **(152)** | **-** |
| Taken over as part of establishment of Group | - | (200) |
| Changes in provisions | 112 | 48 |
| **As at 31 December** | **(40)** | **(152)** |
| **Net book value at the beginning of period** | **153** | **-** |
| **Net book value as at 31 December** | **123** | **153** |

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

**Fully depreciated assets**

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

## NOTES TO FINANCIAL STATEMENTS

## 22 PROPERTY, PLANT AND EQUIPMENT

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

| | Land and buildings | Vehicles | Office equipment* | Leasehold improvements | Total |
|---|---|---|---|---|---|
| Historical cost | | | | | |
| At the beginning of period | **5,387** | **1,005** | **7,920** | **381** | **14,693** |
| Additions | 133 | - | 138 | - | **271** |
| Disposals | - | (11) | (232) | (1) | **(244)** |
| **As at 31 December 2015** | **5,520** | **994** | **7,826** | **380** | **14,720** |
| Accumulated depreciation | | | | | |
| At the beginning of period | **1,377** | **959** | **7,086** | **280** | **9,702** |
| Depreciation charge for the period | 116 | 24 | 379 | 16 | **535** |
| Disposals | - | (7) | (233) | - | **(240)** |
| **As at 31 December 2015** | **1,493** | **976** | **7,232** | **296** | **9,997** |
| Impairment provision | | | | | |
| At the beginning of period | **-** | **-** | **(98)** | **(71)** | **(169)** |
| Changes in provisions | - | - | 64 | 10 | **74** |
| **As at 31 December 2015** | **-** | **-** | (34) | (61) | **(95)** |
| Net book value at the beginning of period | **4,010** | **46** | **736** | **30** | **4,822** |
| **Net book value as at 31 December 2015** | **4,027** | **18** | **560** | **23** | **4,628** |

## 23 OTHER ASSETS

| | 31/12/15 | 31/12/14 Adjusted |
|---|---|---|
| Financial assets | 24,730 | 2,592 |
| Other assets | 6,896 | 4,637 |
| **Total other assets (gross)** | **31,626** | **7,229** |
| Impairment provision for other assets | (21,662) | (345) |
| **Total other assets (net)** | **9,964** | **6,884** |

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

- disbursed state-guaranteed compensations amounting to EUR 14,851 thsd for which provisions of EUR 13,983 thsd were accumulated. The position includes a claim of EUR 1,164 thsd against one debtor, arising under *Liabilities Settlement Procedure Agreement* of 30 December 2011, defining the procedure for recovery of the disbursed amount of guarantee compensation. The repayment deadline is 31 December 2016;
- term deposits of EUR 7,648 thsd of JSC *Latvijas Krājbanka* (Savings Bank of Latvia) being in liquidation that were 100% provisioned for;
- financial assets of EUR 46 thsd. provisioned for EUR 31 thsd. The financial assets comprise the payments made on behalf of clients, as stipulated by loan agreements;
- other financial assets of EUR 2,185 thsd.

Item *Other assets* - assets that have been taken over in the debt collection process and held for sale in an ordinary course of business. The accounting method of such assets is described in Note 2 (14).

Item *Total other assets (gross)* was adjusted for the previous period (see Note (25)).

## NOTES TO FINANCIAL STATEMENTS

### 24 DEFERRED EXPENSE AND ACCRUED INCOME

| | 31/12/2015 | 31/12/2014 Adjusted |
|---|---|---|
| Deferred expense | 572 | 2,360 |
| Accrued income | 989 | 354 |
| **Total** | **1,561** | **2,714** |

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

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

The items *Deferred expense* and *Accrued income* were adjusted for the previous periods (see Note (25)).

### 25 DUE TO CREDIT INSTITUTIONS

| | 31/12/2015 | 31/12/2014 |
|---|---|---|
| Due to credit institutions registered in OECD countries | 67,166 | 78,199 |
| Due to credit institutions registered in Latvia | - | 2,009 |
| **Total** | **67,166** | **80,208** |

Item *Due to credit institutions registered in OECD countries* includes loans for EUR 67,166 thsd that the Group has received from the European Investment Bank (EIB). The Ministry of Finance has guaranteed the borrowings.

As at 31 December 2015 the average interest rate for the item *Due to credit institutions* was 0.33% (2014: 0.86%).

### 26 DUE TO GENERAL GOVERNMENTS

| | 31/12/2015 | 31/12/2014 Adjusted |
|---|---|---|
| Due to government entities | 3,769 | 7,043 |
| Loans received from Rural Support Service | 12,979 | 14,496 |
| Loans received from the Treasury | 22,813 | 21,141 |
| **Total due to general governments** | **39,561** | **42,680** |

Item *Due to government entities* includes liabilities worth EUR 3,769 thsd that originated 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 recording the amount outside the Financial Position Statement of ERDFII and ESFII loan funds, i.e. on the liabilities side of the ALTUM Financial Position Statement.

Item *Loans received from Rural Support Service* – based on the Cabinet Regulation No 664 of 20 July 2010 *Procedure for administrating and monitoring the national and European Union support to development of agriculture, rural and fish-farming* and agreement concluded between the Ministry of Agriculture, Rural Support Service (RSS) and RDF on 7 September 2010, the Loan Fund was established. On 16 September 2010, RDF received from RSS for Loan Fund management the EU funds assigned by the Ministry of Agriculture – EUR 37,596 thsd for programmes' EAFRD activities and EUR 7,114 thsd for EFF activities.

As at December 31, 2015 the item *Due to Rural Support Service* includes accrued interest of EUR 66 thsd.
The granted financing is to be repaid by 31 December 2030.

Item *Loans received from the Treasury of Latvia* includes the loan of EUR 22,814 thsd received by RDF for implementation of the land acquisition programmes. On 25 June 2012 the Republic of Latvia and RDF concluded the loan agreement *No A1/1/F12/296* with the Treasury, as stipulated by Articles 9 and 13 of the Cabinet Regulation No 381 *Procedure for Granting State Aid for Procurement of Agricultural Land for Production of Agricultural*

**NOTES TO FINANCIAL STATEMENTS**

**26 DUE TO GENERAL GOVERNMENTS** (continued)

*Produce* dated 29 May 2012.
As at 31 December 2015 the Group has granted 725 loans for EUR 32,820 thsd. The loan matures on 31 December 2040 with its interest rate consisting of the cost of the Treasury's resources - 0.149% and Treasury's fee for origination and maintenance of the loan - 0.50% (fifty hundredths per cent) per annum.

Item *Loans received from the Treasury* was adjusted for the previous reporting period (see Note 2 (25)).

## 27 SUPPORT PROGRAMME FUNDING AND STATE AID

| | 31/12/2015 | 31/12/2014 Adjusted |
|---|---|---|
| **Support programme funding** | **54,174** | **84,956** |
| **State aid** | **16,166** | **9,477** |

The co-financing received by ALTUM and LGA for implementation of state aid programmes. The major state aid programmes benefiting from the received financing are:

- ERDFII – EUR 38,502 thsd;
- ESFII – EUR 7,749 thsd;
- Holding Fund - EUR 8,408 thsd;
- Transition facilities – EUR 15,681 thsd.

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 maturities of the co-financing received by ALTUM and LGA for implementation of the largest state aid programs are presented below:

- ERDFII – end of 2020;
- ESFII – end of 2020;
- Holding Fund – end of 2026.

Item *Support programme funding* was adjusted for the previous reporting period (see Note 2 (25)).

## 28 PROVISIONS

| | 31/12/2015 | 31/12/2014 Adjusted |
|---|---|---|
| Provisions for: | | |
| Loan and export guarantees | 8,517 | 6,322 |
| Onerous contracts | 8,810 | 8,438 |
| | **17,327** | **14,760** |

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

**Guarantee gross and net amounts**

| | 31/12/2015 | 31/12/2014 |
|---|---|---|
| Gross guarantees (Note 32) | 131,120 | 122,450 |
| Provisions for guarantees | (8,517) | (6,322) |
| Total net guarantees (Note 32) | **122,603** | **116,128** |

## NOTES TO FINANCIAL STATEMENTS

### 28 PROVISIONS (continued)

For information on amounts and categories of guarantees see Note 32.
For information on the method for guarantee accounting see Note 2 (21).

### 29 OTHER LIABILITIES

| | 31/12/2015 | 31/12/2014 |
|---|---|---|
| Due to customers of the Group | 3,233 | 1,460 |
| Other liabilities | 5,558 | 3,277 |
| | **8,791** | **4,737** |

Item *Due to customers of the Group* includes current liabilities connected with privatization processes and other liabilities.

Item *Other liabilities* includes funds received from clients to be used for repayment of the loans at a later stage.

### 30 DEFERRED INCOME AND ACCRUED EXPENSE

| | 31/12/2015 | 31/12/2014 |
|---|---|---|
| Deferred income | 604 | 287 |
| Accrued expense | 1,060 | 1,213 |
| **Total** | **1,664** | **1,500** |

Item *Deferred income* consists of the Group's commission income on the guarantees where EUR 120 thsd is the discounted deferred income for the commissions receivable, which have been attributed to the period starting on 1 January 2017.
Item *Accrued expense* includes the accrued expense for the bonuses to the Group's employees and Board amounting to EUR 397 thsd (including the social tax), expenses for audit services amounting to EUR 36 thsd and other expenditure related to the economic activities of the Group.

### 31 SHARE CAPITAL

The share capital of the Group:

| | 31/12/2015 | | 31/12/2014 | |
|---|---|---|---|---|
| | **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 Company (the parent company of the Group) was established based on the decision of the Cabinet of Ministers of the Republic of Latvia dated 17 December 2013. The Company was registered with the Commercial Register on 27 December 2013 with the share capital amounting to LVL 400,130 thsd which corresponds to EUR 569,334 thsd.

A capital increase was made on 11 September 2014 by investing the equity shares of Latvian Guarantee Agency Ltd, State-owned JSC Latvian Development Finance Institution ALTUM and State-owned JSC 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 the shares of JSC Development Finance Institution Altum are owned by the Government of Latvia. The Ministry of Finance was the appointed shareholder until 28 February 2015. According to the Development Finance Institution Law effective as of 1 March 2015, the Ministry of Finance holds 40% of the shares, the Ministry of Economics - 30% and the Ministry of Agriculture - 30%.

## NOTES TO FINANCIAL STATEMENTS

### 32 OFF BALANCE SHEET ITEMS AND CONTINGENT LIABILITIES

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

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

| | 31/12/2015 | 31/12/2014 |
|---|---|---|
| Contingent liabilities | | |
| outstanding guarantees | 131,120 | 122,450 |
| Financial commitments | 5,899 | |
| unutilised loan facilities | 34,320 | 4,200 |
| other liabilities | 137 | 124 |
| **Total** | **171,476** | **126,774** |

For information on the provisions built for the issued guarantees see Note 28.

### 33 CASH AND CASH EQUIVALENTS

| | 31/12/2015 | 31/12/2014 |
|---|---|---|
| Demand deposits with other credit institutions | 37,426 | 39,332 |
| Deposits with credit institutions with original maturity of less than 3 months | 6,290 | 10,683 |
| | **43,716** | **50,015** |

## NOTES TO FINANCIAL STATEMENTS

### 34 MOVEMENT IN REVALUTION RESERVE OF INVESTMENT SECURITIES AVAILABLE FOR SALE

| | 31/12/2015 | 31/12/2014 |
|---|---|---|
| **As at 1 January** | 10,613 | - |
| Taken over as part of establishment of Group* | - | 10,918 |
| (Profit) from sales (Note 8) | (1,120) | - |
| (Loss) from changes in fair value | (868) | (305) |
| **Other comprehensive income** | **(1,988)** | **(305)** |
| **As at 31 December** | **8,625** | **10,613** |

* As a result of reorganisation, the revaluation reserve of ALTUM and LGA financial instruments classified as available for sale was taken over. ALTUM share in the reorganisation reserve amounted to EUR 1,706 thsd and that of LGA – EUR 9,212 thsd.

For information on revaluation of securities see Note 2 (5).

### 35 RELATED PARTY TRANSACTIONS

Related parties are defined as Council and Board members of the Group, their close relatives and companies under their control as well as companies of the Group over which the Group has significant influence.

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

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

In the reporting period the remuneration of the members of the Group's Council and Board amounted to EUR 282 thsd (2014: EUR 163 thsd).

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

## NOTES TO FINANCIAL STATEMENTS

### 36 MAXIMUM EXPOSURE TO CREDIT RISK

The table below shows credit risk exposures of the balance and off-balance sheet items (before collateral held or other credit security):

| | 31/12/15 | 31/12/14 Adjusted |
|---|---|---|
| **Statement of financial position assets exposed to credit risk** | | |
| Investment securities – held to maturity | 1,541 | 4,911 |
| Investment securities - available for sale | 88,002 | 102,536 |
| Due from other credit institutions and Treasury | 46,882 | 60,245 |
| Loans | 201,518 | 215,770 |
| Investments in venture capital funds* | 42,135 | 25,342 |
| Other assets | 3,068 | 2,247 |
| **Total** | **383,146** | **411,051** |
| | | |
| **Off-balance sheet items exposed to credit risk** | | |
| Contingent liabilities | 131,120 | 122,450 |
| Financial commitments | 40,356 | 4,324 |
| **Total** | **171,476** | **126,774** |

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

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

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.

As at 31 December 2015 the total amount of the Group's entitlements considered as an aggregate property in favour of the Ministry of Finance was EUR 67,013 thsd (2014: EUR 77,964 thsd).

* Item *Investments in venture capital funds* was adjusted for the previous period (see Note 2 (25)).

## NOTES TO FINANCIAL STATEMENTS

### 37 FAIR VALUES OF ASSETS AND LIABILITIES

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

| | 31/12/2015 Carrying amount | 31/12/2015 Fair value | 31/12/2014 Carrying amount adjusted | 31/12/2014 Fair value adjusted |
|---|---|---|---|---|
| **Assets** | | | | |
| Due from other credit institutions and Treasury | 46,882 | 46,882 | 60,245 | 60,245 |
| Debt securities | 88,002 | 88,002 | 102,536 | 102,536 |
| Investment securities - available for sale | 88,002 | 88,002 | 102,536 | 102,536 |
| Individuals | 23,764 | 23,811 | 24,393 | 24,489 |
| Companies | 177,754 | 177,333 | 191,387 | 188,909 |
| Loans | 201,518 | 201,144 | 215,780 | 213,398 |
| Debt securities | 1,541 | 1,890 | 4,911 | 13,998 |
| Investment securities – held to maturity | 1,541 | 1,890 | 4,911 | 13,998 |
| Investments in venture capital funds* | 42,135 | 42,135 | 25,342 | 25,342 |
| Investment property | 12,247 | 12,247 | 11,704 | 11,704 |
| **Liabilities** | | | | |
| Due to credit institutions | 67,166 | 67,166 | 80,208 | 79,103 |
| Derivatives | 345 | 345 | 1,218 | 1,218 |
| Due to general governments | 39,561 | 39,561 | 42,680 | 42,680 |
| Support program funding | 54,174 | 54,174 | 84,956 | 84,956 |

**Assets**

The fair value of securities has been estimated based on the quoted market prices, where available. In assessing the fair value of other financial assets, the management has performed discounted cash flow analysis, estimating the cash flows based upon assumptions and up-to-date market information as 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 the floating market's interest rates, the Group has assumed that the carrying value of such loans equals their fair value.

**Liabilities**

The fair value of financial liabilities at amortised cost such as *Due to credit institutions* has been estimated based on the discounted cash flow model using year-end interest rates for similar products. The fair value of financial liabilities with a demand feature or having a floating interest rate (e.g. *Due to credit institutions*) has been estimated to be approximately equal to carrying amount.

* Item *Investments in venture capital funds* was adjusted for the previous period (see Note 2 (25)).

## NOTES TO FINANCIAL STATEMENTS

### 37 FAIR VALUES OF ASSETS AND LIABILITIES (continued)

The following table shows the hierarchy of the Group'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) | - | - | 12,247 | **12,247** |
| Debt securities - available for sale (Note 14) | 63,213 | 24,789 | - | **88,002** |
| **Assets for which fair values are disclosed:** | | | | |
| Loans (Note 19) | - | - | 201,144 | **201,144** |
| Due from other credit institutions and Treasury (Notes 16, 33) | 46,882 | - | - | **46,882** |
| **Total** | **110,095** | **24,789** | **213,391** | **348,275** |
| **Liabilities measured at fair value:** | | | | |
| Derivatives (Note 17) | - | 345 | - | **345** |
| **Liabilities for which fair values are disclosed:** | | | | |
| Due to credit institutions (Note 25) | - | - | 67,166 | **67,166** |
| Due to general governments (Note 26) | - | - | 39,561 | **39,561** |
| Support program funding (Note 27) | - | - | 54,174 | **54,174** |
| **Total** | **-** | **345** | **160,901** | **161,247** |

The following table shows the hierarchy of the Group's financial assets and liabilities assessed and recognised at fair value as at 31 December 2014:

| | Level 1 | Level 2 | Level 3 | Total adjusted |
|---|---|---|---|---|
| **Assets measured at fair value:** | | | | |
| Investment property (Note 15) | - | - | 11,704 | **11,704** |
| Debt securities - available for sale (Note 14) | 93,546 | 8,990 | - | **102,536** |
| **Assets for which fair values are disclosed:** | | | | |
| Loans (Note 19) | - | - | 213,398 | **213,398** |
| Due from other credit institutions and Treasury (Notes 16, 33) | 60,245 | - | - | **60,245** |
| **Total** | **153,791** | **8,990** | **225,102** | **387,883** |
| **Liabilities measured at fair value:** | | | | |
| Derivatives | - | 1,218 | - | **1,218** |
| **Liabilities for which fair values are disclosed:** | | | | |
| Due to credit institutions | - | - | 79,103 | **79,103** |
| Due to general governments* | - | - | 42,680 | **42,680** |
| Support program funding | - | - | 84,965 | **84,956** |
| **Total** | **-** | **1,218** | **206,739** | **207,957** |

* Items *Investments in venture capital funds* and *Due to general governments* were adjusted for the previous period (see Note 2 (25)).

Fair value hierarchy of financial assets and liabilities

The Group classifies the fair value measurements based on the fair value hierarchy, which reflects significance of the data used in measurement. The fair value hierarchy of the Group has 3 levels:

- *Level 1* includes listed financial instruments having an active market, if the Group, to determine their fair value, uses unadjusted quoted market prices obtained from the stock-exchange or reliable information systems;
- *Level 2* includes financial instruments traded over the counter and financial instruments having no active market or declining active market whose fair value measurements are based mostly on observable market inputs (e.g., similar instruments, benchmark financial instruments, credit risk insurance transaction rates, etc.);
- *Level 3* includes financial instruments whose fair value measurements rely on observable market inputs requiring significant adjustment due to the unobservable market inputs, and financial instruments whose fair value measurements are based primarily on the data that cannot be observed in the active market and assumptions and estimates of the Group that enable a credible measurement of the financial instrument's value.

## NOTES TO FINANCIAL STATEMENTS

## 37 FAIR VALUES OF ASSETS AND LIABILITIES (continued)

### Debt securities

The debt securities are measured using the quoted prices or valuation techniques using both - observable and unobservable market inputs and a combination of the two. The majority of investments in debt securities recognised at fair value are investments in Latvian government debt securities having a quoted price, but not being traded on the active market. The management has estimated that the quoted price is a reasonable approximation of the fair value by reference to yield of similar risk investments.

### Derivatives

The derivatives measured using valuation techniques relying on observable market inputs are mainly currency swaps and over-the-counter forward exchange contracts. Most frequently applied valuation techniques include discounted cash flow calculation, where inputs include foreign exchange spot and forward rates as well as interest rate curves.

### Investments in venture capital funds

Measuring of investments in venture capital funds is explained in Note 2 (5) (iv).

### 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 methods:

(a) comparable sales method;

(b) the capitalization of cash-flow method;

(c) cost approach.

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 Group, according to the abovementioned methods.

## 38 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

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

| | Up to 1 year | 1 to 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 | - | - | 8,791 | 8,791 |
| **Total financial liabilities** | **11,647** | **36,766** | **126,215** | **174,628** |
| Off-balance items and contingent liabilities | 66,196 | 66,701 | 38,579 | 171,476 |
| **Total financial liabilities, off-balance items and contingent liabilities** | **77,843** | **103,467** | **164,794** | **346,104** |
| **Liquid assets** | **72,234** | **10,202** | **53,990** | **136,425** |

## NOTES TO FINANCIAL STATEMENTS

### 38 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

The table below provides the maturity structure of undiscounted future cash flows of the Group's financial liabilities, off-balance liabilities and liquid assets as at 31 December 2014:

| | Up to 1 year | 1 to 5 years | Over 5 years and undated | Total adjusted |
|---|---|---|---|---|
| Due to other credit institutions | 11,620 | 39,399 | 32,224 | **83,243** |
| Due to general governments* | - | - | 42,680 | **42,680** |
| Support programme funding* | - | - | 84,956 | **84,956** |
| Other liabilities | - | - | 4,737 | **4,737** |
| **Total financial liabilities** | **11,620** | **39,399** | **164,597** | **215,616** |
| Off-balance items and contingent liabilities | 41,861 | 61,431 | 23,482 | 126,774 |
| **Total financial liabilities, off-balance items and contingent liabilities** | **53,481** | **100,830** | **188,079** | **342,390** |
| **Liquid assets** | **86,594** | **34,158** | **46,940** | **167,692** |

* Items *Due from general governments* and *Support programme funding* were adjusted for the previous period (see Note 2 (25)).

### 39 ASSETS AND LIABILITIES BY CURRENCY PROFILE

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

| | EUR | USD | Other | Total |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Due from other credit institutions and Treasury | 46,882 | - | - | **46,882** |
| Investment securities | 76,766 | 12,777 | - | **89,543** |
| Loans | 200,935 | 583 | - | **201,518** |
| Investments in venture capital funds | 42,135 | - | - | **42,135** |
| Deferred expense and accrued income | 1,560 | 1 | - | **1,561** |
| Investment property | 12,247 | - | - | **12,247** |
| Property, plant and equipment | 4,628 | - | - | **4,628** |
| Intangible assets | 123 | - | - | **123** |
| Overpaid corporate income tax | 523 | - | - | **523** |
| Other assets | 9,964 | - | - | **9,964** |
| **Total assets** | **395,763** | **13,361** | **-** | **409,124** |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | | |
| Due to credit institutions | 67,166 | - | - | **67,166** |
| Derivatives | 345 | - | - | **345** |
| Due to general governments | 39,561 | - | - | **39,561** |
| Deferred income and accrued expense | 1,662 | 2 | - | **1,664** |
| Support programme funding | 54,174 | - | - | **54,174** |
| State aid | 16,166 | | | **16,166** |
| Provisions for off-balance sheet commitments | 17,241 | 86 | - | **17,327** |
| Other liabilities | 8,791 | - | - | **8,791** |
| Capital and reserves | 202,408 | 1,522 | - | **203,930** |
| **Total liabilities** | **407,514** | **1,610** | | **409,124** |
| Forward foreign exchange receivables / (payables) | (2,905) | 2,560 | - | (345) |
| **Currency position** | **(14,656)** | **14,311** | **-** | **(345)** |

## NOTES TO FINANCIAL STATEMENTS

### 39 ASSETS AND LIABILITIES BY CURRENCY PROFILE (continued)

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

| | EUR | USD | Other | **Total adjusted** |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Due from other credit institutions and Treasury | 59,672 | 571 | 2 | **60,245** |
| Investment securities | 93,925 | 13,522 | - | **107,447** |
| Loans | 215,200 | 570 | - | **215,770** |
| Investments in venture capital funds* | 25,342 | - | - | **25,342** |
| Deferred expense and accrued income* | 2,712 | 2 | - | **2,714** |
| Investment property | 11,704 | - | - | **11,704** |
| Property, plant and equipment | 4,822 | - | - | **4,822** |
| Intangible assets | 153 | - | - | **153** |
| Deferred tax asset | 253 | - | - | **253** |
| Overpaid corporate income tax | 26 | - | - | **26** |
| Other assets* | 6,884 | - | - | **6,884** |
| **Total assets** | **420,693** | **14,665** | **2** | **435,360** |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | | |
| Due to credit institutions | 80,208 | - | - | **80,208** |
| Derivatives | 1,218 | - | - | **1,218** |
| Due to general governments* | 42,680 | - | - | **42,680** |
| Deferred income and accrued expense | 1,500 | - | - | **1,500** |
| Provisions for off-balance sheet commitments | 14,760 | - | - | **14,760** |
| Support programme funding* | 84,956 | - | - | **84,956** |
| State aid | 9,477 | | | **9,477** |
| Other liabilities | 4,737 | - | - | **4,737** |
| Capital and reserves* | 195,824 | - | - | **195,824** |
| **Total liabilities** | **435,360** | **-** | **-** | **435,360** |
| Spot foreign exchange receivables / (payables) | (9,978) | 9,095 | - | **(883)** |
| Forward foreign exchange receivables / (payables) | (3,034) | 2,699 | - | **(335)** |
| **Currency position** | **(27,679)** | **26,459** | **2** | **(1,218)** |

### 40 MINIMUM FUTURE LEASE PAYMENTS

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

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

## NOTES TO FINANCIAL STATEMENTS

## 41 FINANCIAL ASSETS AND LIABILITIES BY CLASSIFICATION PRINCIPLES

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

| | Financial assets un liabilities held for trading | Financial assets available for sale | Amortised cost | Total book value |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Investment securities | - | 88,002 | 1,541 | 89,543 |
| Due from other credit institutions and Treasury | - | - | 46,882 | 46,882 |
| Loans | - | - | 201,518 | 201,518 |
| Venture capital funds | - | - | 42,135 | 42,135 |
| Other financial assets | - | - | 3,068 | 3,068 |
| **Total financial assets** | **-** | **88,002** | **295,144** | **383,146** |
| Non-financial assets | - | - | 25,978 | 25,978 |
| **Total assets** | **-** | **88,002** | **321,122** | **409,124** |
| | | | | |
| **LIABILITIES** | | | | |
| Due to credit institutions | - | - | 67,166 | 67,166 |
| Due to general governments | - | - | 39,561 | 39,561 |
| Support programme funding | - | - | 54,174 | 54,174 |
| State aid | | | 16,166 | 16,166 |
| Derivatives | 345 | - | - | 345 |
| Other financial liabilities | - | - | 8,791 | 8,791 |
| **Total financial liabilities** | **345** | **-** | **185,858** | **186,203** |
| Non-financial liabilities | - | - | 222,921 | 222,921 |
| **Total liabilities** | **345** | **-** | **408,779** | **409,124** |

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

| | Financial assets un liabilities held for trading | Financial assets available for sale | Amortised cost | Total book value |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Investment securities | - | 102,536 | 4,911 | 107,447 |
| Due from other credit institutions and Treasury | - | - | 60,245 | 60,245 |
| Loans | - | - | 215,770 | 215,770 |
| Venture capital funds | - | - | 25,342 | 25,342 |
| Other financial assets | - | - | 2,247 | 2,247 |
| **Total financial assets** | **-** | **102,536** | **308,515** | **411,051** |
| Non-financial assets | 11,704 | - | 12,605 | 24,309 |
| **Total assets** | **11,704** | **102,536** | **321,120** | **435,360** |
| | | | | |
| **LIABILITIES** | | | | |
| Due to credit institutions | - | - | 80,208 | 80,208 |
| Due to general governments | - | - | 42,680 | 42,680 |
| Support programme funding | | | 84,956 | 84,956 |
| State aid | | | 9,477 | 9,477 |
| Derivatives | 1,218 | - | - | 1,218 |
| Other financial liabilities | - | - | 4,737 | 4,737 |
| **Total financial liabilities** | **1,218** | **-** | **222,058** | **223,276** |
| Non-financial liabilities | - | - | 212,084 | 212,084 |
| **Total liabilities** | **1,218** | **-** | **434,142** | **435,360** |

## NOTES TO FINANCIAL STATEMENTS

### 42 SUBSEQUENT EVENTS

On February 22, 2016 the Central Finance and Contracting Agency (hereinafter CFCA) passed a decision on repayment of non-eligible expenditure of EUR 216 thsd. 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 EUR 216 thsd 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 Group, having taken over the obligations of LGA, to repay the non-eligible expenditure by May 23, 2016.

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

On May 3, 2016, the Republic of Latvia Enterprise Register ruled on liquidation of the Group's subsidiary SIA Riska Investīciju Sabiedrība.

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

## NOTES TO FINANCIAL STATEMENTS

### 43 LGA, RDF AND ALTUM ABRIDGED CLOSING FINANCIAL STATEMENTS

**LGA abridged closing financial statement:**

**Statement of other comprehensive income for the period from 1 January 2015 to 31 March 2015**

| | 01/01/2015 - 31/03/2015 EUR | 2014 EUR |
|---|---|---|
| Net turnover | 1,231,883 | 6,149,581 |
| Cost of services received | (101,669) | (302,239) |
| **Gross profit** | **1,130,214** | **5,847,342** |
| Administrative expense | (348,189) | (951,315) |
| Other operating income | 995, 233 | 1,234,782 |
| Other operating expense | (1,449,434) | (3,290,669) |
| **Profit before taxes** | **327,824** | **2,840,140** |
| Corporate income tax | 243,400 | (243,400) |
| **Net profit for the reporting period** | **571,224** | **2,596,740** |

**Statement of financial position as at 31 March 2015**

| | 31/03/2015 EUR | 31/12/2014 EUR |
|---|---|---|
| **Assets** | | |
| **Non-current assets** | | |
| Intangible assets | 2,954 | 3,527 |
| Property and equipment | 22,001 | 26,695 |
| Non-current financial assets | 103,124,551 | 101,218,807 |
| **Total non-current assets:** | **103,149,506** | **101,249,029** |
| **Current assets** | | |
| Accounts receivable | 2,526,388 | 2,177,164 |
| Current financial assets | 17,233,097 | 19,935,531 |
| **Cash:** | 6,942,794 | 6,395,450 |
| **Total current assets:** | **26,702,279** | **28,508,145** |
| **Total assets:** | **129,851,785** | **129,757,174** |
| **Liabilities** | | |
| **Equity capital:** | | |
| Share capital | 112,549,206 | 112,549,206 |
| Other reserves | 1 | 1 |
| Retained earnings/ (accrued losses): | | |
| 1) losses brought forward | (6,971,017) | (9,567,757) |
| 2) profit for the period | 571,224 | 2,596,740 |
| **Total equity capital:** | **106,149,414** | **105,578,190** |
| **Total provisions:** | **5,738,318** | **5,930,294** |
| **Liabilities:** | | |
| Deferred income | 12,828 | 16,403 |
| Current liabilities | 17,951,225 | 18,232,287 |
| **Total liabilities:** | **17,964,053** | **18,248,690** |
| **Total equity and liabilities:** | **129,851,785** | **129,757,174** |

NOTES TO FINANCIAL STATEMENTS

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

**RDF abridged closing financial statement:**

**Statement of other comprehensive income for the period from 1 January 2015 to 31 March 2015**

| | 01/01/2015 - 31/03/2015 EUR | 2014 EUR |
|---|---|---|
| Net turnover | 191,814 | 592,152 |
| **Gross profit or loss** | **191,814** | **592,152** |
| Administrative expense | (182,407) | (580,544) |
| Other operating income | 104,430 | 81 |
| Other operating expense | (22,507) | (81,017) |
| Interest receivable and similar income | 43,033 | 183, 636 |
| Interest payable and similar expense | (7,852) | (34,904) |
| **Profit before taxes** | **126,511** | **79,404** |
| Corporate income tax for the reporting period | - | - |
| **Profit for the reporting period** | **126,511** | **79,404** |

**Statement of financial position as at 31 March 2015**

| **Assets** | **31/03/2015 EUR** | **2014 EUR** |
|---|---|---|
| **Non-current assets** | | |
| Intangible assets | 823 | 1,153 |
| Property, plant and equipment | 3,202 | 4,294 |
| Non-current financial assets | 33,274,605 | 31,284,995 |
| **Total non-current assets:** | **33,278,630** | **31,290,442** |
| **Current assets** | | |
| Inventories | - | 47 |
| Receivables | 16,507,968 | 11,867,166 |
| **Cash and cash equivalents** | **2,182,142** | **8,328,706** |
| **Total current assets** | **18,690,110** | **20,195,919** |
| **Total assets:** | **51,968,740** | **51,486,361** |
| **Liabilities** | | |
| **Equity** | | |
| Share capital | 16,363,026 | 16,363,026 |
| Reserves: | | |
| reserves according to the Articles of Association | 4,291,246 | 4,291,246 |
| other reserves | - | - |
| Retained earnings: | | |
| brought forward | (6,926,505) | (7,005,909) |
| for the reporting period | 126,511 | 79,404 |
| **Total equity** | **13,854,278** | **13,727,767** |
| **Total provisions** | **1,626,696** | **2,055,055** |
| **Liabilities** | | |
| Non-current liabilities | 34,748,222 | 33,953,631 |
| Current liabilities | 1,739,544 | 1,749,908 |
| **Total liabilities** | **36,487,766** | **35,703,539** |
| **Total equity and liabilities:** | **51,968,740** | **51,486,361** |

## NOTES TO FINANCIAL STATEMENTS

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

**ALTUM abridged closing financial statement:**

**Statement of other comprehensive income for the period from 1 January 2015 to 31 March 2015**

| | 01/01/2015 - 31/03/2015 | 01/01/2014 - 31/12/2014 |
|---|---|---|
| Net turnover | 2,798,776 | 13,101,996 |
| Cost of services received | (1,115,898) | (3,769,244) |
| **Gross profit** | **1,682,878** | **9,332,752** |
| Administrative expense | (2,344,778) | (11,231,287) |
| Other operating income | 1,424,710 | 12,324,416 |
| Other operating expense | (671,875) | (8,673,959) |
| **Profit before taxes** | **90, 935** | **1,751,922** |
| Corporate income tax | - | - |
| **Net profit for the reporting period** | **90, 935** | **1,751,922** |

| | 31/03/2015 | 31/12/2014 |
|---|---|---|
| **Assets** | | |
| **Non-current assets** | | |
| Intangible assets | 116,465 | 148,493 |
| Property and equipment | 4,719,336 | 4,787,479 |
| Non-current financial assets | 124,455,899 | 133,639,440 |
| **Total non-current assets** | **129,291,700** | **138,575,412** |
| **Total current financial assets** | **77,491,338** | **79,553,552** |
| **Total current assets** | **3,202,181** | **3,032,618** |
| **Due from other credit institutions and Treasury** | **36,617,918** | **31,552,055** |
| **Total assets** | **246,603,137** | **252,713,637** |
| | | |
| **Capital and reserves** | | |
| Share capital | 308,195,899 | 308,195,899 |
| Reserve capital | 2,935,801 | 2,935,801 |
| Revaluation reserve on available for sale investments | 1,182,515 | 1,235,122 |
| Accumulated loss | (233,345,942) | (233,436,877) |
| **Total equity and reserves** | **78,968,273** | **78,929,945** |
| **Total provisions** | **47,207** | **47,207** |
| **Total non-current financial liabilities** | **140,856,640** | **147,802,868** |
| **Total current financial liabilities** | **26,731,017** | **25,933,617** |
| **Total liabilities** | **246,603,137** | **252,713,637** |