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JSC DEVELOPMENT FINANCE INSTITUTION ALTUM

Consolidated and Separate Annual Report for the year ended 31 December 2021

(the 8th reporting period)

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Altum Group

MISSION We help Latvia grow!

VISION To be a partner and financial expert in economic development

VALUES Excellence / Team / Responsibility

AS Attīstības finanšu institūcija Altum (the joint stock company Development Finance Institution Altum), Parent Company of the Altum Group, is a Latvian state-owned company that implements the aid and development programmes by means of financial instruments and grants pursuing the state's policy in the national economy and providing for execution of other government assignments stipulated and delegated by laws and regulations. Eliminating market failures with the help of various support instruments that enhance the development of national economy is the fundamental purpose of Altum's activities.

Long-term objectives until 2021

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

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

Management Report

Activity during the reporting period

In 2021, the Development Finance Institution Altum group (hereinafter – the Group) and the Group's parent company, the joint-stock company Development Finance Institution Altum (hereinafter – the Company) have ensured stable financial results and earned a profit of EUR 13,8 million**.**

Key financial and performance indicators of the Group

Based on data from audited financial statements for the respective years

	2021	2020	2019
Key financial data			
Net interest income (EUR '000)	16 717	14 572	11 569
Operating profit (EUR '000)	13 829	5 539	8 131
Profit for the period (EUR '000)	13 829	5 539	8 131
Cos to income ratio (CIR)	39.46%	47.51%	52.58%
Employees	226	211	203
Total assets (EUR '000)	976 204	850 704	560 061
Financial debt (EUR '000)	360 909	342 490	217 943
Tangible common equity (TCE) / Total tangible managed assets (TMA) *	**33.82%**	**33.56%**	**29.40%**
Equity and reserves (EUR '000)	440 736	382 594	232 738
Total risk coverage: (EUR '000)	**285 954**	**180 205**	**87 456**
Risk coverage reserve	159 196	112 567	99 778
Risk coverage reserve used for provisions	(29 496)	(28 197)	(27 829)
Portfolio loss reserve (specific reserve capital)	159 700	102 264	15 507
Portfolio loss reserve used to compensate provisions in the distribution of annual profit	(3 446)	(6 429)	-
Liquidity ratio for 180 days **	518%	464%	582%
Net Cash flows from operating activities (EUR '000)	49 555	21 966	39 813
Net Cash flows from financing activities (EUR '000)	43 768	165 800	18 700
Net Cash flow from investing activities (EUR '000)	4 553	(4 016)	(11 230)
Support instruments gross value (EUR '000), of which	**979 130**	**872 302**	**667 649**
Financial instruments gross value (EUR '000) ***			
Loans (excluding sales and leaseback transactions)	315 674	302 481	225 144
Guarantees	414 978	359 605	284 232
Venture capital funds	85 973	73 165	68 331
Land Fund, of which:	79 163	68 258	39 634
- sales and leaseback transactions	32 999	31 500	15 268
- investment properties	46 164	36 758	24 366
Total	**895 788**	**803 509**	**617 341**
Number of transactions	30 978	26 578	22 437
Volumes issued (EUR '000) (by financial instrument) ***			
Loans (excluding sales and leaseback transactions)	100 966	138 238	64 320
Guarantees	126 997	137 425	98 240
Venture capital funds	29 158	14 014	9 022
Land Fund, of which:	10 595	28 191	16 384
- sales and leaseback transactions	3 254	16 796	7 239
- investment properties	7 341	11 395	9 145
Total	**267 716**	**317 868**	**187 966**
Number of transactions	6 579	6 147	5 559
Total contribution to economy, including the participation of the final recipients (EUR '000)	791 646	696 306	531 661
Leverage for raised private funding	177%	114%	142%
Volume of support programmes funding per employee (EUR '000)	3 964	3 808	3 041
Long-term rating assigned by Moody's Investors Service	Baa1	Baa1	Baa1

* TMA includes off-balance sheet item outstanding guarantees.
** The calculation of liquidity ratio takes into account the previous experience and management estimate of the expected amount and timing of guarantee claims
*** Taking into account the significance of the volume, the Land Fund portfolio, which consists of leaseback transactions and investment properties, is also presented in the operational volumes for the period. As in compliance with the accounting principles and IFRS the leaseback transactions are accounted for under the loans, the loan volume in this table has been reduced for the volume of the leaseback transactions as it is recorded under the Land Fund portfolio.

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

Management Report (cont'd)

Operational volumes

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

As at 31 December 2021, the Group's gross portfolio of support instruments amounted to EUR 979,1 million (31 December 2020: EUR 872,3 million), of which the gross portfolio of financial instruments totalled EUR 895,8 million and consisted of 30,978 projects (31 December 2020: EUR 804 million and 26,578 projects).

In 2021, the Group's financial instrument portfolio increased by EUR 92,3 million (+11.4%) and by 4,400 projects (+16.6%) and that was significantly lower than in 2020, when due to a sharp rise in the demand for specialised financial instruments to mitigate the negative impact of Covid-19 on the business sector it increased by EUR 186 million (+30.2%). The largest increases in the Group's financial instrument portfolio in 2021 were not related to the support programme for overcoming the consequences of Covid-19. That part of the Group's financial instruments portfolio increased by EUR 88,2 million, which is by EUR 5,7 million more than in 2020, when it increased by EUR 82,5 million.

Of all the financial instruments, the guarantee portfolio recorded the highest growth in 2021, increasing by EUR 55,4 million (+15.2%), which is less than in 2020, when it increased by EUR 75,4 million (+26.5%). The number of projects in the guarantee portfolio increased by 4,080 projects (+21.2%), which is more than in 2020, when the number of projects increased by 3,650 projects (+23.4). The large increase in 2021 was ensured by Housing Guarantees for Families with Children and Housing Guarantees for Young Professionals (+EUR 33,2 million), driven by a significant increase in demand in the housing market as well as by loan guarantees for entrepreneurs and portfolio guarantees (+EUR 27 million) as companies actively invested and replenished their working capital, taking advantage of the sharp economic recovery after the downturn in 2020. Whereas in 2021, demand for the Covid-19 crisis-related guarantee instruments fell significantly, with the portfolio declining by EUR 4,9 million.

In 2021, the loan portfolio increased by EUR 13,2 million (+4.4%) and by 153 projects (+2.4%), which is less than in the corresponding period in 2020, when it increased by EUR 77,3 million (+34.4%) by volume and by 274 (+4.5%) projects. The dynamics of the loan portfolio is also closely linked to demand for Covid-19 crisis-related loans – demand was high in 2020 with a significant drop in 2021. The loan portfolio growth in 2021 was driven by loan programmes not related to Covid-19 mitigation, such as loans for acquisition of agricultural land intended for agricultural production (+EUR 11,6 million), SME growth loans (+EUR 10,6 million), loans for Energy Efficiency Programme of Multi-apartment Buildings (+EUR 5,1 million). Meanwhile, the loan portfolio of support programmes established for overcoming the consequences of Covid-19 decreased by EUR 6 million in 2021.

In 2021, the venture capital funds increased by EUR 12,8 million (+17.5%), which is significantly more than in 2020, when the volume of the venture capital funds increased by EUR 4,8 million (+7.1%). The largest increase was ensured by investments in the AIF Altum Capital Fund.

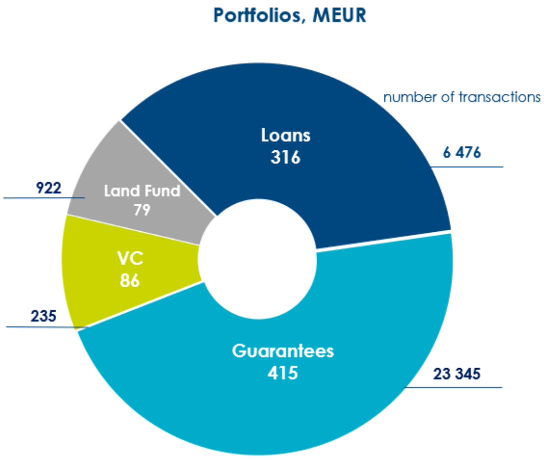
Notwithstanding that the demand for the Land Fund services in 2021 was lower than in 2020, the Land Fund continued to grow and its portfolio increased by EUR 10,9 million (+16%) and by 200 projects (+27.7%).

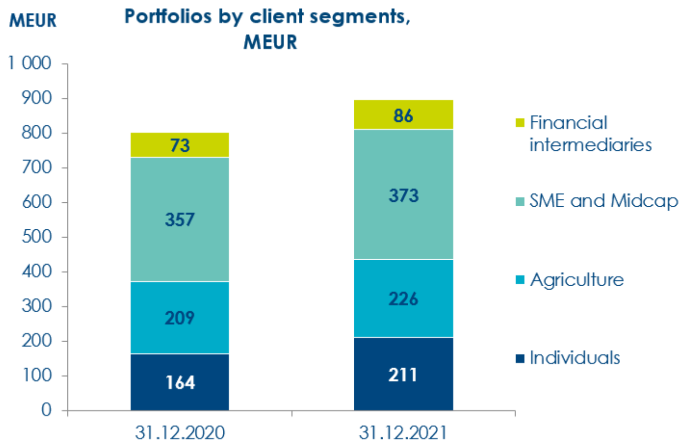
As at 31 December 2021, the balance sheet of the Land Fund included 1,202 properties with a total land area of 23,439 ha and amounting to EUR 79,2 million, including investment properties with a total area of 13,778 ha and amounting to EUR 46,2 million (31 December 2020: 10,964 ha; EUR 36,8 million), and leaseback transactions for 9,661 ha amounting to EUR 33 million (31 December 2020: 9,140 ha; EUR 31,5 million).

By segment the largest portfolio of the Group is formed in the SMEs and Midcaps segment – 42%, while the Agriculture segment accounts for – 25%, Individuals – 23% and Financial intermediaries – 10%.

Management Report (cont'd)

Operational volumes (cont'd)





Group 31/12/2021

In 2021, an increase in volume was observed in all segments as described below. The largest growth was in the Individuals segment, namely, by EUR 46,9 million (+28.6%), which is significantly more than in 2020, when the portfolio grew by EUR 25,2 million (+18.2%). The increase in the retail portfolios was mainly due to the increase in demand for Housing Guarantees as well as guarantees under the Guarantee Programme for Improving Energy Efficiency in Multi-Apartments Buildings. The Agriculture segment and the SME and Midcap segment grew by EUR 16,7 million and EUR 15,9 million respectively; however, this growth was significantly lower than in 2020, when the Agriculture segment grew by EUR 42,6 million and the SME and Midcap segment - by EUR 114 million, thanks to the support provided by the Group's financial instruments to businesses to mitigate the negative effects of Covid-19. The Financial Intermediaries segment grew by EUR 12,8 million, significantly more than in 2020, when its growth was by EUR 4,3 million. The 2021 increase was largely driven by the Altum Capital Fund, which is one of Altum's financial instruments for overcoming the impact of Covid-19 on companies that because of the virus were prepared to adapt their current operations by changing their business model, adapting product development, introducing new technologies, entering new export markets thus promoting their growth.

Volume of new transactions

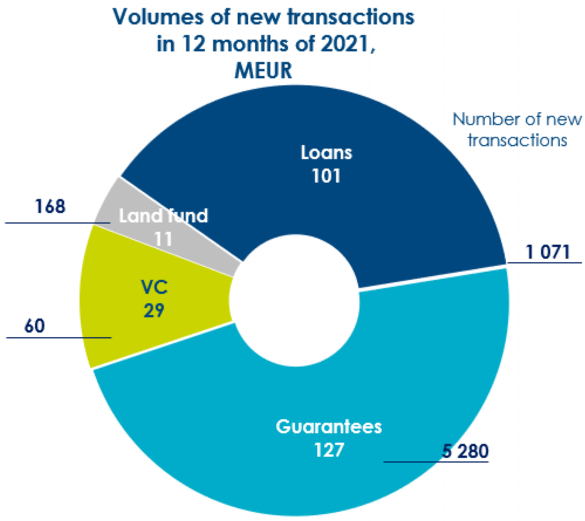
In 2021, the total funding disbursed for the implementation of the state aid programmes amounted to EUR 267,7 million, breaking down as follows: 47.4% (EUR 127 million) for guarantee programmes, 37.7% (EUR 100,9 million) in loan programmes, 10.9% (EUR 29,2 million) in investments in the venture capital funds and 4% (EUR 10,6 million) in the Land Fund transactions. Totally, 6,579 projects were supported. In general, in 2021, the volume of the new transactions was less by 15.7% compared to the last year, when, reacting swiftly to the declaration of Covid-19 as a global pandemic in mid-March 2020 and the sharp downturn in the economic situation, the Group actively engaged in mitigating the negative impact of Covid-19 in the business sector by creating specialised financial instruments, which resulted in a significant increase in new transactions due to the state aid programmes implemented by the Group for supporting entrepreneurs in mitigating the Covid-19 effect. In 2021, there is a significant reduction in demand for specialised financial instruments to mitigate the effects of Covid-19. If in 2020 the volume of new transactions in the specialized financial instruments for Covid-19 effect mitigation reached EUR 105,7 million, then in 2021 its volume under these programmes was EUR 45,3 million. In its turn, in 2021, the volume of new transactions under the regular programmes amounted to EUR 222,4 million, which is slightly higher than in 2020, when the volume of new transactions under the regular programmes was EUR 212,2 million.

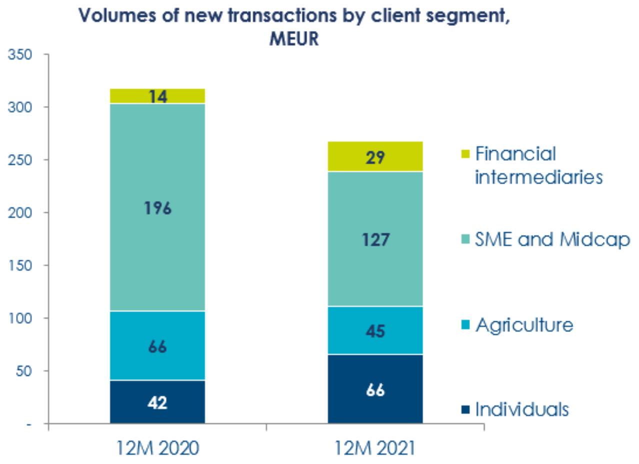
In 2021, the largest volume of the new transactions was recorded in the following segments: SMEs and Mid-caps – 47.4%; Individuals – 24.7%; Agriculture –17%; and Financial Intermediaries – 10.9%.

In 2021, new transactions experienced the largest increase in the Individuals segment, where their volume was by EUR 24,4 million higher than in 2020, and in the Financial Intermediaries segment – by EUR 15,1 million higher than in 2020 Whereas, their volume was lower than in 2020 in the SME and Midcap segment by EUR 69,6 million, and in the Agriculture segment – by EUR 20,1 million.

Management Report (cont'd)

Volume of new transactions (cont'd)





Group 31/12/2021

In 2021 there were issued new guarantees for EUR 127 million or by 7.6% (-EUR 10.4 million) less against 2020, due to a significant decline in demand for the Covid-19 crisis-related guarantees. In 2021, the largest increase in the guarantee portfolio was in the loan guarantees for entrepreneurs (EUR 44,5 million), Housing Guarantees for Families with Children and Housing Guarantees for Young Professionals (EUR 43 million), the loan guarantee programmes for the Covid-19-affected businesses (EUR 10,7 million) and Energy Efficiency Programme for Multi-apartment Buildings (EUR 10,7 million).

Taking into account the business specifics, when issuing guarantees for working capital loans, for bank issued guarantees and for investment loan, a regular review and the extension of the issued guarantee are required for existing customers. This type of transaction is not attributed to newly issued guarantees because it is considered as an extension of guarantees; however, the volume of such transactions is quite significant, with EUR 65,3 million of guarantees extended in 2021.

In 2021, the volume of new loans issued amounted to EUR 100,9 million, which is by 27% (-EUR 37,3 million) less than 2020 due to a significant decline in demand for Covid-19 crisis-related loans. In 2021, the largest amount of new loans was issued under the SME Growth Loan Programme (EUR 32,2 million), under the Covid-19 crisis-related Loan Programme (EUR 18,7 million), loans for acquisition of agricultural land for the purpose of agricultural production (EUR 17,8 million) and working capital loans for agricultural enterprises (EUR 9,2 million).

As at 31 December 2021, a total of 19,490 guarantees for EUR 150,6 million of the state aid for housing acquisition was granted within the framework of the Programme for Housing Guarantees for Families with Children; out of these, guarantees worth EUR 34,2 million were issued in 2021, which is by 51% more against 2020, when the economic activity of people decreased quite significantly due to the Covid-19 pandemic and national restrictions. The guarantees of the Programme help saving for the first instalment required to obtain a mortgage loan and are used by families all over Latvia. A total of 4,386 guarantees worth EUR 35,1 million were issued to young professionals; out of these, 1,011 guarantees worth EUR 8,8 million were issued in 2021.

Having launched the European Investment Fund (EIF) COSME and EaSI counter guarantees for loans up to EUR 25 thousand the Group / Company has already supported 680 projects (COSME – 95 projects, EaSI – 585 projects) in total amount of EUR 9,7 million. If the loan is compatible with COSME or EaSI guarantee terms and conditions, the start-up and micro loans, working capital loans to farmers or small loans in rural areas are granted without additional collateral, based solely on a personal guarantee and at a lower interest rate compared to other types of unsecured loans.

In 2021, the Company's investments made in venture capital funds amounted to EUR 29,2 million, of which EUR 14,9 million - in the Altum Capital Fund, EUR 8 million - in the 4th generation venture capital funds, EUR 2,9 million - in the Three Seas Investment Fund while EUR 2,2 million and EUR 1,2 million – in the Baltic Innovation Fund and the Baltic Innovation Fund 2, respectively.

Management Report (cont'd)

Volume of new transactions (cont'd)

Although the transaction activity within the Land Fund slowed down in some periods, by the end of 2021 the market situation had changed, with a sharp increase in the number of investment property transactions and a gradual revival of interest in reverse rent transactions. All in all, in 2021 the land sales and leaseback transactions under the Land Fund amounted to EUR 10,6 million or by EUR 17,6 million less compared to 2020. The drop was due to a relatively good year for agriculture in 2020, when farmers' own purchasing power returned and thus reduced the demand for additional funding.

Non-financial instrument portfolio

In order to make accessing to the support instruments more convenient for its clients, apart from the financial instruments, the Group / Company services the grant programmes as well, namely, the grants issued under the Energy Efficiency Programme for Multi-apartment Buildings (EEPMB), Social Entrepreneurship Programme and European Local Energy Assistance (ELENA) Programme, the grants under the support program BALSTS for the purchase or construction of housing for families with three or more children, grants under the Culture Support Programme, providing support in the form of loans and grants (combined financial instrument) where the grant does not exceed 40% of the total aid amount as well as grants under the support programme for increasing the energy efficiency of private houses, applying for it opened on 27 May 2021. The programme gained great interest from the very start, and 392 applications from private house owners had been received by 1 July. As the amount of funding for the programme is limited and approximately 243 projects are envisaged to be supported, accepting of new project applications has been suspended as of 1 July. Considering the individual's interest in the support provided under this programme, proposals were developed and, on 8 March 2022, the Cabinet of Ministers approved respective amendments granting additional funding of EUR 3.27 million for continuing the programme as well as extending the range of potential beneficiaries and including support for the installation of solar panels in private houses, which is currently attracting a lot of interest.

As at 31 December 2021, the EEPMB programme had awarded a total of 445 grants for EUR 97,7 million, of which 107 grants for EUR 25,5 million were granted in 2021. As of 18 December 2020, the programme was suspended and no new applications were accepted and currently the evaluation of the projects, awarding of grants and implementation of projects are carried out.

Under the support programme for increasing the energy efficiency of private houses, in 2021 a total of 202 grant agreements worth EUR 1 million were signed.

As at 31 December 2021, a total of 147grants for EUR 9,3 million were awarded under the Social Entrepreneurship Programme.

In order to promote and support planning of the energy efficiency projects, Altum, acting in co-operation with the European Investment Bank, provides to companies a supplementary support grant earmarked for covering the costs related to expertise and drafting of energy efficiency projects. As at 31 December 2021, there were a total of 69 grants awarded for EUR 824 thousand.

In November 2020, within the framework of the new support programme BALSTS, the Group / Company started accepting applications for the issuance of non-refundable state subsidies or grants for the purchase or construction of housing for families with three or more children. As at 31 December 2021, a total of 569 grants for EUR 4,7 million were awarded, of which 508 grants for EUR 4,2 million were granted in 2021.

As at 31 December 2021, the portfolio of grants amounted to EUR 83.3 million.

New products and increasing operational efficiency

Since March 2020, the Group has been actively engaged in mitigating the negative impacts of Covid-19 in the business sector. In order to continue providing support to Covid-19-affected businesses, the duration of the Covid-19 crisis support programmes was extended their until 30 June 2022.

In 2021, the relevant Cabinet regulations were amended to ensure that the support programmes implemented by the Group were more accessible to a wider range of beneficiaries by improving the support eligibility criteria. In parallel, the development and implementation of new support programmes for specific customer groups continued:

- the Large Investment Loan Programme offering a capital rebate for medium-sized and large enterprises: under the programme, entrepreneurs will have access to a loan with a capital rebate of up to EUR 10 million, or if reaching certain objectives and meeting the criteria, the principal amount of the loan will be reduced for viable business projects with a minimum eligible cost of EUR 10 million within a period of three years after the project implementation. The call for applications opened on 19 January 2022. The Group will provide project funding with a loan amounting to the potential

Management Report (cont'd)

New products and increasing operational efficiency (cont'd)

capital rebate, the remainder to be raised from other funders. The new programme differs from previous business support programmes to the effect that it includes a capital rebate or a complete or partial reduction (discharge) of the loan principal. This means that a company can qualify for a loan with a capital rebate or discharge of the Group's share of the loan, by achieving the project's objectives and meeting certain criteria.

- the Energy Efficiency Support Programme for Private Houses: envisages granting portfolio guarantees, technical assistance and grants for increasing the energy efficiency of private houses. The maximum amount of technical assistance per beneficiary is EUR 1,000, while a grant for increasing the energy efficiency class of a residential house is expected in the amount of EUR 5,000 per beneficiary. Within the framework of the programme, on 27 May 2021, accepting of applications for projects to increase the energy efficiency of private houses was started, but already on 1 July 2021 it was suspended due to the great interest in it (the number of received applications exceeded the available funding. Considering the individual's interest in the support provided under this programme, proposals were developed and, on 8 March 2022, the Cabinet of Ministers approved respective amendments granting additional funding of EUR 3.27 million for continuing the programme as well as extending the range of potential beneficiaries and including support for the installation of solar panels in private houses, which is currently attracting a lot of interest. At the same time, amendments to Cabinet Regulation No 500 "General Construction Regulations", dated 19 August 2014, were approved to facilitate the installation of solar panels. From now on, private house owners are eligible for support not only for improving energy efficiency, but also for the installation of microgeneration technologies, i.e., solar panels and small scale wind turbines. Altum starts accepting applications in the second half of April 2022.
- the Culture Support Programme: from 19 May 2021, organizers of arts, entertainment and recreation events can apply for a support programme developed by the Ministry of Culture in cooperation with the Group to stimulate the organization of new events by providing support in the form of loans and grants (combined financial instrument) to entities whose core business is related to arts, entertainment and leisure activities. The total amount of support is EUR 6 million, given as a loan and a grant, where the grant does not exceed 40% of the total aid amount.
- the Programme for Multi-apartment Building Renovation Loans: under which it is established a Renovation Fund for financing renovation and other related costs for Multi-apartment buildings. The programme is open for applications from 8 September 2021 and has a total funding of EUR 31 million, available as a loan. The funding is intended for repairs of common areas and improvement of the surroundings as well as for replacing water pipes or roofs, installing a children playground or a sports field, renovating the facade of the building and other works that improve the condition of the building and create a more pleasant living environment. This programme may be used as a complement to the existing Energy Efficiency Programme of Multi-apartment Buildings, as projects often incur ineligible costs that can be financed under the new programme.

In 2021, proceeding with the centralised reviewing of the applications for micro loans (up to EUR 25 thousand) introduced within the framework of automation and increasing of the Group's operational efficiency, 34% of the total number of the granted loans (excl. Covid-19 crisis related loans) were reviewed remotely without involving the regional employees in the application reviewing process, which is slightly less than in 2020, when 36% of the total number of the granted loans were reviewed remotely. Compared to the performance indicators for 2020, in 2021, the total amount of loans granted both under centralised reviewing and in the regions decreased by 2% or EUR 1,05 million and the number of loans granted decreased by 8%. The average loan amount in the regions increased from EUR 80 thousand in 2020 to EUR 85 thousand in 2021, while the average loan amount reviewed remotely on a centralised basis in 2021 was EUR 13,9 thousand, which is slightly higher than in 2020, when the average loan amount in centralised remote reviewing was EUR 13,7 thousand.

At the same time, acting in a responsible way towards the health of employees and customers and following the recommendations of the responsible institutions on actions that would help reduce the risks of virus spread, from 13 March 2020 the Group / Company continues to provide all services remotely via the customer portal mans.altum.lv, as well as through telephone and video consultations, thus ensuring continuous access to the services provided by the Group / Company.

Long-term Funding

In order to diversify the financing structure, in October 2017, the Group / Company issued the first transferable securities in the form of green bonds with a total value of EUR 20 million. As at 31 December 2021, the total amount of Altum bonds listed on the Nasdaq Riga stock exchange is EUR 85 million.

Management Report (cont'd)

Long-term Funding (cont'd)

Continuing its long-term participation in the capital markets, on 1 October 2021 Altum issued 5-year bonds for a total amount of EUR 20 million with a fixed annual interest rate of 0.443% and yield to maturity of 0.443% (ISIN LV0000870095) which are the best financial conditions for bonds issued so far. The Group / Company has now launched its third bond issuance program of EUR 75 000 000. This bond issue attracted significant interest from the Baltics investors, and the bond issue was oversubscribed more than 3 times. The bonds were purchased by 15 institutional investors in the Baltics: 70% of the volume was allocated to asset management funds, 18% - to banks and 9% - to insurance companies.

In the second half of 2021 ALTUM Green Bond Framework was updated according to the 2021 edition of Green & Social Bond Principles published by Internatioanl Captal Market Association (ICMA) in June 2021. To gain investors' confidence that funds derived from the Altum green bonds will be invested in environmentally friendly projects and ensure that certain environmental targets are met, CICERO (Center for International Climate and Environmental Research, Oslo) issued independent second party opinion upon the updated ALTUM Green Bond Framework, which received the Medium Green shading from CICERO similar the one received in 2017.

In September 2021, the ALTUM became the first company from Latvia to join the Nasdaq Sustainable Bond Network in the world with its green bond issue.

Rating

On 12 August 2021, the International credit rating agency Moody's Investors Service (Moody's) published the updated credit analysis of the Company. Moody's assigned the Company's (the parent company of the Group) Baa1 long-term credit rating with a stable outlook, the baseline credit assessment (BCA) Baa3 and the P-2 short-term rating.

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

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

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

Risk Management

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

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

In view of the Group's / Company's activities in high-risk areas when implementing the state aid programmes, as at 31 December 2021 the Group / Company has the risk coverage of EUR 286 million (31 December 2020: EUR 180 million) to cover the expected credit loss of the State aid programmes. The expected loss is assessed before implementing the respective aid programme and a portion of the public funding received within this programme is earmarked for the risk coverage. The latter consists of the sum total of the risk coverage reserve and portfolio loss reserve (special reserve capital) less provisions for expected credit losses.

Contribution to Sustainability

Sustainability is a key part of Altum's business and strategy and is becoming an important strategic driver for the banking industry as well as for development finance institutions in Europe. Altum takes responsibility for the long-term impact of its daily economic, environmental and social activities and continuously works to reduce it on the environment and with its sustainable strategy contributes positively to such a development and its business is responsible. Moreover, Altum intends to facilitate and support its clients' transition to a sustainable economy.

Management Report (cont'd)

Contribution to Sustainability (cont'd)

For the third year in a row, the Group / Company participated in the Sustainability Index organised by the Institute for Corporate Sustainability and Responsibility, receiving the high platinum rating in 2021. The Sustainability Index rating is one of the visible manifestations of the invisible daily work that companies carry out in accordance with the principles of corporate sustainability and responsibility, balancing the interests of shareholders, employees, customers, the environment, business partners and other parties with sustainable operating conditions, thus becoming the leaders of the future.

To ensure sustainability, Altum is guided by the UN Sustainable Development Goals (SDGs) that represent the global plan to end poverty, fight inequality and halt climate change by 2030.

From the beginning of 2021, Altum's management as one of priorities has set sustainable financing and the integration of ESG considerations into credit risk management and business processes.

Altum's ambition level towards sustainable financing at Altum's portfolio level is undertaken voluntary, mainly driven by (i) stakeholders', like investors, credit rating agencies, peer group of European development banks, international lenders, Nasdaq, expectations towards Altum as development financial institution with large impact upon Latvian economy, and (ii) eligibility requirements for public funding available from the EU Cohesion Policy and/or the Recovery and Resilience Facility ("RRF") contributing to Sustainable Europe Investment Plan/Green Deal Investment Plan where ALTUM takes pillar role for issue of financial instruments to SME's in Latvia. As additional trigger is sustainable financing regulatory framework already effective for part of ALTUM's portfolio as well as the coming Taxonomy alignment regulatory framework. Although not mandatory for ALTUM but following the international finance institution sector practise the EBA (European Banking Authority) guidance on integration of ESG aspects in credit risk management, including loan origination and monitoring, has been reviewed and assessed for further integration in ALTUM's credit risk management processes.

In autumn 2021, Altum's stakeholder survey was carried out to establish a sustainability materiality matrix and to define the level of ambition for sustainable finance for the loan portfolio.

Altum is committed to follow the best industry examples in Europe that have taken a strong stance in defining the targets to be achieved and the sectors and projects not to be supported, regardless of the source of funding and already now is not financing fossil-fuel energy generation projects. Among other things, Altum commits to define the level of ambition where the Green Asset Ratio for new loans and the existing loan portfolio would be set for both the 3-year period and until 2030.

All the new programmes for which funding will be available from the Recovery and Resilience Facility (RRF) are, in terms of the activities to be supported, sustainability-oriented, but in different aspects, and can be divided into (i) climate programmes that meet the requirements of the Taxonomy's environmental objectives, (ii) digital transition programme aimed at increasing productivity, and (iii) an affordable housing programme with the social objective of reducing inequalities.

Future Outlook

In Q3 2021, the Group's medium-term strategy 2022-2024 was developed actively and a draft Strategy was prepared, focusing on the importance of sustainable financing and ESG factors both at product level and full integration of ESG factors in Altum's credit risk management. The Group's strategy was approved at the Supervisory Board meeting on 9 March 2022.

The Group continues to strengthen its role as the main government partner for the implementation of financial instrument programmes co-financed by the European Union (hereinafter - the EU). In 2022, preparations will also continue for the launch of the financial instrument support programmes under the new EU Cohesion Policy programming period 2021-2027. In total, at least EUR 650 million will be available as financial instruments under the Recovery and Resilience Facility (RRF) and the EU Cohesion Policy for the programming period 2021-2027. In 2021, in cooperation with the Ministry of Economics, the terms and conditions for four new support programmes were developed, making funding available from the Recovery and Resilience Facility, aimed to mitigate the economic and social impact of the Covid-19 pandemic, stimulate recovery of Europe, finance climate change mitigation projects, and protecting and creating jobs. It also covers the possibility of raising funding for these support programmes in the capital markets as well as borrowing from international financial institutions. Those programmes are expected to be approved by the Cabinet in the first half of 2022, enabling to start their implementation in 2022 with following funding from RRF: for improving the energy efficiency of multi-apartment buildings (EUR 57 million), for improving energy efficiency in businesses and transition to renewable energy technologies (EUR 81 million), for digital transformation (EUR 45 million) and for financing affordable housing (EUR 43 million).

Management Report (cont'd)

Future Outlook (cont'd)

In order to prepare for the InvestEU Programme 2021–2027, the preparations undertaken already in 2019 for pillar assessment of the Group was continued. ALTUM considers to apply and undertake the InvestEU implementing partner role, thus increasing the scope of new specialized and customized financial instruments to the corporates in Latvia. An application on the InvestEU pillar assessment was prepared in Q3 2021 to ensure further progress of the project. A positive assessment by the responsible DG of the European Commission on Altum's legal and financial compliance was received in early March 2022, allowing to proceed with its actual pillar assessment.

The ongoing war in Ukraine and the related sanctions targeted against the Russian Federation and to a lesser extent to Belarus may have impact on the Group / Company as well as the potential social and economic impact in Latvia and the region. This may result in assumptions and estimates requiring revisions which may lead to material adjustments to the carrying value of assets and liabilities within the next financial year. The Group / Company does not issues loans directly to businesses in Ukraine, the Russian Federation and Belarus. The Group / Company expects that there might be impact on provisions for expected credit losses for credit export guarantees, where Altum customers' counterparties are residents of Ukraine, the Russian Federation and Belarus. The exposure of such export credit guarantees to Ukraine, the Russian Federation and Belarus as at 31 December 2021 was accordingly EUR 399 thousand, EUR 763 thousand and EUR 425 thousand. The Management has estimated that expected credit losses from claims on export credit guarantees issued as at 31 December 2021 could amount to EUR 1,587 thousand. In particular management expects the assumptions and estimates used in determining provisions for expected credit losses for loan and guarantee portfolios as well as carrying value of investments in associated companies may be affected. At this stage the management is not able to reliably estimate the indirect impact as events are unfolding day-by-day. However, the Group / Company will assess the expected credit losses in April 2022, taking into account the most up-to-date macroeconomic forecasts. Nevertheless, at the date of these financial statements the Group / Company continues to meet its obligations as they fall due and therefore continues to apply the going concern basis of preparation.

Reinis Bērziņš
Chairman of the Management Board

30 March 2022

Supervisory Board and Management Board

Supervisory Council

Name, Surname	Position	Appointment Date	Date of expiry of the term of the mandate
Līga Kļaviņa	Chairperson of the Council	28.12.2019.	27.12.2022.
Jānis Šnore	Member of the Council	28.12.2019.	27.12.2022.
Ilze Baltābola	Member of the Council	22.03.2022.	21.03.2023. *

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

There were no changes in the Supervisory Council of the Company in 2021.

Management Board

Name, Surname	Position	Appointment Date	Date of expiry of the term of the mandate
Reinis Bērziņš	Chairman of the Board	27.05.2021.	26.05.2024.
Jēkabs Krieviņš	Member of the Board	27.05.2021.	26.05.2024.
Inese Zīle	Member of the Board	27.05.2021.	26.05.2024.
Aleksandrs Bimbirulis	Member of the Board	26.06.2020.	31.03.2022.
Ieva Jansone-Buka	Member of the Board	18.03.2021.	17.03.2024.

There were no changes in the Management Board of the Company in 2021. Aleksandrs Bimbirulis is going to leave the position of a Member of the Management Board on 31 March 2022.

Statement of Management's responsibility

Riga 30 March 2022

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

The financial statements and notes thereto set out on pages 14 to 113 are prepared in accordance with the source documents and present truly and fairly the financial position of the Company and the Group as at 31 December 2021 and 2020, and the results of their operations, changes in the shareholders' equity and cash flows for the years then ended.

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

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

Reinis Bērziņš
Chairman of the Management Board

Statement of Comprehensive Income

All amounts in thousands of euro

	Notes	Group 01.01.2021.-31.12.2021.	Group 01.01.2020.-31.12.2020.	Company 01.01.2021.-31.12.2021.	Company 01.01.2020.-31.12.2020.
Interest income	4	18 857	16 442	18 857	16 442
Interest expense	5	(2 140)	(1 870)	(2 140)	(1 870)
Net interest income		16 717	14 572	16 717	14 572
					-
Income for implementation of state aid programmes	6	4 446	6 526	5 718	6 526
Expenses to be compensated for implementation of state aid programmes	7	(3 829)	(5 950)	(5 101)	(5 950)
Net income for implementation of state aid programmes		617	576	617	576
					-
Gains / (losses) from trading securities and foreign exchange translation	8	51	(56)	51	(56)
Share of gain / (losses) of investment in associate and other investments	17, 18	(1 382)	(2 094)	(1 652)	(2 094)
Remeasurement gain of investment in associate at fair value through profit or loss	17	2 817	288	2 817	288
Gains less losses from liabilities at fair value through profit or loss	30	1 321	1 908	1 591	1 908
Other income	9	3 221	3 053	3 221	3 053
Other expense	10	(1 509)	(1 065)	(1 509)	(1 145)
Operating income before operating expenses		21 853	17 182	21 853	17 102
					-
Staff costs	11	(5 795)	(5 416)	(5 795)	(5 416)
Administrative expense	12	(1 893)	(1 831)	(1 893)	(1 831)
Amortisation of intangible assets and depreciation of property, plant and equipment	23, 24	(935)	(916)	(935)	(916)
Impairment gain / (loss), net	13	599	(3 480)	599	(3 400)
Profit before corporate income tax		13 829	5 539	13 829	5 539
Profit for the period		**13 829**	**5 539**	**13 829**	**5 539**
Other comprehensive income:		(515)	(1 426)	(515)	(1 426)
Items to be reclassified to profit or loss in subsequent periods Net loss from financial assets measured at fair value through other comprehensive income	38	(515)	(1 426)	(515)	(1 426)
Total comprehensive income for the period		**13 314**	**4 113**	**13 314**	**4 113**
Profit is attributable to:					
Owners of the Company		13 829	5 539	-	-
Non-controlling interest		-	-	-	-
Profit for the period		**13 829**	**5 539**	**-**	**-**
Total comprehensive income is attributable to:					
Owners of the Company		13 314	4 113	-	-
Non-controlling interest		-	-	-	-
Total comprehensive income for the period		**13 314**	**4 113**	**-**	**-**

The accompanying notes on pages 18 through 113 form an integral part of these financial statements.

Reinis Bērziņš
Chairman of the Management Board

Kaspars Gibeiko
Chief Accountant

30 March 2022

Statement of Financial Position

All amounts in thousands of euro

	Notes	Group 31.12.2021.	Group 31.12.2020	Company 31.12.2021.	Company 31.12.2020
Assets					
Due from credit institutions and the State Treasury	14	455 006	359 949	455 006	359 949
Financial assets at fair value through profit or loss	16	-	5 425	-	-
Financial assets at fair value through other comprehensive income - investment securities	15	14 051	36 958	14 051	36 958
Financial assets at amortised cost:					
Investment securities	15	37	441	37	441
Loans and receivables	19	330 530	313 268	330 530	313 268
Grants	20	45 397	31 107	45 397	31 107
Deferred expense	26	642	749	642	749
Accrued income	27	1 424	772	1 424	772
Other investments	18	8 936	7 503	8 936	7 503
Investments in associates					
Investments accounted for using the equity method	17	51 727	32 969	51 727	32 969
Investments accounted for using the FVTPL method	17	13 222	15 019	13 222	15 019
Investments in subsidiaries	22	-	-	-	4 879
Investment property	21	46 164	36 758	46 164	36 758
Property, plant and equipment	24	4 570	4 717	4 570	4 717
Intangible assets	23	1 256	1 398	1 256	1 398
Other assets	25	3 242	3 671	3 242	3 636
Total assets		**976 204**	**850 704**	**976 204**	**850 123**
Liabilities					
Due to credit institutions	28	53 416	65 855	53 416	65 855
Due to general government entities	29	121 348	103 520	121 348	103 520
Financial liabilities at amortised cost - Issued debt securities	34	85 558	65 522	85 558	65 522
Deferred income		5 747	4 991	5 747	4 991
Accrued expense	33	806	857	806	937
Provisions	31	34 466	32 501	34 466	32 501
Support programme funding	30	230 287	191 963	230 287	191 963
Other liabilities	32	3 840	2 901	3 840	2 901
Total liabilities		535 468	468 110	535 468	468 190
Equity					
Share capital	35	204 862	204 862	204 862	204 862
Reserves	36	221 347	170 321	221 347	170 319
Revaluation reserve of financial assets measured at fair value through other comprehensive income	38	698	1 213	698	1 213
Retained earnings		13 829	5 539	13 829	5 539
Net assets attributable to the Company's owners		440 736	381 935	440 736	381 933
Non-controlling interest		-	659	-	-
Total equity		440 736	382 594	440 736	381 933
Total equity and liabilities		**976 204**	**850 704**	**976 204**	**850 123**

The accompanying notes on pages 18 through 113 form an integral part of these financial statements.

Reinis Bērziņš
Chairman of the Management Board

Kaspars Gibeiko
Chief Accountant

30 March 2022

Consolidated Statement of Changes in Equity

All amounts in thousands of euro

	Attributable to owners of the Company					
	Share capital	**Reserves**	**Revaluation reserve of financial assets measured at fair value through other comprehensive income**	**Retained earnings**	**Non-controlling interest**	**Total equity**
As at 1 January 2020	**204 862**	**16 565**	**2 638**	**8 131**	**542**	**232 738**
Profit for the period	-	-	-	5 539	-	5 539
Other comprehensive income	-	-	(1 425)	-	-	(1 425)
Total comprehensive income	-	-	(1 425)	5 539	-	4 114
Increase of reserve capital (Note 36)	-	145 626	-	-	-	145 626
Distribution of 2019 profit of the Company (Note 36)	-	8 131	-	(8 131)	-	-
Non-controlling interest	-	-	-	-	117	117
As at 31 December 2020	**204 862**	**170 321**	**1 213**	**5 539**	**659**	**382 594**
Profit for the period	-	-	-	13 829	-	13 829
Other comprehensive income	-	-	(515)	-	-	(515)
Total comprehensive income	-	-	(515)	13 829	-	13 314
Increase of reserve capital (Note 36)	-	45 489	-	-	-	45 489
Distribution of 2020 profit of the Company (Note 36)	-	5 539	-	(5 539)	-	-
Distribution of Specific Reserves to General reserve capital at distribution of the profit for year 2020	-	6 429	-	-	-	6 429
Distribution of Specific Reserves to General reserve capital at distribution of the profit for year 2020	-	(6 429)	-	-	-	(6 429)
Non-controlling interest	-	(2)	-	-	(659)	(661)
As at 31 December 2021	**204 862**	**221 347**	**698**	**13 829**	**-**	**440 736**

The accompanying notes on pages 18 through 113 form an integral part of these financial statements.

Company's Statement of Changes in Equity

All amounts in thousands of euro

	Share capital	**Reserves**	**Revaluation reserve of financial assets measured at fair value through other comprehensive income**	**Retained earnings**	**Total equity**
As at 1 January 2020	**204 862**	**16 563**	**2 638**	**8 131**	**232 194**
Profit for the period	-	-	-	5 539	5 539
Other comprehensive income	-	-	(1 425)	-	(1 425)
Total comprehensive income	-	-	(1 425)	5 539	4 114
Increase of reserve capital (Note 36)	-	145 626	-	-	145 626
Distribution of 2019 profit (Note 36)	-	8 131	-	(8 131)	-
As at 31 December 2020	**204 862**	**170 319**	**1 213**	**5 539**	**381 933**
Profit for the period	-	-	-	13 829	13 829
Other comprehensive income	-	-	(515)	-	(515)
Total comprehensive income	-	-	(515)	13 829	13 314
Increase of reserve capital (Note 36)	-	45 489	-	-	45 489
Distribution of 2020 profit (Note 36)	-	5 539	-	(5 539)	-
Distribution of Specific Reserves to General reserve capital at distribution of the profit for year 2020	-	6 429	-	-	6 429
Distribution of Specific Reserves to General reserve capital at distribution of the profit for year 2020	-	(6 429)	-	-	(6 429)
As at 31 December 2021	**204 862**	**221 347**	**698**	**13 829**	**440 736**

The accompanying notes on pages 18 through 113 form an integral part of these financial statements.

Statement of Cash Flows

All amounts in thousands of euro

	Notes	Group 01.01.2021.- 31.12.2021.	Group 01.01.2020.- 31.12.2020.	Company 01.01.2021.- 31.12.2021.	Company 01.01.2020.- 31.12.2020.
Cash and cash equivalents at the beginning of period		359 949	176 199	359 949	176 047
Cash flows from operating activities					
Profit before taxes		13 829	5 539	13 829	5 539
Amortisation of intangible assets and depreciation of property, plant and equipment	23,24	935	916	935	916
Interest income	4	(18 857)	(16 441)	(18 857)	(16 441)
Interest received		16 334	13 002	16 334	13 002
Interest expenses	5	2 140	1 870	2 140	1 870
Interests paid		(1 297)	(1 328)	(1 297)	(1 328)
(Decrease) / Increase in impairment allowances	13	(599)	3 480	(599)	3 400
(Decrease) of cash and cash equivalents from operating activities before changes in assets and liabilities		**12 485**	**7 038**	**12 485**	**6 958**
Decrease of due from credit institutions		-	5 000	-	5 000
(Increase) of loans	19	(17 262)	(93 569)	(17 262)	(93 569)
(Increase) of grants	20	(14 447)	(14 084)	(14 447)	(14 084)
Increase of due to credit institutions and general government entities	28, 29	5 388	53 561	5 388	53 561
Increase in deferred income and accrued expense		626	2 280	626	2 360
(Increase) / Decrease in deferred expense and accrued income	26,27	(545)	822	(545)	822
(Increase) / Decrease of other assets	25	394	(101)	394	(66)
Increase in other liabilities		62 916	61 019	62 916	60 995
Net cash flows from operating activities		**49 555**	**21 966**	**49 555**	**21 977**
Cash flows from investment activities					
Sale of investment securities	15	23 500	12 830	23 500	12 830
Acquisition of property, plant and equipment and intangible assets	23,24	(824)	(1 037)	(824)	(1 037)
Purchase of investment properties	21	(7 150)	(11 696)	(7 150)	(11 696)
Sale of investment properties	21	211	42	211	42
Other investments	18	(4 723)	(7 252)	(4 723)	(7 252)
Investments in associates, net	17	(6 355)	4 305	(6 355)	4 305
Investments of subsidiaries in underlying undertakings	16	(2 924)	(1 208)	-	-
Investments in subsidiaries	22	-	-	(2 924)	(1 067)
Net cash flows from investing activities		**1 735**	**(4 016)**	**1 735**	**(3 875)**
Cash flows from financing activities					
Issued debt securities	34	20 845	20 174	20 845	20 174
Increase of reserve capital	36	22 923	145 626	22 923	145 626
Net cash flow from financing activities		**43 768**	**165 800**	**43 768**	**165 800**
Increase in cash and cash equivalents		95 058	183 750	95 058	183 902
Cash and cash equivalents at the end of period		**455 007**	**359 949**	**455 007**	**359 949**

The accompanying notes on pages 18 through 113 form an integral part of these financial statements.

Approval of the Financial Statements

The management of the Company has approved these financial statements on 30 March 2022. The Commercial Law of the Republic of Latvia as well as Development Finance Institution Law stipulates that the shareholders' meeting is entitled to pass a decision on approval of the financial statements.

1 General Information

(1) Corporate Information

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

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

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

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

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

1 General Information (cont'd)

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

Legal Tittle	Legal Address	Investment % in share capital
Venture capital funds that were classified as Subsidiaries until 31 December 2021, following a control assessment as at 31 December 2021, are classified as Associates *		
KS Overkill Ventures Fund I	Dzirnavu iela 105, Rīga, Latvija, LV-1011	100
KS Buildit Latvia Pre-Seed Fund	Sporta iela 2, Rīga, Latvija, LV-1013	100
KS Commercialization Reactor Pre-seed Fund	Brīvības gatve 300 -9, Rīga, Latvija	100
KS INEC 1	Krišjāņa Barona iela 32-7, Rīga, Latvija, LV-1011	75
KS INEC 2	Krišjāņa Barona iela 32-7, Rīga, Latvija, LV-1011	90
Venture capital funds classified as Associates		
KS Overkill Ventures Fund II	Dzirnavu iela 105, Rīga, Latvija, LV-1011	80
KS Buildit Latvia Seed Fund	Sporta iela 2, Rīga, Latvija, LV-1013	80
KS Commercialization Reactor Seed Fund	Brīvības gatve 300 -9, Rīga, Latvija	80
KS ZGI-4	Daugavgrīvas iela 21, Rīga, Latvija, LV-1048	60
FlyCap Mezzanine Fund II	Matrožu iela 15A, Rīga, Latvija, LV-1048	60
KS Baltcap Latvia Venture Capital Fund	Jaunmoku iela 34, Rīga, Latvija, LV-1046	67
KS Imprimatur Capital Technology Venture Fund	Elizabetes iela 85a-18, Rīga, Latvija, LV-1050	67
KS Imprimatur Capital Seed Fund	Elizabetes iela 85a-18, Rīga, Latvija, LV-1050	100
KS ZGI-3	Daugavgrīvas iela 21, Rīga, Latvija, LV-1048	95
KS FlyCap investment Fund	Matrožu iela 15A, Rīga, Latvija, LV-1048	95
KS Expansion Capital fund	Krišjāņa Barona iela 32-7, Rīga, Latvija, LV-1011	95
Baltic Innovation Fund	European Investment Fund, 37B, avenue J.F. Kennedy, L-2968 Luxembourg	20
KS AIF "Altum capital fund"	Doma laukums 4, Rīga, Latvija, LV-1050	48.9

* See Note 2 (2) item (i).

2 Accounting Policies

(1) Basis of presentation

These Group's and the Company's financial statements are financial statements prepared in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union, on a going concern basis. In preparation of these financial statements on a going concern basis the management considered the Group's / Company's financial position, access to financial resources and analysed the impact of the external factors on future operations of the Group / Company. For detailed disclosure on the impact of Covid-19 on the Group / Company see Note 3 (8). For detailed disclosure on the impact of the conflict in Ukraine to the Group / Company see Note 42.

The Group's and the Company's financial statements are prepared under the historical cost convention as modified by the fair valuation of financial assets measured at fair value through other comprehensive income, derivative financial instruments and investment properties and support programme financing.

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

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

2 Accounting Policies (cont'd)

(2) Consolidation and investments in associates

(i) Consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2021.

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

Financial statements of the parent company and of the consolidated subsidiaries refer to the same period and have been drawn up according to the accounting policies applicable to the Group. A subsidiary is included in the consolidated financial statements from the time of acquisition, being the date when the parent company gains control over the subsidiary. The subsidiary is included in the consolidated financial statements until the date when control over the company ceases to exist. The entities of the Group are listed in Note 22. As a result of annual assessment re existence of control or significant influence over subsidiaries (see Note 2 (16) item (vii)) the Company's subsidiaries are not classified as subsidiaries as of 31 December 2021. Accordingly the Statement of Comprehensive Income includes financial results of those companies for the year 2021 until 30 December 2021 and the Statement of Financial Position as at 31 December 2021 is the Company's financial position only.

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

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

(ii) Investments in associates

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

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

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

(3) Foreign currency translation

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

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

2 Accounting Policies (cont'd)

(3) Foreign currency translation (cont'd)

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

31.12.2021	31.12.2020
1 USD = EUR 1.13260	1 USD = EUR 1.22710
1 GBP = EUR 0.84028	1 GBP = EUR 0.89903

(4) Income and expense recognition

Income and expense accounting of the Group / Company is based on accrual basis, i.e., income and expense, pertaining to the reporting period, are included in the statement of comprehensive income regardless of the day of their receipt or origination.

(i) Foreign income and expense

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

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

(ii) Interest income and expense

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

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

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

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

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

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

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

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

If pricing for credit risk is covered by the Risk Coverage Reserve or Portfolio Loss Reserve, such cost component for credit risk coverage in pricing is excluded from interest income on loans and commissions from financial guarantees charged for customers. See also Note 2 (16) item (i) and Note 30.

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

2 Accounting Policies (cont'd)

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

(i) Initial recognition

Financial instruments at fair value through profit or loss (FVTPL) are initially recorded at fair value. All other financial instruments are initially recorded at fair value adjusted for transaction costs. Fair value at initial recognition is best evidenced by the transaction price. In cases transaction price is lower than the fair value of guarantee provided due to the fact that the price difference is covered by public funding for expected credit loss classified within Risk Coverage Reserve, the Day 1 loss is directly allocated to Risk Coverage Reserve. See also Note 2 (16) (i). In cases transaction price is lower than the fair value of guarantee provided due to the fact that the price difference is covered by public funding for expected credit loss classified within Portfolio Loss Reserve (special reserve capital in equity), the Day 1 loss is charged to profit or loss and will be covered from Portfolio Loss Reserve by transfer to Retained earnings or General reserve capital upon approval of respective year annual accounts according to respective shareholder decision. See also Note 2 (16) item (i).

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

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

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

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

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

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

a) solely to collect the contractual cash flows from the assets ("hold to collect contractual cash flows",) or

b) to collect both the contractual cash flows and the cash flows arising from the sale of assets ("hold to collect contractual cash flows and sell") or,

c) if neither of (a) and (b) is applicable, the financial assets are classified as part of "other" business model and measured at FVTPL.

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

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

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

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

2 Accounting Policies (cont'd)

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

(v) Financial assets – reclassification

Financial instruments are reclassified only when the business model for managing the portfolio as a whole changes. The reclassification has a prospective effect and takes place from the beginning of the first reporting period that follows after the change in the business model.

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

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

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

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

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

Stage 3 includes financial instruments which are credit-impaired.

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

Measurement of expected credit losses

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

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

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

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

2 Accounting Policies (cont'd)

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

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

Definition of default and credit-impaired financial assets

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

Determining a significant increase in credit risk since initial recognition

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

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

Expected lifetime

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

Modifications

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

Estimates

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

Presentation of credit loss allowance

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

2 Accounting Policies (cont'd)

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

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

Presentation of credit loss allowance (cont'd)

For loan commitments, grant commitments and financial guarantee contracts, such allowance is presented as a liability (provisions) in the Group's / Company's statement of financial position.

For debt instruments measured at FVOCI (investment securities), changes in amortised cost reduced by credit loss allowance for ECL are recognised as profit or loss and other changes in gross carrying value are recognised in the OCI as gains less losses on debt instruments measured at FVOCI.

A write-off reduces the gross carrying amount of a financial asset. Write-offs are recognised when the amount of loss is ultimately determined and represent the amount before the utilisation of any previous impairment allowances. Any subsequent recoveries of write-offs or credit loss allowance are recognised in profit or loss statement.

(vii) Financial assets – write-off

Financial assets are written-off, in whole or in part, when the Group / Company exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a derecognition event. The Group / Company may write-off financial assets that are still subject to enforcement activity when the Group / Company seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery.

(viii) Financial assets – derecognition

The Group / Company derecognises financial assets when:

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

(ix) Financial assets – modification

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

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

In a situation where the renegotiation was driven by financial difficulties of the counterparty and inability to make the originally agreed payments, the Group / Company compares the original and revised expected cash flows to assets whether the risks and rewards of the asset are substantially different as a result of the contractual modification. If the difference in present value of the expected cashflows is not significant, the modified asset is not substantially different from the original asset and the modification does not result in derecognition. The Group / Company recalculates the gross carrying amount by discounting the modified contractual cash flows by the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit impaired (POCI) financial assets), and recognises a modification gain or loss in profit or loss.

(x) Financial liabilities – measurement categories

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

2 Accounting Policies (cont'd)

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

(xi) Financial liabilities – derecognition

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

(xii) Due from credit institutions and the Treasury

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

(xiii) Derivative financial instruments

Derivative financial instruments including foreign currency swaps are initially recognised at fair value and subsequently measured at their fair value. Fair values are obtained from quoted market prices and discounted cash flow models as appropriate. Derivatives are recognized as assets when their fair value is positive and as liabilities when the their fair value is negative. Changes in the fair value of derivatives are reported in the profit or loss. The Group / Company does not use hedge accounting.

(xiv) Investment securities

Based on the business model and the cash flow characteristics, the Group / Company classifies investments in securities as carried at AC or FVOCI.

Investment securities are carried at AC if they are held for collection of contractual cash flows and where those cash flows represent SPPI, and if they are not voluntarily designated at FVTPL in order to significantly reduce an accounting mismatch. Part of fixed income securities held by the Group / Company are included into this category.

Investment securities are carried at FVOCI if they are held for collection of contractual cash flows and for selling, where those cash flows represent SPPI, and if they are not designated at FVTPL. Interest income from these assets is calculated using the effective interest method and recognised in profit or loss. An impairment allowance estimated using the expected credit loss model is recognised in profit or loss for the year. All other changes in the carrying value are recognised in OCI. When the debt security is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from OCI to profit or loss. Treasury bills, fixed income securities are included into this financial assets' measurement category.

(xv) Loans

For purposes of this section, loans are:

- direct lending products, i.e., the Group / Company grants a loan to a borrower, who is the end beneficiary of the funds issued. Direct lending products include Reverse rent transaction,
- indirect lending products, i.e., the Group / Company issues a loan to a borrower, who is an intermediary. The intermediary then grants the received loan further to borrowers, who are the end beneficiaries of the funds. The Group / Company recognizes expected credit loss either (i) resulting from solvency problems of the borrower / end beneficiary solely or (ii) resulting from both solvency problems of the intermediary and solvency problems of the borrower / end beneficiary, proportionate to the share of risk,

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

Based on the business model and the cash flow characteristics, the Group / Company classifies loans measured at AC. It means, that loans are held for collection of contractual cash flows.

2 Accounting Policies (cont'd)

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

(xv) Loans (cont'd)

Loan commitments

The Group / Company issues commitments to provide loans. These commitments are irrevocable or revocable only in response to a material adverse change. Fees received for loan commitments are amortised on a straight-line basis over the life of the commitment. Further on such loan commitment, fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at the remaining unamortised balance (on off-balance sheet) of the amount at initial recognition plus the amount of the loss allowance (on-balance sheet) determined based on the ECL model, unless the commitment is to provide a loan at an interest rate below the market rate, in which case the measurement is at the higher of these two amounts.

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

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

Reverse rent

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

Repossessed collateral

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

(xvi) Grants

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

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

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

(xvii) Financial guarantees

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

2 Accounting Policies (cont'd)

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

(xvii) Financial guarantees (cont'd)

The outstanding amount of the financial guarantees contracts is presented as a liability within off-balance sheet (Note 37).

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

(xviii) Financial liabilities carried at amortised cost

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

(xix) Issued debt securities

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

(xx) Financial liabilities designated at FVTPL

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

(6) Investments in venture capital funds

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

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

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

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

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

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

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

2 Accounting Policies (cont'd)

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

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

The Group / Company use the Risk Coverage Reserve (see Note 2 (16) item (i)) which is part of the support programme funding to compensate the change in the values of venture capital funds. The risk coverage mechanism is attributable to the 2nd and 3rd generation venture capital funds, such as BaltCap Latvia Venture Capital Fund, Imprimatur Capital Technology Venture Fund, Imprimatur Capital Seed Fund, ZGI-3 fund, FlyCap Investment Fund I un Expansion Capital Fund, as well as to the part of the 4th generation venture capital funds such as Overkill Ventures Fund II, Buildit Latvia Seed Fund, Commercialization Reactor Seed Fund, ZGI-4 fund and FlyCap Mezzanine Fund II.

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

(ii) Investments in the Baltic Innovation Fund

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

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

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

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

(iii) Investments in subsidiaries

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

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

(iv) Investments of subsidiaries in underlying undertakings

Investments of subsidiaries in underlying undertakings are measured at FVTPL, except where the Group elects at initial recognition to irrevocably designate equity investments at FVOCI. Dividends continue to be recognised in profit or loss when return on such investment.

(v) Other Investments

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

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

2 Accounting Policies (cont'd)

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

(vi) Other accounting issues

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

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

- management fees to the 2nd, 3rd and 4th generation VCFs' managers for implementation of the financial engineering instruments (see Notes 6, 7 and 30). This coverage mechanism is valid for the all generation VCFs (see Note 17) as well as for Baltic Innovation Fund from the December 2017 (see Note 17) and Baltic Innovation Fund II from June 2019 (see Note 18).
- all costs including management fee incurred by the Group / Company as investor in AIF "Altum capital fund" are covered by the Portfolio Loss Reserve from September 2020 (see Note 17).
- value impairment of the investments of the financial engineering instruments due to valuation or revaluation (see Note 17). This coverage mechanism is valid for the 2nd, 3rd and 4th generation VCFs as well as for AIF "Altum capital fund" (see Note 17).

(7) Fair values of assets and liabilities

Fair value is the price that would be received when selling an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. Fair values of financial assets and liabilities, including derivative financial instruments, are based on market prices quoted in active markets. If the market for a financial asset or liability (and for unlisted securities) is not active, the Group / Company establishes fair value by using valuation techniques. These include the use of discounted cash flow analysis, option pricing models and recent comparative transactions as appropriate. Where, in the opinion of the Management of the Group / Company, the fair values of financial assets and liabilities differ materially from their book values, such fair values are separately disclosed in the notes to the accounts.

The Group / Company measures financial assets, such as derivatives, part of investments securities, investments in Baltic Innovation Fund, non-financial assets such as investment properties, investments in alternative investment funds, and financial liabilities such as Support Programme funding, at fair value at each balance sheet date. The information about financial and non-financial assets and liabilities, which are measured at fair value or which values are disclosed, are summarised in the following notes:

Disclosures for valuation methods, significant estimates and assumptions	Note 2 (5), 2 (6), 2 (8), 2 (9), 2 (15), 2 (16)
Quantitative disclosures of fair value measurement hierarchy	Note 40
Investment property	Note 2 (9) item (iv)
Financial instruments including those carried at amortised cost	Note 2 (5)

(8) Off-setting financial instruments

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

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

(i) Intangible assets

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

2 Accounting Policies (cont'd)

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

(ii) Property, plant and equipment and depreciation

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

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

The annual depreciation rates applied are as follows:

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

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

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

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

(iii) Impairment of non-financial assets

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

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

(iv) Investment property

Investment property comprises land or buildings, which are held in order to earn rentals or for capital appreciation or both, and which are not occupied by the Group / Company or otherwise held for sale. Property rented out under operating lease is classified as investment property if, and only it meets the definition of an investment property.

2 Accounting Policies (cont'd)

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

(iv) Investment property (cont'd)

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

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

(v) Repossessed collateral (included in Other assets)

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

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

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

(vi) Assets held for sale

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

2 Accounting Policies (cont'd)

(10) Leases

The Group / Company recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The Group / Company applies optional exemptions for short-term leases and leases of low-value items.

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

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

Company assesses whether:

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

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

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

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

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

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

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

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

2 Accounting Policies (cont'd)

(10) Leases (cont'd)

Lease liabilities are subsequently measured when there is a change in future lease payments due to changes of an index or a rate, when the Group's / Company's estimate of expected payments changes, or when the Group / Company changes its estimate of the purchase option, lease term modification due to extension or termination. When a lease liability is subsequently measured, the corresponding adjustment is made to the carrying amount of the right–of–use asset or recognised in the statement of comprehensive income if the carrying amount of the right–of–use asset decreases to zero.

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

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

(11) Corporate income tax

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

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

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

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

(12) Provisions

The Group's / Company's contingent liabilities and off-balance sheet items consist of financial guarantees, loan commitments, grant commitments as well as commitment to associates and other investments (see Note 31). Provisions include impairment allowances for expected credit losses for loan commitments, grant commitments and financial guarantees are presented in Note 2 (5) item (vi).

(13) Vacation reserve

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

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

(14) Employee benefits

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

2 Accounting Policies (cont'd)

(15) Support programme funding

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

The fair value of the liability established in this manner as of 1 January 2018 consists of the already carried Support programme funding coupled with the state aid portion adjusted for the part of the future cash flow pertaining of additional payments / to reduction of additional payments due to value appreciation or impairment of the associated assets, i.e. the liability is recognised to the extent that corresponds to the liability's repayment amount established for the Group / Company. In determining the fair value of support programmes funding, the Group / Company applied a discount rate of 1% (in 2020; 1.5%)

Support programme funding includes the Risk Coverage Reserve that can be used for covering the Group's / Company's credit risk losses. For accounting of Risk Coverage Reserve see Note 2 (16) item (i). See detailed information on Risk Coverage Reserve also in Note 2 (4) item (ii), Note 2 (5) item (i), Note 2 (6) items (i) and (ii) and Note 30.

(16) Critical accounting estimates and judgements

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

(i) Expected credit losses

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

In assessment of expected loss for the programme the Group / Company evaluates incorporated credit risk considering the Group's / Company's activities in high-risk areas operational risk and other risks like market risks. Since the Group's / Company's client in majority of support programmes is not entitled to cover the full charge of expected credit risk in, then for coverage of the programme's expected loss on credit risk respective portion of public funding available for that programme is allocated at full or partial extent of total expected credit loss depending on the agreed programme's structure and as such is earmarked for the credit risk loss coverage. before implementation of that programme. That public funding part allocated for the coverage of programme's expected loss on credit risk is transferred to particular support programme reserve capital within the Group's / Company's Specific reserves for support programmes and classified as Portfolio Loss Reserve (see Note 36), or accounted separately as provisions for risk coverage (Risk Coverage Reserve) classified within the liabilities (see Note 30).

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

2 Accounting Policies (cont'd)

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

(ii) Impairment losses of loans

In order to assess impairment allowance, the management needs to make assumptions regarding the estimated cash flows and their timing related to loans. Significant estimates need to be made in relation to value of the collateral of the loans and advances. The assessment of the collateral includes the amounts of such impairment losses covered by Support programme funding provided by state, see Note 30. Further details disclosed in Note 2 (5) item (vi).

Covid-19 impact

The Group / Company participated in Covid-19 loan moratoria within which upon qualifying client request a deferral of loan principal repayment for a short period of time is allowed. For those clients who have got loan repayment relief by the Group / Company between March 12th, 2020 and the day the moratorium came into force (which was 5 May 2020), the Group / Company has applied the same conditions as under the Covid-19 moratorium by the Finance Latvia Association from 1 July 2020 until 30 September 2020. Cumulative term for the principal payment deferrals under Covid-19 moratoria set by the European Banking Authority was nine months for those requests on the principal payment deferral that were granted up until 31 March 2021. Loans to which the principal payment deferrals were applied (both one-time and repeated) in 2020 and 2021, including those under the Covid-19 moratoria of the Finance Latvia Association, amounted to EUR 31,861 thousand up until 31 December 2021 (up until 31 December 2020: EUR 31,617 thousand). Of these loans up until 31 December 2021, the principal payment deferrals had expired for loans in the amount of EUR 24,080 thousand and the principal payment deferrals had not expired for loans in the amount of EUR 7,781 thousand. Loan principal payment deferrals requested within Covid-19 moratoria framework are exempt from events triggering re-assessment of loan staging unless the SICR criteria are met at the time the principal payment deferrals are applied. Similarly, individual requests to defer principal repayment for short period of time which were not formally requested under Covid-19 moratoria of the Finance Latvia Association after 30 September 2020, but were applied and in their nature were similar, were also excluded. In all cases other risk parameters (including, but not limited to days past due and covenant breaches) were monitored and loan staging applied according to standard procedure. The Group / Company performed an SICR test on an individual basis for all stage 1 loans to which the principal payment deferrals were applied and had not yet expired as at 31 December 2021, and those loans with significant increase in credit risk like loans in Covid-19 sensitive industries were transferred to stage 2 with a corresponding increase in credit loss allowances.

The Group / Company has recognised uncertainty regarding duration and severity of Covid-19 situation and associated possible disruptions to the economy and customers of the Group / Company. Consequently, a prudent new impairment overlay for Stage 1 customer loan exposures was introduced. The impairment overlay represents an additional loss reserve over the modelled ECL amounts to account for other economic uncertainties. It addresses increased uncertainty regarding the forward-looking economic conditions in the current Covid-19 situation. Such future uncertainties which "Point in time" ECL models calibrated on historical data, despite being adjusted with forward looking information, might not be fully capturing in the current unusual environment. As of 31 December 2021, impairment overlay of EUR 1,301 thousand (31 December 2020: EUR 309 thousand) for the Group / Company has been recognised to address these modelling uncertainties.

2 Accounting Policies (cont'd)

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

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

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

	2022	2023	2024
GDP annual growth rate, in %			
Base case scenario *	4.80	3.70	3.40
Adverse scenario **	2.50	3.40	3.40
Weighted average * **	**4.40**	**3.70**	**3.40**

* The base case scenario combines two external scenarios: (i) The macroeconomic development scenario of the Ministry of Finance (published in the Latvian Economic Development Report on 20 December 2021), which projected GDP growth of 5.4% in 2022 and economic growth in the coming years. close to the average growth rate of 3.5% in 2023 and 3.4% in 2024, and (ii) the Bank of Latvia's forecast, published on 17 December 2021, projected GDP growth of 4.2% in 2022 and 4.0% in 2023. For each of the external scenarios - the Ministry of Finance and the Bank of Latvia - a 50% probability of occurrence of the scenario was applied.

** Adverse scenario includes the forecast of the Ministry of Finance (published in the informative report "On Macroeconomic Indicators, Revenues and General Government Budget Balance Forecasts for 2022-2024" of 24 August 2021) - GDP growth rates in 2022 were forecast will decrease to 2.5% per year, while in the coming years economic growth will be close to the average development rate - 3.4% in 2023 and 2024.

*** The base case scenario was weighted at 80% and the negative scenario at 20%. The GDP growth rate forecast for 2022 is used to calculate the 12-month GDP, while the GDP growth rate forecast for 2022-2024 is used to calculate the lifetime GDP.

Changes in the forecasts of macroeconomic indicators were the determining factor in the decrease in credit loss allowance for the year 2021, which resulted in a decrease in credit loss allowance for loans in the amount of EUR 4,221 thousand, in amount of EUR 658 thousand for loan commitments and in the amount of EUR 112 thousand for liabilities for issued financial guarantees.

(iii) Fair value of investments in the VCF

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

(iv) Impairment allowance for securities valued at amortised cost

Similarly as for loans, the Group / Company estimates expected credit losses to reflect changes in credit risk since initial recognition of debt securities. Impairment allowances are recognised based on forward looking information, even if no credit loss event has happened. The assessment considers broad range of information, but as most of these types of exposures are rated, it relies heavily on external credit ratings and rating agencies' reported default rates derived by calculating multi-period rating transition matrices. Credit risk triggers (event of insolvency, any delay of payments, restructuring of debt) and individual credit risk analysis of the issuer are also considered. The Group / Company deems investment grade rated exposures as low credit risk, thus these are assumed no to have experienced a significant increase in credit risk. For non-investment grade exposures decrease in external credit rating by more than 3 notches since acquisition is deemed significant increase in credit risk. Expected credit losses are recognised based on the stage in which the exposure is allocated at the reporting date. 12-month expected credit losses are recognised for Stage 1 exposures, where credit risk since initial recognition has not increased significantly. Lifetime expected credit losses are recognised for Stage 2 exposures whose credit risk has increased significantly since initial recognition and Stage 3 exposures which are credit impaired. Stage 3 exposures, if any were identified, would additionally be subjected to comprehensive evaluation, including comparison to market valuations for similar exposures, analysis of market depth of the respective security, past trading performance and all other available information.

2 Accounting Policies (cont'd)

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

(v) Revaluation of investment properties

The Group / Company carries its investment properties at fair value, with changes in fair value being recognised in the statement of profit or loss. The Group / Company engaged an independent valuation specialist to assess fair value as at 31 December 2021 and 31 December 2020 for investment properties. Investment property consists of agricultural land.

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

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

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

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

KS "Otrais Eko fonds", which was a 1st generation VCF, was sold, followed by its liquidation in November 2020.

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

2 Accounting Policies (cont'd)

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

(vii) Classification of the 4th generation VCFs

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

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

As a result of annual assessment re existence of control or significant influence over subsidiaries the Company's subsidiaries are not classified as subsidiaries as of 31 December 2021. That is driven by the fact that the Company doesn't exercise one of the core control indicator – doesn't have the power over the particular investment object – (i) the investment decision made by the Fund's manager can't be cancelled unless it is not compliant with the Fund's investment strategy, AML assessment and state support criteria, and (ii) the investment deal's structure can't be affected.

The Group / Company has to monitor the implementation of financing instruments, select financial intermediaries according to legal acts and aim to increase the value of Fund of Funds. The Group / Company could stop the cooperation with the VCFs managers only in cases when the VCFs managers cease their operations or illegal actions would be discovered. Under these circumstances, the VCFs in question would either be closed – the liquidation process would be initiated, no new investments would be made or a search for a new fund manager would be initiated through public tender. The selection of a fund manager for implementation of the state aid programmes requires following the legislation on public tenders, as would the change of fund managers. According to the law, the replacement of the fund manager can occur only as a result of reorganization and selection procedure is costly and time-consuming. The disruption of the cooperation with the fund manager would put under threat the implementation of State and EU support programs which is the main goal of the Group / Company given it is a finance development institution.

(viii) Investments of AIF "Altum Capital Fund" in equity instruments

According to the accounting policy of AIF "Altum Capital Fund", it operates as an investment entity because the following criteria set out in IFRS 10 "Consolidated Financial Statements" are met – (i) AIF "Altum Capital Fund" obtains funds for investments from several investors for the purpose of providing those investors with investment management services, (ii) AIF "Altum Capital Fund" commits to its investors that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both and (iii) AIF "Altum Capital Fund" measures and evaluates investments at fair value. Therefore, AIF "Altum Capital Fund" does not consolidate its investments in the underlying equity instruments are not consolidated.

2 Accounting Policies (cont'd)

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

(ix) Monitoring value of investments in VCFs

2nd, 3rd and 4th generation VCFs

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

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

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

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

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

AIF "Altum Capital Fund"

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

2 Accounting Policies (cont'd)

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

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

AIF "Altum Capital Fund" (cont'd)

Carrying value of investments made by the VCFs on AIF "Altum Capital Fund" financial statement are recorded at fair value complying with the Group`s / Company's accounting policy. Fair value is reported on the VCF's Quarterly Investment Reports. The fair value of financial instruments is determined by applying various valuation techniques, or a combination thereof depending on the specific nature of the investment and the information available to support the underlying assumptions. The choice of methods is prioritized as follows – (i) the fair value of financial instruments publicly quoted on regulated market is always determined by reference to their market bid price at the reporting date, (ii) third party quoted market prices in active markets, (iii) transactions in comparable financial instruments of comparable entities on or outside regulated markets and (iv) discounted cash flow. The valuation process and the necessary data gathering and their analysis are carried out by the Investment Director who is responsible for managing the specific investment. In addition, each assessment is evaluated and approved by another Investment Director. The results of the analysis are presented in an Investment Valuation Report and submitted quarterly to the VCF's Investment Committee for review. Unless the Investment Committee of AIF "Altum Capital Fund" requires changes or additions to a valuation report, it is submitted to the Accounting Department to record the changes in the investment value.

(x) Reverse rent

Exploring the options for recording of reverse rent transactions and IFRS compliance, the management based its opinion on the subject matter of the transaction and its economic justification rather than the legal form. As part of assessment of these transactions, the management paid much attention to exercising of the reverse repurchase right of the lessee.

(xi) Agent vs Principal

For majority of state aid programs, the Group / Company considers that it acts as a Principal. The management of the Group / Company believes that the Group / Company is a Principal since the loan agreements concluded with the clients entail contractual rights to loan repayments from the borrowers or other beneficiaries of the investments. Moreover, the loan agreements are concluded for full amount of the loan and granted loans are carried as assets in the Group's / Company's statement of financial position. The investments made comply with the definition of an asset. The Group / Company is responsible for providing of the service and can affect the interest rate. However, some programmes have been imposed with a limit on the interest rates that cannot be exceeded. The Group / Company believes that the Group / Company is a Principal also for state aid programs, which are based on guarantee products, since the Group / Company is exposed to the risk of such guarantee agreements concluded with the clients.

The Group / Company recognises its expenses due to impairment of the loans, guarantees or changes of value of venture capital funds in profit or loss for the portion of impairment that refers to the Group / Company (ranging from 20% to 100%). The portion of losses that the government reimburses by decreasing the amount of the loan repayable to the government, does not affect the Group's / Company's profit or loss as the loan received from the government is debited. Assets and liabilities are presented in gross values.

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

(xii) Loans below market rate

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

2 Accounting Policies (cont'd)

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

(xii) Loans below market rate

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

Further details on guarantees are disclosed in Notes 13 and 37.

The funding received from the state can be classified into three categories – equity financing (about guarantees see Note 2 (5) item (xviii), Notes 13 and 37), loans received from the State Treasury (see Notes 19 and 29) and support programmes funding (see Note 30).

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

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

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

- **Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement", IFRS 7 "Financial Instruments: Disclosures", IFRS 4 "Insurance Contracts" and IFRS 16 "Leases"** - Interest Rate Benchmark Reform — Phase 2 adopted by the EU on 13 January 2021 (effective for annual periods beginning on or after 1 January 2021),
- **Amendments to IFRS 16 "Leases"** - Covid-19-Related Rent Concessions beyond 30 June 2021 adopted by the EU on 30 August 2021 (effective from 1 April 2021 for financial years starting, at the latest, on or after 1 January 2021),
- **Amendments to IFRS 4 Insurance Contracts "Extension of the Temporary Exemption from Applying IFRS 9"** adopted by the EU on 16 December 2020 (the expiry date for the temporary exemption from IFRS 9 was extended from 1 January 2021 to annual periods beginning on or after 1 January 2023).

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

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

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

- **Amendments to IAS 1 "Presentation of Financial Statements"** - Disclosure of Accounting Policies adopted by the EU on 2 March 2022 (effective for annual periods beginning on or after 1 January 2023),
- **Amendments to IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"** – Definition of Accounting Estimates adopted by the EU on 2 March 2022 (effective for annual periods beginning on or after 1 January 2023),
- **Amendments to IAS 16 "Property, Plant and Equipment"** - Proceeds before Intended Use adopted by the EU on 28 June 2021 (effective for annual periods beginning on or after 1 January 2022),
- **Amendments to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"** - Onerous Contracts - Cost of Fulfilling a Contract adopted by the EU on 28 June 2021 (effective for annual periods beginning on or after 1 January 2022),
- **Amendments to IFRS 3 "Business Combinations"** - Reference to the Conceptual Framework with amendments to IFRS 3 adopted by the EU on 28 June 2021 (effective for annual periods beginning on or after 1 January 2022),
- **IFRS 17 "Insurance Contracts"** including amendments to IFRS 17 issued by IASB on 25 June 2020 - adopted by the EU on 19 November 2021 (effective for annual periods beginning on or after 1 January 2023),

2 Accounting Policies (cont'd)

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

- **Amendments to various standards due to "Improvements to IFRSs (cycle 2018 -2020)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 9, IFRS 16 and IAS 41) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 28 June 2021 (The amendments to IFRS 1, IFRS 9 and IAS 41 are effective for annual periods beginning on or after 1 January 2022. The amendment to IFRS 16 only regards an illustrative example, so no effective date is stated.).

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

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards and amendments to the existing standards, which were not endorsed for use in EU as at 31 March 2022 (the effective dates stated below is for IFRS as issued by IASB):

- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- **Amendments to IAS 1 "Presentation of Financial Statements"** - Classification of Liabilities as Current or Non-Current (effective for annual periods beginning on or after 1 January 2023),
- **Amendments to IAS 12 "Income Taxes"** - Deferred Tax related to Assets and Liabilities arising from a Single Transaction (effective for annual periods beginning on or after 1 January 2023),
- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),
- **Amendments to IFRS 17 "Insurance contracts"** - Initial Application of IFRS 17 and IFRS 9 – Comparative Information (effective for annual periods beginning on or after 1 January 2023).

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

3 Risk Management

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

The following major risk management principles are followed:

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

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

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

(1) Credit Risk

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

(i) Credit Risk Governance

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

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

3 Risk Management (cont'd)

(1) Credit Risk (cont'd)

(ii) Credit Risk Assessment and Monitoring

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

To maintain a well-diversified credit portfolio with a low-risk profile and to find a favourable balance between risk and return, the Group / Company works continuously to understand the customers and their market conditions. When the Group / Company considers a credit application, a thorough analysis is performed which includes the customer's or cooperation partner's capacity and willingness to repay the new credit as well as other credits. A customer's or cooperation partner's cash flow and solvency are always key variables when deciding on credit and the Group / Company strives to obtain adequate collateral.

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

(iii) Credit Risk Mitigation

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

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

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

Internal rating categories	A	B	C	D	E	F	G	H	Withdrawn rating	Total
Total gross loans	1 339	37 997	44 937	80 624	94 630	29 491	13 219	2 415	29 329	333 981
Impairment allowances	(26)	(425)	(1 326)	(3 219)	(5 391)	(4 831)	(2 518)	(666)	(2 311)	(20 713)
Total net loans as at 31 December 2020	**1 313**	**37 572**	**43 611**	**77 405**	**89 239**	**24 660**	**10 701**	**1 749**	**27 018**	**313 268**
Total gross loans	723	26 862	45 046	114 275	70 599	27 976	19 391	9 247	34 554	348 673
Impairment allowances	(8)	(580)	(2 233)	(5 825)	(2 846)	(840)	(1 556)	(959)	(3 296)	(18 143)
Total net loans as at 31 December 2021	**715**	**26 282**	**42 813**	**108 450**	**67 753**	**27 136**	**17 835**	**8 288**	**31 258**	**330 530**

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

Internal rating categories	A	B	C	D	E	F	G	H	Withdrawn rating	Total
Total gross outstanding guarantees	907	18 082	44 996	53 817	50 424	12 843	4 385	1 623	172 528	359 605
Impairment allowances *	(15)	(775)	(2 891)	(3 755)	(5 532)	(1 235)	(584)	(632)	(15 994)	(31 413)
Total net outstanding guarantees as at 31 December 2020	**892**	**17 307**	**42 105**	**50 062**	**44 892**	**11 608**	**3 801**	**991**	**156 534**	**328 192**
Total gross outstanding guarantees	60	24 814	50 711	41 609	33 933	20 645	19 307	2 250	221 649	414 978
Impairment allowances *	(2)	(717)	(2 382)	(2 205)	(3 178)	(2 692)	(2 535)	(587)	(19 305)	(33 603)
Total net outstanding guarantees as at 31 December 2021	**58**	**24 097**	**48 329**	**39 404**	**30 755**	**17 953**	**16 772**	**1 663**	**202 344**	**381 375**

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

3 Risk Management (cont'd)

(1) Credit Risk (cont'd)

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

	Stage 1		Stage 2		Stage 3		Total	
	31.12.2021.	31.12.2020	31.12.2021.	31.12.2020	31.12.2021.	31.12.2020	31.12.2021.	31.12.2020
Financial assets at AC								
Due from credit institutions and the Treasury	455 007	359 949	-	-	-	-	455 007	359 949
Impairment allowances	(1)	-	-	-	-	-	(1)	-
Total net due from credit institutions and the Treasury	**455 006**	**359 949**	**-**	**-**	**-**	**-**	**455 006**	**359 949**
Investment securities	-	407	-	-	3 704	3 433	3 704	3 840
Impairment allowances	-	-	-	-	(3 667)	(3 399)	(3 667)	(3 399)
Total net investment securities	**-**	**407**	**-**	**-**	**37**	**34**	**37**	**441**
Loans and receivables	256 865	274 294	67 091	32 012	24 717	27 675	348 673	333 981
Impairment allowances *	(3 545)	(6 967)	(4 425)	(3 506)	(10 173)	(10 240)	(18 143)	(20 713)
Total net loans and receivables	**253 320**	**267 327**	**62 666**	**28 506**	**14 544**	**17 435**	**330 530**	**313 268**
Grants	45 729	31 282	-	-	-	-	45 729	31 282
Impairment allowances	(332)	(175)	-	-	-	-	(332)	(175)
Total net grants	**45 397**	**31 107**	**-**	**-**	**-**	**-**	**45 397**	**31 107**
Other financial assets	2 531	2 507	-	-	2 634	3 096	5 165	5 603
Impairment allowances	(21)	(34)	-	-	(1 930)	(1 926)	(1 951)	(1 960)
Total net other financial assets	**2 510**	**2 473**	**-**	**-**	**704**	**1 170**	**3 214**	**3 643**
Total financial assets at AC	**760 132**	**668 439**	**67 091**	**32 012**	**31 055**	**34 204**	**858 278**	**734 655**
Impairment allowances	(3 899)	(7 176)	(4 425)	(3 506)	(15 770)	(15 565)	(24 094)	(26 247)
Total net financial assets at AC	**756 233**	**661 263**	**62 666**	**28 506**	**15 285**	**18 639**	**834 184**	**708 408**
Financial assets at FVOCI								
Investment securities	14 051	36 958	-	-	-	-	14 051	36 958
Impairment allowances			-	-	-	-	-	-
Total net investment securities	**14 051**	**36 958**	**-**	**-**	**-**	**-**	**14 051**	**36 958**
Total financial assets at FVOCI	**14 051**	**36 958**	**-**	**-**	**-**	**-**	**14 051**	**36 958**
Impairment allowances	-	-	-	-	-	-	-	-
Total net financial assets at FVOCI	**14 051**	**36 958**	**-**	**-**	**-**	**-**	**14 051**	**36 958**
Off-balance sheet items and contingent liabilities								
Outstanding guarantees	378 876	348 115	32 885	6 995	3 217	4 495	414 978	359 605
Impairment allowances *	(28 088)	(27 769)	(3 505)	(817)	(2 010)	(2 827)	(33 603)	(31 413)
Total net outstanding guarantees	**350 788**	**320 346**	**29 380**	**6 178**	**1 207**	**1 668**	**381 375**	**328 192**
Loan commitments	21 730	36 514	3 755	2 834	87	-	25 572	39 348
Impairment allowances *	(484)	(949)	(287)	(65)	(19)	-	(790)	(1 014)
Total net loan commitments	**21 246**	**35 565**	**3 468**	**2 769**	**68**	**-**	**24 782**	**38 334**
Grant commitments	11 089	6 798	-	-	-	-	11 089	6 798
Impairment allowances	(73)	(74)	-	-	-	-	(73)	(74)
Total net grant commitments	**11 016**	**6 724**	**-**	**-**	**-**	**-**	**11 016**	**6 724**
Total off-balance items and contingent liabilities	**411 695**	**391 427**	**36 640**	**9 829**	**3 304**	**4 495**	**451 639**	**405 751**
Impairment allowances	(28 645)	(28 792)	(3 792)	(882)	(2 029)	(2 827)	(34 466)	(32 501)
Total net off-balance items and contingent liabilities	**383 050**	**362 635**	**32 848**	**8 947**	**1 275**	**1 668**	**417 173**	**373 250**

* Includes net impairment allowances of EUR 3,009 thousand covered by Portfolio Loss Reserve (Special Reserve Capital) upon approval of the 2021 annual report. In the distribution of the 2021 profit, it will be directly attributed to the Portfolio Loss Reserve, thus the 2021 result which will be allocated to Reserves will improve. Additional information available in Note 36.

3 Risk Management (cont'd)

(1) Credit Risk (cont'd)

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

	Stage 1		Stage 2		Stage 3		Total	
	31.12.2021.	31.12.2020	31.12.2021.	31.12.2020	31.12.2021.	31.12.2020	31.12.2021.	31.12.2020
Financial assets at AC								
Due from credit institutions and the Treasury	455 007	359 949	-	-	-	-	455 007	359 949
Impairment allowances	(1)		-	-	-	-	(1)	-
Total net due from credit institutions and the Treasury	**455 006**	**359 949**	**-**	**-**	**-**	**-**	**455 006**	**359 949**
Investment securities	-	407	-	-	3 704	3 433	3 704	3 840
Impairment allowances	-	-	-	-	(3 667)	(3 399)	(3 667)	(3 399)
Total net investment securities	**-**	**407**	**-**	**-**	**37**	**34**	**37**	**441**
Loans and receivables	256 865	274 294	67 091	32 012	24 717	27 675	348 673	333 981
Impairment allowances *	(3 545)	(6 967)	(4 425)	(3 506)	(10 173)	(10 240)	(18 143)	(20 713)
Total net loans and receivables	**253 320**	**267 327**	**62 666**	**28 506**	**14 544**	**17 435**	**330 530**	**313 268**
Grants	45 729	31 282	-	-	-	-	45 729	31 282
Impairment allowances	(332)	(175)	-	-	-	-	(332)	(175)
Total net grants	**45 397**	**31 107**	**-**	**-**	**-**	**-**	**45 397**	**31 107**
Other financial assets	2 531	2 507	-	-	2 634	3 205	5 165	5 712
Impairment allowances	(21)	(34)	-	-	(1 930)	(1 926)	(1 951)	(1 960)
Total net other financial assets	**2 510**	**2 473**	**-**	**-**	**704**	**1 279**	**3 214**	**3 752**
Total financial assets at AC	**760 132**	**668 439**	**67 091**	**32 012**	**31 055**	**34 313**	**858 278**	**734 764**
Impairment allowances	(3 899)	(7 176)	(4 425)	(3 506)	(15 770)	(15 565)	(24 094)	(26 247)
Total net financial assets at AC	**756 233**	**661 263**	**62 666**	**28 506**	**15 285**	**18 748**	**834 184**	**708 517**
Financial assets at FVOCI								
Investment securities	14 051	36 958	-	-	-	-	14 051	36 958
Impairment allowances		-	-	-	-	-	-	-
Total net investment securities	**14 051**	**36 958**	**-**	**-**	**-**	**-**	**14 051**	**36 958**
Total financial assets at FVOCI	**14 051**	**36 958**	**-**	**-**	**-**	**-**	**14 051**	**36 958**
Impairment allowances	-	-	-	-	-	-	-	-
Total net financial assets at FVOCI	**14 051**	**36 958**	**-**	**-**	**-**	**-**	**14 051**	**36 958**
Off-balance sheet items and contingent liabilities								
Outstanding guarantees	378 876	348 115	32 885	6 995	3 217	4 495	414 978	359 605
Impairment allowances *	(28 088)	(27 769)	(3 505)	(817)	(2 010)	(2 827)	(33 603)	(31 413)
Total net outstanding guarantees	**350 788**	**320 346**	**29 380**	**6 178**	**1 207**	**1 668**	**381 375**	**328 192**
Loan commitments	21 730	36 514	3 755	2 834	87	-	25 572	39 348
Impairment allowances *	(484)	(949)	(287)	(65)	(19)	-	(790)	(1 014)
Total net loan commitments	**21 246**	**35 565**	**3 468**	**2 769**	**68**	**-**	**24 782**	**38 334**
Grant commitments	11 089	6 798	-	-	-	-	11 089	6 798
Impairment allowances	(73)	(74)	-	-	-	-	(73)	(74)
Total net grant commitments	**11 016**	**6 724**	**-**	**-**	**-**	**-**	**11 016**	**6 724**
Total off-balance items and contingent liabilities	**411 695**	**391 427**	**36 640**	**9 829**	**3 304**	**4 495**	**451 639**	**405 751**
Impairment allowances	(28 645)	(28 792)	(3 792)	(882)	(2 029)	(2 827)	(34 466)	(32 501)
Total net off-balance items and contingent liabilities	**383 050**	**362 635**	**32 848**	**8 947**	**1 275**	**1 668**	**417 173**	**373 250**

* Includes net impairment allowances of EUR 3,009 thousand covered by Portfolio Loss Reserve (Special Reserve Capital) upon approval of the 2021 annual report. In the distribution of the 2021 profit, it will be directly attributed to the Portfolio Loss Reserve, thus the 2021 result which will be allocated to Reserves will improve. Additional information available in Note 36.

3 Risk Management (cont'd)

(1) Credit Risk (cont'd)

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

	Credit loss allowance				Gross carrying amount			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
As at 31 December 2020	**6 967**	**3 506**	**10 240**	**20 713**	**274 294**	**32 012**	**27 675**	**333 981**
Transfers between stages:								
from Stage 1 to Stage 2	(1 828)	3 088	-	1 260	(37 783)	39 185	-	1 402
to credit impaired (from Stage 1 and Stage 2 to Stage 3)	(113)	(25)	1 590	1 452	(4 337)	(785)	4 917	(205)
from Stage 3 to Stage 2	-	77	(713)	(636)	-	2 682	(3 083)	(401)
to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	80	(225)	(19)	(164)	5 311	(5 906)	(80)	(675)
New originated or purchased	1 136	360	532	2 028	55 800	4 609	1 872	62 281
Derecognised during the period	(645)	(376)	(766)	(1 787)	(22 317)	(1 834)	(3 327)	(27 478)
Changes to ECL measurement model assumptions (PD, LGD)	640	(116)	1 041	1 565	-	-	-	-
Changes to ECL measurement model assumptions (macroeconomic factors)	(2 749)	(1 483)	11	(4 221)	-	-	-	-
Other movements	991 *	-	-	991	(1)	-	-	(1)
Write-offs	-	-	(1 079)	(1 079)	-	-	(1 079)	(1 079)
Change of outstanding balance **	(934)	(381)	(664)	(1 979)	(14 102)	(2 872)	(2 178)	(19 152)
As at 31 December 2021	**3 545**	**4 425**	**10 173**	**18 143**	**256 865**	**67 091**	**24 717**	**348 673**

* Includes the impairment overlay EUR 991 thousand that represents an additional loss reserve for SME and Midcaps portfolio
** Change of outstanding balance includes cash flows from repayment of principal

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

	Credit loss allowance				Gross carrying amount			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
As at 31 December 2020	**27 769**	**817**	**2 827**	**31 413**	**348 115**	**6 995**	**4 495**	**359 605**
Transfers between stages:								
from Stage 1 to Stage 2	(2 783)	2 925	-	142	(26 664)	23 970	-	(2 694)
to credit impaired (from Stage 1 and Stage 2 to Stage 3)	(80)	(58)	843	705	(1 139)	(311)	1 224	(226)
from Stage 3 to Stage 2	176	(300)	-	(124)	2 952	(2 660)	-	292
to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-	-	(6)	(6)	-	6	(6)	-
New originated or purchased	7 663	334	-	7 997	109 979	5 504	-	115 483
Derecognised during the period	(2 896)	(15)	(841)	(3 752)	(48 232)	(166)	(1 336)	(49 734)
Changes to ECL measurement model assumptions (PD, LGD)	(38)	(15)	(122)	(175)	-	-	-	-
Changes to ECL measurement model assumptions (macroeconomic factors)	(97)	(26)	11	(112)	-	-	-	-
Other movements	918 *	-	(650)	268	(524)	-	(1 043)	(1 567)
Write-offs	-	-	-	-	-	-	-	-
Change of outstanding balance **	(2 544)	(157)	(52)	(2 753)	(5 611)	(453)	(117)	(6 181)
As at 31 December 2021	**28 088**	**3 505**	**2 010**	**33 603**	**378 876**	**32 885**	**3 217**	**414 978**

* includes the impairment overlay EUR 954 thousand that represents an additional loss reserve for SME and Midcaps portfolio
** Change of outstanding balance includes cash flows from repayment of principal of underlying loan

3 Risk Management (cont'd)

(1) Credit Risk (cont'd)

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

	Group 31.12.2021.	Group 31.12.2020	Company 31.12.2021.	Company 31.12.2020
Performing	326 852	313 856	326 852	313 856
Past due up to 30 days	10 540	9 339	10 540	9 339
Past due from 31 to 60 days	2 346	445	2 346	445
Past due from 61 to 90 days	727	217	727	217
Past due over 90 days	8 208	10 124	8 208	10 124
Total gross loans, without interest accrued on the loans	**348 673**	**333 981**	**348 673**	**333 981**
Impairment allowances	(18 143)	(20 713)	(18 143)	(20 713)
Total net loans	**330 530**	**313 268**	**330 530**	**313 268**

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

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

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

Results of the Group's / Company's sensitivity analysis of the Group's / Company's credit loss allowance for loans as at 31 December 2021, thousands of euro:

		Change in GDP		Change in real estate prices	
	Gross carrying amount	+ 1%	- 1%	+ 5%	- 5%
Credit loss allowance for loans	18 143	(309)	357	(321)	520
Total credit loss allowance for loans	**18 143**	**(309)**	**357**	**(321)**	**520**

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

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

Results of the Group's / Company's sensitivity analysis of the Group's / Company's credit loss allowance for outstanding guarantees as at 31 December 2021, thousands of euro:

		Change in GDP		Change in real estate prices	
	Gross carrying amount	+ 1%	- 1%	+ 5%	- 5%
Credit loss allowance for outstanding guarantees	35 190	(2)	5	(95)	95
Total credit loss allowance for loans	**35 190**	**(2)**	**5**	**(95)**	**95**

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

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

3 Risk Management (cont'd)

(1) Credit Risk (cont'd)

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

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

	Group 31.12.2021.	Group 31.12.2020	Company 31.12.2021.	Company 31.12.2020
Real estate (loans)	189 991	178 614	189 991	178 614
Real estate (leaseback)	32 993	30 536	32 993	30 536
Movable property	43 239	52 619	43 239	52 619
Guarantees	4 974	3 048	4 974	3 048
Total collateral	**271 197**	**264 817**	**271 197**	**264 817**
Loan portfolio, gross *	348 673	333 981	348 673	333 981
Impairment allowances	(18 143)	(20 713)	(18 143)	(20 713)
Loan portfolio, net	330 530	313 268	330 530	313 268
Exposed	**17.95%**	**15.47%**	**17.95%**	**15.47%**

* includes loans in amount of EUR 116,238 thousand to mitigate the impact of Covid-19 for which no real estate or movable property is required as collateral while credit risk is covered by risk coverage (Portfolio Loss Reserve).

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

	Group 31.12.2021.	Group 31.12.2020	Company 31.12.2021.	Company 31.12.2020
Assets exposed to credit risk				
Due from credit institutions and the Treasury	455 006	359 949	455 006	359 949
Financial assets at fair value through other comprehensive income - investment securities	14 051	36 958	14 051	36 958
Financial assets at amortised cost:				
Investment securities	37	441	37	441
Loans and receivables	330 530	313 268	330 530	313 268
Grants	45 397	31 107	45 397	31 107
Other investments	8 936	7 503	8 936	7 503
Investments in associates	64 949	47 988	64 949	47 988
Other assets	3 242	3 671	3 242	3 636
Total	**922 148**	**800 885**	**922 148**	**800 850**
Off-balance sheet items exposed to credit risk				
Contingent liabilities (Note 31)	414 978	359 605	414 978	359 605
Financial commitments (Note 31)	161 276	178 073	161 276	188 488
Total	**576 254**	**537 678**	**576 254**	**548 093**

Part of subitem "Loans and receivables" are loans to agriculture segment (see Note 19) that are secured by agricultural land with a cautious valuation. Loans to other segments are secured mostly by real estate, to a lesser extent – by other types of assets or commercial pledges. The expected cash flows from collateral are taken into account when estimating impairment allowances for expected credit losses. Risk Coverage Reserve and Specific Reserve Capital is available to the Group / Company to cover expected credit losses arising from deterioration of quality of loan portfolio. For more detailed information on Risk Coverage Reserve and Specific Reserve Capital see Note 30 and Note 36.

As at 31 December 2021, part of the Group's / Company's assets in amount of EUR 152,296 thousand (31 December 2020: EUR 124,087 thousand) were pledged. Detailed information on the Group's / Company's outstanding loan agreement as at 31 December 2021 is provided in Note 18 and Note 19.

Article 37 of the Law on State Budget 2021 provides that guarantees issued by Altum in amount of EUR 270 000 thousand is backed by the state according to Agriculture and Rural Development Law and Development Finance Institution Law. Actual amount of issued guarantees as at 31 December 2021 was EUR 268,256 thousand (31 December 2020: EUR 251,701 thousand).

3 Risk Management (cont'd)

(2) Liquidity Risk

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

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

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

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

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

Maturity profile of the Group's expected undiscounted future cash flows of financial liabilities, off-balance liabilities and liquid assets as at 31 December 2021, in thousands of euro:

	Up to 1 year *	1 to 5 years	5 to 10 years	10 to 15 years	Over 15 years and w/o maturity	**Total**
Due to credit institutions	13 443	39 997	-	-	-	53 440
Due to general governments	6 547	30 634	31 219	18 781	36 605	123 786
Issued debt securities	854	87 623	-	-	-	88 477
Support programme funding **	2 895	62 750	126 942	27 087	10 613	230 287
Other liabilities	3 000	840	-	-	-	3 840
Total financial liabilities	**26 739**	**221 844**	**158 161**	**45 868**	**47 218**	**499 830**
Off-balance sheet items and contingent liabilities	350 748	79 640	145 866	-	-	576 254
Total financial liabilities, off-balance items and contingent liabilities ***	**377 487**	**301 484**	**304 027**	**45 868**	**47 218**	**1 076 084**
Due from credit institutions and the Treasury	455 006	-	-	-	-	455 006
Investment securities	3 592	10 496	-	-	-	14 088
Liquid assets	**458 598**	**10 496**	**-**	**-**	**-**	**469 094**

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

Maturity profile of the Group's expected undiscounted future cash flows of financial liabilities, off-balance liabilities and liquid assets "Up to 1 year" as at 31 December 2021 and supporting analysis is presented in table below.

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

*** Since part of off-balance sheet items and contingent liabilities is backed by funding recognized as financial liabilities, EUR 70,980 thousand are included in both the Group's financial liabilities and the Group's off-balance sheet items and contingent liabilities.

3 Risk Management (cont'd)

(2) Liquidity Risk (cont'd)

Maturity profile of the Group's expected undiscounted future cash flows of financial liabilities, off-balance liabilities and liquid assets "Up to 1 year" as at 31 December 2021, in thousands of euro:

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	**Total up to 1 year**
Due to credit institutions	-	4 381	3 750	5 312	13 443
Due to general governments	84	354	2 531	3 578	6 547
Issued debt securities	-	505	-	349	854
Support programme funding	77	-	-	2 818	2 895
Other liabilities	2 983	8	-	9	3 000
Total financial liabilities	**3 144**	**5 248**	**6 281**	**12 066**	**26 739**
Off-balance sheet items and contingent liabilities *	299 718	14 010	23 605	13 415	350 748
Total financial liabilities, off-balance items and contingent liabilities	**302 862**	**19 258**	**29 886**	**25 481**	**377 487**
Due from credit institutions and the Treasury	455 006	-	-	-	455 006
Investment securities	1 072	-	-	2 520	3 592
Liquid assets	**456 078**	**-**	**-**	**2 520**	**458 598**

* Split of off-balance sheet items and contingent liabilities by type of financial instrument – outstanding financial guarantees, loan commitments and grant commitments as well as commitments to AIF "Altum capital fund", investments in associates and other investments, are presented in Note 37.

Contingent liabilities and financial commitments are funded from various funding sources available to the Group.

Outstanding financial guarantees in amount of EUR 262,119 thousand (up to 1 year) – from respective guarantee support programme funding (see Note 30) and Specific reserve capital (see Note 36). Track records of claimed guarantee compensations presents that the volume of guarantees claimed within such terms are considerably less than the amount of the commitment disclosed in the above maturity analyses.

Loan commitments in amount of EUR 25,572 thousand (up to 1 year) – from financial facilities (either received by the Group or available to the Group upon request) concluded with financial institutions and the Treasury (see Notes 28 and 29) and respective loan support programme funding (see Note 30).

Grant commitments in amount of EUR 11,089 thousand (up to 1 year) – from respective grant support programme funding (see Note 30).

Commitments to investments in associates in amount of EUR 13,977 thousand (up to 1 year) – from respective venture capital fund support programme funding (see Note 30).

Commitments to AIF "Altum capital fund" in amount of EUR 32,124 thousand (up to 1 year) – from specific reserve capital (see Note 36) and additional funding from shareholders expected in 2022.

Commitments to other investments in amount of EUR 5,867 thousand (up to 1 year) – for Baltic Innovation Fund 2 from support programme funding, repayments on different support programmes and the Group's / Company's own funding for Three Seas Initiatives Investment Fund.

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

3 Risk Management (cont'd)

(2) Liquidity Risk (cont'd)

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

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

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

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

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

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

3 Risk Management (cont'd)

(2) Liquidity Risk (cont'd)

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

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Total up to 1 year
Due to credit institutions	-	4 378	-	8 090	12 468
Due to general governments	123	-	140	48	311
Issued debt securities	-	564	260	-	824
Support programme funding	3 444	-	-	-	3 444
Other liabilities	1 693	-	-	25	1 718
Total financial liabilities	**5 260**	**4 942**	**400**	**8 163**	**18 765**
Off-balance sheet items and contingent liabilities *	287 626	13 777	14 532	34 684	350 619
Total financial liabilities, off-balance items and contingent liabilities	**292 886**	**18 719**	**14 932**	**42 847**	**369 384**
Due from credit institutions and the Treasury	359 949	-	-	-	359 949
Investment securities	2 090	20 436	-	465	22 991
Liquid assets	**362 039**	**20 436**	**-**	**465**	**382 940**

* Split of off-balance sheet items and contingent liabilities by type of financial instrument – outstanding financial guarantees, loan commitments and grant commitments as well as commitments to AIF "Altum capital fund", investments in associates and other investments, are presented in Note 37.

Contingent liabilities and financial commitments are funded from various funding sources available to the Group.

Outstanding financial guarantees in amount of EUR 359,605 thousand (up to 1 year) – from respective guarantee support programme funding (see Note 30) and Specific reserve capital (see Note 36). Track records of claimed guarantee compensations presents that the volume of guarantees claimed within such terms are considerably less than the amount of the commitment disclosed in the above maturity analyses.

Loan commitments in amount of EUR 39,348 thousand (up to 1 year) – from financial facilities (either received by the Group or available to the Group upon request) concluded with financial institutions and the Treasury (see Notes 28 and 29) and respective loan support programme funding (see Note 30).

Grant commitments in amount of EUR 6,798 thousand (up to 1 year) – from respective grant support programme funding (see Note 30).

Commitments to investments in associates in amount of EUR 7,639 thousand (up to 1 year) – from respective venture capital fund support programme funding (see Note 30).

Commitments to AIF "Altum capital fund" in amount of EUR 46,117 thousand (up to 1 year) – from specific reserve capital (see Note 36) and additional funding from shareholders expected in 2021.

Commitments to other investments in amount of EUR 9,235 thousand (up to 1 year) – for Baltic Innovation Fund 2 from support programme funding, repayments on different support programmes (see Note 30) and the Group's / Company's own funding for Three Seas Initiatives Investment Fund.

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

3 Risk Management (cont'd)

(2) Liquidity Risk (cont'd)

Maturity profile of the Company's expected undiscounted future cash flows of financial liabilities, off-balance liabilities and liquid assets as at 31 December 2021, in thousands of euro:

	Up to 1 year *	1 to 5 years	5 to 10 years	10 to 15 years	Over 15 years and w/o maturity	**Total**
Due to credit institutions	13 443	39 997	-	-	-	53 440
Due to general governments	6 547	30 634	31 219	18 781	36 605	123 786
Issued debt securities	854	87 623	-	-	-	88 477
Support programme funding **	2 895	62 750	126 942	27 087	10 613	230 287
Other liabilities	3 000	840	-	-	-	3 840
Total financial liabilities	**26 739**	**221 844**	**158 161**	**45 868**	**47 218**	**499 830**
Off-balance sheet items and contingent liabilities	350 748	79 640	145 866	-	-	576 254
Total financial liabilities, off-balance items and contingent liabilities * **	**377 487**	**301 484**	**304 027**	**45 868**	**47 218**	**1 076 084**
Due from credit institutions and the Treasury	455 006	-	-	-	-	455 006
Investment securities	3 592	10 496	-	-	-	14 088
Liquid assets	**458 598**	**10 496**	**-**	**-**	**-**	**469 094**

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

Maturity profile of the Company's expected undiscounted future cash flows of financial liabilities, off-balance liabilities and liquid assets "Up to 1 year" as at 31 December 2021 and supporting analysis is presented in table below.

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

*** Since part of off-balance sheet items and contingent liabilities is backed by funding recognized as financial liabilities, EUR 70,980 thousand are included in both the Company's financial liabilities and the Company's off-balance sheet items and contingent liabilities.

3 Risk Management (cont'd)

(2) Liquidity Risk (cont'd)

Maturity profile of the Company's expected undiscounted future cash flows of financial liabilities, off-balance liabilities and liquid assets "Up to 1 year" as at 31 December 2021, in thousands of euro:

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	**Total up to 1 year**
Due to credit institutions	-	4 381	3 750	5 312	13 443
Due to general governments	84	354	2 531	3 578	6 547
Issued debt securities	-	505	-	349	854
Support programme funding	77	-	-	2 818	2 895
Other liabilities	2 983	8	-	9	3 000
Total financial liabilities	**3 144**	**5 248**	**6 281**	**12 066**	**26 739**
Off-balance sheet items and contingent liabilities *	299 718	14 010	23 605	13 415	350 748
Total financial liabilities, off-balance items and contingent liabilities	**302 862**	**19 258**	**29 886**	**25 481**	**377 487**
Due from credit institutions and the Treasury	455 006	-	-	-	455 006
Investment securities	1 072	-	-	2 520	3 592
Liquid assets	**456 078**	**-**	**-**	**2 520**	**458 598**

* Split of off-balance sheet items and contingent liabilities by type of financial instrument – outstanding financial guarantees, loan commitments and grant commitments as well as commitments to AIF "Altum capital fund", investments in associates and other investments, are presented in Note 37.

Contingent liabilities and financial commitments are funded from various funding sources available to the Company.

Outstanding financial guarantees in amount of EUR 262,119 thousand (up to 1 year) – from respective guarantee support programme funding (see Note 30) and Specific reserve capital (see Note 36). Track records of claimed guarantee compensations presents that the volume of guarantees claimed within such terms are considerably less than the amount of the commitment disclosed in the above maturity analyses.

Loan commitments in amount of EUR 25,572 thousand (up to 1 year) – from financial facilities (either received by the Company or available to the Company upon request) concluded with financial institutions and the Treasury (see Notes 28 and 29) and respective loan support programme funding (see Note 30).

Grant commitments in amount of EUR 11,089 thousand (up to 1 year) – from respective grant support programme funding (see Note 30).

Commitments to investments in associates in amount of EUR 13,977 thousand (up to 1 year) – from respective venture capital fund support programme funding (see Note 30).

Commitments to AIF "Altum capital fund" in amount of EUR 32,124 thousand (up to 1 year) – from specific reserve capital (see Note 36) and additional funding from shareholders expected in 2022.

Commitments to other investments in amount of EUR 5,867 thousand (up to 1 year) – for Baltic Innovation Fund 2 from support programme funding, repayments on different support programmes and the Group's / Company's own funding for Three Seas Initiatives Investment Fund.

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

3 Risk Management (cont'd)

(2) Liquidity Risk (cont'd)

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

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

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

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

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

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

3 Risk Management (cont'd)

(2) Liquidity Risk (cont'd)

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

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

* Split of off-balance sheet items and contingent liabilities by type of financial instrument – outstanding financial guarantees, loan commitments and grant commitments as well as commitments to investments in associates and other investments, are presented in Note 37.

Contingent liabilities and financial commitments are funded from various funding sources available to the Company.

Outstanding financial guarantees in amount of EUR 359,605 thousand (up to 1 year) – from respective guarantee support programme funding (see Note 30) and Specific reserve capital (see Note 36). Track records of claimed guarantee compensations presents that the volume of guarantees claimed within such terms are considerably less than the amount of the commitment disclosed in the above maturity analyses.

Loan commitments in amount of EUR 39,348 thousand (up to 1 year) – from financial facilities (either received by the Company or available to the Company upon request) concluded with financial institutions and the Treasury (see Notes 28 and 29) and respective loan support programme funding (see Note 30).

Grant commitments in amount of EUR 6,798 thousand (up to 1 year) – from respective grant support programme funding (see Note 30).

Commitments to investments in subsidiaries in amount of EUR 4,167 thousand (up to 1 year) – from respective venture capital fund support programme funding (see Note 30).

Commitments to investments in associates in amount of EUR 7,639 thousand (up to 1 year) – from respective venture capital fund support programme funding (see Note 30).

Commitments to AIF "Altum capital fund" in amount of EUR 46,117 thousand (up to 1 year) – from specific reserve capital (see Note 36) and additional funding from shareholders expected in 2021.

Commitments to other investments in amount of EUR 9,235 thousand (up to 1 year) – for Baltic Innovation Fund 2 from support programme funding, repayments on different support programmes.

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

3 Risk Management (cont'd)

(2) Liquidity Risk (cont'd)

Breakdown of the Group's assets and liabilities by maturity profile as at 31 December 2021 based on the time remaining from the reporting date to their contractual maturity, in thousands of euro:

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years and w/o maturity	**Total**
Assets							
Due from credit institutions and the Treasury	455 006	-	-	-	-	-	455 006
Investment securities *	1 072	-	-	2 520	10 496	-	14 088
Loans *	11 485	14 348	16 801	39 439	147 944	100 513	330 530
Grants	93	12 642	370	377	31 075	840	45 397
Deferred expense and accrued income	2 066	-	-	-	-	-	2 066
Other investments	-	-	-	-	-	8 936	8 936
Investments in associates	-	-	6 130	10 473	9 924	38 422	64 949
Investment property	-	-	-	-	-	46 164	46 164
Property, plant and equipment	-	-	-	-	-	4 570	4 570
Intangible assets	-	-	-	-	-	1 256	1 256
Other assets	1 004	96	279	1 306	557	-	3 242
Total assets	**470 726**	**27 086**	**23 580**	**54 115**	**199 996**	**200 701**	**976 204**
Liabilities							
Due to credit institutions	-	4 357	3 750	5 312	39 997	-	53 416
Due to general governments	-	354	2 374	3 448	29 949	85 223	121 348
Issued debt securities	-	505	-	59	84 994	-	85 558
Deferred income and accrued expense	186	401	418	2 233	2 492	823	6 553
Provisions	34 466	-	-	-	-	-	34 466
Support programme funding	77	-	-	2 818	62 750	164 642	230 287
Other liabilities	2 983	8	-	9	840	-	3 840
Total liabilities	**37 712**	**5 625**	**6 542**	**13 879**	**221 022**	**250 688**	**535 468**
Net liquidity	**433 014**	**21 461**	**17 038**	**40 236**	**(21 026)**	**(49 987)**	**440 736**

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

3 Risk Management (cont'd)

(2) Liquidity Risk (cont'd)

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

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

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

3 Risk Management (cont'd)

(2) Liquidity Risk (cont'd)

Breakdown of the Company's assets and liabilities by maturity profile as at 31 December 2021 based on the time remaining from the reporting date to their contractual maturity, in thousands of euro:

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years and w/o maturity	**Total**
Assets							
Due from credit institutions and the Treasury	455 006	-	-	-	-	-	455 006
Investment securities	1 072	-	-	2 520	10 496	-	14 088
Loans *	11 485	14 348	16 801	39 439	147 944	100 513	330 530
Grants	93	12 642	370	377	31 075	840	45 397
Deferred expense and accrued income	2 066	-	-	-	-	-	2 066
Other investments	-	-	-	-	-	8 936	8 936
Investments in associates	-	-	6 130	10 473	9 924	38 422	64 949
Investments in subsidiaries	-	-	-	-	-	-	-
Investment property	-	-	-	-	-	46 164	46 164
Property, plant and equipment	-	-	-	-	-	4 570	4 570
Intangible assets	-	-	-	-	-	1 256	1 256
Other assets	1 004	96	279	1 306	557	-	3 242
Total assets	**470 726**	**27 086**	**23 580**	**54 115**	**199 996**	**200 701**	**976 204**
Liabilities							
Due to credit institutions	-	4 357	3 750	5 312	39 997	-	53 416
Due to general governments	-	354	2 374	3 448	29 949	85 223	121 348
Issued debt securities	-	505	(2)	59	84 996	-	85 558
Deferred income and accrued expense	186	401	418	2 233	2 492	823	6 553
Provisions	34 466	-	-	-	-	-	34 466
Support programme funding	77	-	-	2 818	62 750	164 642	230 287
Other liabilities	2 983	8	-	9	840	-	3 840
Total liabilities	**37 712**	**5 625**	**6 540**	**13 879**	**221 024**	**250 688**	**535 468**
Net liquidity	**433 014**	**21 461**	**17 040**	**40 236**	**(21 028)**	**(49 987)**	**440 736**

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

3 Risk Management (cont'd)

(2) Liquidity Risk (cont'd)

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

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

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

(3) Interest Rate Risk

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

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

The Group's / Company's interest rate sensitive assets (99.6%) and all interest rate sensitive liabilities are linked and priced at euro interest rate indices. To assess the interest rate risk the Group / Company analyses the maturity structure of interest rate sensitive assets, liabilities and off-balance sheet items, net position of interest rate risk and its sensitivity to changes in interest rates. The sensitivity is measured calculating the impact of probable interest rate changes by 100 bps on the Group's / Company's interest income and expenses, assuming that all other variables held constant. Scenarios floor the lowest possible interest rate at zero if at the rate fixing date it is with negative value and if such a condition arises from the actual agreements.

3 Risk Management (cont'd)

(3) Interest Rate Risk (cont'd)

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

All amounts in thousands of euro

	Group 31.12.2021.	Group 31.12.2020.	Company 31.12.2021.	Company 31.12.2020.
Change in interest rates by +100 bps	742	889	742	889
Change in interest rates by -100 bps	166	(305)	166	(305)

(4) Foreign Currency Risk

Foreign currency risk is the risk of potential losses arising from fluctuations in foreign exchange rates. The Group's / Company's exposure to foreign currency risk is insignificant as the transactions are denominated in Euro. The Group / Company controls foreign currency risk by raising financing and issuing financial instruments in euro.

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

	Group 31.12.2021.	Group 31.12.2020.	Company 31.12.2021.	Company 31.12.2020.
EUR				
Financial assets	921 480	800 291	921 480	800 256
Financial liabilities	494 449	429 761	494 449	429 761
Net position	**427 031**	**370 530**	**427 031**	**370 495**
USD				
Financial assets	668	594	668	594
Financial liabilities	-	-	-	-
Net position	**668**	**594**	**668**	**594**
GBP				
Financial assets	0	0	0	0
Financial liabilities	-	-	-	-
Net position	**0**	**0**	**0**	**0**

Based on the net current position of the Group / Company as at 31.12.2021 and 31.12.2020, if the exchange rate for the US dollar changes according to the scenario presented, the possible changes in the Group's / Company's total capital (excluding tax effects) would be as follows:

All amounts in thousands of euro

	Group 31.12.2021.	Group 31.12.2020.	Company 31.12.2021.	Company 31.12.2020.
Change in USD/EUR exchange rates by +5%	(33)	(29)	(33)	(29)
Change in USD/EUR exchange rates by -5%	32	28	32	28

(5) Operational Risk

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

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

3 Risk Management (cont'd)

(6) AML / CTF / sanctions risk

The Group / Company is subject to the Law on the Prevention of Money Laundering and Terrorism and Proliferation Financing (AML/CTF) and complies with the international legal acts and legal acts of the Republic of Latvia which regulate prevention of legalization of proceeds derived from criminal activity and financing of terrorism and proliferation and ensures compliance with sanction lists (AML/CTF/Sanctions).The internal control system of the Group / Company is based on the "Know Your Customer (KYC)" principles. Policies and procedures in place for the AML/CTF/Sanctions as well as control measures are developed on the basis of the international legal acts and legal acts of the Republic of Latvia that regulate AML/CTF/Sanctions. The international standards and the best practice guidelines as well as Policy and Guidelines of the Finance Latvia Association in the area of the AML/CFT/Sanctions are followed as well.

The Group / Company regularly reviews and updates its policies and procedures for the prevention of AML/CTF and compliance with Sanctions, taking into account changes in binding legislation. The Group / Company observes zero tolerance for intentional violations of the law in the field of prevention of AML/CTF and compliance with national and international sanctions.

In 2021, the Group / Company continued to improve the ICS for prevention of AML/CTF to reduce AML/CTF risk, including processes related to customer due diligence and supervision were updated and improved.

The Group / Company implements annual employee training on AML/CTF risk and Sanction risk management, taking into account the knowledge required for the job responsibilities, level of responsibility and authority. In 2021, regular internal target trainings were introduced, which focused on a actual topic.

(7) Capital Management

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

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

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

(8) Covid-19 impact

(i) Effect on new products and new volumes issued

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

In spring 2020 another financial instrument engine alternative investment fund "Altum Capital Fund" was created with the aim to support well-managed, perspective Mid-cap companies to overcome the effect of Covid-19 that as a result of the virus impact are ready to adjust their operations by changing their business model, adjusting product development, introducing new technology and expanding to new export markets. The Fund's committed capital was fully subscribed on September 16, 2020, reaching EUR 100 million, of which the majority (EUR 51,1 million or 51.1%) were largest private pension funds and EUR 48,9 million consists of public funding invested by the Company. The Company is also the manager of the Fund registered with the Financial and Capital Market Commission on 26 May 2020. As at 31 December 2021 the total assets of the Fund managed by the Company constitutes EUR 30,772 thousand (31 December 2020: 0). The investment period is prolonged until 30 June 2022 with active pipeline of potential investment deals as at 31 December 2021.

3 Risk Management (cont'd)

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

Covid-19 loan and guarantee portfolio as at 31 December 2021 was EUR 58,832 thousand (31 December 2020: EUR 64,560 thousand) and EUR 27,861 thousand (31 December 2020: EUR 38,699 thousand) respectively. For detailed information on full set of Covid-19 products see Management Report.

Total capital injection in Specific Reserve capital to ensure Covid-19 financial instruments to SME and Midcaps reached EUR 45,489 thousand during 2021 (2020: EUR 145,626 thousand) for respective funding needs and expected credit loss. Credit risk coverage in Portfolio Loss Reserve out of that reaches EUR 43,220 thousand as at 31 December 2021 (31 December 2020: EUR 86,131 thousand).

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

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

(iii) Covid-19 impact on loan portfolio

Analysis of the Group's / Company's loan portfolio by client segments as at 31 December 2021, in thousands of euro:

	Stage 1		**Stage 2**		**Stage 3**		**Total gross loans**	**Total impairment allowance**
	Gross loans	Impairment allowance	Gross loans	Impairment allowance	Gross loans	Impairment allowance		
Financial Intermediaries	881	2	77	2	577	337	1 535	341
Agriculture	115 778	269	10 778	192	6 000	1 534	132 556	1 995
SME and Midcaps	104 890	1 966	54 714	4 229	15 466	7 646	175 070	13 841
of which,								
Covid-19 crisis related working capital loans	36 922	1 000	18 663	720	3 247	2 485	58 832	4 205
Daily loan products	67 968	966	36 051	3 509	12 219	5 161	116 238	9 636
Private individuals	4 314	4	302	2	1 897	654	6 513	660
Land Fund	31 002	3	1 220	-	777	2	32 999	5
Total segments, gross	**256 865**	**2 244**	**67 091**	**4 425**	**24 717**	**10 173**	**348 673**	**16 842**
Impairment overlay *	-	1 301	-	-	-	-	-	1 301
Total segments, net	**256 865**	**3 545**	**67 091**	**4 425**	**24 717**	**10 173**	**348 673**	**18 143**

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

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

	Stage 1		**Stage 2**		**Stage 3**		**Total gross loans**	**Total impairment allowance**
	Gross loans	Impairment allowance	Gross loans	Impairment allowance	Gross loans	Impairment allowance		
Financial Intermediaries	1 245	10	-	-	638	351	1 883	361
Agriculture	107 189	841	10 258	300	6 863	1 491	124 310	2 632
SME and Midcaps	129 745	5 755	21 007	3 195	17 509	7 443	168 261	16 393
of which,								
Covid-19 crisis related working capital loans	60 665	1 984	3 569	219	326	155	64 560	2 358
Daily loan products	69 080	3 771	17 438	2 976	17 183	7 288	103 701	14 035
Private individuals	5 224	34	490	10	2 311	953	8 025	997
Land Fund	30 889	17	256	-	355	2	31 500	19
Total segments, gross	**274 292**	**6 657**	**32 011**	**3 505**	**27 676**	**10 240**	**333 979**	**20 402**
Impairment overlay *	-	309	-	-	-	-	-	309
Total segments, net	**274 292**	**6 966**	**32 011**	**3 505**	**27 676**	**10 240**	**333 979**	**20 711**

* The impairment overlay represents an additional loss reserve for SME and Midcaps portfolio over the modelled ECL amounts to account for other economic uncertainties.

3 Risk Management (cont'd)

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

(iii) Covid-19 impact on loan portfolio (cont'd)

In the agricultural segment, in 2021 there was an increase in the prices of raw materials and energy resources, which was followed by an increase in sales prices, which was able to compensate for the increase in the costs of raw materials. The companies of the agricultural segment closed 2021 with sufficiently good financial results. It should even be noted that the agricultural segment is significantly subsidized and loans to this segment are mainly secured by agricultural land, which is prudently valued. Therefore, the Group / Company does not see a deterioration in the quality of the loan portfolio in this segment as a result of the Covid-19 crisis.

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

Split of specific COVID-19 related support instrument - working capital loans – portfolio for the SME and Midcap client segment by industries as at 31 December 2021, in thousands euro:

	Gross loans	Changes to 31.12.2020.	Issued in 2021	Issued in 2020	Impairment allowance	Changes to 31.12.2020.	Net loans	% of Total Gross loans, SME & Midcap
Covid-19 more exposed industries								
Retail	4 195	(519)	1 768	4 714	309	122	3 886	2.4%
Hotels and restaurants	2 821	(577)	600	3 398	207	110	2 614	1.6%
Tourism services	2 572	(80)	521	2 652	262	198	2 310	1.5%
Land transport services	2 040	901	1 625	1 139	75	46	1 965	1.2%
Art, entertainment and leasure	1 591	997	1 518	594	142	130	1 449	0.9%
Beauty	100	100	100	-	5	5	95	0.1%
Total Covid-19 more exposed industries	**13 319**	**822**	**6 132**	**12 497**	**1 000**	**611**	**12 319**	**7.6%**
Covid-19 less exposed industries								
Manufacturing	14 877	(4 655)	5 596	19 532	1 013	274	13 864	8.5%
Wholesale	10 778	(2 400)	1 771	13 178	934	444	9 844	6.2%
Construction	7 855	1 798	2 906	6 057	762	408	7 093	4.5%
Transport, warehousing and communications	3 091	(511)	1 040	3 602	170	60	2 921	1.8%
Information technologies and communication	2 383	(139)	640	2 522	55	2	2 328	1.4%
Professional, science and technical services	1 861	(434)	547	2 295	73	(7)	1 788	1.1%
Forestry	1 432	(570)	218	2 002	94	31	1 338	0.8%
Municipal authorities	899	144	305	755	35	19	864	0.5%
Real estate	490	58	100	432	14	4	476	0.3%
Electricity, gas and water utilities	457	(1 003)	34	1 460	17	(33)	440	0.3%
Health and social care	158	(5)	45	163	4	1	154	0.1%
Other industries	1 232	1 167	310	65	34	33	1 198	0.7%
Total Covid-19 less exposed industries	**45 513**	**(6 550)**	**13 512**	**52 063**	**3 205**	**1 236**	**42 308**	**26.0%**
Total Covid-19 crisis related working capital loans	**58 832**	**(5 728)**	**19 644**	**64 560**	**4 205**	**1 847**	**54 627**	**33.6%**

3 Risk Management (cont'd)

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

(iii) Covid-19 impact on loan portfolio (cont'd)

Split of daily (ordinary) loan product portfolio for the SME and Midcap client segment by industries as at 31 December 2021, in thousands euro:

	Gross loans	Changes to 31.12.2020.	Issued in 2021	Issued in 2020	Impairment allowance	Changes to 31.12.2020.	Net loans	% of Total Gross loans, SME & Midcap
Covid-19 more exposed industries								
Hotels and restaurants	4 600	(124)	1 947	1 021	335	(263)	4 265	2.6%
Retail	1 879	(47)	604	194	110	(268)	1 769	1.1%
Art, entertainment and leasure	1 841	(173)	598	398	295	159	1 546	1.1%
Beauty	644	297	55	116	251	190	393	0.4%
Land transport services	535	(175)	264	71	21	(234)	514	0.3%
Tourism services	333	-	-	-	106	19	227	0.2%
Total Covid-19 more exposed industries	**9 832**	**(222)**	**3 468**	**1 800**	**1 118**	**(397)**	**8 714**	**5.6%**
Covid-19 less exposed industries								
Manufacturing	52 497	3 895	20 815	9 075	4 094	(2 668)	48 403	30.0%
Real estate	13 230	3 389	5 387	1 657	1 947	(141)	11 283	7.6%
Wholesale	7 389	850	3 008	1 474	557	(313)	6 832	4.2%
Health and social care	5 738	1 150	2 420	3 005	188	90	5 550	3.3%
Electricity, gas and water utilities	5 662	(558)	596	366	852	(143)	4 810	3.2%
Municipal authorities	5 038	722	1 577	711	20	(494)	5 018	2.9%
Construction	4 332	1 112	2 344	1 592	213	(41)	4 119	2.5%
Professional, science and technical services	3 053	(607)	1 143	810	36	(214)	3 017	1.7%
Forestry	2 691	239	1 320	910	54	(33)	2 637	1.5%
Fishery	2 084	437	761	281	119	(27)	1 965	1.2%
Transport, warehousing and communications	1 190	507	792	121	191	5	999	0.7%
Information technologies and communication	576	25	196	91	64	20	512	0.3%
Other industries	2 926	1 597	1 648	479	185	(40)	2 741	1.7%
Total Covid-19 less exposed industries	**106 406**	**12 758**	**42 007**	**20 572**	**8 520**	**(3 999)**	**97 886**	**60.8%**
Total daily (ordinary) loan products	**116 238**	**12 536**	**45 475**	**22 372**	**9 638 ***	**(4 396)**	**106 600 ***	**66.4%**

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

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

Manufacturing industry. In 2021, the growth of manufacturing enterprises has generally continued. Given the constraints on the entertainment, catering, tourism and other services sectors, public consumption trends have been significantly affected and most of the revenue is spent on various goods. The sub-sector that is experiencing the sharpest fluctuations is wood processing, as in 2021 the trend of the second half of 2020 will continue with rapidly rising sales prices, and profit indicators will increase accordingly. However, the availability of raw materials in connection with the economic sanctions against Belarus, as well as the possible sharp decline in the price of products on the basis of demand adjustments, poses additional risks to companies in the sector. The sufficiently good results of the manufacturing industry in 2021 are also shown by the macroeconomic indicators - the output of exported goods continues to increase in almost all sub-sectors. Therefore, it can be concluded that the negative impact of Covid-19 on the operations of the companies in the sector has been insignificant. At the end of the second half of 2021, however, negative trends were observed due to the sharp rise in energy prices, which may significantly affect the financial results of some energy-intensive sub-sectors in 2021.

3 Risk Management (cont'd)

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

(iii) Covid-19 impact on loan portfolio (cont'd)

The second largest sector in terms of loan portfolio is real estate operations. The real estate portfolios, where the hotel business is located, were the most affected - due to travel restrictions, the flow of visitors to the region has almost stopped. It is too early to judge the recovery of this segment, and much will depend on the pace of vaccination and the overall success of controlling the virus. The second most significantly affected segment is shopping centers. Restrictions on trade, social distancing, and the boom in e-commerce have had a significant impact on the financial performance of shopping centers, with a large number of tenants requesting rent rebates, but the proportion of vacant space in some centers increasing. In the office segment – most office workers have had to work remotely and many still work from home on a daily basis, so the need for offices in the future has become relevant in the real estate industry. The impact of the Covid-19 crisis on the industry as a whole has been moderate, with negative effects being felt for companies that did not diversify their tenant portfolios by industry. For example, rental space was mostly leased to beauty, retail customers, hotels, in this example landlords had to reduce rents or look for other tenants, thus suffering from the effects of Covid-19. However, the problems for entrepreneurs who had tenants in various industries in their portfolios are relatively minimal and could not significantly affect the customer's solvency. The warehousing segment is better off during the pandemic, as the volume of goods delivered has increased significantly due to the boom in e-commerce. At the same time, the requirements of buyers to ensure the speed of delivery of goods create additional demand for warehouse space.

The third largest sector in terms of loan portfolio is wholesale. In the wholesale sector, as in the manufacturing sector, the impact of the Covid-19 crisis has varied across sub-sectors. For example, wholesalers of various raw materials and equipment have closed 2020 with very good results, and they have been able to improve their performance due to the growth of the manufacturing sector in 2021 as well. Timber wholesalers have been less successful, having had to cope with the fall in demand caused by BREXIT in addition to the disruption of logistics chains caused by Covid-19. However, at the end of 2020, a large number of timber wholesalers had found new outlets in Asia and were able to close the year without significant losses due to rising global timber prices. This trend will continue in 2021, but the challenges for the industry are similar to those for the woodworking industry. The reporting period was slightly more successful for fuel and fuel traders as they were able to take advantage of the positive effects of rising prices, but the industry as a whole has not fully recovered from the Covid-19 crisis in 2020 and rising prices could have a negative impact on demand in the long run. On the positive side, most companies in this sector have sufficiently high equity ratios and owners with the ability to support companies financially. In the retail segment, the reporting period was challenging for all sub-sectors except pharmaceuticals, food and household goods. Due to store restrictions, many retailers of clothing, footwear, cosmetics, jewellery and other product groups have major challenges covering their day-to-day expenses and selling existing inventory to renew their range.

(iv) Covid-19 impact on guarantee portfolio

Analysis of the Group's / Company's guarantees portfolio by client segments as at 31 December 2021, in thousands of euro:

	Stage 1		**Stage 2**		**Stage 3**		**Total outstanding guarantees**	**Total impairment allowance**
	Outstanding guarantees	Impairment allowance	Outstanding guarantees	Impairment allowance	Outstanding guarantees	Impairment allowance		
Agriculture	11 479	1 587	1 209	148	10	6	12 698	1 741
SME and Midcaps	163 416	9 212	31 384	3 331	3 018	1 824	197 818	14 367
of which,								
*Covid-19 crisis related guarantees **	10 874	1 047	16 775	2 018	212	124	27 861	3 189
Daily guarantees products	152 542	8 165	14 609	1 313	2 806	1 700	169 957	11 178
Private individuals	203 981	16 335	292	26	189	180	204 462	16 541
Total segments, gross	**378 876**	**27 134**	**32 885**	**3 505**	**3 217**	**2 010**	**414 978**	**32 649**
Impairment overlay **	-	954	-	-	-	-	-	954
Total segments, net	**378 876**	**28 088**	**32 885**	**3 505**	**3 217**	**2 010**	**414 978**	**33 603**

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

** The impairment overlay includes EUR 954 thousand that represents an additional loss reserve for SME and Midcaps portfolio over the modelled ECL amounts to account for other economic uncertainties

3 Risk Management (cont'd)

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

(iv) Covid-19 impact on guarantee portfolio (cont'd)

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

	Stage 1		**Stage 2**		**Stage 3**		**Total outstanding guarantees**	**Total impairment allowance**
	Outstanding guarantees	Impairment allowance	Outstanding guarantees	Impairment allowance	Outstanding guarantees	Impairment allowance		
Agriculture	14 305	2 118	39	5	486	311	14 830	2 434
SME and Midcaps	178 094	12 124	6 761	775	3 879	2 389	188 734	15 288
of which,								
*Covid-19 crisis related guarantees **	37 005	3 001	1 437	127	257	160	38 699	3 288
Daily guarantees products	141 089	9 123	5 324	648	3 622	2 229	150 035	12 000
Private individuals	155 717	13 528	194	36	130	127	156 041	13 691
Total segments, gross	**348 116**	**27 770**	**6 994**	**816**	**4 495**	**2 827**	**359 605**	**31 413**

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

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

Split of specific COVID-19 related support guarantee instruments for the SME and Midcap client segment guarantee portfolio by industries as at 31 December 2021, in thousands euro:

	Gross outstanding guarantees	**Changes to 31.12.2020.**	**Issued in 2021**	**Issued in 2020**	**Impairment allowance**	**Changes to 31.12.2020.**	**Net outstanding guarantees**	**% of Total gross outstanding guarantees, SME & Midcap**
Covid-19 more exposed industries								
Hotels and restaurants	5 160	(30)	-	5 190	650	10	4 510	2.6%
Passenger transport services	3 040	141	1 457	2 899	425	(64)	2 615	1.5%
Retail	996	(1 876)	304	2 872	61	(29)	935	0.5%
Art, entertainment and leasure	352	268	-	84	31	22	321	0.2%
Total Covid-19 more exposed industries	**9 548**	**(1 497)**	**1 761**	**11 045**	**1 167**	**(61)**	**8 381**	**4.8%**
Covid-19 less exposed industries								
Manufacturing	7 559	(3 712)	2 794	11 270	632	(78)	6 927	3.8%
Wholesale	7 130	(1 753)	4 735	8 882	957	46	6 173	3.6%
Municipal authorities	1 961	(2 417)	1 352	4 378	285	69	1 676	1.0%
Construction	790	40	-	750	39	13	751	0.4%
Forestry	372	(75)	-	447	55	(3)	317	0.2%
Electricity, gas and water utilities	239	(219)	-	458	27	(20)	212	0.1%
Health and social care	221	(280)	-	500	20	8	201	0.1%
Information technologies and communication	41	(22)	32	63	7	6	34	0.0%
Real estate	-	(366)	-	366	-	(41)	-	0.0%
Other industries	-	(539)	-	539	-	(39)	-	0.0%
Total Covid-19 less exposed industries	**18 313**	**(9 343)**	**8 913**	**27 653**	**2 022**	**(39)**	**16 291**	**9.3%**
Total specific COVID-19 related guarantee products *	**27 861**	**(10 840)**	**10 674**	**38 698**	**3 189**	**(100)**	**24 672**	**14.1%**

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

3 Risk Management (cont'd)

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

(iv) Covid-19 impact on guarantee portfolio (cont'd)

Split of daily (ordinary) guarantee product portfolio of the SME and Midcap client segment by industries as at 31 December 2021, in thousands euro:

	Gross outstanding guarantees	Changes to 31.12.2020.	Issued in 2021	Issued in 2020	Impairment allowance	Changes to 31.12.2020.	Net outstanding guarantees	% of Total gross outstanding guarantees, SME & Midcap
Covid-19 more exposed industries								
Retail	5 660	(58)	1 766	917	689	242	4 970	2.9%
Passenger transport services	1 226	950	441	-	23	2	1 203	0.6%
Hotels and restaurants	523	(341)	45	-	61	(37)	462	0.3%
Art, entertainment and leasure	299	(6)	182	96	24	3	275	0.2%
Total Covid-19 more exposed industries	**7 708**	**545**	**2 434**	**1 013**	**797**	**210**	**6 910**	**3.9%**
Covid-19 less exposed industries								
Manufacturing	55 936	9 827	20 713	12 365	4 080	302	51 856	28.3%
Wholesale	43 225	10 481	13 921	12 060	1 909	172	41 316	21.9%
Construction	31 244	(3 162)	5 361	8 288	2 235	(1 236)	29 009	15.8%
Forestry	8 972	461	1 977	5 891	378	(137)	8 594	4.5%
Transport, warehousing and communications	6 374	3 729	396	612	550	213	5 823	3.2%
Real estate	5 026	1 253	1 704	869	407	233	4 619	2.5%
Professional, science and technical services	4 539	(709)	1 242	2 788	314	6	4 224	2.3%
Information technologies and communication	2 856	9	1 059	201	153	3	2 703	1.4%
Municipal authorities	2 172	62	1 006	405	223	(26)	1 949	1.1%
Electricity, gas and water utilities	808	(2 144)	386	280	35	(486)	773	0.4%
Health and social care	594	(109)	164	100	63	(12)	531	0.3%
Other industries	504	(322)	89	179	34	(63)	471	0.3%
Total Covid-19 less exposed industries	**162 250**	**19 376**	**48 018**	**44 038**	**10 381**	**(1 031)**	**151 868**	**82.0%**
Total daily (ordinary) guarantee products	**169 958**	**19 921**	**50 452**	**45 051**	**11 178 ***	**(821)**	**158 778 ***	**85.9%**

* excludes impairment overlay represents an additional loss reserve for SME and Midcaps portfolio over the modelled ECL amounts to account for other economic uncertainties

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

In the agricultural segment, in 2021 there was an increase in the prices of raw materials and energy resources, which was followed by an increase in sales prices, which was able to compensate for the increase in the costs of raw materials. The companies of the agricultural segment closed 2021 with sufficiently good financial results. It should even be noted that the agricultural segment is significantly subsidized and guarantees to this segment are mainly secured by agricultural land, which is prudently valued. Therefore, the Group / Company does not see a deterioration in the quality of the portfolio in this segment as a result of the Covid-19 crisis.

Manufacturing industry. In 2021, the growth of manufacturing enterprises has generally continued. Given the constraints on the entertainment, catering, tourism and other services sectors, public consumption trends have been significantly affected and most of the revenue is spent on various goods. The sub-sector that is experiencing the sharpest fluctuations is wood processing, as in 2021 the trend of the second half of 2020 will continue with rapidly rising sales prices, and profit indicators will increase accordingly. However, the availability of raw materials in connection with the economic sanctions against Belarus, as well as the possible sharp decline in the price of products on the basis of demand adjustments, poses additional risks to companies in the sector. The sufficiently good results of the manufacturing industry in 2021 are also shown by the macroeconomic indicators - the output of exported goods continues to increase in almost all sub-sectors. Therefore, it can be concluded that the negative impact of Covid-19 on the operations of the companies in the sector has been insignificant. In the second half of 2021, however, negative trends were observed in connection with the sharp rise in energy prices, which may affect the financial results of some energy-intensive sub-sectors in 2021.

3 Risk Management (cont'd)

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

(iv) Covid-19 impact on guarantee portfolio (cont'd)

The second largest sector in terms of guarantee portfolio is wholesale. In the wholesale sector, as in the manufacturing sector, the impact of the Covid-19 crisis has varied across sub-sectors. For example, wholesalers of various raw materials and equipment have closed 2020 with very good results, and they have been able to improve their performance due to the growth of the manufacturing sector in 2021 as well. Timber wholesalers have been less successful, having had to cope with the fall in demand caused by BREXIT in addition to the disruption of logistics chains caused by Covid-19. However, at the end of 2020, a large number of timber wholesalers had found new outlets in Asia and were able to close the year without significant losses due to rising global timber prices. This trend will continue in 2021, but the challenges for the industry are similar to those for the woodworking industry. The reporting period was slightly more successful for fuel and fuel traders as they were able to take advantage of the positive effects of rising prices, but overall the industry has not fully recovered from the losses caused by the Covid-19 crisis in 2020 and rising prices could have a negative impact on demand in the long run. On the positive side, most companies in this sector have sufficiently high equity ratios and owners with the ability to support companies financially. In the retail segment, the reporting period was challenging for all sub-sectors except pharmaceuticals, food and household goods. Due to store restrictions, many retailers of clothing, footwear, cosmetics, jewellery and other product groups have major challenges covering their day-to-day expenses and selling existing inventory to renew their range.

Construction. The Covid-19 crisis has affected the industry both directly and indirectly. Due to travel restrictions and illness of employees, the construction process was delayed in many companies and the company's cash flow suffered accordingly. In addition, suppliers changed the terms of delivery by switching to prepayment and upsetting the usual balance of project financing. Many of the industries directly affected by Covid-19 abandoned construction projects or postponed them. However, the industry as a whole is showing good results in 2021, as frozen projects have been reopened and, following the peak of the frozen consumption crisis, demand has risen sharply from both institutional and private customers, leading to rising prices and, consequently, higher profits. Facilitating travel conditions also allows Latvian companies to return to the Scandinavian market.

Approximately ¾ of the retail guarantee portfolio consists of housing guarantees - housing guarantees for a bank loan for the purchase or construction of a home for families with children and housing guarantees for a bank loan for the purchase or construction of a home for new specialists. Retail guarantee portfolio's PD rates both unadjusted and adjusted for macroeconomic factors, in particular changes in GDP, as at 31 December 2021 has decreased compared to PD rates as at 31 December 2020 taking into account actual changes in GDP that were significantly better than initially projected due to Covid-19. Due to the impact of Covid-19, no changes to the guarantees have been received, as banks are not required to communicate with the Group / Company any deferral of principal or deferral of payments. As a result of Covid-19, there has been no increase in the number of guarantee compensations in 2021, which remains at the level of previous years. An additional risk mitigating factor is the guarantee indemnity disbursement mechanism, which provides that indemnity for claimed guarantees is paid within 3 years from the time the guarantee claim is reported, and the bank recovers the borrower's or guarantor's cash flow or loan collateral from this period. feeds. In addition, analysis of some of the factors that could affect the housing guarantee portfolio, such as a sharp decline in real estate prices similar to 2008 or an increase in the EURIBOR index, which would significantly increase the cost of servicing mortgages, real estate prices were stable in 2021. the growth trend and the negative 6-month EURIBOR compared to the beginning of 2022 compared to the end of 2021 remained even more negative.

(v) Investments in venture capital funds

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

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

4 Interest income

All amounts in thousands of euro

	Group 01.01.2021.-31.12.2021.	Group 01.01.2020.-31.12.2020.	Company 01.01.2021.-31.12.2021.	Company 01.01.2020.-31.12.2020.
Interest on loans and guarantees *	18 475	14 777	18 475	14 777
Interest on securities at fair value	370	1 628	370	1 628
Interest on securities at amortised cost	12	22	12	22
Other interest income	-	15	-	15
Total interest income	**18 857**	**16 442**	**18 857**	**16 442**

* The Group's / Company's sub-item Interest income on loans and guarantees does not include interest income from loans and premium income on issued guarantees as well as commissions which, in accordance with the program agreements concluded with the Ministry of Economics, stipulates that the funding allocated by the Ministry of Economics (recognized in balance sheet item Support Programs Funding) must be increased by the respective program income. Accordingly, this type of income is not recognized as interest income, but is recognized as an increase in Support Programs Funding which in 2021 amounts to EUR 1,280 thousand (2020: EUR 1,307 thousand).

5 Interest expense

All amounts in thousands of euro

	Group 01.01.2021.-31.12.2021.	Group 01.01.2020.-31.12.2020.	Company 01.01.2021.-31.12.2021.	Company 01.01.2020.-31.12.2020.
Interest on balances due to credit institutions	760	585	760	585
Interest on issued debt securities	844	745	844	745
Allocation of state support programmes' profit to support programme funding *	504	503	504	503
Other commission expense	32	37	32	37
Total interest expense	**2 140**	**1 870**	**2 140**	**1 870**

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

6 Income for implementation of state support programmes

All amounts in thousands of euro

	Group 01.01.2021.-31.12.2021.	Group 01.01.2020.-31.12.2020.	Company 01.01.2021.-31.12.2021.	Company 01.01.2020.-31.12.2020.
Compensation of expenses for management of state support programmes	2 088	2 183	2 088	2 183
Compensation of venture capital fund management fees	1 711	3 447	2 983	3 447
Compensation of expenses for management of state support programmes of the previous years	316	602	316	602
Compensation of expenses of capital congestion	331	294	331	294
Total income from implementation of state support programmes	**4 446**	**6 526**	**5 718**	**6 526**

7 Expenses to be compensated for implementation of state support programmes

All amounts in thousands of euro

	Group 01.01.2021.-31.12.2021.	Group 01.01.2020.-31.12.2020.	Company 01.01.2021.-31.12.2021.	Company 01.01.2020.-31.12.2020.
Compensated staff costs	1 675	1 813	1 675	1 813
Compensated administrative expense	413	370	413	370
Compensated venture capital fund management fees	1 741	3 767	3 013	3 767
Total compensated expense for implementation of state support programmes	**3 829**	**5 950**	**5 101**	**5 950**

8 Gains from debt securities and foreign exchange transactions

All amounts in thousands of euro

	Group 01.01.2021.-31.12.2021.	Group 01.01.2020.-31.12.2020.	Company 01.01.2021.-31.12.2021.	Company 01.01.2020.-31.12.2020.
Gains / (losses) on currency exchange and trade and revaluation of other financial instruments, net	51	(56)	51	(56)
Total gain from debt securities and foreign exchange transactions	**51**	**(56)**	**51**	**(56)**

9 Other income

All amounts in thousands of euro

	Group 01.01.2021.-31.12.2021.	Group 01.01.2020.-31.12.2020.	Company 01.01.2021.-31.12.2021.	Company 01.01.2020.-31.12.2020.
Income from lease payments for operating leases	1 393	1 046	1 393	1 046
Income from payments for financial leases	5	324	5	324
Profit from investment property revaluation	804	738	804	738
Profit from sale of investment property	191	27	191	27
Profit from sale of repossessed collateral	8	18	8	18
Other commission income	22	20	22	20
Income from management of the AIF “Altum capital fund” and compensation of set-up costs	620	269	620	269
Other operating income	178	611	178	611
Total other income	**3 221**	**3 053**	**3 221**	**3 053**

10 Other expense

All amounts in thousands of euro

	Group 01.01.2021.-31.12.2021.	Group 01.01.2020.-31.12.2020.	Company 01.01.2021.-31.12.2021.	Company 01.01.2020.-31.12.2020.
Maintenance and service costs of Land Fund	330	400	330	400
Debt collection costs	167	159	167	159
Maintenance costs of repossessed collateral	1	3	1	3
Revaluation of repossessed collateral	-	26	-	26
Depreciation of right-of-use assets	145	138	145	138
Commission expense on investments in securities	92	91	92	91
AIF “Altum capital fund” management costs	620	247	620	247
Loss from investments in subsidiaries	-	-	-	80
Other commission expense	2	1	2	1
Changes in fair value of support programme funding	152	-	152	-
Total other expense	**1 509**	**1 065**	**1 509**	**1 145**

11 Staff Costs

All amounts in thousands of euro

	Group 01.01.2021.- 31.12.2021.	Group 01.01.2020.- 31.12.2020.	Company 01.01.2021.- 31.12.2021.	Company 01.01.2020.- 31.12.2020.
Remuneration to the Supervisory Council and the Management Board *	459	459	459	459
to the Supervisory Council	*75*	*74*	*75*	*74*
to the Management Board	*384*	*385*	*384*	*385*
Remuneration to staff	5 573	5 309	5 573	5 309
Social security contributions	1 438	1 461	1 438	1 461
Total staff costs	**7 470**	**7 229**	**7 470**	**7 229**
Compensated staff costs (Note 7)	(1 675)	(1 813)	(1 675)	(1 813)
Net staff costs	**5 795**	**5 416**	**5 795**	**5 416**

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

In 2021, the Group / Company employed 228 persons on average, incl. 5 members of the Supervisory Board and the Audit Committee (2020: 215). Number of employees engaged in implementation of support programmes as at 31 December 2021 was 223 (31 December 2020: 205).

12 Administrative expenses

All amounts in thousands of euro

	Group 01.01.2021.- 31.12.2021.	Group 01.01.2020.- 31.12.2020.	Company 01.01.2021.- 31.12.2021.	Company 01.01.2020.- 31.12.2020.
Information system and communication expense	507	488	507	488
Premises and equipment maintenance expense	680	681	680	681
Advertising and public relations	241	238	241	238
Training and other staff expense	186	193	186	193
Professional services *	442	361	442	361
Other expense	74	69	74	69
Real estate tax	176	171	176	171
Total administrative expenses	**2 306**	**2 201**	**2 306**	**2 201**
Compensated administrative expense (Note 7)	(413)	(370)	(413)	(370)
Net administrative expenses	**1 893**	**1 831**	**1 893**	**1 831**

* The Group's / Company's sub-item *Professional services* includes audit services in amount of EUR 60.5 thousand, which were received in 2021 (2020: EUR 60.0 thousand) from the Group's / Company's sworn auditor Deloitte Audits Latvia Ltd.

13 Impairment losses, net

All amounts in thousands of euro

	Group 01.01.2021.- 31.12.2021.	Group 01.01.2020.- 31.12.2020.	Company 01.01.2021.- 31.12.2021.	Company 01.01.2020.- 31.12.2020.
Impairment losses on:	13 907	17 089	13 907	17 009
Loans, net	7 523	8 585	7 523	8 585
impairment losses	*6 072*	*9 440*	*6 072*	*9 440*
impairment losses covered by Portfolio Loss Reserve	*3 559*	*2 785*	*3 559*	*2 785*
impairment losses covered by Risk Coverage Reserve	*(2 108)*	*(3 640)*	*(2 108)*	*(3 640)*
Disbursed guarantee compensations	-	-	-	-
impairment losses	*-*	*57*	*-*	*57*
impairment losses covered by Portfolio Loss Reserve	*-*	*-*	*-*	*-*
impairment losses covered by risk coverage reserve	*-*	*(57)*	*-*	*(57)*
Grants	199	169	199	169
impairment losses	*199*	*169*	*199*	*169*
impairment losses covered by Portfolio Loss Reserve	*-*	*-*	*-*	*-*
Other assets	479	80	479	-
Financial assets related to loan agreements	107	137	107	137
Guarantees, net	4 735	6 484	4 735	6 484
impairment losses	*13 230*	*10 399*	*13 230*	*10 399*
impairment losses covered by Portfolio Loss Reserve	*2 841*	*4 043*	*2 841*	*4 043*
impairment losses covered by Risk Coverage Reserve	*(11 336)*	*(7 958)*	*(11 336)*	*(7 958)*
Loan commitments, net	792	1 564	792	1 564
impairment losses	*1 116*	*1 162*	*1 116*	*1 162*
impairment losses covered by Portfolio Loss Reserve	*239*	*791*	*239*	*791*
impairment losses covered by Risk Coverage Reserve	*(563)*	*(389)*	*(563)*	*(389)*
Grant commitments	72	70	72	70
Reversal of impairment on:	(13 746)	(12 721)	(13 746)	(12 721)
Loans, net	(8 037)	(6 349)	(8 037)	(6 348)
reversal of impairment	*(10 114)*	*(7 705)*	*(10 114)*	*(7 704)*
reversal of impairment covered by Portfolio Loss Reserve	*(1 881)*	*(426)*	*(1 881)*	*(426)*
reversal of impairment covered by Risk Coverage Reserve	*3 958*	*1 782*	*3 958*	*1 782*
Disbursed guarantee compensations	(59)	(188)	(59)	(188)
reversal of impairment	*(83)*	*(323)*	*(83)*	*(323)*
reversal of impairment covered by Portfolio Loss Reserve	*(3)*	*-*	*(3)*	*-*
reversal of impairment covered by Risk Coverage Reserve	*27*	*135*	*27*	*135*
Grants	(101)	(5)	(101)	(5)
Other assets	(13)	(358)	(13)	(358)
Due from credit institutions and the Treasury	-	(2)	-	(2)
Financial assets related to loan agreements	(15)	(60)	(15)	(60)
Debt securities	(16)	(177)	(16)	(177)
Guarantees, net	(4 943)	(4 565)	(4 943)	(4 566)
reversal of impairment	*(11 407)*	*(13 059)*	*(11 407)*	*(13 060)*
reversal of impairment covered by Portfolio Loss Reserve	*(1 509)*	*-*	*(1 509)*	*-*
reversal of impairment covered by Risk Coverage Reserve	*7 973*	*8 494*	*7 973*	*8 494*
Loan commitments, net	(547)	(1 010)	(547)	(1 010)
reversal of impairment	*(542)*	*(931)*	*(542)*	*(931)*
reversal of impairment covered by Portfolio Loss Reserve	*(162)*	*(467)*	*(162)*	*(467)*
reversal of impairment covered by Risk Coverage Reserve	*157*	*388*	*157*	*388*
Grant commitments	(15)	(7)	(15)	(7)
Total impairment losses / (reversal), net	161	4 368	161	4 288
Recovery of loans written off in previous periods	(760)	(888)	(760)	(888)
Total impairment losses and (income) from recovery of loans written-off	**(599)**	**3 480**	**(599)**	**3 400**

Additional information Including on impairment allowances covered by Portfolio Loss Reserve (Special Reserve Capital) upon approval of the 2021 annual report available in Note 3 item 1.

14 Due from credit institutions and the State Treasury

All amounts in thousands of euro

	Group 31.12.2021.	Group 31.12.2020	Company 31.12.2021.	Company 31.12.2020
Due from credit institutions and State Treasury	455 007	359 949	455 007	359 949
cash and cash equivalent	*455 007*	*359 949*	*455 007*	*359 949*
Impairment allowances	(1)	-	(1)	-
Net due from credit institutions and State Treasury	**455 006**	**359 949**	**455 006**	**359 949**

Placing the funds within the Treasury of the Republic of Latvia and credit institutions, the external credit ratings assigned to these credit institutions are evaluated. The evaluation of the credit institutions not having been assigned individual ratings is based on the ratings assigned to their parent banks as well as their financial and operational assessments. Once the contracts have been concluded, the Group / Company monitors the credit institutions and follows that the assigned limits comply with credit risk assessment. All balances due from credit institutions and State Treasury represent Stage 1 for the ECL calculation purposes. There were no changes in staging in 2021.

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

Ratings	Aaa	Aa1-Aa3	A1-A3	Baa1-Baa3	Ba1-Ba3	B1-B3	Caa-C	Withdrawn rating (WR)	Total
Due from credit institutions registered in the Republic of Latvia and the Treasury	-	3 965	336 739	9 561	9 684	-	-	-	359 949
Total gross as at 31 December 2020	**-**	**3 965**	**336 739**	**9 561**	**9 684**	**-**	**-**	**-**	**359 949**
Due from credit institutions registered in the Republic of Latvia and the Treasury	-	-	437 249	17 757	-	-	-	-	455 006
Total gross as at 31 December 2021	**-**	**-**	**437 249**	**17 757**	**-**	**-**	**-**	**-**	**455 006**

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

Ratings	Aaa	Aa1-Aa3	A1-A3	Baa1-Baa3	Ba1-Ba3	B1-B3	Caa-C	Withdrawn rating (WR)	Total
Due from credit institutions registered in the Republic of Latvia and the Treasury	-	3 965	336 739	9 561	9 684	-	-	-	359 949
Total gross as at 31 December 2020	**-**	**3 965**	**336 739**	**9 561**	**9 684**	**-**	**-**	**-**	**359 949**
Due from credit institutions registered in the Republic of Latvia and the Treasury	-	-	437 249	17 757	-	-	-	-	455 006
Total gross as at 31 December 2021	**-**	**-**	**437 249**	**17 757**	**-**	**-**	**-**	**-**	**455 006**

As at 31 December 2021, the Group / Company held accounts with 4 banks and the Treasury of the Republic of Latvia. The average interest rate on balances of position *Due from credit institutions and the Treasury* as at 31 December 2021 was -0.01% (31 December 2020: 0%).

15 Investment Securities

All amounts in thousands of euro

	Group 31.12.2021.	Group 31.12.2020	Company 31.12.2021.	Company 31.12.2020
Investment securities valued at amortised cost				
Latvian Treasury bills and government bonds	-	407	-	407
OECD corporate bonds	3 704	3 433	3 704	3 433
Total investment securities valued at amortised cost	**3 704**	**3 840**	**3 704**	**3 840**
Impairment allowances	(3 667)	(3 399)	(3 667)	(3 399)
Net investment securities valued at amortised cost	**37**	**441**	**37**	**441**
Investment securities valued at fair value through other comprehensive income				
Latvian Treasury bills and government bonds	14 051	36 958	14 051	36 958
Total investment securities valued at fair value through other comprehensive income	**14 051**	**36 958**	**14 051**	**36 958**
Total gross investment securities	**17 755**	**40 798**	**17 755**	**40 798**
Total net investment securities	**14 088**	**37 399**	**14 088**	**37 399**

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

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

Ratings	Aaa	Aa1-Aa3	A1-A3	Baa1-Baa3	Ba1-Ba3	B1-B3	Caa-C	Withdrawn rating (*WR*)	Total
Investment securities valued at fair value through other comprehensive income	-	-	36 958	-	-	-	-	-	36 958
Investment securities valued at amortised cost	-	-	407	-	-	-	-	3 433	3 840
Total gross as at 31 December 2020	**-**	**-**	**37 365**	**-**	**-**	**-**	**-**	**3 433**	**40 798**
Investment securities valued at fair value through other comprehensive income	-	-	14 051	-	-	-	-	-	14 051
Investment securities valued at amortised cost	-	-	-	-	-	-	-	3 704	3 704
Total gross as at 31 December 2021	**-**	**-**	**14 051**	**-**	**-**	**-**	**-**	**3 704**	**17 755**

The information about classification of investment securities is available in Note 2 (5) item (iv). All securities are quoted. The average yield on debt securities was 1.98% as at 31 December 2021 (31 December 2020: 4.54%)

16 Financial assets at fair value through profit or loss

All amounts in thousands of euro

	Group 01.01.2021.-31.12.2021.	Group 01.01.2020.-31.12.2020.
Investments of subsidiaries in underlying undertakings	-	5 425
Total financial assets at fair value through profit or loss - investments of subsidiaries in underlying undertakings	**-**	**5 425**

In 2021, the Company made disbursements to the 4nd generation venture capital funds. Some of these funds are classified as investments in subsidiaries. At the Group level the equity investments made by the subsidiaries are consolidated. None of these equity investments represent a controlling stake. For more information on the classification see Note 22, for accounting policy Note 2 (6) item (iv).

17 Investments in Associates

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

		Equity of venture capital fund		Carrying Amount	
Company or venture capital fund generation	**Country of incorporation**	31.12.2021.	31.12.2020	31.12.2021.	31.12.2020
The 2nd generation VCFs	LV	16 929	19 652	11 885	12 953
The 3rd generation VCFs	LV	13 310	16 974	10 473	16 376
The 4th generation VCFs	LV	20 073	6 459	14 371	3 640
AIF "Altum capital fund"	LV	19 008	138	14 998	-
Baltic Innovation Fund *	LU	85 544	79 570	13 222	15 019
Total investments in associates		**154 864**	**122 793**	**64 949**	**47 988**

* Investments in Associates are stated under the equity method, except for investments in Baltic Innovation Fund that is valued using the FVTPL method.

	Group	Group	Company	Company
	31.12.2021.	31.12.2020	31.12.2021.	31.12.2020
Investments in associates				
Investments accounted for using the equity method	51 727	32 969	51 727	32 969
Including, reclassified due to changes in the status of subsidiaries to associates (see Note 22)	*6 563*	-	*6 563*	-
Investments accounted for using the FVTPL method	13 222	15 019	13 222	15 019

As at 31 December 2021 the total venture capital funds' portfolio value at cost value was EUR 85,973 thousand (31 December 2020: EUR 73,165 thousand).

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

	Investments in venture capital funds		Investments in AIF "Altum capital fund"		Investments in Baltic Innovation Fund		Total	
	01.01.2021.-31.12.2021.	01.01.2020.-31.12.2020.	01.01.2021.-31.12.2021.	01.01.2020.-31.12.2020.	01.01.2021.-31.12.2021.	01.01.2020.-31.12.2020.	01.01.2021.-31.12.2021.	01.01.2020.-31.12.2020.
Carrying amount at the beginning of period	32 969	38 442	-	-	15 019	13 851	47 988	52 293
Invested	4 233	1 546	14 918	-	1 817	3 129	20 968	4 675
Refunded	(7 431)	(6 196)	(282)	-	(6 900)	(2 499)	(14 613)	(8 695)
Reclassified due to changes in the status of subsidiaries to associates (see Note 22)	6 563	-	-	-	-	-	6 563	-
Mezzanine interest received and realised gain on exit *	1 730	1 271	282	-	-	-	2 012	1 271
Unrealised gain from refunded	-	-	-	-	469	250	469	250
Share of net gain / (loss) of investment in associate	(1 335)	(2 094)	80	-	-	-	(1 255)	(2 094)
Gain from investment in associate at fair value through profit or loss	-	-	-	-	2 817	288	2 817	288
Net carrying amount at the period ended at 31 December	**36 729**	**32 969**	**14 998**	**-**	**13 222**	**15 019**	**64 949**	**47 988**

* includes mezzanine interest received, realized gain / (loss) on exit and changes in revaluation of investment.

The Group's / Company's share of gain of investment in associate and other investments, in thousands of euro:

	Investments in venture capital funds		Investments in AIF "Altum capital fund"		Investments in Three Seas Initiatives Investment Fund		Total	
	01.01.2021.-31.12.2021.	01.01.2020.-31.12.2020.	01.01.2021.-31.12.2021.	01.01.2020.-31.12.2020.	01.01.2021.-31.12.2021.	01.01.2020.-31.12.2020.	01.01.2021.-31.12.2021.	01.01.2020.-31.12.2020.
Share of net gain / (loss) of investment in associate	(1 335)	(1 909)	80	-	-	-	(1 255)	(1 909)
Net income / (expense), excluding revaluation gain / (loss)	-	-	(75)	(185)	-	-	(75)	(185)
Share of net gain / (loss) of investment in Three Seas Initiatives Investment Fund	-	-	-	-	(52)	-	(52)	-
Share of net gain / (loss) of investment in associate	**(1 335)**	**(1 909)**	**5**	**(185)**	**(52)**	**-**	**(1 382)**	**(2 094)**

17 Investments in Associates (cont'd)

In 2021, the Group's / Company's expenses included:

- Management fees for the 2nd and 3rd generation venture capital funds amounted EUR 522 thousand (2020: EUR 888 thousand) which were compensated from the risk coverage reserve;
- Management fees for the 4th generation venture capital funds amounted EUR 834 thousand (2020: EUR 807 thousand) which were compensated from the risk coverage reserve;
- Management fees for the Baltic Innovation Fund amounted EUR 198 thousand (2020: EUR 236 thousand) which were compensated from the risk coverage reserve;
- Management fees for the AIF "Altum capital fund" amounted EUR 404 thousand (2020: EUR 207 thousand).

Part of disbursements made into the 4th generation venture capital funds are classified as Investments in subsidiaries (detailed information is available in Note 1) and management fees of such funds in 2021 amounted EUR 1,261 thousand (2020: EUR 1,317 thousand) which were compensated from the Risk Coverage reserve.

18 Other Investments

All amounts in thousands of euro

	Group 31.12.2021.	Group 31.12.2020.	Company 31.12.2021.	Company 31.12.2020.
Baltic Innovation Fund 2	1 982	806	1 982	806
Three Seas Initiatives Investment Fund	6 954	6 697	6 954	6 697
Total other investments	**8 936**	**7 503**	**8 936**	**7 503**

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

The Three Seas Initiative Investment Fund is a new financial instrument for financing and developing infrastructure projects in 12 countries, including Latvia, aimed at reducing infrastructure development gaps between different European regions. The Three Seas Initiative Investment Fund is a new financial instrument to support transport, energy and digitalization infrastructure projects in Central and Eastern Europe. The Group / Company signed the subscription agreement on 16 September 2020. The total capital committed by the Group / Company to the Three Seas Initiative Investment Fund is EUR 20,000 thousand thus arriving at the ownership rate of 2.17% on 31 December 2021 (31 December 2020: 3.57%) of the total committed capital the Three Seas Initiative Investment Fund un 31 December 2021 in amount of EUR 923,000 thousand (31 December 2020: EUR 560,000 thousand).

In 2021, the Group's / Company's expenses included:

- Management fees for the Baltic Innovation Fund II amounted EUR 169 thousand (2020: EUR 0) which were compensated from the risk coverage reserve;
- Management fees for the Three Seas Initiatives Investment Fund amounted EUR 255 thousand (2020: 0) which were compensated from the risk coverage reserve.

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

19 Loans

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

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

	Group 31.12.2021.	Group 31.12.2020	Company 31.12.2021.	Company 31.12.2020
SME and Midcaps	175 070	168 262	175 070	168 262
Agriculture	132 556	124 297	132 556	124 297
Private individuals	6 513	8 025	6 513	8 025
Financial Intermediaries	1 535	1 897	1 535	1 897
Land Fund	32 999	31 500	32 999	31 500
Total gross loans	**348 673**	**333 981**	**348 673**	**333 981**
Impairment allowances	(18 143)	(20 713)	(18 143)	(20 713)
Total net loans	**330 530**	**313 268**	**330 530**	**313 268**

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

	Group 31.12.2021.	Group 31.12.2020	Company 31.12.2021.	Company 31.12.2020
Agriculture and forestry	170 808	155 682	170 808	155 682
Manufacturing	67 635	67 807	67 635	67 807
Retail and wholesale	24 241	32 378	24 241	32 378
Real estate	13 719	10 273	13 719	10 273
Construction	12 238	9 328	12 238	9 328
Municipal authorities	8 843	8 328	8 843	8 328
Hotels and restaurants	7 498	8 214	7 498	8 214
Transport, warehousing and communications	6 856	5 227	6 856	5 227
Electricity, gas and water utilities	6 120	7 097	6 120	7 097
Health and social care	5 896	4 479	5 896	4 479
Professional, science and technical services	4 914	4 878	4 914	4 878
Information technologies and communication	2 959	3 073	2 959	3 073
Fishing	2 084	1 647	2 084	1 647
Other industries	8 344	7 545	8 344	7 545
Private individuals	6 518	8 025	6 518	8 025
Total gross loans	**348 673**	**333 981**	**348 673**	**333 981**
Impairment allowances	(18 143)	(20 713)	(18 143)	(20 713)
Total net loans	**330 530**	**313 268**	**330 530**	**313 268**

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

	Group 01.01.2021.-31.12.2021.	Group 01.01.2020.-31.12.2020.	Company 01.01.2021.-31.12.2021.	Company 01.01.2020.-31.12.2020.
Impairment allowances at the beginning of the period	20 713	20 283	20 713	20 283
Increase in impairment allowances (Note 13)	9 631	11 331	9 631	11 331
Decrease in impairment allowances (Note 13)	(11 995)	(8 130)	(11 995)	(8 130)
Write-off of loans	(1 080)	(3 665)	(1 080)	(3 665)
Reclassification (increase of impairment allowances due to changes in off-balance sheet and balance sheet)	874	894	874	894
Impairment allowances at the end of the period ended 31 December	**18 143**	**20 713**	**18 143**	**20 713**
Group's / Company's share of impairment allowances	*9 334*	*11 860*	*9 334*	*11 860*
Impairment allowances covered by Portfolio Loss Reserve	*4 144*	*2 359*	*4 144*	*2 359*
Impairment allowances covered by Risk Coverage Reserve	*4 665*	*6 494*	*4 665*	*6 494*

19 Loans (cont'd)

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

	Group 31.12.2021.	Group 31.12.2020	Company 31.12.2021.	Company 31.12.2020
Number of customers	42	36	42	36
Total credit exposure of customers (EUR '000)	67 623	62 821	67 623	62 821
Percentage of total gross portfolio of loans	19.39%	18,81%	19.39%	18,81%

As at 31 December 2021 the average annual interest rate for the loan portfolio of the Group / Company was 4.05% (31 December 2020: 4.05%).

20 Grants

All amounts in thousands of euro

	Group 31.12.2021.	Group 31.12.2020	Company 31.12.2021.	Company 31.12.2020
Energy Efficiency Programme for Multi-apartment Buildings	43 153	30 053	43 153	30 053
Social Entrepreneurship Programme	1 290	1 065	1 290	1 065
Grants for development of energy efficiency projects	41	-	41	-
Housing grant programme "Balsts"	1 042	164	1 042	164
Grants for renovation of private houses and energy efficiency improvement *	167	-	167	-
Grants for cultural industry support programme *	36	-	36	-
Total grants, gross	**45 729**	**31 282**	**45 729**	**31 282**
Impairment allowances	(332)	(175)	(332)	(175)
Total grants, net	**45 397**	**31 107**	**45 397**	**31 107**

* Combined financial instrument.

Movement in the Group's / Company's net book value of grants in 2021, in thousands of euro:

	Group 31.12.2021.	Group 31.12.2020	Company 31.12.2021.	Company 31.12.2020
Carrying amount				
Carrying amount at the beginning of period	31 282	17 198	31 282	17 198
Changes	14 447	14 084	14 447	14 084
Carrying amount at the end of period ended 31 December	45 729	31 282	45 729	31 282
Impairment allowances				-
At the beginning of period	(175)	(12)	(175)	(12)
Changes	(215)	(163)	(215)	(163)
Reclassification (increase of impairment allowances due to changes in off-balance sheet and balance sheet)	58	-	58	-
At the end of period ended 31 December	(332)	(175)	(332)	(175)
Grants net book at the beginning of the period	**31 107**	**17 186**	**31 107**	**17 186**
Grants net book value at the end of the period ended 31 December	**45 397**	**31 107**	**45 397**	**31 107**

21 Investment Properties

All amounts in thousands of euro

	Group 31.12.2021.	Group 31.12.2020	Company 31.12.2021.	Company 31.12.2020
Carrying amount at the beginning of period	36 758	24 366	36 758	24 366
Acquired during the reporting period *	7 150	11 395	7 150	11 395
Recognized on termination of reverse leases	1 663	300	1 663	300
Disposals during the reporting period	(211)	(40)	(211)	(40)
Net gain from fair value adjustment	804	737	804	737
Carrying amount at the end of the period	**46 164**	**36 758**	**46 164**	**36 758**

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

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

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

22 Investments in Subsidiaries

In 2021, disbursements were made to the 4nd generation venture capital funds, some of which are classified as investments in subsidiaries until 30 December 2021, but some as investments in associates. All these investments are made into the 4th generation venture capital funds with payments made upon call for funds. As a result of annual assessment re existence of control or significant influence over subsidiaries as of 31 December 2021, the Company doesn't exercise one of the core control indicator – doesn't have the power over the investment object (see Note 2 (i)). Therefore the Company's Investments in Subsidiaries in amount of EUR 6,563 thousand are classified as Investments in Associates as at 31 December 2021.

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

	Group 31.12.2021.	Group 31.12.2020	Company 31.12.2021	Company 31.12.2020
Investments in the share capital of subsidiaries	-	-	-	4 849
Total investments in the share capital of subsidiaries	**-**	**-**	**-**	**4 849**

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

	Company 31.12.2021.	Company 31.12.2020
KS Commercialization Reactor Pre-seed Fund	-	817
KS Buildit Latvia Pre-Seed Fund	-	753
KS Overkill Ventures Fund I	-	750
KS INEC 1	-	1 696
KS INEC 2	-	863
Total investments in the share capital of subsidiaries	**-**	**4 879**

22 Investments in Subsidiaries (cont'd)

Breakdown of subsidiaries' net assets value as at 31 December 2020 and profit or loss volume in 2021 and 2020, which is based on audited venture capital funds' financial statements for the year ended 31 December 2021 except for KS Commercialization Reactor Pre-seed Fund, where operational financial data are used , in thousands of euro:

	Net assets value		Profit or loss	
	31.12.2021.	31.12.2020	01.01.2021.-30.12.2021.	01.01.2020.-31.12.2020
KS Overkill Ventures Fund I	-	861	(268)	(323)
KS Buildit Latvia Pre-Seed Fund	-	1 017	(58)	(343)
KS Commercialization Reactor Pre-seed Fund	-	817	(272)	(295)
KS INEC 1	-	2 845	72	(282)
KS INEC 2	-	1 118	(446)	(381)
Total	**-**	**6 658**	**(972)**	**(1 624)**

23 Intangible Assets

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

	Group 31.12.2021.	Group 31.12.2020.	Company 31.12.2021.	Company 31.12.2020.
Computer software	1 256	1 398	1 256	1 398
Total intangible assets	**1 256**	**1 398**	**1 256**	**1 398**

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

	Group 31.12.2021.	Group 31.12.2020	Company 31.12.2021.	Company 31.12.2020
Original cost				
At the beginning of period	4 785	4 393	4 785	4 393
Additions	234	392	234	392
Disposals	(342)	-	(342)	-
At the end of period ended at December 31	4 677	4 785	4 677	4 785
Accumulated depreciation				
At the beginning of period	3 387	2 998	3 387	2 998
Depreciation charge	376	389	376	389
Disposals	(342)	-	(342)	-
At the end of period ended at December 31	3 421	3 387	3 421	3 387
Net book value at the beginning of period	**1 398**	**1 395**	**1 398**	**1 395**
Net book value as at 31 December	**1 256**	**1 398**	**1 256**	**1 398**

24 Property, Plant and Equipment

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

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

	Group 31.12.2021.	Group 31.12.2020	Company 31.12.2021.	Company 31.12.2020
Property, plant and equipment	4 289	4 298	4 289	4 298
Right-of-use assets	281	419	281	419
Total property, plant and equipment	**4 570**	**4 717**	**4 570**	**4 717**

24 Property, Plant and Equipment (cont'd)

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

	Land and buildings	Vehicles	Office equipment *	Total
Cost at 1 January 2020	4 789	132	5 512	10 433
Accumulated depreciation	(1 510)	(132)	(4 600)	(6 242)
Impairment allowances	-	-	-	-
Carrying amount at 1 January 2020	**3 279**	**-**	**912**	**4 191**
Additions	317	-	439	756
Disposals	(130)	(88)	(887)	(1 105)
Depreciation charge	(187)		(341)	(528)
Change in depreciation from disposals	14	88	882	984
Change in impairment allowances	-	-	-	-
Carrying amount at 31 December 2020	**3 293**	**-**	**1 005**	**4 298**
Cost at 1 January 2021	4 976	44	5 064	10 084
Accumulated depreciation	(1 683)	(44)	(4 059)	(5 786)
Carrying amount at 1 January 2021	**3 293**	**-**	**1 005**	**4 298**
Additions	423	-	164	587
Disposals	-	-	(235)	(235)
Depreciation charge	(185)	-	(373)	(558)
Change in depreciation from disposals	-	-	197	197
Change in impairment allowances	-	-	-	-
Carrying amount at 31 December 2021	**3 531**	**-**	**758**	**4 289**
Cost at 31 December 2021	5 399	44	4 993	10 436
Accumulated depreciation	(1 868)	(44)	(4 235)	(6 147)
Impairment allowances	-	-	-	-
Carrying amount at 31 December 2021	**3 531**	**-**	**758**	**4 289**

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

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

	Land and buildings	Vehicles	Leasehold improvements	Total
Cost at 1 January 2020	434	183	380	997
Accumulated depreciation	(81)	(33)	(334)	(448)
Impairment allowances	-	-	(46)	(46)
Carrying amount at 1 January 2020	**353**	**150**	**-**	**503**
Additions	-	45	-	45
Disposals	-	-	(380)	(380)
Depreciation charge	(86)	(43)		(129)
Change in depreciation from disposals	-	-	334	334
Change in impairment allowances	-	-	46	46
Carrying amount at 31 December 2020	**267**	**152**	**-**	**419**
Cost at 1 January 2021	434	228	-	662
Accumulated depreciation	(167)	(76)	-	(243)
Carrying amount at 1 January 2021	**267**	**152**	**-**	**419**
Additions	-	-	-	-
Disposals	-	-	-	-
Depreciation charge	(85)	(53)	-	(138)
Change in depreciation from disposals	-	-	-	-
Change in impairment allowances	-	-	-	-
Carrying amount at 31 December 2021	**182**	**99**	**-**	**281**
Cost at 31 December 2021	434	228	-	662
Accumulated depreciation	(252)	(129)	-	(381)
Carrying amount at 31 December 2021	**182**	**99**	**-**	**281**

25 Other Assets

All amounts in thousands of euro

	Group 31.12.2021	Group 31.12.2020	Company 31.12.2021	Company 31.12.2020
Financial assets	5 165	5 603	5 165	5 568
Other assets (repossessed collateral)	28	28	28	28
Total other assets, gross	**5 193**	**5 631**	**5 193**	**5 596**
Impairment allowances for financial assets	(1 951)	(1 960)	(1 951)	(1 960)
Group's / Company's share of provisions	*(786)*	*(1 078)*	*(786)*	*(1 078)*
Impairment allowances covered by Portfolio Loss Reserve	*(186)*	*-*	*(186)*	*-*
Provisions covered by risk coverage	*(979)*	*(882)*	*(979)*	*(882)*
Total financial assets, net	**3 214**	**3 643**	**3 214**	**3 608**
Total other assets, net	**3 242**	**3 671**	**3 242**	**3 636**

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

Movement in the Group's net book value of financial assets in 2021, in thousands of euro:

	Disbursed guarantee compensations	Financial assets related to loan agreements	Other financial assets	Total
Financial assets				
At the beginning of period	1 624	280	3 699	5 603
Changes	(34)	590	(994)	(438)
As at 31 December 2021	1 590	870	2 705	5 165
Impairment provision				
At the beginning of period	(1 624)	(169)	(167)	(1 960)
Changes in impairment allowances	34	(161)	136	9
As at 31 December 2021	(1 590)	(330)	(31)	(1 951)
Net book value at the beginning of period	**-**	**111**	**3 532**	**3 643**
Net book value as at 31 December 2021	**-**	**540**	**2 674**	**3 214**

Movement in the Company's net book value of financial assets in 2021, in thousands of euro:

	Disbursed guarantee compensations	Financial assets related to loan agreements	Other financial assets	Total
Financial assets				
At the beginning of period	1 624	280	3 664	5 568
Changes	(34)	590	(959)	(403)
As at 31 December 2021	1 590	870	2 705	5 165
Impairment provision				
At the beginning of period	(1 624)	(169)	(167)	(1 960)
Changes in impairment allowances	34	(161)	136	9
As at 31 December 2021	(1 590)	(330)	(31)	(1 951)
Net book value at the beginning of period	**-**	**111**	**3 497**	**3 608**
Net book value as at 31 December 2021	**-**	**540**	**2 674**	**3 214**

25 Other Assets (cont'd)

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

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

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

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

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

	Group 31.12.2021	Group 31.12.2020	Company 31.12.2021	Company 31.12.2020
At the beginning of period	28	503	28	503
Additions	-	53	-	53
Disposals	-	(528)	-	(528)
Reclassified	-	-	-	-
Revaluation	-	-	-	-
Total other assets at the end of period ended 31 December	**28**	**28**	**28**	**28**

26 Deferred Expense

All amounts in thousands of euro

	Group 31.12.2021	Group 31.12.2020	Company 31.12.2021	Company 31.12.2020
Management fees paid in advance to venture capital funds' managers	29	495	29	495
Other deferred expense	613	254	613	254
Total deferred expense	**642**	**749**	**642**	**749**

27 Accrued Income

All amounts in thousands of euro

	Group 31.12.2021	Group 31.12.2020	Company 31.12.2021	Company 31.12.2020
Compensation for management expenses of state support programs	1 424	772	1 424	772
Other accrued income	-	-	-	-
Total accrued income	**1 424**	**772**	**1 424**	**772**

28 Due to Credit Institutions

All amounts in thousands of euro

	Group 31.12.2021.	Group 31.12.2020	Company 31.12.2021.	Company 31.12.2020
Due to credit institutions registered in OECD countries	53 416	65 855	53 416	65 855
Total due to credit institutions	**53 416**	**65 855**	**53 416**	**65 855**

Balances *Due to credit institutions registered in the OECD countries* include loan received by the Group / Company from the European Investment Bank (EIB) of EUR 53,416 thousand (31 December 2020: EUR 65,855 thousand), of which EUR 14 thousand constitutes accrued interest expenses (31 December 2020: EUR 22 thousand).

On October 2, 2009, an agreement was signed with the European Investment Bank for a loan of EUR 100,000 thousand to finance projects under the SMEs Growth Loan Programme. As at 31 December 2021 the principal amount of the loan EUR 12,153 thousand (31 December 2020: EUR 20,833 thousand), the accrued interest on the loan amounts to EUR 14 thousand (31 December 2020: EUR 22 thousand), the final repayment date 20 August 2024. The Ministry of Finance of the Republic of Latvia has issued a guarantee for the loan, as a collateral serves the commercial pledge to the right of the Company's claims. As at 31 December 2021, the amount of the secured claim was EUR 12,166 thousand (31December 2020: EUR 20,855 thousand).

On July 8, 2020, Altum signed an agreement with the European Investment Bank for a loan of EUR 80,000 thousand to finance working capital loans to small and medium-sized enterprises affected by the Covid-19. As at 31 December 2021 the principal amount of the loan EUR 41,250 thousand (31 December 2020: EUR 45,000 thousand), the final repayment date 20 November 2025. As at 31 December 2021, according to the loan agreement the Company is available the financing in the amount of EUR 35,000 thousand. On 10 December 2021, Altum signed an agreement with the European Investment Bank for an additional loan of EUR 40,000 thousand to finance working capital loans to small and medium-sized enterprises affected by the Covid-19, the absorption of which had not been started until December 31, 2021. The volume and pace of drawdown under both agreements is subordinated to the further volume of new lending transactions. The loans are unsecured.

As at 31 December 2021, the average interest rate for the balances Due to credit institutions was 0.08% (31 December 2020: 0.11%).

29 Due to General Governments

All amounts in thousands of euro

	Group 31.12.2021	Group 31.12.2020	Company 31.12.2021	Company 31.12.2020
Loans received from Rural Support Service	3 321	4 046	3 321	4 046
Loans received from the Treasury	118 027	99 474	118 027	99 474
Total due to general governments	**121 348**	**103 520**	**121 348**	**103 520**

Item *Loans from Rural Support Service* includes the financing to the Loan Fund, which was established in 2010 for the purpose to issue the loans to the agricultural and fisheries beneficiaries via financial intermediaries. As at 31 December 2021 the Group / Company liabilities to Rural Support Service consist of the principal amount of EUR 3,104 thousand (31 December 2020: EUR 3,829 thousand) and accrued interest – EUR 217 thousand (31 December 2020: EUR 217 thousand). The final repayment date is 31 December 2025. The loan from Rural Support Service is unsecured.

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

- Agricultural land acquisition programme: as at 31 December 2021 the principal amount of the loan EUR 69,077 thousand (31 December 2020: EUR 72,513 thousand), the final repayment date 20 January 2058. As a collateral serves the commercial pledge to the right of the Company's claims resulting from loans granted by the Group / Company under the programme. As at 31 December 2021, according to the loan agreement the Company is available the financing in the amount of EUR 30,923 thousand, the size and pace of its drawdown relates to the further volume of new loan transactions. As at 31 December 2021, the amount of the secured claim was EUR 82,893 thousand (31 December 2020: EUR 72,514 thousand).
- SME development programme: as at 31 December 2021 the principal amount of the loan EUR 32,103 thousand (31 December 2020: EUR 17,040 thousand), the final repayment date 20 December 2043. As a collateral serves the commercial pledge to the right of the Company's claims resulting from loans granted by the Group / Company under the programme. As at 31 December 2021, according to the loan agreement the Company still is available the financing in the amount of EUR 22,897 thousand, the size and pace of its drawdown relates to the further volume of new loan transactions. As at 31 December 2021, the amount of the secured claim was EUR 38,524 thousand (31 December 2020: EUR 20,449 thousand).
- Parallel loan programme: as at 31 December 2021 the principal amount of the loan EUR 4,600 thousand (31 December 2020: absorption had not started), the final repayment date 20 January 2039. As a collateral serves the commercial pledge to the right of the Company's claims resulting from loans granted by the Group / Company under the programme. As at 31 December 2021, according to the loan agreement the Company still is available the financing in the amount of EUR 15,400 thousand, the size and pace of its drawdown relates to the further volume of new loan transactions. As at 31 December 2021, the amount of the secured claim was EUR 5,520 thousand.
- Programme of Small Loans for Rural Areas: as at 31 December 2021 the principal amount of the loan EUR 2,327 thousand, the final repayment date 31 January 2039. As a collateral serves the commercial pledge to the right of the Company's claims resulting from loans granted by the Group / Company under the programme. As at 31 December 2021, according to the loan agreement the Company still is available the financing in the amount of EUR 3,673 thousand, the size and pace of the drawdown the loan relates to the further volume of new loan transactions. As at 31 December 2021, the amount of the secured claim was EUR 2,792 thousand.
- Latvian Land Fund (the financing for the Fund's transactions): the loan amount has been used in 2020 and as at 31 December 2021 the principal amount of the loan EUR 9,919 thousand (31 December 2020: EUR 9,919 thousand), the final repayment date 29 December 2028. As a collateral serves the mortgage on the real estate purchased with the financing received under the loan. As at 31 December 2021, the amount of registered mortgage was EUR 10,400 thousand (31 December 2020: EUR 10,269 thousand).

29 Due to General Governments (cont'd)

As at 31 December 2021 the accrued interest on the loans received from the Treasury amounts to EUR 2,210 (31 December 2020: EUR 1,743).

The Company has also concluded the following loan agreements with the Treasury, the absorption of which has not been started until December 31, 2021:

- Micro Loans and Star-up Loans programme: the amount of the loan agreement EUR 23,000 thousand, the final repayment date 20 January 2039, commercial pledge on the Company's claims for the loans under the programme. The size and pace of the drawdown the loan relates to the further volume of new loan transactions. The maximum amount of the secured claim is EUR 27,600 thousand.
- Working capital loan programme for farmers: the amount of the loan agreement EUR 25,612 thousand, the final repayment date 30 June 2025, commercial pledge on the Company's claims for the loans under the programme. The size and pace of the drawdown the loan relates to the further volume of new loan transactions. The maximum secured claim is EUR 30,734 thousand.

30 Support programme funding

The Group's / Company's information on the risk coverage reserve included in the support programme funding and state aid, which can be used for covering the Group's / Company's credit risk losses as at 31 December 2021, in thousands of euro:

Financial Instrument / Programme	Programme funding *	Credit risk coverage	Provisions covered by risk coverage	Net programme funding
Loans				
ERDF II	1 805	1 655	(226)	1 579
ESF II	1 020	132	(51)	969
Microcredits of Swiss programme (closed programme)	82	82	(5)	77
ERDF I	122	24	(3)	119
ESF I	316	7	(2)	314
ERDF II (second round)	5 801	249	(39)	5 762
Incubators (from ESF II)	82	5	-	82
ERAF II 2 Public fund (programme closed)	226	-	-	226
Fund of Funds programme – Start-up loans	2 705	2 705	(226)	2 479
Fund of Funds programme – Microcredits	295	295	(13)	282
Fund of Funds programme – Parallel loans	4 298	4 298	(2 584)	1 714
Energy Efficiency Programme for Multi-apartment Buildings Loans	5 293	5 142	(11)	5 282
Start-up State Aid Cumulation Lending Programme	1 875	1 875	(269)	1 606
Other loans to start-ups	1 517	197	(49)	1 468
Mezzanine Programme – Loans	3 484	3 310	(1 046)	2 438
Guarantees and interest grants programme	4 269	4 269	-	4 269
SME energy efficiency loans	3 723	3 723	(350)	3 373
Parallel loans	2 000	2 000	(155)	1 845
Loans for enterprises in rural territories	7 810	1 709	(72)	7 738
Start-up loans to innovative entrepreneurs	1 500	300	(26)	1 474
Loans for improvement of Multi-apartment Buildings and their neighbourhood **	1 000	1 000	-	1 000
Energy Efficiency Programme for Multi-apartment Buildings Loans (II)	1 000	60	-	1 000
Cultural industry support programme ***	2 717	-	-	2 717
Total loans	**52 940 ******	**33 037**	**(5 127)**	**47 813**

* The IFRS 9 implementation adjustment of EUR (7,645) thousand incorporated in 2018 (for details see Note 2 (15)) consisting of Accrued liabilities of state aid of EUR 4,876 thousands and Fair value correction of EUR 12,341 thousands previously disclosed in this note as separate columns reconciling Programme funding and Net programme funding are netted off vs Programme funding as at 31 December 2020. That disclosure treatment is the same as was presented in the audited financial statements for the year ended 31 December 2018. Net decrease of Fair value correction for the year 2021 of EUR 152 thousands has been also netted off vs Programme funding as at 31 December 2021.

** Combined financial instrument.

*** Combined financial instrument. Risk coverage (Portfolio Loss Reserve) of EUR 816 thousand has been included in the Specific reserve capital for mitigating of impact of Covid-19, which is part of the Specific Reserves attributable to support programmes (see Note 36)

**** Support programme funding includes funding that had to be reallocated between the programmes, partly done in 2021 (from the Microcredits of Swiss programme), to be continued in 2022.

30 Support programme funding (cont'd)

The Group's / Company's information on the risk coverage reserve included in the support programme funding and state aid, which can be used for covering the Group's / Company's credit risk losses as at 31 December 2021, in thousands of euro (cont'd):

Financial Instrument / Programme	Programme funding *	Credit risk coverage	Provisions covered by risk coverage	Net programme funding
Guarantees				
Fund of Funds programme - Guarantees	29 909	29 909	(6 183)	23 726
Energy Efficiency Programme for Multi-apartment Buildings Guarantees	8 294	7 985	(1 015)	7 279
Housing Guarantee Programme	21 530	21 530	(11 971)	9 559
Portfolio guarantees for renovation of private houses and energy efficiency improvement **	502	502	-	502
Guarantee Programme for Clients of State Aid Accumulation, Grace Period and Large Economic Operators	7 753	7 753	(996)	6 757
Mezzanine Programme - Guarantees	892	847	(190)	702
Portfolio Guarantee Fund	3 913	3 446	(2 358)	1 555
Export guarantees	2 477	2 477	(636)	1 841
Study and student portfolio guarantees *****	549	-	-	549
Agricultural Guarantees	2 741	2 741	(1 020)	1 721
Total guarantees	**78 560**	**77 190**	**(24 369)**	**54 191**
Grants				
Energy Efficiency Programme for Multi-apartment Buildings Grants	48 826	-	-	48 826
Housing grant programme "Balsts"	7 350	-	-	7 350
Grants for renovation of private houses and energy efficiency improvement **	1 872	-	-	1 872
Social Entrepreneurship Programme	1 849	-	-	1 849
Cultural industry support programme **	1 849	-	-	1 849
Total grants	**61 746**	**-**	**-**	**61 746**
Venture Capital Funds				-
Fund of Funds and venture capital funds	52 084	43 230	-	52 084
Investment Fund Activity	5 008	4 507	-	5 008
Baltic Innovation Fund	1 939	582	-	1 939
Baltic Innovation Fund II	2 166	650	-	2 166
Total venture capital funds	**61 197**	**48 969**	**-**	**61 197**
Other Activities				
Energy Efficiency Fund	3 888	-	-	3 888
Regional Creative Industries Alliance	-	-	-	-
Total other activities	**3 888**	**-**	**-**	**3 888**
Funding allocated to increase reserve capital ******	1 452	-	-	1 452
Total support programme funding	**259 783 ***********	**159 196**	**(29 496)**	**230 287**

* The IFRS 9 implementation adjustment of EUR (7,645) thousand incorporated in 2018 (for details see Note 2 (15)) consisting of Accrued liabilities of state aid of EUR 4,876 thousands and Fair value correction of EUR 12,341 thousands previously disclosed in this note as separate columns reconciling Programme funding and Net programme funding are netted off vs Programme funding as at 31 December 2020. That disclosure treatment is the same as was presented in the audited financial statements for the year ended 31 December 2018. Net decrease of Fair value correction for the year 2021 of EUR 152 thousands has been also netted off vs Programme funding as at 31 December 2021.

** Combined financial instrument.

***** Risk coverage of EUR 2,141 thousand has been included in the Specific reserve for non-Covid-19 programmes (Portfolio Loss Reserve), which is part of the Specific reserves attributable to support programmes (see Note 36)

****** It is expected that the financing will be transferred to the Group's reserve capital following the decision of the shareholders' meeting, which is planned in the 2nd quarter of 2022.

******* Support programme funding contains EUR 19,355 thousand allocated for management costs of the Group / Company to be compensated from support programme funding.

30 Support programme funding (cont'd)

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

Financial Instrument / Programme	Programme funding *	Credit risk coverage	Provisions covered by risk coverage	Net programme funding
Loans				
ERDF II	2 038	1 866	(467)	1 571
ESF II	998	193	(86)	912
Microcredits of Swiss programme	3 456	268	(12)	3 444
ERDF I	116	99	(9)	107
ESF I	324	40	(31)	293
ERDF II (second round)	5 751	425	(75)	5 676
Incubators (from ESF II)	82	7	-	82
ERAF II 2 Public fund	285	58	(14)	271
Fund of Funds programme – Start-up loans	2 730	2 730	(314)	2 416
Fund of Funds programme – Microcredits	298	298	(26)	272
Fund of Funds programme – Parallel loans	3 861	3 861	(2 736)	1 125
Energy Efficiency Programme for Multi-apartment Buildings Loans	3 748	3 548	(42)	3 706
Start-up State Aid Cumulation Lending Programme	1 972	1 988	(266)	1 706
Other loans to start-ups	1 483	274	(67)	1 416
Mezzanine Programme – Loans	3 201	2 817	(2 352)	849
Guarantees and interest grants programme	4 251	4 251	-	4 251
SME energy efficiency loans	3 723	3 723	-	3 723
Parallel loans	2 000	2 000	(238)	1 762
Loans for enterprises in rural territories	7 810	1 709	(86)	7 724
Loans to Midcaps for mitigation of the COVID-19 effect	2 435	-	-	2 435
Start-up loans to innovative entrepreneurs	500	100	-	500
Total loans	**51 062 ****	**30 255**	**(6 821)**	**44 241**
Guarantees				
Fund of Funds programme - Guarantees	26 907	26 906	(6 288)	20 619
Energy Efficiency Programme for Multi-apartment Buildings Guarantees	6 217	5 875	(991)	5 226
Housing Guarantee Programme	14 005	14 005	(9 669)	4 336
Guarantee Programme for Clients of State Aid Accumulation, Grace Period and Large Economic Operators	7 753	7 753	(1 078)	6 675
Mezzanine Programme - Guarantees	1 190	1 047	(733)	457
Portfolio Guarantee Fund	4 005	3 685	(1 722)	2 283
Export guarantees	2 477	2 477	(571)	1 906
Study and student portfolio guarantees	77	-	-	77
Agricultural Guarantees	1 000	1 000	(324)	676
Total guarantees	**63 631**	**62 748**	**(21 376)**	**42 255**

* The IFRS 9 implementation adjustment of EUR (7,645) thousand incorporated in 2018 (for details see Note 2 (15)) consisting of Accrued liabilities of state aid of EUR 4,876 thousands and Fair value correction of EUR 12,341 thousands previously disclosed in this note as separate columns reconciling Programme funding and Net programme funding are netted off vs Programme funding as at 31 December 2020. That disclosure treatment is the same as was presented in the audited financial statements for the year ended 31 December 2018.

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

30 Support programme funding (cont'd)

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

Financial Instrument / Programme	Programme funding	Credit risk coverage	Provisions covered by risk coverage	Net programme funding
Grants				
Energy Efficiency Programme for Multi-apartment Buildings Grants	40 538	-	-	40 538
Housing grant programme "Balsts"	3 266	-	-	3 266
Social Entrepreneurship Programme	1 564	-	-	1 564
Grants for development of energy efficiency projects	172	-	-	172
Total grants	**45 540**	**-**	**-**	**45 540**
Venture Capital Funds				
Fund of Funds and venture capital funds	26 654	14 967	-	26 654
Investment Fund Activity	5 272	3 173	-	5 272
Baltic Innovation Fund	2 000	700	-	2 000
Baltic Innovation Fund II	2 359	724	-	2 359
Total venture capital funds	**36 285**	**19 564**	**-**	**36 285**
Other Activities				
Energy Efficiency Fund	433	-	-	433
Regional Creative Industries Alliance	-	-	-	-
Total other activities	**433**	**-**	**-**	**433**
Funding allocated to increase Reserve capital ***	23 209	-	-	23 209
Total support programme funding	**220 160 ********	**112 567**	**(28 197)**	**191 963**

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

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

30 Support programme funding (cont'd)

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

Movement in the Group's / Company's support programme funding in 2021, in thousands of euro:

Financial Instrument / Programme	Financing, net 31.12.2020.	Financing received	Reallocated funding between programmes	Compensated grants	Compensated income and expense	Revaluation of liabilities	Programmes' income/ profit distribution	Other changes	Changes in provisions covered by risk coverage	Financing, net 31.12.2021.
Loans										
ERDF II	1 571	-	(293)	-	-	-	60	-	241	1 579
ESF II	912	-	-	-	-	-	29	(7)	35	969
Microcredits of Swiss programme (closed programme)	3 444	-	(3 374)	-	-	-	-	-	7	77
ERDF I	107	-	-	-	-	-	6	-	6	119
ESF I	293	-	-	-	-	-	21	(29)	29	314
ERDF II (second round)	5 676	-	-	-	-	-	39	11	36	5 762
Incubators (from ESF II)	82	-	-	-	-	-	-	-	-	82
ERAF II 2 Public fund	271	-	-	-	-	-	-	(59)	14	226
Fund of Funds programme – Start-up loans	2 416	-	-	-	-	-	-	(25)	88	2 479
Fund of Funds programme – Microcredits	272	-	-	-	-	-	-	(3)	13	282
Fund of Funds programme – Parallel loans	1 125	-	437	-	-	-	-	-	152	1 714
Energy Efficiency Programme for Multi-apartment Buildings – Loan Fund	3 706	4 500	(3 000)	-	(49)	-	94	-	31	5 282
Start-up State Aid Cumulation Lending Programme	1 706	-	-	-	-	-	-	(97)	(3)	1 606
Other loans to start-ups	1 416	-	-	-	(11)	-	35	10	18	1 468
Mezzanine Programme – Loans	849	-	207	-	(83)	-	158	-	1 307	2 438
Guarantees and interest grants programme	4 251	-	-	-	-	-	-	18	-	4 269
SME energy efficiency loans	3 723	-	-	-	-	-	-	-	(350)	3 373
Parallel loans	1 762	-	-	-	-	-	-	-	83	1 845
Loans for enterprises in rural territories	7 724	-	-	-	-	-	-	-	14	7 738
Loans to Midcaps	2 435	-	-	-	-	-	-	(2 435)	-	-
Start-up loans to innovative entrepreneurs	500	-	1 000	-	-	-	-	-	(26)	1 474
Loans for improvement of Multi-apartment Buildings and their neighbourhood *	-	-	1 000	-	-	-	-	-	-	1 000
EEE Programme for MSAB– Loan Fund II	-	-	1 000	-	-	-	-	-	-	1 000
Cultural industry support programme *	-	5 184	(2 460)	-	(7)	-	-	-	-	2 717
Total loans	**44 241 ****	**9 684**	**(5 483)**	**-**	**(150)**	**-**	**442**	**(2 616)**	**1 695**	**47 813**

* Combined financial instrument.

** Support programme funding includes funding that had to be reallocated between the programmes, partly done in 2021 (from the Microcredits of Swiss programme), to be continued in 2022.

30 Support programme funding (cont'd)

Movement in the Group's / Company's support programme funding in 2021, in thousands of euro (cont'd):

Financial Instrument / Programme	Financing, net 31.12.2020.	Financing received	Reallocated funding between programmes	Compensated grants	Compensated income and expense	Revaluation of liabilities	Programmes' income/ profit distribution	Other changes	Changes in provisions covered by risk coverage	Financing, net 31.12.2021.
Guarantees										-
Fund of Funds programme - Guarantees	20 619	-	3 000	-	-	-	-	2	105	23 726
Energy Efficiency Programme for Multi-apartment Buildings - Guarantees	5 226	-	2 000	-	(68)	-	145	-	(24)	7 279
Housing Guarantee Programme	4 336	7 372	-	-	-	-	-	153	(2 302)	9 559
Portfolio guarantees for renovation of private houses and energy efficiency improvement *	-	-	502	-	-	-	-	-	-	502
Guarantee Programme for Clients of State Aid Accumulation, Grace Period and Large Economic Operators	6 675	-	-	-	-	-	-	-	82	6 757
Mezzanine Programme - Guarantees	457	-	(207)	-	(21)	-	76	(146)	543	702
Portfolio Guarantee Fund	2 283	-	-	-	(92)	-	-	-	(636)	1 555
Export guarantees	1 906	-	-	-	-	-	-	-	(65)	1 841
Study and student portfolio guarantees	77	506	-	-	(34)	-	-	-	-	549
Agricultural Guarantees	676	1 937	-	-	-	-	-	(196)	(696)	1 721
Total guarantees	**42 255**	**9 815**	**5 295**	**-**	**(215)**	**-**	**221**	**(187)**	**(2 993)**	**54 191**
Grants										
Energy Efficiency Programme for Multi-apartment Buildings Grants	40 538	15 000	293	(7 005)	-	-	-	-	-	48 826
Housing grant programme "Balsts"	3 266	7 200	-	(3 116)	-	-	-	-	-	7 350
Grants for renovation of private houses and energy efficiency improvement *	-	-	1 872	-	-	-	-	-	-	1 872
Social Entrepreneurship Programme	1 564	2 804	-	(2 365)	(154)	-	-	-	-	1 849
Grants for development of energy efficiency projects	172	292	-	(434)	(30)	-	-	-	-	-
Cultural industry support programme *	-	-	2 460	(595)	(16)	-	-	-	-	1 849
Total grants	**45 540**	**25 296**	**4 625**	**(13 515)**	**(200)**	**-**	**-**	**-**	**-**	**61 746**
Venture Capital Funds										
Fund of Funds and venture capital funds	26 654	32 059	(4 437)	-	(2 959)***	(551)	1 318 ******	-	-	52 084
Investment Fund Activity	5 272	-	-	-	(824)****	(1 805)	1 904 *******	461	-	5 008
Baltic Innovation Fund	2 000	-	-	-	(238)*****	-	177 ********	-	-	1 939
Baltic Innovation Fund II	2 359	-	-	-	(193)	-	-	-	-	2 166
Total venture capital funds	**36 285**	**32 059**	**(4 437)**	**-**	**(4 214)**	**(2 356)**	**3 399**	**461 ***********	**-**	**61 197**
Other Activities										
Energy Efficiency Fund	433	3 540	-	-	(85)	-	-	-	-	3 888
Regional Creative Industries Alliance	-	2	-	-	(2)	-	-	-	-	-
Total other activities	**433**	**3 542**	**-**	**-**	**(87)**	**-**	**-**	**-**	**-**	**3 888**
Funding allocated to increase reserve capital	23 209	14 267	-	-	-	-	-	(36 024)	-	1 452
Total support programme funding	**191 963**	**94 663**	**-**	**(13 515)**	**(4 866)**	**(2 356)**	**4 062**	**(38 366)**	**(1 298)**	**230 287**

* Combined financial instrument.
*** include EUR 2,095 thousand management fees for the 4th generation venture capital funds (see Note 17).
**** include EUR 522 thousand management fees for the 2nd and 3rd generation venture capital funds (see Note 17).
***** include EUR 198 thousand management fees for the Baltic Innovation Fund (see Note 17).
****** include EUR 313 thousand mezzanine interest received from investments in 4th generation venture capital funds in 2021 (see Note 17).
******* include EUR 489 thousand mezzanine interest received and EUR 1,415 thousand realised gain on investments in 2nd and 3rd generation venture capital funds in 2021 (see Note 17).
******** include EUR 153 thousand realised gain on investment in Baltic Innovation Fund in 2021 (see Note 17).
********* include deferred payments in amount of EUR 738 thousand (deferred income) from exited investments in 2nd and 3rd generation venture capital funds.

30 Support programme funding (cont'd)

Gains less losses from liabilities at fair value through profit or loss, in thousands of euro:

	Group 01.01.2021.-31.12.2021.	Group 01.01.2020.-31.12.2020.	Company 01.01.2021.-31.12.2021.	Company 01.01.2020.-31.12.2020.
Revaluation of investments in 2nd and 3rd generation venture capital funds	(1 805)	(1 609)	(1 805)	(1 609)
Realised gain on investments in 2nd and 3rd generation venture capital funds	(429)	64	(429)	64
Mezzanine interest received from investments in 2nd and 3rd generation venture capital funds	489	1 203	489	1 203
Revaluation of investments in 4th generation venture capital funds	(65)	(1 241)	(551)	(1 241)
Mezzanine interest received from investments in 4th generation venture capital funds	313	-	528	-
Realised gain on investment in Baltic Innovation Fund	153	250	153	250
Mezzanine interest received from investments in Baltic Innovation Fund	24	250	24	250
Gains less losses from liabilities at fair value through profit or loss	**(1 320)**	**(1 083)**	**(1 591)**	**(1 083)**

31 Provisions

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

	Group 31.12.2021.	Group 31.12.2020	Company 31.12.2021.	Company 31.12.2020
Provisions for financial guarantees	33 603	31 413	33 603	31 413
Group's / Company's share of provisions	*5 494*	*7 343*	*5 494*	*7 343*
Provisions covered by Portfolio Loss Reserve	*4 719*	*3 576*	*4 719*	*3 576*
Provisions covered by Risk Coverage Reserve	*23 390*	*20 494*	*23 390*	*20 494*
Provisions for loan commitments	790	1 014	790	1 014
Group's / Company's share of provisions	*140*	*378*	*140*	*378*
Provisions covered by Portfolio Loss Reserve	*188*	*309*	*188*	*309*
Provisions covered by Risk Coverage Reserve	*462*	*327*	*462*	*327*
Provisions for grant commitments	73	74	73	74
Group's / Company's share of provisions	*73*	*74*	*73*	*74*
Provisions covered by risk coverage	-	-	-	-
Total provisions	**34 466**	**32 501**	**34 466**	**32 501**
Group's / Company's share of provisions	*5 707*	*7 795*	*5 707*	*7 795*
Provisions covered by Portfolio Loss Reserve	*4 907*	*3 885*	*4 907*	*3 885*
Provisions covered by Risk Coverage Reserve	*23 852*	*20 821*	*23 852*	*20 821*

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

	Group 01.01.2021.-31.12.2021.	Group 01.01.2020.-31.12.2020.	Company 01.01.2021.-31.12.2021.	Company 01.01.2020.-31.12.2020.
Provisions at the beginning of the period	31 413	30 606	31 413	30 606
Increase in provisions (Note 13)	16 071	14 442	16 071	14 442
Decrease in provisions (Note 13)	(12 916)	(13 060)	(12 916)	(13 060)
Reclassification (Disbursed guarantee)	(965)	(575)	(965)	(575)
Provisions at the end of the period ended 31 December	**33 603**	**31 413**	**33 603**	**31 413**
Group's / Company's share of provisions	*5 494*	*7 343*	*5 494*	*7 343*
Provisions covered by Portfolio Loss Reserve	*4 719*	*3 576*	*4 719*	*3 576*
Provisions covered by Risk Coverage Reserve	*23 390*	*20 494*	*23 390*	*20 494*

32 Other Liabilities

All amounts in thousands of euro

	Group 31.12.2021.	Group 31.12.2020	Company 31.12.2021.	Company 31.12.2020
Due to customers	2 574	1 612	2 574	1 612
Other liabilities	1 266	1 289	1 266	1 289
Total other liabilities	**3 840**	**2 901**	**3 840**	**2 901**

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

33 Accrued Expense

All amounts in thousands of euro

	Group 31.12.2021.	Group 31.12.2020	Company 31.12.2021.	Company 31.12.2020
Other accrued expense	762	819	762	899
Audit services	43	37	43	37
Bonuses of the employees and the Management Board	1	1	1	1
Total accrued expense	**806**	**857**	**806**	**937**

34 Issued Debt Securities

In October 2021, the Company issued bonds for the total amount of EUR 20,000 thousand as part of its third bond issuance program of EUR 75,000 thousand. All bonds are listed on the Nasdaq Baltic Bond List.

All amounts in thousands of euro

	Currency	Number of initially issued securities	Par Value	Date of issuance	Maturity Date	Discount / Coupon Rate	Group 31.12.2021.	Group 31.12.2020	Company 31.12.2021.	Company 31.12.2020
LV0000802353	EUR	20 000	1 000	17.10.2017	17.10.2024	1.37%	19 963	19 941	19 963	19 941
LV0000880037	EUR	10 000	1 000	07.03.2018	07.03.2025	1.30%	10 435	10 456	10 435	10 456
LV0000880037	EUR	15 000	1 000	05.06.2019	07.03.2025	1.30%	15 163	15 125	15 163	15 125
LV0000880037	EUR	20 000	1 000	15.04.2020	07.03.2025	1.30%	19 997	20 000	19 997	20 000
LV0000870095	EUR	20 000	1 000	08.10.2021	08.10.2026	0.44%	20 000	-	20 000	-
Total issued debt securities at the end of period ended 31 December							**85 558**	**65 522**	**85 558**	**65 522**

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

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

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

	Group 31.12.2021.	Group 31.12.2020	Company 31.12.2021.	Company 31.12.2020
At the beginning of period	65 522	45 348	65 522	45 348
Bond issue	20 000	20 000	20 000	20 000
Accrued coupon	873	802	873	802
Coupon pay-out	(845)	(585)	(845)	(585)
Discount amortisation	(50)	(50)	(50)	(50)
Commission amortisation	58	7	58	7
Total issued debt securities at the end of period ended 31 December	**85 558**	**65 522**	**85 558**	**65 522**

35 Share capital

All amounts in thousands of euro

	Quantity		Carrying amount	
	31.12.2021.	31.12.2020	31.12.2021.	31.12.2020
Fully paid share capital				
Ordinary shares	204 862	204 862	204 862	204 862
Total fully paid share capital	**204 862**	**204 862**	**204 862**	**204 862**

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

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

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

For more information see Note 1 (1).

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

36 Reserves

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

	Specific reserves for support programmes	Other specific reserves-difference recognised in Group's reorganisation reserve	General reserve capital	Revaluation reserve of financial assets measured at fair value through other comprehensive income	Total reserves
Reserves as of 1January 2020	**15 507**	**(15 580)**	**16 638**	**2 638**	**19 203**
(Decrease) in revaluation reserve of financial assets measured at fair value through other comprehensive income	-	-	-	(1 425)	(1 425)
Distribution of 2019 year profit of the Company	-	-	8 131	-	8 131
Increase of reserve capital	145 626	-	-	-	145 626
Reserves as of 31 December 2020	**161 133**	**(15 580)**	**24 768**	**1 213**	**171 534**
(Decrease) in revaluation reserve of financial assets measured at fair value through other comprehensive income	-	-	-	(515)	(515)
Distribution of 2020 year profit of the Company	-	-	5 539	-	5 539
Distribution of Specific Reserves to General reserve capital at distribution of the profit for year 2020	(6 429)	-	6 429	-	-
Increase of reserve capital	45 489	-	-	-	45 489
Reserves as of 31 December 2021	**200 193**	**(15 580)**	**36 736**	**698**	**222 047**

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

	Specific reserves for support programmes	Other specific reserves	General reserve capital	Revaluation reserve of financial assets measured at fair value through other comprehensive income	Total reserves
Reserves as of 1January 2020	**15 507**	**(15 935)**	**16 991**	**2 638**	**19 201**
(Decrease) in revaluation reserve of financial assets measured at fair value through other comprehensive income	-	-	-	(1 425)	(1 425)
Distribution of 2019 year profit of the Company	-	-	8 131	-	8 131
Increase of reserve capital	145 626	-	-	-	145 626
Reserves as of 31 December 2020	**161 133**	**(15 935)**	**25 121**	**1 213**	**171 532**
(Decrease) in revaluation reserve of financial assets measured at fair value through other comprehensive income	-	-	-	(515)	(515)
Distribution of 2020 year profit of the Company	-	-	5 539	-	5 539
Distribution of Specific Reserves to General reserve capital at distribution of the profit for year 2020	(6 429)	-	6 429	-	-
Increase of reserve capital	45 489	-	-	-	45 489
Reserves as of 31 December 2021	**200 193**	**(15 935)**	**37 089**	**698**	**222 045**

36 Reserves (cont'd)

Breakdown of "Specific reserves for support programmes":

	Reserve capital for non-Covid-19 guarantees programmes				Reserve capital for mitigating of impact of Covid-19					
	Housing Guarantee Programme	Study and student portfolio guarantees	Guarantees for agriculture, fisheries and rural develop-ment	Guarantee Programme for Clients of State Aid Accumulation, Grace Period and Large Economic Operators	Loans to MidCaps	Guarantees to MidCaps *	Wor-king capital loans	Loan holiday guarantees	**Reserve capital for AIF "Altum capital fund"**	**Total Specific reserves for support program-mes**
Specific reserves as of 1 January 2020	**15 507**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**15 507**
Increase of specific reserve capital	-	626	-	-	-	20 000	50 000	50 000	25 000	145 626
Specific reserves as of 31 December 2020	**15 507**	**626**	**-**	**-**	**-**	**20 000**	**50 000**	**50 000**	**25 000**	**161 133**
of which:										-
Portfolio Loss Reserve (Specific Reserves)	15 507	626	-	-	-	20 000	29 000	30 000	7 131	102 264
Portfolio Loss Reserve (Specific Reserves) to be used to cover credit loss upon approval of the 2020 annual report	-	(392)	-	-	-	-	(2 668)	(3 184)	(185)	(6 429)
Reallocation of reserve capital	-	-	-	2 500	-	-	-	(2 500)	-	-
Increase of specific reserves	2 179	2 141	5 788	2 000	22 565	-	10 816	-	-	45 489
Specific reserves as of 31 December 2021 **	**17 686**	**2 375**	**5 788**	**4 500**	**22 565**	**20 000**	**58 148**	**44 316**	**24 815**	**200 193**
of which:										-
Portfolio Loss Reserve (Specific Reserves)	17 686	2 375	5 788	4 500	13 800	20 000	42 385	44 316	8 850	159 700
Portfolio Loss Reserve (Specific Reserves) to be used to cover credit loss upon approval of the 2021 annual report	-	(1 140)	-	-	-	-	(1 683)	(186)	(437)	(3 446)

* As at 31 December 2020 Specific Reserves for mitigating of impact of Covid-19 for Guarantees to MidCaps was represented within Specific Reserves for mitigating of impact of Covid-19 for Loan holiday guarantees.

** Taking into account currently received the funding for the implementation of certain support programmes and to cover their expected losses, where there is no demand in respective programs as originally envisaged by the financial sector, then in accordance with Paragraphs 2 and 3 of the Protocol Decision of the Cabinet of Ministers of 6 July 2021 (Protocol No.51 § 135), the Ministry of Finance, the Ministry of Economics and the Ministry of Agriculture are instructed to ensure the reduction of the Company's reserve capital by EUR 58,565 thousand to be diverted to finance the new Investment Loans with a capital rebate programme from the following programs: (i) EUR 22,565 thousand from the Large Enterprises Loan Program (Loans to MidCaps), where on January 5, 2022 "Agreement on Termination of Financing for the Financing of the Crisis Loan Program of December 22, 2020" was signed, (ii) EUR 16,000 thousand from the Portfolio Guarantee Program (included within Loan holiday guarantees), where on December 30, 2021 "Amendments No. 2 to the Agreement on Increase of Reserve Capital of March 30, 2020" were signed and (iii) EUR 20,000 thousand from the Guarantee Program for Large Enterprises (Guarantees to MidCap's), where on January 3, 2022 Amendments No. 2 "Amendments to the Agreement on the Reserve Capital Crisis Guarantee Program of August 24, 2020" were signed. On December 30, 2021, the "Agreement on Granting Financing for the Loan Program with Capital Rebate for Investment Projects to Promote Competitiveness" envisages, among other items, to transfer EUR 58,565 thousand to Altum's liabilities after the relevant resolution of the Company's shareholders meeting.

36 Reserves (cont'd)

Pursuant to Cabinet Regulation No. 503 of 6 July 2021 "Regulations on Loans with Capital Rebate for Investment Projects to Promote Competitiveness", the financing of the Investment loans with capital rebate program is used to cover the expected losses of Altum and the capital rebate. Thus, the expected reduction of the Specific Reserve capital by reducing the funding for certain support programs and the transfer of the respective funding in the amount of EUR 58,565 thousand to finance a new support program is ensured, maintaining the same purpose of the funding - financing for a new support program and cover of expected losses. By transferring financing from the Specific Reserve capital, the Portfolio Loss Reserve will decrease by EUR 49,801 thousand with respective increase of Risk Coverage Reserve within liabilities.

Analysis of Portfolio Loss Reserve movements, in thousands of euro:

	Portfolio Loss Reserve for non-Covid-19 guarantees programmes				**Portfolio Loss Reserve for mitigating of impact of Covid-19**					
	Housing Guarantee Programme	Study and student portfolio guarantees	Guarantees for agriculture, fisheries and rural develop-ment	Guarantee Programme for Clients of State Aid Accumulation, Grace Period and Large Economic Operators	Loans to MidCaps	Guarantees to MidCaps	Working capital loans	Loan holiday guarantees	**Reserve capital for AIF "Altum capital fund"**	**Total Portfolio Loss Reserve**
Portfolio Loss Reserve as of 1 January 2020	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Increase of portfolio loss reserve	15 507	626	-	-	-	20 000	29 000	30 000	**7 131**	102 264
Portfolio Loss Reserve as of 31 December 2020	**15 507**	**626**	**-**	**-**	**-**	**20 000**	**29 000**	**30 000**	**7 131**	**102 264**
of which:										
Portfolio Loss Reserve (Specific Reserves) to be used to cover credit loss upon approval of the 2020 annual report	-	(392)	-	-	-	-	(2 668)	(3 184)	(185)	(6 429)
Increase / reclassification of Portfolio Loss Reserve	2 179	2 141	5 788	4 500	13 800	-	16 053	17 500	-	61 961
Reallocation of funding within Portfolio Loss Reserve – funding for management fee	-	-	-	-	-	-	-	-	2 060	2 060
Portfolio Loss Reserve used to cover credit loss upon approval of the 2020 annual report	-	(392)	-	-	-	-	(2 668)	(3 184)	(185)	(6 429)
Decrease of Portfolio Loss Reserve according to the List of the Partners and their Commitments	-	-	-	-	-	-	-	-	(156)	(156)
Portfolio Loss Reserve as of 31 December 2021	**17 686**	**2 375**	**5 788**	**4 500**	**13 800**	**20 000**	**42 385**	**44 316**	**8 850**	**159 700**
of which:										
Portfolio Loss Reserve (Specific Reserves) to be used to cover credit loss upon approval of the 2021 annual report	-	(1 140)	-	-	-	-	(1 683)	(186)	(437)	(3 446)

36 Reserves (cont'd)

Subitem *Reserve capital for non-Covid-19 programmes* includes the following increases in the Specific Reserve capital for non-Covid-19 programmes in 2021:

- An increase of EUR 2,179 thousand for housing guarantees in accordance with the decision of the General Meeting of Shareholders of the Group of 22 March 2021, adopted on the basis of the Cabinet of Ministers Regulations No.95 of 20 February 2018 " Regulations on state aid for the purchase or construction of a dwelling" and the Cabinet of Ministers Order No.55 of 22 September 2020.
- An increase for study and student portfolio guarantees for the total amount of EUR 2,141 thousand includes an increase of reserve capital in amount of EUR 1,986 thousand in accordance with the decision of the General Meeting of Shareholders of the Group of 22 March 2021 and in amount of EUR 155 thousand in accordance with the decision of the General Meeting of Shareholders of the Group of 15 December 2021, both adopted on the basis of the Cabinet of Ministers Regulations No.231 of 21 April 2020 " Regulations on study and student lending for studies in Latvia from the resources of credit institutions, which are guaranteed by the state budget" and the Cabinet of Ministers Order No.73 of 17 November 2020. Part of that amount in amount of EUR 644 thousand was accounted as part of support programme funding as of 31 December 2020 (see Note 20).
- An increase of EUR 2,000 thousand for guarantees for clients of state aid accumulation, grace period and large economic operators in accordance with the decision of the General Meeting of Shareholders of the Group of 5 July 2021, adopted on the basis of the Cabinet of Ministers Regulations No.383 of 16 June 2020 "Provisions on guarantees for entrepreneurs to improve competitiveness " and the Cabinet of Ministers Order No.18 of 18 February 2021.
- Increase for guarantees for agriculture, fisheries and rural development in amount of EUR 5,788 thousand in accordance with the decision of the Extraordinary General Meeting of Shareholders of the Group of 15 December 2021, adopted on the basis of the amendments of 29 June 2021 to the Cabinet of Ministers Regulations No.9 of 8 January 2019 "Agricultural, Fisheries and Rural Development Guarantee Programs Regulations "and Minutes No.50 of the Meeting of the Cabinet of Ministers of June 29, 2021

Subitem *Reserve capital for mitigating of impact of Covid-19* includes the following increases in the Specific Reserve capital for mitigating of impact of Covid-19 in 2021:

- An increase of EUR 22,565 thousand for guarantees to MidCaps in accordance with the decision of the General Meeting of Shareholders of the Group of 22 March 2021, adopted on the basis of the Cabinet of Ministers Order No.70 of 10 November 2020 and the Cabinet of Ministers Regulations No.677 of 10 November 2020 "Regulations on loans and their interest rate subsidies to entrepreneurs to support competitiveness". That amount was accounted as part of support programme funding as of 31 December 2020 (see Note 20).
- An increase for working capital loans for the total amount of EUR 10,816 thousand includes an increase of reserve capital in amount of EUR 10,000 thousand in accordance with the decision of the General Meeting of Shareholders of the Group of 5 July 2021, adopted on the basis of the Cabinet of Ministers Regulations No.383 of 16 June 2020 "Regulations on Working Capital Loans to Economic Operators Affected by the Spread of Covid-19" and the Cabinet of Ministers Order No.18 of 18 February 2021, and in amount of EUR 816 thousand in accordance with the decision of the General Meeting of Shareholders of the Group of 5 July 2021, adopted on the basis of the Cabinet of Ministers Regulations No.86 of 4 February 2021 "Regulations for arts, entertainment and leisure businesses affected by the Spread of Covid-19".

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

37 Off-balance sheet items and contingent liabilities

All amounts in thousands of euro

	Group 31.12.2021.	Group 31.12.2020	Company 31.12.2021.	Company 31.12.2020
Contingent liabilities:				
Outstanding guarantees	414 978	359 605	414 978	359 605
Financial commitments:				
Loan commitments	25 572	39 348	25 572	39 348
Grant commitments	11 089	6 798	11 089	6 798
Commitments to investments in subsidiaries	-	-	-	10 415
Commitments to AIF "Altum capital fund"	33 450	48 772	33 450	48 772
Commitments to investments in associates	54 426	44 935	54 426	44 935
Commitments to other investments	36 739	38 220	36 739	38 220
Total contingent liabilities and financial commitments	**576 254**	**537 678**	**576 254**	**548 093**

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

	Group 31.12.2021.	Group 31.12.2020	Company 31.12.2021.	Company 31.12.2020
Unutilised loan facilities	25 572	39 348	25 572	39 348
Impairment allowances	(790)	(1 014)	(790)	(1 014)
Total unutilized loan facilities, net	**24 782**	**38 334**	**24 782**	**38 334**

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

	Group 31.12.2021.	Group 31.12.2020	Company 31.12.2021.	Company 31.12.2020
Grant commitments	11 089	6 798	11 089	6 798
Impairment allowances	(73)	(74)	(73)	(74)
Total grant commitments, net	**11 016**	**6 724**	**11 016**	**6 724**

Breakdown of the Group's off-balance sheet assets and contingent liabilities by remaining contractual maturities as at 31 December 2021, in thousands of euro:

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years and w/o maturity	**Total**
Contingent liabilities							
Outstanding guarantees	262 115 *	-	-	4	18 488	134 371	414 978
Financial commitments							
Loan commitments	25 572	-	-	-	-	-	25 572
Grant commitments	11 089	-	-	-	-	-	11 089
Commitments to AIF "Altum capital fund"	164	11 738	19 961	261	1 002	324	33 450
Commitments to investments in associates	415	1 787	2 796	8 979	35 006	5 443	54 426
Commitments to other investments	363	485	848	4 171	25 145	5 727	36 739
Total financial commitments	37 603	14 010	23 605	13 411	61 153	11 494	161 276
Total contingent liabilities and financial commitments	**299 718**	**14 010**	**23 605**	**13 415**	**79 641**	**145 865**	**576 254**

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

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

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

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years and w/o maturity	**Total**
Contingent liabilities							
Outstanding guarantees	240 592 *	-	-	2	119 011	-	359 605
Financial commitments							
Loan commitments	39 348	-	-	-	-	-	39 348
Grant commitments	6 798	-	-	-	-	-	6 798
Commitments to AIF "Altum capital fund"	-	11 996	12 157	21 964	2 040	615	48 772
Commitments to investments in associates	-	1 146	1 528	4 965	27 411	9 885	44 935
Commitments to other investments	-	635	847	7 753	23 201	5 784	38 220
Total financial commitments	46 146	13 777	14 532	34 682	52 652	16 284	178 073
Total contingent liabilities and financial commitments	**286 738**	**13 777**	**14 532**	**34 684**	**171 663**	**16 284**	**537 678**

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

Breakdown of the Company's off-balance sheet assets and contingent liabilities by remaining contractual maturities as at 31 December 2021, in thousands of euro:

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years and w/o maturity	**Total**
Contingent liabilities							
Outstanding guarantees	262 115 *	-	-	4	18 488	134 371	414 978
Financial commitments							
Loan commitments	25 572	-	-	-	-	-	25 572
Grant commitments	11 089	-	-	-	-	-	11 089
Commitments to investments in subsidiaries	-	-	-	-	-	-	-
Commitments to AIF "Altum capital fund"	164	11 738	19 961	261	1 002	324	33 450
Commitments to investments in associates	415	1 787	2 796	8 979	35 006	5 443	54 426
Commitments to other investments	363	485	848	4 171	25 145	5 727	36 739
Total financial commitments	37 603	14 010	23 605	13 411	61 153	11 494	161 276
Total contingent liabilities and financial commitments	**299 718**	**14 010**	**23 605**	**13 415**	**79 641**	**145 865**	**576 254**

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

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

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

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years and w/o maturity	**Total**
Contingent liabilities							
Outstanding guarantees	240 592 *	-	-	2	119 011	-	359 605
Financial commitments							
Loan commitments	39 348	-	-	-	-	-	39 348
Grant commitments	6 798	-	-	-	-	-	6 798
Commitments to investments in subsidiaries	417	417	833	2 500	5 207	1 041	10 415
Commitments to AIF "Altum capital fund"	-	11 996	12 157	21 964	2 040	615	48 772
Commitments to investments in associates	-	1 146	1 528	4 965	27 411	9 885	44 935
Commitments to other investments	-	635	847	7 753	23 201	5 784	38 220
Total financial commitments	46 563	14 194	15 365	37 182	57 859	17 325	188 488
Total contingent liabilities and financial commitments	**287 155**	**14 194**	**15 365**	**37 184**	**176 870**	**17 325**	**548 093**

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

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

Subitem *Commitments to venture capital funds* are contingent liabilities, which are based on agreements between the Group / Company and the venture capital fund which put an obligation on the Group / Company to allocate financial resources to the fund. Additional information on classification of venture capital funds is available in Note 1.

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

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

		Committed funding		Uncalled committed funding	
	Contract period	31.12.2021.	31.12.2020	31.12.2021.	31.12.2020
Investments in Subsidiaries					
KS Overkill Ventures Fund I	09.05.2026	3 200	3 200	769	1 387
KS Buildit Latvia Pre-Seed Fund	20.06.2026	3 200	3 200	761	1 340
KS Commercialization Reactor Pre-seed Fund	24.07.2026	3 200	3 200	1 076	1 648
KS INEC 1	29.11.2028	13 650	5 250	8 897	3 034
KS INEC 2	29.11.2028	5 850	4 500	3 957	3 006
Investments in Associates					
KS Overkill Ventures Fund II	09.08.2026	1 800	1 800	1 099	1 553
KS Buildit Latvia Seed Fund	30.06.2026	1 800	1 800	1 270	1 515
KS Commercialization Reactor Seed Fund	22.08.2026	1 800	1 800	1 478	1 694
KS ZGI-4	14.08.2028	19 500	19 500	13 642	15 002
KS Baltcap Latvia Venture Capital Fund	22.01.2021	20 000	20 000	3 841	3 841
KS Imprimatur Capital Technology Venture Fund	11.06.2021	4 966	4 966	168	248
KS Imprimatur Capital Seed Fund	11.06.2021	10 000	10 000	492	561
KS ZGI-3	31.12.2021	11 800	11 800	853	931
KS FlyCap investment Fund	31.12.2021	15 000	15 000	939	1 090
FlyCap Mezzanine Fund II	28.08.2029	12 790	11 053	9 581	10 486
KS Expansion Capital fund	31.12.2021	14 998	15 000	266	267
AIF "Altum capital fund"	02.09.2027	48 910	48 910	33 450	48 772
Baltic Innovation Fund I	01.01.2029	26 000	26 000	5 687	7 747
Other investments					
Baltic Innovation Fund II	12.07.2036	26 000	26 500	23 517	24 917
Three Seas Initiatives Investment Fund	27.02.2035	20 000	20 000	12 872	13 304
Total funding		**264 464**	**253 479**	**124 615**	**142 343**

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

All amounts in thousands of euro

	Group	Group	Company	Company
	31.12.2021.	31.12.2020	31.12.2021.	31.12.2020
At the beginning of period	1 213	2 639	1 213	2 639
(Loss) from changes in fair value	(514)	(1 413)	(514)	(1 413)
Impairment loss*	(1)	(13)	(1)	(13)
Other comprehensive income (Note 36)	(515)	(1 426)	(515)	(1 426)
Revaluation reserve of financial assets measured at fair value through other comprehensive income at the end of period ended December 31	**698**	**1 213**	**698**	**1 213**

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

39 Related party transactions

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

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

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

39 Related party transactions (cont'd)

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

	People with significant control (PSC)		Transactions with shareholders		Associates		Other companies owned by the Group's shareholders	
	31.12.2021.	31.12.2020	31.12.2021.	31.12.2020	31.12.2021.	31.12.2020	31.12.2021.	31.12.2020
Investments in venture capital funds	-	-	-	-	50 077	47 988	-	-
Investments in AIF "Altum capital fund"	-	-	-	-	14 871	-		
Due to general governments	-	-	-	-	-	-	3 321	4 047
Support programme funding	-	-	222 774	192 243	-	-	51 559	35 317
Off-balance sheet financial liabilities for venture capital funds	-	-	-	-	54 426	44 935	-	-
Off-balance sheet financial liabilities for AIF "Altum capital fund"	-	-	-	-	33 450	48 772	-	-

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

	Transactions with shareholders		Associates		Other companies owned by the Group's shareholders		Investments in subsidiaries	
	31.12.2021.	31.12.2020	31.12.2021.	31.12.2020	31.12.2021.	31.12.2020	31.12.2021.	31.12.2020
Investments in venture capital funds	-	-	50 077	47 988	-	-	-	-
Investments in AIF "Altum capital fund"	-	-	14 871	-	-	-	-	-
Investments in subsidiaries	-	-	-	-	-	-	-	4 879
Due to general governments	-	-	-	-	3 321	4 047	-	-
Support programme funding	222 774	192 243	-	-	51 559	35 317	-	-
Off-balance sheet financial liabilities for venture capital funds	-	-	54 426	44 935	-	-	-	-
Off-balance sheet financial liabilities for AIF "Altum capital fund"	-	-	33 450	48 772	-	-	-	-
Off-balance sheet financial liabilities for investments in subsidiaries	-	-	-	-	-	-	-	10 415

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

	Received State aid funding		Issued State aid funding or funding paid back	
	01.01.2021.-31.12.2021.	01.01.2020.-31.12.2020.	01.01.2021.-31.12.2021.	01.01.2020.-31.12.2020.
Transactions with shareholders				
Ministry of Finance of the Republic of Latvia	35 931	42 077	(17 378)	423
Ministry of Agriculture of the Republic of Latvia	7 000	-	-	-
Ministry of Economics of the Republic of Latvia	33 744	173 526	(2 435)	-
Associates				
Venture capital funds	20 968	-	(14 613)	-
Other companies owned by the Group's shareholders				
Central Finance and Contracting Agency of the Republic of Latvia	51 559	19 327	-	-
Ministry of Education and Science of the Republic of Latvia	2 003	1 375	-	-
Ministry of Culture of the Republic of Latvia	3 815	-	(2 185)	-
Ministry of Wealth Fair of the Republic of Latvia	2 454	1 399	-	-

The remuneration of the members of the Supervisory Council, Audit Committee and the Management Board of the Company in 2021 amounted to EUR 713 thousand (2020: EUR 629 thousand), incl. social insurance contributions.

40 Fair values of assets and liabilities

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

	Carrying Amount		Fair Value	
	31.12.2021.	31.12.2020	31.12.2021.	31.12.2020
Assets				
Due from credit institutions and the Treasury	455 006	359 949	455 006	359 949
Financial assets at fair value through profit or loss	-	5 425	-	5 425
Financial assets at fair value through other comprehensive income - investment securities	14 051	36 958	14 051	36 958
Financial assets at amortised cost:				
Investment securities	37	441	91	1 142
Individuals	330 530	313 268	321 991	304 292
Companies	*25 475*	*30 370*	*24 897*	*22 023*
Loans	*305 055*	*282 898*	*297 094*	*282 270*
Grants	45 397	31 107	45 397	31 107
Investments in associates (investments in Baltic Innovation Fund)	13 222	15 019	13 222	15 019
Investment properties	46 164	36 758	46 164	36 758
Other assets	3 214	3 643	3 214	3 643
Total assets	**907 621**	**802 568**	**899 136**	**794 293**
Liabilities				
Due to credit institutions	53 416	65 855	53 416	65 855
Due to general governments	121 348	103 520	121 348	101 838
Financial liabilities at amortised cost - Issued debt securities	85 558	65 522	85 558	65 522
Support programme funding	230 287	191 963	230 287	191 963
Total liabilities	**490 609**	**426 860**	**490 609**	**425 178**

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

	Carrying Amount		Fair Value	
	31.12.2021.	31.12.2020.	31.12.2021.	31.12.2020.
Assets				
Due from credit institutions and the Treasury	455 006	359 949	455 006	359 949
Financial assets at fair value through other comprehensive income - investment securities	14 051	36 958	14 051	36 958
Financial assets at amortised cost:				
Investment securities	37	441	90	1 133
Individuals	330 530	313 268	321 991	304 292
Companies	*25 475*	*30 370*	*24 897*	*22 023*
Loans	*305 055*	*282 898*	*297 094*	*282 270*
Grants	45 397	31 107	45 397	31 107
Investments in associates (investments in Baltic Innovation Fund)	13 222	15 019	13 222	15 019
Investments in subsidiaries	-	4 879	-	4 879
Investment properties	46 164	36 758	46 164	36 758
Other assets	3 214	3 608	3 214	3 608
Total assets	**907 621**	**801 987**	**899 135**	**793 703**
Liabilities				
Due to credit institutions	53 416	65 855	53 416	65 855
Due to general governments	121 348	103 520	121 348	101 838
Financial liabilities at amortised cost - Issued debt securities	85 558	65 522	85 558	65 522
Support programme funding	230 287	191 963	230 287	191 963
Total liabilities	**490 609**	**426 860**	**490 609**	**425 178**

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

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

	Level 1		Level 2		Level 3		Total	
	31.12.2021.	31.12.2020	31.12.2021.	31.12.2020	31.12.2021.	31.12.2020	31.12.2021.	31.12.2020
Assets measured at fair value								
Financial assets at fair value through profit or loss	-	-	-	-	-	5 425	-	5 425
Financial assets at fair value through other comprehensive income - investment securities	3 516	24 035	10 535	12 923	-	-	14 051	36 958
Investments in associates (investments in BIF)	-	-	-	-	13 222	15 019	13 222	15 019
Investment properties	-	-	-	-	46 164	36 758	46 164	36 758
Assets with fair values disclosed								
Due from credit institutions and the Treasury	-	-	455 006	316 631	-	43 318	455 006	359 949
Financial assets at amortised cost:								
Investment securities	-	-	91	1 142	-	-	91	1 142
Loans	-	-	-	-	321 991	304 292	321 991	304 292
Grants	-	-	-	-	45 397	31 107	45 397	31 107
Other assets	-	-	-	-	3 214	3 643	3 214	3 643
Total assets	**3 516**	**24 035**	**465 632**	**330 696**	**429 988**	**439 562**	**899 136**	**794 293**
Liabilities measured at fair value								
Support programme funding	-	-	-	-	230 287	191 963	230 287	191 963
Liabilities with fair value disclosed								
Due to credit institutions	-	-	-	-	53 416	65 855	53 416	65 855
Due to general governments	-	-	-	-	121 348	101 838	121 348	101 838
Financial liabilities at amortised cost - Issued debt securities	-	-	-	-	85 558	65 522	85 558	65 522
Total liabilities	**-**	**-**	**-**	**-**	**490 609**	**425 178**	**490 609**	**425 178**

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

	Level 1		Level 2		Level 3		Total	
	31.12.2021.	31.12.2020	31.12.2021.	31.12.2020	31.12.2021.	31.12.2020	31.12.2021.	31.12.2020
Assets measured at fair value								
Financial assets at fair value through other comprehensive income - investment securities	3 516	24 035	10 535	12 923	-	-	14 051	36 958
Investments in subsidiaries	-	-	-	-	-	4 879	-	4 879
Investments in venture capital funds – associates (investments in BIF)	-	-	-	-	13 222	15 019	13 222	15 019
Investment properties	-	-	-	-	46 164	36 758	46 164	36 758
Assets with fair values disclosed								
Due from credit institutions and the Treasury	-	-	455 006	316 631	-	43 318	455 006	359 949
Financial assets at amortised cost:								
Investment securities	-	-	90	1 133	-	-	90	1 133
Loans	-	-	-	-	321 991	304 292	321 991	304 292
Grants	-	-	-	-	45 397	31 107	45 397	31 107
Other assets	-	-	-	-	3 214	3 608	3 214	3 608
Total assets	**3 516**	**24 035**	**465 631**	**330 687**	**429 988**	**438 981**	**899 135**	**793 703**
Liabilities measured at fair value								
Support programme funding	-	-	-	-	230 287	191 963	230 287	191 963
Liabilities with fair value disclosed								
Due to credit institutions	-	-	-	-	53 416	65 855	53 416	65 855
Due to general governments	-	-	-	-	121 348	101 838	121 348	101 838
Financial liabilities at amortised cost - Issued debt securities	-	-	-	-	85 558	65 522	85 558	65 522
Total liabilities	**-**	**-**	**-**	**-**	**490 609**	**425 178**	**490 609**	**425 178**

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

Assets

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

Liabilities

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

Fair value hierarchy of financial assets and liabilities

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

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

Debt securities

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

Derivatives

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

Investments in venture capital funds

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

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

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

Investment properties

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

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

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

Assets held for sale

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

41 Segment Information

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

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

Other services include transactions with repossessed collaterals taken over in the debt collection process and development of new support programmes as well as transactions, which cannot be attributed to support programmes.

Segment information is prepared in a manner consistent with the internal management information provided to the chief operating decision maker. The chief operating decision maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Management board of the Company is the chief operating decision maker. The Group doesn't provide detailed information on the type of transaction since all the transactions are external.

41 Segment Information (cont'd)

Analysis of the operating segments of the Group for the period from 1 January 2021 till 31 December 2021, in thousands of euro:

	Loan service	Guarantee service	Venture capital fund service	Grant service	Land Fund service	Management of AIF "Altum capital fund"	Other services	Total
Interest income	13 439	3 125	26	-	2 256	-	11	18 857
of which, interest on loans and guarantees (Note 4)	*13 269*	*2 939*	*-*	*-*	*2 256*	*-*	*11*	*18 475*
Interest expense	(1 446)	(30)	-	-	(664)	-	-	(2 140)
Net interest income	11 993	3 095	26	-	1 592	-	11	16 717
Income for implementation of state aid programmes	216	1 102	2 006	1 056	-	-	66	4 446
Expenses to be compensated for implementation of state aid programmes	(215)	(476)	(2 016)	(1 056)	-	-	(66)	(3 829)
Net income for implementation of state aid programmes	1	626	(10)	-	-	-	-	617
Gains from debt securities and foreign exchange translation	23	24	4	-	-	-	-	51
Share of (losses) of investment in associates	-	-	(1 382)	-	-	-	-	(1 382)
Share of gain of investment in associates at fair value through profit or loss	-	-	2 817	-	-	-	-	2 817
Gains less losses from liabilities at fair value through profit or loss	-	-	1 321	-	-	-	-	1 321
Other income	-	-	158	21	2 389	620	33	3 221
Other expense	(273)	(198)	(9)	(32)	(368)	(620)	(9)	(1 509)
Operating income / (loss) before operating expenses	**11 744**	**3 547**	**2 925**	**(11)**	**3 613**	**-**	**35**	**21 853**
Staff costs	(3 408)	(951)	(214)	(778)	(242)	-	(202)	(5 795)
Administrative expense	(992)	(337)	(96)	(337)	(84)	-	(47)	(1 893)
Amortisation of intangible assets and depreciation of property, plant and equipment	(447)	(198)	(45)	(174)	(36)	-	(35)	(935)
(Impairment) gain, net	983	299	-	(155)	14	-	(542)	599
Profit or (loss) from assets held for sale revaluation	-	-	-	-	-	-	-	-
Total segment profit/(loss)	**7 880**	**2 360**	**2 570**	**(1 455)**	**3 265**	**-**	**(791)**	**13 829**
Financial assets at fair value through profit or loss	-	-	51 727	-	-	-	-	51 727
Other investments	-	-	13 222	-	-	-	-	13 222
Investments in associates	-	-	8 936	-	-	-	-	8 936
Additions of property and equipment, intangible assets and investment property	161	61	14	75	2 179	-	12	2 502
Total segment assets	**465 460**	**157 082**	**160 811**	**63 101**	**87 226**	**456**	**42 068**	**976 204**
Total segment liabilities	**235 612**	**94 115**	**63 142**	**62 819**	**75 576**	**-**	**4 204**	**535 468**
Assets under management (AUM)	-	-	-	-	-	30 772	-	30 772

41 Segment Information (cont'd)

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

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

42 Events after the reporting date

The ongoing war in Ukraine and the related sanctions targeted against the Russian Federation and to a lesser extent to Belarus may have impact on the Group / Company as well as the potential social and economic impact in Latvia and the region. This may result in assumptions and estimates requiring revisions which may lead to material adjustments to the carrying value of assets and liabilities within the next financial year. The Group / Company does not issues loans directly to businesses in Ukraine, the Russian Federation and Belarus. The Group / Company expects that there might be impact on provisions for expected credit losses for credit export guarantees, where Altum customers' counterparties are residents of Ukraine, the Russian Federation and Belarus. The exposure of such export credit guarantees to Ukraine, the Russian Federation and Belarus as at 31 December 2021 was accordingly EUR 399 thousand, EUR 763 thousand and EUR 425 thousand. The Management has estimated that expected credit losses from claims on export credit guarantees issued as at 31 December 2021 could amount to EUR 1,587 thousand. In particular management expects the assumptions and estimates used in determining provisions for expected credit losses for loan and guarantee portfolios as well as carrying value of investments in associated companies may be affected. At this stage the management is not able to reliably estimate the indirect impact as events are unfolding day-by-day. However, the Group / Company will assess the expected credit losses in April 2022, taking into account the most up-to-date macroeconomic forecasts. Nevertheless, at the date of these financial statements the Group / Company continues to meet its obligations as they fall due and therefore continues to apply the going concern basis of preparation.

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Independent Auditors' Report

To the shareholder of JCS Finance Development Institution Altum

Report on audit of Consolidated and Separate Financial Statements

Our Opinion on the Consolidated and Separate Financial Statements
We have audited consolidated and separate financial statements of JSC Finance Development Institution Altum ("the Company") and its subsidiaries (together - "the Group) included in the annual report contained in the file altum-2021-12-31-en.zip
(SHA-256-checksum: AEF33BDDF3A84B65B50A239D54220DC6D7CD349A6FAF66FDA5D9AB30E3A112F2), which comprise:

- the consolidated and separate statement of financial position as at 31 December 2021,
- the consolidated and separate statement of comprehensive income for the year then ended,
- the consolidated and separate statement of changes in equity for the year then ended,
- the consolidated and separate statement of cash flows for the year then ended, and
- the notes to the consolidated and separate financial statements, which include a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying consolidated and separate financial statements give a true and fair view of the financial position of the Group and the Company as at 31 December 2021, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

In accordance with the Law on Audit Services of the Republic of Latvia we conducted our audit in accordance with International Standards on Auditing adopted in the Republic of Latvia (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements* section of our report.

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

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

Key Audit Matters

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

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

Key audit matter	**How the matter was addressed in the audit**
Expected credit losses on loans and measurement of guarantees	
Refer to Notes 2 (16), 13, 19 and 31 to the financial statements The assessment of loan loss provisions for loans provided to customers and valuation of financial guarantee contracts requires management to exercise a significant level of judgment, especially with regards to identifying impaired loans, quantifying amount of impairment and estimating the payments expected to be made under the financial guarantees. The level of uncertainty and level of subjectivity of judgments applied is still significant in 2021 due to the COVID-19 pandemic. To assess the amount of provisions for expected credit losses, the Company applies comprehensive statistical models with a number of input parameters obtained from internal and external sources. If necessary, historical input parameters are adjusted so they can be used for a more appropriate estimation of losses in the future. In accordance with the requirements of IFRS 9 *Financial Instruments*, the Company distinguishes three stages of impairment, with the criteria for classification to individual stages being based on an assessment of the objective evidence about the loans and debtors and subjective evaluation of other relevant information available to the Company. Financial guarantee contracts are initially recognized at fair value and subsequently measured at a higher of (i) the amount of the loss allowance for the guaranteed exposure determined based on the expected loss model and (ii) the remaining unamortised balance of the amount initially recognised. As of 31 December 2021, the total impairment allowances for loans amount to EUR 18 143 thousand and the value of financial guarantee contracts reported in the statement of the financial position in line "Provisions" amounts to EUR 33 603 thousand.	Our procedures included, but were not limited to: We assessed the appropriateness of the methodology used by the Company to identify impairment and quantify provisions for selected significant portfolios. We assessed the correctness of classification and recognition of credit losses for loans with payments deferred as a result of measures introduced to mitigate the negative consequences of the COVID-19 pandemic in Latvia. We tested the design and operating effectiveness of key controls which the Company's management has implemented in connection with the impairment assessment processes, including key controls for approval, recording and monitoring loans, input of contractual data and accuracy, completeness and approval of loss provisions. Our credit risk specialists assessed the appropriateness of management judgments regarding the determination of loan losses by considering the selection and application of appropriate models to the selected significant portfolios, and by comparing the inputs used in the Company's models to the actual level of losses experienced by the Company in the past. With regards to macroeconomic parameters, we reviewed the analysis prepared by the Company of the expected macroeconomic developments and related parameters used in the IFRS 9 models. On a sample of loans and guarantees, we evaluated the correctness of IFRS 9 staging and appropriateness of provisioning levels. For a sample of loans assessed on an individual basis, we examined the loan exposures and evaluated the Company's assessment of future recoveries, including the values of existing collaterals. The overall conclusion was supported by an analysis performed at an overall portfolio level using analytical methods to identify anomalies in classification of loans to IFRS 9 impairment stages and in the levels of loan loss provision. We considered the completeness and accuracy of disclosures related to expected credit losses on loans and measurement of guarantees.

<table>
<tr><th colspan="2">Accounting for investments in venture capital funds</th></tr>
<tr><td>Refer to Notes 2 (16), 17, 18 and 22 to the financial statements

The Company has made investments in a number of venture capital funds ("the VCFs"). The Company assesses whether it has control or significant influence over the VCFs and accordingly classifies each investment as either a subsidiary, an associate or as other investment.
In the separate financial statements, the investments in subsidiaries are accounted for using the equity method. Subsidiaries are fully consolidated in the consolidated financial statements. Investments in associates, in both separate and consolidated financial statements, are accounted for using the equity method, except for the specific investments designed as 'at fair value through profit and loss'. Other investments are accounted 'at fair value through profit and loss'.

Due to specific and complex nature of arrangements related to investments into VCFs and their management, significant judgment is applied in classifying VCFs into one of the abovementioned categories and selecting the appropriate accounting treatment.

The values of the investments in VCFs are primary determined using information about fair values of the underlying investments held by the VCFs ("the VCF Assets"). The VCF Assets represent a combination of debt and equity instruments that are rarely traded in an active and liquid market. Often, VCFs invest into start-up companies. Consequently, significant amount of judgment needs to be applied when determining the valuation of carrying amount of VCFs.

As of 31 December 2021, the total value of investments in VCFs reported by the Company amounts to EUR 73 885 thousand.</td><td>Our procedures included, but were not limited to:
We evaluated key judgments made by management when classifying investments in VCFs as subsidiaries, associates or other investments.

For a sample of the VCFs, we reviewed the contractual terms of the agreements related to management of the VCFs to evaluate the level of control that the Company holds over the VCF.

We obtained the calculations of net asset values of the VCFs and the available information about the fair values of the underlying VCF Assets.

For a sample of the VCFs, we assessed appropriateness of the calculation of its net assets.

We discussed with the responsible employees of the Company the performance of the VCFs and VCF Assets to understand their current performance and Company's expectations regarding the exit values for the VCF Assets.

We assessed the relevance of adjustments made by the Company to the net asset values reported by the VCF's.

We considered the completeness and accuracy of disclosures relating to investments in VCF's.</td></tr>
</table>

Reporting on Other Information

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

- the Management Report which is included in the accompanying Annual Report,
- the Statement on Management's Responsibilities which is included in the accompanying Annual Report,
- the Statement of Corporate Governance which is included in of the accompanying Annual Report.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and objectivity, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

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

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

We confirm that:

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

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

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

Report on Compliance with the ESEF Regulation

We have conducted a reasonable assurance engagement on the verification of compliance of the Group financial statements included in the consolidated annual report with the provisions of Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format (the "ESEF Regulation") that apply to the financial statements.

Responsibilities of Management and Those Charged with Governance for ESEF report

The management is responsible for the preparation of the financial statements in compliance with the ESEF Regulation. Inter alia, the management is responsible for:

- The design, implementation and maintenance of the internal control relevant for the application of the requirements of the ESEF Regulation;
- The preparation of all financial statements included in the consolidated annual report in the valid XHTML format; and
- The selection and use of XBRL mark-ups in line with the requirements of the ESEF Regulation.

Auditor's Responsibilities

Our task is to express a conclusion whether the financial statements included in the consolidated annual report are, in all material respects, in compliance with the requirements of the ESEF Regulation, based on the audit evidence obtained. Our reasonable assurance engagement was conducted in accordance with the *International Standard on Assurance Engagements 3000 (Revised) Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* (hereinafter "ISAE 3000").

The nature, timing and scope of the selected procedures depend on the auditor's judgment. A reasonable assurance is a high level of assurance; however, it is not a guarantee that the examination conducted in accordance with the above standard will always detect a potentially existing material non-compliance with the requirements of the ESEF Regulation.

As part of our work, we performed the following procedures:

- We obtained an understanding of the requirements of the ESEF Regulation;
- We obtained an understanding of the Company's internal control relevant for the application of the requirements of the ESEF Regulation;
- We identified and evaluated risks of material non-compliance with the ESEF Regulation, whether due to fraud or error; and
- Based on this, we designed and performed procedures responsive to those risks and aimed at obtaining a reasonable assurance for the purposes of expressing our conclusion.

The aim of our procedures was to assess whether

- The financial statements included in the consolidated annual report were prepared in the valid XHTML format;
- The data in the consolidated financial statements were marked up where required by the ESEF Regulation and all mark-ups meet the following requirements:
    - XBRL mark-up language was used;
    - The elements of the core taxonomy specified in the ESEF Regulation with the closest accounting meaning were used, unless an extension taxonomy element was created in compliance with the ESEF Regulation; and
    - The mark-ups comply with the common rules for mark-ups pursuant to the ESEF Regulation.

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

Conclusion

In our opinion, financial statements for the year ended 31 December 2021 included in the consolidated annual report are, in all material respects, in compliance with the requirements of the ESEF Regulation.

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

Riga, Latvia

The Independent Auditors' report is signed with secure electronic signature and contains a timestamp

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OTHER NOTES TO THE ANNUAL REPORT

KEY FINANCIAL AND PERFORMANCE INDICATORS

Based on data from audited financial statements for the respective years

	2021	2020	2019	2018	2017 (corrected) *	2016 (corrected) *
Key financial data						
Net interest income (EUR '000)	16 717	14 572	11 569	11 302 **	11 602	11 024
Operating profit (EUR '000)	13 829	5 539	8 131	4 092	8 709	2 170
Profit for the period (EUR '000)	13 829	5 539	8 131	4 092	8 709 *	2 170
Cos to income ratio (CIR)	39.46%	47.51%	52.58%	74.84% ***	50.30% *	88.40%
Employees	226	211	203	222	230	242
Total assets (EUR '000)	976 204	850 704	560 061	495 939	453 668 *	443 400 *
Financial debt (EUR '000)	360 909	342 490	217 943	177 249	146 157	141 854
Tangible common equity (TCE) / Total tangible managed assets (TMA) ****	**33.82%**	**33.56%**	**29.40%**	**31.70%**	**35.10% ***	**36.50%**
Equity and reserves (EUR '000)	440 736	382 594	232 738	221 590	222 848 *	210 406 *
Total risk coverage: (EUR '000)	**285 954**	**180 205**	**87 456**	**77 815**	**67 593 ***	**66 508 ***
Risk coverage reserve	159 196	112 567	99 778	85 276	62 651	63 636 *
Risk coverage reserve used for provisions	(29 496)	(28 197)	(27 829)	(19 268)	(4 753)	(4 323)
Portfolio loss reserve (specific reserve capital)	159 700	102 264	15 507	11 807	9 695	7 195
Portfolio loss reserve used to compensate provisions upon approval of the annual report	(3 446)	(6 429)	-	-	-	-
Liquidity ratio for 180 days *****	518%	464%	582%	227%	482% *	449%
Net Cash flows from operating activities (EUR '000)	49 555	21 966	39 813	7 997	(10 146)	34 518
Net Cash flows from financing activities (EUR '000)	43 768	165 800	18 700	12 013	22 299	5 560
Net Cash flow from investing activities (EUR '000)	4 553	(4 016)	(11 230)	8 307	3 891	759
Support instruments gross value (EUR '000), of which	**979 130**	**872 302**	**667 649**	**553 628**	**465 724**	
Financial instruments gross value (EUR '000) ***						
Loans (excluding sales and leaseback transactions)	315 674	302 481	225 144	210 208	207 065	217 429
Guarantees	414 978	359 605	284 232	236 895	182 376	147 175
Venture capital funds	85 973	73 165	68 331	59 698	62 299	64 785
Land Fund, of which:	79 163	68 258	39 634	21 717	11 328	4 635
- sales and leaseback transactions	32 999	31 500	15 268	6 923	520	-
- investment properties	46 164	36 758	24 366	14 794	10 808	4 635
Total	**895 788**	**803 509**	**617 341**	**528 518**	**463 068**	**434 024**
Number of transactions	30 978	26 578	22 437	18 603	14 655	11 561
Volumes issued (EUR '000) (by financial instrument) ******						
Loans (excluding sales and leaseback transactions)	100 966	138 238	64 320	59 608	51 349	59 465
Guarantees	126 997	137 425	98 240	88 765	68 615	56 109
Venture capital funds	29 158	14 014	9 022	4 149	2 638	21 356
Land Fund, of which	10 595	28 191	16 384	10 823	6 359	3 704
- sales and leaseback transactions	3 254	16 796	7 239	6 835	520	-
- investment properties	7 341	11 395	9 145	3 988	5 839	3 704
Total	**267 716**	**317 868**	**187 966**	**163 345**	**128 961**	**140 634**
Number of transactions	6 579	6 147	5 559	5 590	4 839	4 537
Total contribution to the economy, including the contribution of the final recipients (EUR '000)	791 646	696 306	531 661	460 045	370 560	359 706
Leverage for raised private funding	177%	114%	142%	162%	185%	162%
Volume of support programmes funding per employee (EUR '000)	3 964	3 808	3 041	2 381	2 013	1 793
Long-term rating assigned by Moody's Investors Service	Baa1	Baa1	Baa1	Baa1	Baa1	-

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

Definitions of ratios

Net income from interest	"Net income from interest, fees and commission" is equal to the item "Net interest income" in the Statement of Comprehensive Income. Until 2018 this ratio included the following items of the Statement of Comprehensive Income: "Net interest income" and "Net income from fees and commissions". In 2019 following the industry practise Fee and commission income from lending activities is reclassified to Interest income from "Net income from fees and commissions". Subsequently the fee and commission income not related to lending activities is reclassified within Other income and as such is not included in this ratio. The item "Net income from fees and commissions" is not applicable in The Statement of Comprehensive Income anymore. The comparatives have been reclassified accordingly. ALTUM uses this indicator as the key financial metric for profitability by evaluating ALTUM Group's net income amount generated by the portfolio of financial instruments and recognised in the Statement of Comprehensive income. ALTUM management measures and monitors the actual performance of this indicator on a quarterly basis compared to the approved level in ALTUM Group's budget.
Operating profit	"Operating profit" is calculated by deducting "Operating expenses" from "Operating income before operating expenses" included in the Statement of Comprehensive Income. "Operating expenses" is calculated as the sum of "Staff costs", "Administrative expense", "Amortisation of intangible assets and depreciation of property, plant and equipment" and "Impairment gain / (loss), net" included in the Statement of Comprehensive Income.
Cost to income ratio (CIR)	"Cost to income ratio" (CIR) is calculated by dividing the amount of "Staff costs", "Administrative expense", "Amortisation of intangible assets and depreciation of property, plant and equipment" by "Operating income before operating expenses" included in the Statement of Comprehensive Income. ALTUM uses CIR to evaluate the operational efficiency. This is one of the measures of operational efficiency which ALTUM management assesses on a quarterly basis in the management reports to evaluate the outputs from different operational activities and efficiency improving measures.
Financial debt	"Financial debt" is calculated as the sum of "Due to credit institutions", "Due to general government entities", "Financial liabilities at amortised cost – issued debt securities" and "Support programme funding" included in the Statement of Financial Position less difference between "Risk Coverage Reserve" and "Risk Coverage Reserve Used for Provisions". "Risk Coverage Reserve" is disclosed in the Note on Support Programme Funding to the Financial statements of ALTUM Group. "Risk Coverage Reserve Used for Provisions" is the amount of "Risk Coverage Reserve" allocated to and used for provisioning for impairment loss on loan portfolio and guarantees which in its turn is disclosed in the Note on Support Programme Funding to the Financial statements of ALTUM Group.
Tangible common equity (TCE) / Tangible managed assets (TMA)	"Tangible Common Equity" (TCE) is calculated by subtracting the revaluation reserve of available for sale investments from total equity. The amount of "Total managed assets" (TMA) is calculated by adding the guarantees shown as off-balance sheet items to the total assets of ALTUM Group taking into account provisions for these guarantees and subtracting "Deferred expense", "Accrued income", "Property, plant and equipment", "Intangible assets", "Other assets" and "Assets held for sale". Data for the calculation of both indicators (TCE, TMA) are obtained from ALTUM Group's Financial statements: Statement of Financial Position and Consolidated Statement of Changes in Equity, notes - Off balance sheet items and contingent liabilities and Provisions. ALTUM uses the ratio "TCE/TMA" to evaluate ALTUM Group's capital position adequacy and to measure ALTUM Group's tangible common equity in terms of ALTUM Group's tangible managed assets including the off-balance sheet item Guarantee portfolio. The Risk and Liquidity Management Committee of ALTUM monitors its level on a quarterly basis.
Total risk coverage	"Total Risk Coverage" is the net funding available for covering the expected credit losses of the State aid programmes implemented by ALTUM. "Total Risk Coverage" is calculated as the total of "Risk Coverage Reserve" and "Portfolio Loss Reserve" (Specific Capital Reserves) less "Risk Coverage Reserve Used for Provisions" and "Portfolio loss reserve used to compensate provisions upon approval of the annual report". The expected losses are estimated before implementation of the respective State aid programme and part of the public funding received under respective State aid programme for coverage of expected losses on credit risk is transferred either to "Portfolio Loss Reserve" as ALTUM Group's specific capital reserve or accounted separately as provisions for risk coverage under liabilities item "Risk Coverage Reserve". "Portfolio Loss Reserve" (specific capital reserve) is disclosed in the Note on Reserves to the Financial statements of the ALTUM Group. "Risk Coverage Reserve" is disclosed in the Note on Support Programme Funding to the Financial statements of ALTUM Group. "Risk Coverage Reserve Used for Provisions" is the amount of "Risk Coverage Reserve" allocated to and used for provisioning for impairment loss on loan portfolio and guarantees which in its turn is disclosed in the Note on Support Programme Funding to the Financial statements of ALTUM Group. "Portfolio loss reserve used to compensate provisions upon approval of the annual report" is disclosed in the Note on Reserves to the Financial statements of the ALTUM Group. "Total Risk Coverage" is key indicator to be used for assessment of ALTUM's risk coverage on implemented programmes and long-term financial stability.

Definition of ratios (cont'd)

180-day liquidity ratio	"180-days-liquidity ratio" is calculated by dividing the amount of the balances "Due from other credit institutions and the Treasury" with a maturity of up to 1 month and "Financial assets at fair value through other comprehensive income and Investment securities" by the amount of the total liabilities maturing within 6 months and total financial commitments maturing within 6 months (off-balance sheet items). The data required for the calculation of the "180-days liquidity ratio" is disclosed in the following ALTUM Group's Financial statements: Statement of Financial Position and notes – Maturity profile of assets and liabilities under the section of Risk Management, Off-balance sheet items and contingent liabilities. ALTUM uses the "180-days-liquidity ratio" to assess and monitor ALTUM Group's ability to fulfil ALTUM Group's contractual and/or contingent liabilities during 6 (six) month with the currently available liquidity resources. "180-days-liquidity ratio" helps to manage ALTUM Group's liquidity risk in line with ALTUM Group's/ALTUM's funding management objectives and risk framework. Risk and Liquidity Management Committee of ALTUM monitors its level on a quarterly basis.
Support instruments gross value	"Support instruments gross value" is calculated as the sum of the gross values of the portfolios of grants, loans, guarantees, venture capital funds and Land Fund
Total contribution to the economy, including the participation of the final recipients, by volumes issued in the period	The 'Total contribution to the economy, including the participation of the final recipients, by volumes issued in the period' is calculated by adding to the volumes issued by ALTUM the financing provided by the private co-financier and the project promoter.
Leverage for raised private funding	"Leverage for raised private funding" indicates the amount of additional private funds invested in a project in addition to ALTUM's financing. "Leverage for raised private funding" is determined considering the financing invested by a private co-financier and a project's implementer, which, on average, makes up to 50 per cent for loans, up to 70 per cent for guarantees and venture capital (except for housing loan guarantees' programme for the first instalment with a ratio of 795 per cent) in addition to ALTUM's funding.
Employees	Average number of employees in the report period excluding members of the Council and the Audit Committee.
Volume of support programmes funding per employee	"Support programmes funding per employee" is calculated by dividing the gross value of the Financial Instruments Portfolio by the average number of employees during the period, excluding members of the Supervisory Council and the Audit Committee.
Venture capital	The Venture Capital Funds presented at their gross value.

Corporate Governance Report 2021

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

Altum Group (Altum and the total of companies included in the consolidation group, hereinafter referred as the Group) parent company is a Latvia state-owned company ensuring access of enterprises and households to the financing resources by means of support financial instruments – loans, guarantees, investments in venture capital funds – in areas defined as important and to be supported by the state, thus developing national economy and by such way enhancing mobilisation of private capital and financial resources. Subsidiaries of Altum (individual venture capital funds) are part of Altum Group as long as Altum controls these companies. As a result of the annual control or significant influence assessment, subsidiaries of Altum are not considered subsidiaries as at 31 December 2021. See the Annual Report for more information.

Strategy 2019 - 2021

On 30 May 2019, Altum Council approved and on 11 March 2021 amended and enhanced Altum's *Medium-Term Operational Strategy 2019-2021*. The *Medium-Term Operational Strategy 2019-2021* was amended to determine new projected performance indicators by implementing additional state aid programmes to mitigate the impact of Covid-19 on SME and Midcap in Latvia, which were not previously included in the strategy. Furthermore, the risk coverage for these financial instruments is arranged by transferring funds to Altum's special reserve capital, which provides for an increase in equity, while programme expenses, including credit risk provisions in accordance with IFRS requirements, as well as programme revenues affect the financial results for the reporting period.

As at 31 December 2021, Altum Group's gross aid instruments portfolio was EUR 978.2 million (31 December 2020: EUR 872.3 million), including the gross financial instruments portfolio of EUR 895.8 million that consisted of 30,978 projects (31 December 2020: EUR 803.5 million and 26,578 projects). Since March 2020, pursuant to the Strategy and as delegated by the government, Altum has engaged actively in mitigating the adverse impact of Covid19 pandemic on SME and Midcaps in Latvia. The Group takes pillar role for providing Covid-19 financial instruments (excl. standstill grants) – loans and guarantees in Latvia. In order to continue providing support for companies affected by the Covid-19 pandemic, Covid-19 crisis support programmes have been extended until 30 June 2022.

In order to support overcoming the impact of Covid-19, alternative investment fund Altum Capital Fund was established in the spring of 2020. Its aim is to support well-managed, perspective Mid-cap companies that as a result of the virus impact are ready to adjust their operations by changing their business model, adjusting product development, introducing new technology, expanding to new export markets, thereby fostering their growth. As at 31 December 2021, total assets of Altum Capital Fund managed by Altum amounted to EUR 31 million. The Fund's investment period has been extended until 30 June 2022 along with the terms of other Covid-19 support programmes.

Altum continues to strengthen its role as the key partner for the government in implementing financial instrument programmes co-financed by the European Union (hereinafter – the EU), including through the new Recovery and Resilience Facility (RRF), aimed to mitigate the economic and social impact of the Covid-19 pandemic, stimulate recovery of Europe, finance climate change mitigation projects, and protecting and creating jobs. In 2021, preparatory work commenced to provide financial instrument support programmes as part of the new EU Cohesion Policy 2021-2027. In total, financing in the amount of at least EUR 650 million will be made available as financial instruments under the Recovery and Resilience Facility (RRF) and the EU Cohesion Policy for the programming period 2021-2027.

In 2021, the terms and conditions for four new support programmes were developed in co-operation with the Ministry of Economics, under which the following funding will be available from RRF already in 2022: funding for improving energy efficiency of apartment buildings (EUR 57 million); for improving energy efficiency of companies and transition to technologies using renewable energy (EUR 81 million); for digital transformation (EUR 45 million) and for financing affordable housing (EUR 43 million).

Corporate Governance Report 2021 (cont'd)

Strategy 2019 - 2021 (cont'd)

In order to prepare for implementation of the European Union's new InvestEU Programme, preparations undertaken in 2019 for pillar assessment of the Group were continued.

Altum is planning to apply for InvestEU implementation partner role, thus increasing the scope of new specialized and customized financial instruments to the corporates in Latvia. An application on the InvestEU pillar assessment was prepared in Q3 2021 to ensure further progress of the project. A positive assessment by the responsible DG of the European Commission on Altum's legal and financial compliance was received in early March 2022, allowing to proceed with its actual pillar assessment.

The following strategic development directions and long-term objectives were set according to Altum *Medium-Term Operational Strategy 2019-2021*:

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

Detailed information on implementation of financial objectives is disclosed in the Consolidated and Separate Annual Report for the year ended 31 December 2021 (hereinafter – the Annual Report), Management Report and in the Annual Report Other Notes.

On achievement of non-financial objectives set in the Strategy for 2021, which were included in the *Medium-Term Operational Strategy 2019-2021*, see below.

- **Contribution to economy by Altum volumes issued** in 2021 reaches **EUR 792 million** (+EUR 5 million/+1% vs projection in the Strategy).
- **Volume of support programmes funding (excl. grants) per employee** is **EUR 4.0 million** (+EUR 0.1 million/+3% vs projection in the Strategy).
- **Employee turnover** is **7%,** which is less than projected in the Strategy (<10%), +4% vs 2020.
- Annual **number of trained employees** reaches **96%,** which is more than projected in the Strategy (>60%), +1% vs 2020.
- **Volumes issued (excl. grants)** in 2021 reaches **EUR 268 million** (-EUR 76 million/-22% vs projection in the Strategy, -EUR 50 million/-16% vs 2020). Lower volumes issued triggered mainly by (i) considerably lower demand than expected by the banking industry leading to no new volumes for Large Enterprises Loan Programme and Guarantee Programme for Large Enterprises and (ii) lower demand for Covid-19 crises support products due to better economic situation when increased volumes of ordinary products didn't compensate the decrease for Covid-19 crises support products.
- **Gross portfolio** as at end of 2021 **is EUR 896 million** (-EUR 115 million/-11% vs projection in the Strategy, +EUR 92 million/+11% vs 2020).
- **Credit rating assigned by Moody's** projected in the Strategy, not more than two niches below the sovereign rating of Latvia (A3 by Moody's), actual for 2021 (same for 2020) is Baa1 (one niche below the sovereign rating of Latvia), better than projected.

Deviations of individual indicators from the projections in the amended and enhanced Strategy (11 March 2021) are insignificant, and they have not adversely affected implementation of the key objectives and strategy of Altum.

Corporate Governance Report 2021 (cont'd)

Strategy 2019 - 2021 (cont'd)

Upon endorsing Altum's business plan and budget for 2022, the shareholders' meeting approved the following major goals and objectives for Altum in 2022 in accordance with the draft medium-term strategy 2022-2024:

Main objective – implementation of the state aid programmes to ensure an increase in Altum's portfolio, positive return on capital and efficiency.

Goals and objectives:

1. Launch of new programmes financed under the Recovery and Resilience Facility (RRF), where the main directions to be supported include climate change mitigation solutions, digitisation of companies and construction of affordable rental housing, as well as investment loans with capital rebate that will be financed from the state budget.

2. Work on the development and launch of fifth-generation venture capital funds.

3. Undergoing the Pillar Assessment so that Altum could qualify as an InvestEU implementation partner in 2023.

4. Assessment and integration of environmental, social and corporate governance (ESG) aspects in funding decisions and in Altum credit risk management procedures.

In 2021, active work was under way on the Group's medium-term strategy 2022-2024 and a draft Strategy was prepared, emphasizing the importance of sustainable financing and ESG aspects, both on the product level and in full integration of ESG aspects into Altum credit risk management practices. After the Group's *Medium-Term Operational Strategy 2022-2024* was harmonised with the parties involved, the Strategy was endorsed by the Council on 9 March 2022.

Strategy 2022 - 2024

Altum will strengthen its role as **the key partner for the government in implementation of financial instrument programmes**. Altum, together with the relevant ministries, will continue to be actively **involved in the development of new financial instrument programmes**.

Already in 2022, four new programmes will become available with funding from RRF, which will focus on areas that need special support: **climate change mitigation** – improving energy efficiency of apartment buildings and transition to renewable energy technologies, improving energy efficiency for businesses, as well as implementation of company **digitisation** projects and **construction of affordable housing**.

In the new strategy period, **loans with capital rebate will be issued for large investment projects**, work on the development and **launch of fifth-generation venture capital funds** will continue, as well as other programmes to be financed from the EU in the new programming period (2021-2027). Existing support programmes for entrepreneurs will be continued and brand new ones will commence to support business **productivity**, **research and innovation**. The EU funds will be used to continue supporting improvement of energy efficiency in both apartment buildings and private homes. Transition funding from the European Agricultural Fund for Rural Development (EAFRD) will be provided to ensure additional financing for the Farmers' Guarantee Programme and the Small Loans for Rural Areas programme, while financing from the Common Agricultural Policy Strategic Plan 2023-2027 will be used to introduce a new measure: loans with a capital rebate for small rural entrepreneurs.

Altum will also continue to implement other existing state support programmes in the areas identified by the state as a priority, ensuring access to finance for companies in different stages of development and for specific target groups.

Altum will watch out for changes in the demand in financial market and the current market shortcomings, upgrading and adapting state support instruments in accordance with the needs of customers and co-operation partners, as well as the priorities of the national economic policy.

In addition to investments from the EU, provided as financial instruments under the Cohesion Policy, **Altum intends to secure guarantees under the European Commission's *InvestEU* programme**.

Pillar Assessment will be carried out in 2022 so that Altum could qualify for InvestEU implementation partner status in 2023.

Major non-financial objective of Altum is to support and promote availability of finances to the business and development of the national economy.

Corporate Governance Report 2021 (cont'd)

Strategy 2022 - 2024 (cont'd)

The strategy anticipates a moderate increase in the volume of new transactions, with the volume of new transactions growing by 3.24% by 2024.

Altum's gross financial instruments portfolio is projected to grow by 10% annually on the average, and the total portfolio is projected to amount to EUR 1.3 billion by the end of 2024.

Contribution to the economy by volumes issued by Altum characterises a projected increase in Altum's impact on economic development by facilitating mobilisation of private capital and financial resources in the priority areas.

Altum's **major financial objective** in implementation of the state aid programmes is to ensure positive return on Altum's capital.

During the strategy implementation period, return on equity (ROE) is projected at over 1.3%.

Equity financial projection is expected to have positive dynamics at the end of the reporting year.

In order to ensure financial efficiency of Altum, the expenditure-revenue ratio will be limited to up to 65%.

Altum will pay particular attention to environmental, social and corporate governance (ESG) assessment, both in taking financing decisions and in upgrading Altum's internal procedures. ESG criteria and achievable sustainability indicators will be introduced for the projects financed in order to integrate them into credit monitoring, revise the customer portfolio by analysing each client, as well as phase out financing of projects that do not meet the ESG criteria set by Altum.

Altum's operations will be based on standardisation of solutions, further optimization of internal procedures and modernisation of IS.

Altum will also continue to ensure that credit rating assigned by Moody's is as high as possible and not more than two niches below the sovereign rating of Latvia.

Information on the key elements of the internal control and risk management system of Altum that are applied in the preparation of the financial statements

Internal control

The purpose of the internal control system is to ensure efficient, sustainable and successful operation of the company, accuracy of information provided, and compliance with the relevant laws and regulations and operating principles.

The internal control system of Altum has been designed to ensure efficient, sustainable and effective operation of the company, accuracy of information provided, and compliance with the relevant laws and regulations to provide a reasoned assurance that the assets of Altum and the Group are secured against loss and unauthorised management and use, the operational risks are identified and managed on an ongoing basis, the amount of capital is adequate to cover the identified risks inherent in the operation of Altum and the Group, the transactions are performed in line with the procedures established by Altum and the Group, Altum and the Group operate reasonably, prudently and efficiently in compliance with the requirements of laws and regulations, and the drawbacks identified in the management of Altum and the Group are fixed in due time.

The management of Altum and the Group bears responsibility for establishing a comprehensive internal control system (ICS) and its effective functioning. With respect to preparing the financial statements and the truthfulness, impartiality, clarity and completeness of the information disclosed therein, this responsibility is materialised by selecting adequate accounting methods that are described in internal regulatory documents.

The Internal Audit Division, being an independent body subordinated to Altum's Council with its head appointed based on the decision of Altum shareholders' meeting, supervises the internal control system at Altum and the Group and assesses its adequacy and efficiency. Every year the shareholders' meeting approves the annual action plan for the Internal Audit Division about which the Internal Audit Division reports to the Council. The Council supervises how the Board provides for establishment of the internal control system and its efficient operation. In 2021, the Internal Audit Division prepared 8 audit reports in accordance with the action plan, which provided an assessment of the operation of the process management and control system and were communicated to Altum Council. During the reporting period, 66 audit recommendations were issued, of which 51 were implemented in 2021. The audit reports provide assurance to Altum's management regarding business procedures, programmes such as state support for the purchase of farmland for agricultural production, energy efficiency improvements in apartment buildings, working capital loans for farmers,

Corporate Governance Report 2021 (cont'd)

Information on the key elements of the internal control and risk management system of Altum that are applied in the preparation of the financial statements (cont'd)

Internal control (cont'd)

Reverse Land Lease of the Latvian Land Fund, as well as support procedures such as personnel management, customer relations and attraction management, and other audits. The internal audit department performs its duties in accordance with the applicable regulatory enactments, following the international standards of professional practice of internal audit, Altum and the Group's internal regulatory enactments. The Internal Audit Division performs its duties in accordance with the applicable laws and regulations, the international standards for the professional practice in internal auditing and the internal regulations of Altum and the Group. At least once a year the Internal Audit Division drafts and submits to the Shareholders' meeting a report on the accomplished audits and major problems identified, gives its assessment of ICS efficiency and opinion on the measures to be undertaken to improve the operation of the internal control system.

An Audit Committee was established in Altum and the Group on 1 December 2017, which, inter alia, monitors the efficiency of the internal control and risk management system, in as much as it pertains to maintaining the credibility and impartiality of annual reports and consolidated annual reports. The Audit Committee, in line with the requirements of Law on the Financial Instruments Market, monitors the process of the preparation of financial statements of Altum and the Group, and performs other duties assigned to it by laws and regulations.

An Accounting Policy and Policy on Establishment of Provisions have been developed in Altum and the Group, the purpose of which is to define principles, methods and rules for the accounting, assessment and disclosure of transactions, facts, events and items in financial statements. The management of Altum and the Group has established an accounting policy that ensures that the financial statements provide information that is reliable and useful for the users of such statements in decision making. The applied Accounting Policy and Policy on Establishment of Provisions ensure that the information disclosed in the statements of Altum and the Group is true, comparable, timely, significant, explicit, relevant and complete. Altum and the Group have developed internal regulatory documents defining the procedure of preparing the financial statements.

Risk management

The purpose of risk management is to identify, assess, manage and control potential events and situations in order to provide assurance on the achievement of the company's strategic goals.

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

The following major risk management principles are followed:

- Risk management is a component of every-day functions;
- Altum and the Group identify and assess the probable risks before launching of new products or services;
- While assuming the risks, Altum and the Group are capable of long-term pursuit of the delegated aims and assignments;
- Altum and the Group do not enter into transactions, operations, etc. entailing risks that endanger their operational stability or may result in substantial damage to their reputation.

In their risk management Altum and the Group make use of various risk analysis methods and instruments as well as establish risk limits and restrictions.

In order to improve the risk management system, in 2021, inter alia, the model for calculation of the actual value of guarantees was validated with the aim of examining on a regular basis in the future the correctness of the selection of data used in the calculation, as well as correctness and accuracy of the model calculation.

Also in 2021, an independent risk coverage adequacy assessment in implementation of state support programmes was performed for Altum, including an assessment of the expected loss estimation approach and examining risk coverage adequacy for certain state support programmes.

Corporate Governance Report 2021 (cont'd)

Information on the key elements of the internal control and risk management system of Altum that are applied in the preparation of the financial statements (cont'd)

Risk management (cont'd)

As the impact of Covid-19 continued, additional measures were taken to assess the credit quality of Altum's portfolios and the required amount of provisions, including but not limited to an additional assessment of credit quality of loan and guarantee portfolios because of the impact of Covid-19 and an increase in provisions for possible expenditure compensation in the future, sectors affected the most by Covid-19 were identified and additional provisions were made for anticipated credit losses, and other measures were taken to identify an increase in credit risk in a timely manner.

As the situation in Ukraine escalated, in February 2022 Altum's current practices in work with Export Credit Guarantees was reviewed, restricting new business deals with customers, where the business partner is located in Russia or Belarus.

Information about the key elements of the risk management system of enterprises involved in consolidation, applied in preparation of consolidated financial statements, is provided in Annual Report.

Latvian and Russian versions of the Annual Report is publicly available in the premises of Altum at 4 Dome Square, Riga and in electronic form – on the website www.altum.lv, in INVESTORS section under FINANCIAL INFORMATION sub-section and in ABOUT ALTUM section under FINANŠU INFORMĀCIJA sub-section.

Independent audit

An independent audit of the financial statements of Altum and the Group is performed by independent auditors who provide their opinion stating whether the financial statements of Altum and the Group give a true and fair view of the financial position, financial performance and cash flows of Altum and the Group in accordance with the International Financial Reporting Standards as adopted by the European Union. SIA Deloitte Audits Latvija has been approved the auditor of the financial statements of Altum and Group for years 2020-2022. Pursuant to the requirements of EU Regulation No 537/2014 regarding the appointment of statutory auditors or audit firms at public-interest entities, Altum Audit Committee was involved in the auditor selection process. The auditor was selected following the procedure established by the Public Procurement Law. The following qualification criteria were considered in selection of the auditor:

- In the last 3 (three) years (2017, 2018, 2019 and 2020 until the submission of the proposal) has had experience of at least 3 (three) audits performed on the annual reports of credit institutions, provided that the balance sheet value of the credit institution's loan portfolio is not less than EUR 200 million;
- Holds a licence for provision of the services of sworn auditor;
- The auditor in charge holds the certificate of sworn auditor issued by Latvian Association of Sworn Auditors.
- The tenderer as well as any cooperation partner of the tenderer's network of audit firms (if the tenderer is a cooperation partner of a network of audit firms) has not provided Altum or companies it controls in the European Union with non-audit services prohibited under second subparagraph of paragraph 1 of Article 5 of EU Regulation No 537/2014 in the period referred to in first subparagraph of paragraph 1 of Article 5, and the tenderer meets the requirements referred to in Articles 4 and 5 of EU Regulation No 537/2014.

The following criteria were applied to selection of the auditor:

- The most economically feasible offer with the lowest price;
- Performance of the contract involves an expert on International Financial Reporting.

Corporate Governance Report 2021 (cont'd)

Contributing to sustainability

In its day-to-day operations in implementing State-delegated functions to foster development of the national economy and voluntarily taking the responsibility for its impact on society and the environment, Altum acts in compliance with the organization's strategy and values.

TEAM **EXCELLENCE** **RESPONSIBILITY**

Altum uses support financial instruments – loans, guarantees and investments in venture capital funds - to foster development of the national economy in areas defined as important and to be supported by the state, enhancing mobilization of private capital and financial resources. Altum has a long-term vision to attract financing for the purpose of ensuring the availability of resources to finance business projects important for the national economy.

The financial sector will play a key role in achieving the goals of the European Green Course, including the transition to a climate-neutral, climate-resilient, resource-efficient and equitable economy. Sustainability is a key part of Altum's business and strategy and is becoming an important strategic driver for the banking industry as well as for development finance institutions in Europe. Altum takes responsibility for the long-term impact of its daily economic, environmental and social activities and continuously works to reduce its impact upon the environment and with its sustainable strategy positively contributes to sustainable development and acting responsible in its business. Moreover, Altum intends to facilitate and support its clients' transition to a sustainable economy.

Altum's sustainability is based on the United Nations Sustainable Development Goals (SDG), which set out a global plan to eradicate poverty, combat inequality and tackle climate change by 2030.

The long-term efficiency of Altum can only be ensured by adhering to the principle of sustainable business, which consists of three interrelated and equally important aspects of ESG - environmental, social and corporate governance.

Since the beginning of 2021, Altum's management has made the integration of sustainable financing and ESG aspects into credit risk management and business processes one of its priorities. It is planned to develop ESG criteria and achievable sustainability indicators for financed projects, to integrate them into credit monitoring, to review the existing client portfolio by performing their analysis, as well as to phase out the financing of projects that do not meet the ESG criteria set by Altum.

In order to move towards the implementation of the principles of sustainable financing and environmental, social and corporate governance (ESG), ALTUM will

- Expand the range of sustainable financial instruments,
- Improve the involvement of SMEs and MidCap in sustainability by providing them with adequate access to finance and certain incentives to achieve sustainability results,
- Increase financial sector and state support for the integrity of this sector,
- Develop internal processes for the establishment and monitoring of ESG,
- Improve the competence of employees in the evaluation of sustainable financing and ESG, as well as in risk management

Corporate Governance Report 2021 (cont'd)

Contributing to sustainability (cont'd)

Altum's level of ambition towards sustainable financing at Altum's portfolio level is undertaken voluntary, mainly driven by (i) stakeholders', like investors, credit rating agencies, peer group of European development banks, international lenders, Nasdaq, expectations towards Altum as development financial institution with large impact upon Latvian economy, and (ii) eligibility requirements for public funding available from the EU Cohesion Policy and/or RRF contributing to Sustainable Europe Investment Plan/Green Deal Investment Plan where Altum takes pillar role for issue of financial instruments to SME's in Latvia. As additional trigger is sustainable financing regulatory framework already effective for part of ALTUM's portfolio as well as the coming Taxonomy alignment regulatory framework. Although not mandatory for ALTUM but following the international finance institution sector practise the EBA (European Banking Authority) guidance on integration of ESG aspects in credit risk management, including loan origination and monitoring, has been reviewed and assessed for further integration in ALTUM's credit risk management processes.

The state support programs implemented by Altum will facilitate the implementation of projects that will be able to provide a positive assessment of the social and environmental factors related to the sustainability of companies and their impact on society with measurable indicators. The implementation of the programs will be monitored to achieve the planned results and objectives.

All new programs for which funding will be available from the Recovery and Resilience Facility (RRF) are sustainable in terms of the activities to be supported, only in different aspects, and can be divided into (i) climate programs that meet the requirements of the Taxonomic Environmental Requirements, (ii) digital transition program to increase productivity, and (iii) a afford able rental housing program with a social objective - reducing inequality.

Altum has identified and works closely with the organisation's stakeholders, recognizing Altum's special role in the economy and the needs of stakeholder, and helping to solve them. Altum recognizes and evaluates the social, environmental and economic impact of its operations and engages stakeholders on issues of mutual concern. By building relationships with stakeholders, Altum organizes and engages in consultations, partnerships, as well as organizes informative and educational activities.

In order to compile the Altum sustainability materiality matrix and to define the level of ambition for sustainable financing in the loan portfolio, a stakeholder identification, mapping and survey was conducted in late 2021, which allowed the identification of key aspects to be included in the sustainability content. The survey addressed more than 620 respondents from a variety of stakeholder groups, including employees, shareholders, customers, capital market participants, commercial banks, financiers and the financial industry, sustainability experts, education and science representatives, suppliers, NGOs, policy makers, the media, professional associations, business support organizations and supervisory and control authorities.

The survey asked respondents to rate Altum's performance in environmental, social and corporate governance to date, and to express their expectations regarding Altum's sustainability in the business environment, day-to-day operations, public support and development, and Altum as an employer.

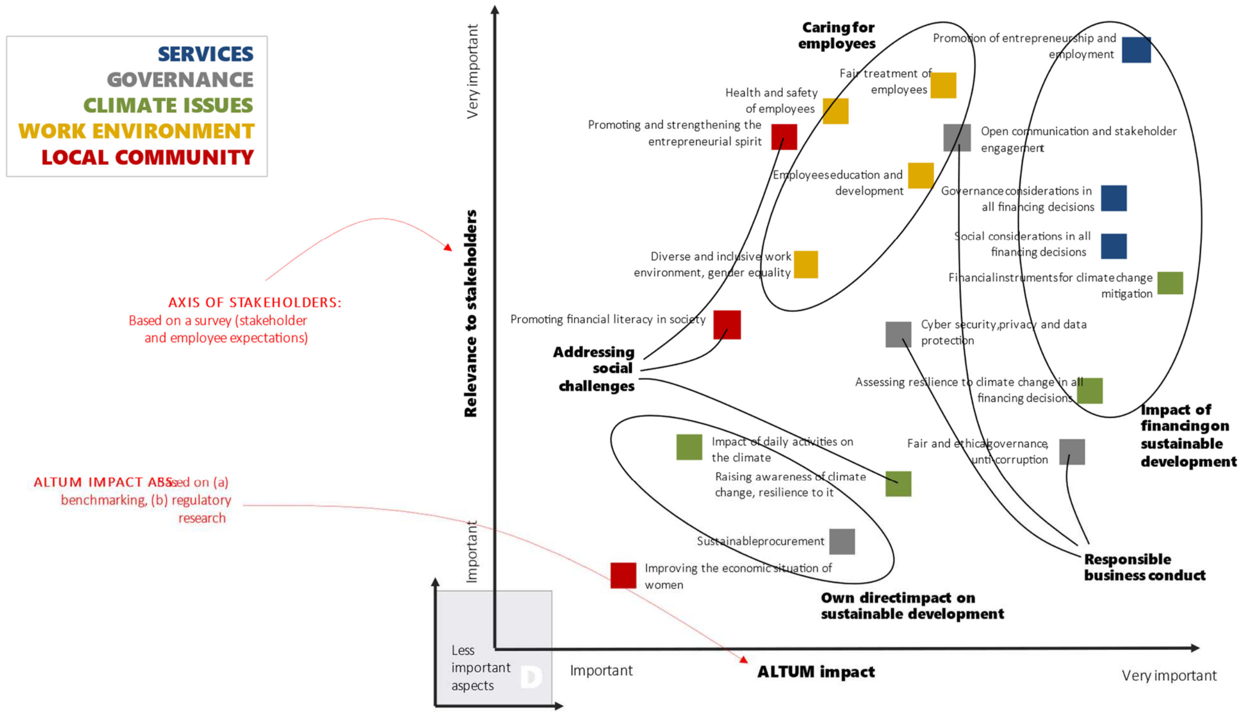
One of the most important questions in the stakeholder survey was related to Altum's level of ambition, where respondents were asked to choose 1 to 3 directions for sustainable financing. Taking into account the stakeholder pool on Altum's level of ambition for sustainable financing, the TOP3 priorities include: (i) improving access to sustainable financing for small and medium-sized enterprises, (ii) facilitating projects that can deliver positive environmental and social impacts, and ((iii) expanding the range of sustainable financial instruments.

Corporate Governance Report 2021 (cont'd)

Contributing to sustainability (cont'd)

Consequently, in the future, even more attention will be paid to the areas of sustainability, both by expanding the set of sustainable financing and improving its availability to companies, as well making financing-related decisions and improving ALTUM's internal processes.

As a result of this process, the most significant interests of stakeholders were identified and summarized in this table.



Altum is committed to follow the best industry examples in Europe that have taken a strong stance in defining the targets to be achieved and the sectors and projects not to be supported, regardless of the source of funding and already now they are not financing fossil-fuel energy generation projects. Among other things, Altum commits to define the level of ambition where the Green Asset Ratio for new loans and the existing loan portfolio would be set for both the 3-year period and until 2030. The next steps in integrating sustainable financing and ESG aspects into credit risk management are as follows:

- In the first half of 2022, it is planned to mark the existing green / sustainable assets in the portfolio;
- In the first half of 2022, it is planned to approve the financial instruments of the Recovery and Resilience Facility;
- In December 2022, it is planned to review the existing programs, excluding toxic / brown projects. The "social" vs. "green" aspect will be assessed in the brown projects;
- In the first half of 2023, changes will be made in the regulatory enactments of the Cabinet of Ministers of the respective programs;
- In March 2023, it is planned to integrate ESG aspects into Altum credit risk management, covering all business and business support processes. Primarily the SME portfolio.

Corporate Governance Report 2021 (cont'd)

ESG – corporate governance

Effective 2021, Altum follows the Corporate Governance Recommendations included in the Corporate Governance Code (hereinafter – the Code), endorsed by the Corporate Governance Advisory Board of the Ministry of Justice. The Code is available here .

Adherence to the principles of corporate governance contributes to value growth of the company in the long term, effective management and transparency. The principles are applicable at all Altum levels, creating a successful system of mutual relations between the Shareholder, the Council, the Board, employees, customers and society. In its day-to-day operations, Altum is engaged in open and trustworthy communication with all involved parties, as well as ensures compliance with Latvian and international legal norms and ethical standards.

In assessing the compliance of Altum's corporate governance system with the corporate governance principles set out in the Code and observance of these principles in Altum's operations, Altum observes the main aspects of corporate governance principles applicable to its operations, except for the principle "Independent members of the company's council".

Pursuant to Section 7 of the Law on Development Finance Institution, the members of Altum Council and Board are subject to the requirements as are provided in the Credit Institution Law for the members of the council and of the board of a credit institution.

The composition and period of operation of Altum Council and Board are determined by the Law on Development Finance Institution. Altum Council is composed of three members. Each shareholder has the right to nominate one candidate for the position of a Council member. Chairperson of the Council is a member of the Council nominated by the Ministry of Finance. Altum Board may not have more than five members. The Council appoints the chairperson of the Board from among the members of the Board. The term of office for the members of the Council and the Board is three years.

The procedure for nominating members of the Board and the Council is provided in the Law on Governance of Capital Shares of a Public Person and Capital Companies.

The holder of State capital shares or the Council of the capital company establishes a nomination committee to evaluate the candidates for members of the Board or the Council. The nomination committee includes representatives nominated by the holder of State capital shares or the Council and the Cross-sectoral Coordination Centre, as well as independent experts and, if necessary, observers with advisory rights.

Potential candidates for Board and Council members are selected by organizing a public application procedure for candidates. Exceptions are allowed only in cases provided for by the law if a member of the Council or the Board is elected for a new term or the candidate cannot be nominated in a time period that would ensure the Council or the Board's capacity to act.

If a candidate cannot be nominated in a time period that would ensure the Council or the Board's capacity to act, such candidate is appointed as a member of the Council or the Board who complies with the relevant criteria of professionalism and competence. A person elected in accordance with this procedure fulfils the official duties until the moment when a Council or Board member is elected pursuant to the nomination procedure laid down in the law, but not longer than for one year.

The procedure for nominating members of the Altum Council and Board achieves the objective of the Code's corporate governance recommendations and promotes good corporate governance within the company.

Corporate Governance Report 2021 (cont'd)

ESG – Corporate governance (cont'd)

Shareholder

Effective involvement of shareholders in decision-making helps to achieve the company's financial and non-financial goals, as well as ensures the company's sustainable operation.

Finanšu ministrija

The State Secretary of the Ministry of Finance **Baiba Bāne** continues to serve as a representative of Altum's shareholders

Ekonomikas ministrija

The State Secretary of the Ministry of Economics **Edmunds Valantis** continues to serve as a representative of Altum's shareholders

Zemkopības ministrija

Raivis Kronbergs, State Secretary of the Ministry of Agriculture, has taken over as representative of Altum's shareholders, approved by the Cabinet of Ministers as the State Secretary of the Ministry of Agriculture on January 3, 2022.

This after the previous State Secretary of the Ministry of Agriculture Dace Lucaua resigned on December 31, 2021.

Council and Board

A competent and experienced management is a prerequisite for a company's effective operations and decision-making, promoting the growth of the company's value in the long term.

The members of Altum Council have the necessary experience and competence, as well as a set of skills and knowledge, including on finance, business development management, as well as corporate strategy and financial management. The Council includes members of both sexes and upholds the principle of diversity.

Altum ensures a well-defined and comprehensible organisation of work and the availability of timely, high-quality and adequate information, which facilitates an effective performance of the Council's duties and council members' full involvement in decision-making. In 2021, the Council held 11 meetings, reviewing matters pertaining to Altum's supervision and management, as well as assessing the performance of the Audit Committee, the operation and independence of the Internal Audit Division, matters concerning the functioning of the Internal Control System, as well as the implementation and supervision of state support programmes. The Council took an active part in the development of the medium-term strategy for 2022-2024.

In 2021, Kristaps Soms resigned as a member of the Council, and an extraordinary shareholders' meeting on 22.03.2021 appointed Ilze Baltābola as an interim member of the Council until a candidate is selected in accordance with the nomination procedure stipulated in Section 31 of the Law on Governance of Capital Shares of a Public Person and Capital Companies.

Ieva Jansone - Buka was appointed a member of the Board from March 18, 2021. Ieva Jansone - Buka was selected for the post in a public tender for a three-year term.

Corporate Governance Report 2021 (cont'd)

ESG – Corporate governance (cont'd)

Council and Board (cont'd)

In 2021, the office term of three Board members ended, and on 27.05.2021 the Council decided to elect Reinis Bērziņš, Jēkabs Krieviņš and Inese Zīle to Altum Board for a new three-year term. The Council elected Reinis Bērziņš Chairman of the Board of JSC Development Finance Institution Altum. A new candidate for a member of the Board will be selected in accordance with the nomination procedure stipulated in Section 31 of the Law on Governance of Capital Shares of a Public Person and Capital Companies.

In 2021, the Board convened for 122 board meetings.

Information on Altum managers, who are also the managers of the Group, representatives of Altum shareholders, Altum Audit Committee and Altum's management is available on Altum's website www.altum.lv in the subsection Corporate Governance and Sustainability of the section ABOUT ALTUM.

The remuneration of members of the Council and the Board is determined by the laws and regulations of the Republic of Latvia – Law on Governance of Capital Shares of a Public Person and Capital Companies and the Cabinet regulations issued on the basis thereof. The legal acts establish a unified regulation for the remuneration of members of the Council and the Board of a capital company of a public person. The Cross-sectoral Coordination Centre's Guidelines for Determining the Remuneration of Members of the Board and Council of a Capital Company of a Public Person and a Public Private Capital Company define the procedure for paying bonuses or variable remuneration to the Board after approving the annual account and evaluating the performance of the company, its Board and Council in the reporting year.

Transparency of the company's operations

The transparency of a company's operations is the basis of effective investor relations and successful communication with shareholders and other interested parties. Altum regularly and timely informs shareholders and other interested parties about the company's business operations, financial results, management and other current matters, disclosing precise, full, objective, updated and true information. On its website the company publishes information on management, strategy and business areas, annual reports, as well as regulations, guidelines of the ethnic code, the company's key policies and the corporate governance report.

Information is disclosed in accordance with the time limits stipulated by law or immediately after an event that requires the disclosure of the information. Information is published in the Latvian and English language.

Altum has developed and adjusted information regulations, as well as regulations for internal and external communication. On behalf of the company, authorized persons answer inquiries made by investors and other interested parties, as well as communicate with the media. Since in October 2017 Altum started listing on Nasdaq Riga, Altum disclose information on a regular basis in accordance with the "Procedure by which Nasdaq Riga, AS issuers disclose information" and Altum's internal rules.

Collective agreement

Altum maintains social dialogue with employees and their representatives. *The Collective Agreement* provides additional guarantees to Altum employees, regulates rest time, remuneration and matters related to work safety, as well as upholds the principles of fairness, mutual trust, understanding and transparency. The Collective Agreement applies to all Altum employees with an employment contract signed for an indefinite term or for a period of not less than twelve months, and whose probation period specified in the employment contract has expired. At the end of 2020, the Collective Agreement did not apply to 4.6% or 10 employees with fixed-term contracts shorter than 12 months and 1.4% or 3 employees who had not yet completed the probation period provided in their employment contracts.

Corporate Governance Report 2021 (cont'd)

ESG – Corporate governance (cont'd)

Internal culture and ethical conduct

Altum has zero tolerance for bribery and corruption and they are prohibited in any form, either direct or indirect. Altum does not engage in corrupt transactions and fully condemns such transactions. In order to ensure proper management of risks of corruption, bribery and conflicts of interest, Altum has established an internal control system that ensures preventive risk management and a control environment aimed at preventing corruption risks by precluding conflicts of interest, corrupt practices and bribery in decision-making and the work environment as a whole. By improving the professional competence of Altum employees and drawing their attention to the risks of corruption in the work environment, in 2021 Altum arranged for a group of employees to undergo the training "Bribery of Foreign Officials" and hear the lecture "Prevention of Money Laundering and Terrorism and Proliferation Financing: complying with personal data protection requirements" organized by the Corruption Prevention Bureau. Improving procedures for the prevention of corruption and conflicts of interest, a unform normative document was drawn up – *Rules for the Prevention of Corruption and Conflicts of Interest*, which provides a reporting procedure for employees to prevent conflicts of interests at work.

Altum's ethical principles are laid down in the Ethical Code and serve as the standard of conduct for Altum's management and all employees. The Ethical Code comprises guidelines for employees' day-to-day communication with colleagues, customers, business partners, which helps create a responsible, safe and comfortable working environment, which in turn promotes loyalty and ethical conduct among the employees, thus ensuring the attainment of the company's long-term goals.

Altum provides a number of secure and protected channels, including for whistleblowing, in order to detect any possible bribery or corruption activity, or any violation of anti-corruption laws and regulations. No complaints about corruption or whistleblowing reports were received in 2021.

The principles of personal data processing implemented by Altum, including in personnel selection procedures, provide information on how Altum handles personal data through its internal resources, including information systems. . Personal data means any information relating to an identified or identifiable natural person. Information about the processing of personal data is provided on Altum's website in accordance with Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data.

Events 2021

International credit ratings agency Moody's Investors Service (Moody's) on August 12, 2021 published an updated analytical report on the company's credit assessment. On March 25, 2019 Moody's Investors Service (Moody's) affirmed the long-term issuer rating of the company (the Group's parent company) at Baa1, raising baseline credit assessment (BCA) from Ba2 to Baa3. The short-term issuer rating has been affirmed at P-2. The long-term rating has a stable outlook. Moody's first assigned the long-term issuer rating Baa1 to the company in June 2017. The long-term issuer rating Baa1 assigned to the company by Moody's is one of the highest assigned to a Latvian company. The high rating enables a more successful implementation of the Group's long-term investment attraction strategy of being a regular participant of the capital market and issuing bonds.

In Nasdaq Baltic stock exchanges' initiative *"Nasdaq Baltic Awards 2021"* Altum scored 81.47 out of 100 points in transparency, sound governance and investor relations excellence. The awards honour the companies with the best investor relations and the best shareholder return as well as the best performing stock exchange member. They also highlight the most significant stock exchange events – those with the most impact on the Baltic capital market's development. The Baltic stock exchanges' companies and members are assessed by local and international corporate governance and investor relations experts.

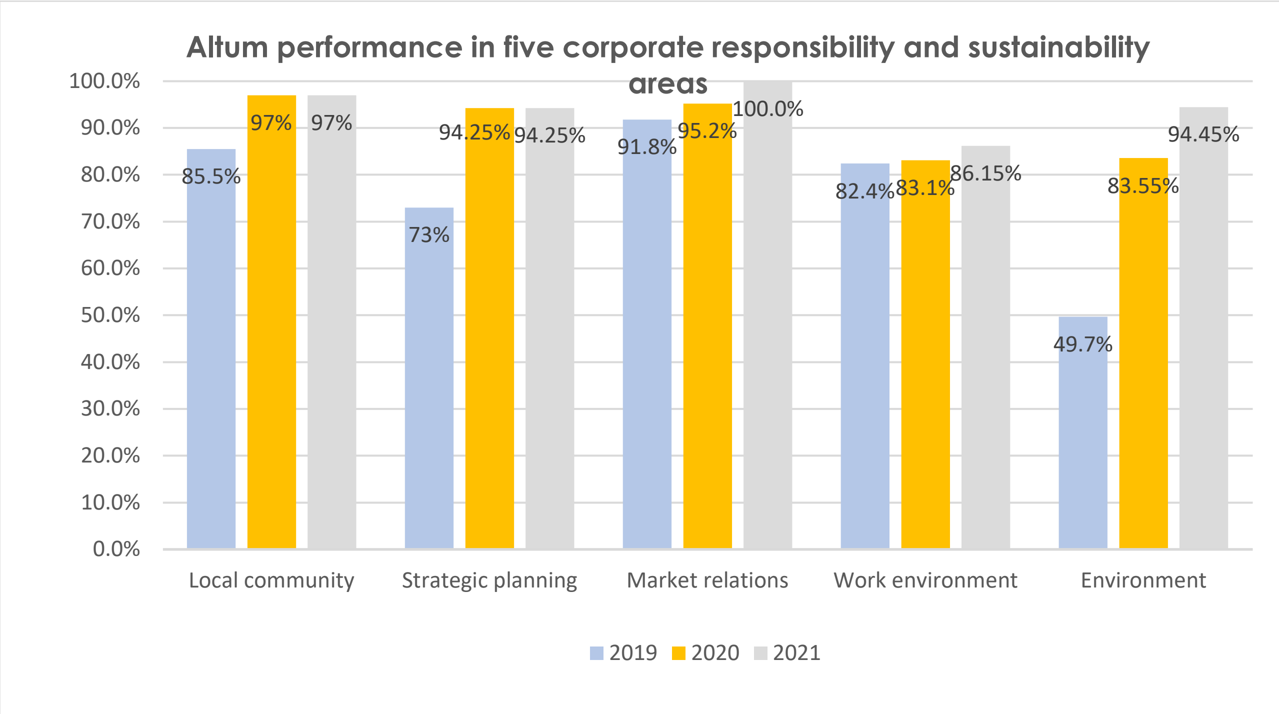
Corporate Governance Report 2021 (cont'd)

ESG – Corporate governance (cont'd)

Events 2021 (cont'd)

In 2021 Altum received the **Platinum or highest-category award of the Sustainability Index** evaluating companies' sustainability against international standards in all areas of corporate social responsibility. In 2019 for the first time Altum applied for the Sustainability Index maintained by the Institute for Corporate Sustainability and Responsibility and scored Silver Category, while already in 2020, Altum significantly improved its positions, scoring Gold Category.

The assessment of the Sustainability Index is one of the most obvious reflections of the invisible day-to-day work companies do, adhering to the principles of corporate sustainability and responsibility, balancing interests of shareholders, employees, customers, environment, business partners and other parties with sustainability rules, this becoming leaders of the future.



The Sustainability Index is a strategic management tool that helps companies assess their performance in five key areas: strategic planning, market relations, work environment, environment and local community. The assessment methodology has been developed by experts from the Institute for Corporate Sustainability and Responsibility, and the criteria are based on international experience and principles so as to provide an objective view of companies' approach to risk and process management. Further information about the leading experts in each assessment category is available on the website of the Institute for Corporate Sustainability and Responsibility.

ESG – Environmental aspect

Altum runs a continuous environmental management and operational improvement cycle, including by revising its long-term and short-term environmental targets to find a balance between efficiency of business operations and their impact on the environment and quality of life.

Altum is aware of its impact on climate change, as well as the impact of climate change on Altum's operations. Our environmental policy defines our goals and commitment to pursue our operations, leaving as little negative impact on the environment as possible both directly and indirectly.

Corporate Governance Report 2021 (cont'd)

ESG – Environmental aspect (cont'd)

As the Latvian development finance institution, Altum's impact on the environment is mostly indirect and is caused by providing support programmes to customers. As a state capital company and participant of the financial sector, Altum is aware of its high significance for attaining the ambitious goals of the National Energy and Climate Plan 2021-2030. Altum's credit policy and cooperation with other participants of the financial sector is reviewed in line with these challenges.

Altum provides a wide range of support to individual and corporate customers for improving energy efficiency. We have come to a strong conviction that sustainability is the future of Latvia's residents, entrepreneurs and ourselves. Altum defines business sustainability as the creation of long-term value, taking into account economic, ethical, social and environmental considerations. We have taken notice of the latest laws and regulations and their requirements promoting the supervision and reduction of the impact of climate change. Altum has started work to prevent ESG related risks in credit risk management and business processes. A correct management of ESG risks is a sound business practice that must be implemented by Altum, our customers and cooperation partners.

Altum focuses on sustainable development and innovative solutions for ensuring financial stability.

Already In 2017 Altum issued bonds as series of notes quoted on Nasdaq Riga for the total face value of EUR 20 million being in compliance with the Green Bond Framework, becoming the first national development institution of a Central and Eastern European country to issue green bonds. In the 2nd half of 2021, the Green Bond Framework was updated, taking into consideration the Green and Social Bond Principles published by the International Capital Market Association in June 2021. In order to assure investors that the funding raised by the green bonds will be used by Altum to invest in environment-friendly projects and help reach specific environmental objectives, CICERO (Centre for International Climate and Environmental Research, Oslo) prepared an independent opinion on the Green Bond Framework and graded the bonds **Medium Green**, which is equivalent to the grading received in 2017.

The funding attracted from the issue of the Green Bonds is used to fund sustainable business projects in the fields of energy efficiency, energy generation from renewable energy resources, green buildings and sustainable transportation, including energy service companies (ESCO) that provide services to the companies in these fields.

To make sure the investors can follow Altum's Green Bond investments and gain an insight into the supported projects, in September 2021 Altum published an annual report to investors. The report is available at webpage.

As of the date the report to investors was prepared, the amount of loans granted since the launch of the energy efficiency program reached EUR 18.1 million, of which EUR 15.7 million had been disbursed. Since the implementation projects in all four segments is very time-consuming, financing is disbursed with a 9-12 month delay after the financing is granted.

The planned reduction of CO2 emissions for projects finances via green bonds is 7945 tons of CO2 per year, or 0.44 kg of CO2 emissions per EUR 1 loaned.

The largest share of loans, or 75%, have been issued in the energy efficiency segment, which by the number of projects and financing, is ahead of the renewable energy, sustainable transport and green building segment, but , but as the activity in the three latter segments continues to increase, a better balance is likely to be struck. Energy efficiency investment projects are being implemented not only by companies but also in the municipal sector, where solutions for heating systems are mainly implemented. Several ESCO projects in the field of lighting and technology should also be highlighted. Slowly but irreversibly, Latvian companies are beginning to realize the need for green and sustainable investments, considering not only gains these investments bring to the mitigation of climate change but also to immediate financial benefits of the company by decreased consumption of energy resources and maintenance.

In September 2021, Altum became the first company from Latvia to join the **Nasdaq Sustainable Bond Network** with its green bond issue.

In the autumn of 2021 Altum started improving employees' competence in Green Deal areas, so they could be able to promote and explain the essential role of sustainability and ESG aspects in business customers' development and ability to successfully operate in supply chains. Work on educating the employees will continue in 2022.

Corporate Governance Report 2021 (cont'd)

ESG – Environmental aspect (cont'd)

Reducing own impact

Even though Altum, as a development finance institution, has a relatively small direct impact on the environment, Altum aims to further reduce its direct impact on the environment. Altum makes sure it produces as little waste as possible, sorts waste,

provides separate containers for batteries (hazardous waste) at its offices, promotes recycling and reducing of greenhouse gas emissions that are directly related to Altum's operations.

To meet the environmental commitments, work is ongoing to improve the energy efficiency of operations and buildings, reduce the number of business trips by using remote meetings format, and to make a transition to an energy efficient transportation fleet for the company's needs.

In 2021 we produced:

48.7% less CO2 emissions than in 2018, 22.4% less than in 2019 and 19.7% less than in 2020.

113 tonnes of CO2 emissions, **or 0.51 tonnes per Altum employee** (220 tonnes, or 0.99 tonnes of CO2 per employee in 2018)

Evaluation of **the intensity of CO2 emissions against Altum's gross portfolio of financial instruments** shows that while in 2018 Altum produced 0.42 tonnes of CO2 emissions per EUR 1 million portfolio of financial instruments, **in 2021 these were only 0.12 tonnes of CO2 emissions per EUR 1 million portfolio of financial instruments**. This has been achieved by significantly increasing the portfolio of financial instruments (in 4 years it has grown by 69.3%) and reducing CO2 emissions (in 4 years CO2 emissions have decreased by 48.7%).

CO2 emissions are calculated for the consumed electricity, thermal energy and fuel. We achieved this by improving the energy efficiency of Altum's offices, electricity consumption of appliances, upgrading the outdated transportation fleet, as well as improving work arrangements so that more and more tasks could be performed remotely.

After introducing in 2019 a new document and process management system, which ensures a fully digital workflow of documents, including the coordination, approval and publication of normative documents in ALTUM Normative Base, preparation and signing of instructions, as well as the workflow of incoming and outgoing documents, **we reduced paper consumption threefold in 2021.**

Altum pursues a continuous cycle of environmental management and performance improvement, including by revising long and short-term environmental performance targets. Environmental management principles and performance are available on the Altum website.

ESG – Social aspect

Social aspect refers to the trust and support of shareholders, employees, cooperation partners, customers and the public.

Employees

Altum cares for the well-being of its employees by providing opportunities for growth, adequate working conditions, as well as social guarantees and social security measures set out in the collective agreement. Altum pursues an organizational culture that values mutual respect, diversity, inclusive environment and the principle of equality, as well as creates conditions in which these values are respected, maintained and developed. The work environment and processes are designed so as to prevent the possibility of human rights being infringed upon or violated.

Corporate Governance Report 2021 (cont'd)

ESG – Social aspect (cont'd)

Employees(cont'd)

In order to attract qualified, professional and motivated personnel, Altum has been implementing and continues to implement personnel selection procedures based on clear principles. The laws and regulations of the Republic of Latvia contain extensive provisions that regulate non-discriminatory treatment, and Altum fully complies with these provisions. The existing staff has been built by matching professional competencies required by Altum with the labour market offer.

Employee turnover in 2021 was 7.1%. Last year, applications for 33 vacancies were announced. All employees had the opportunity to participate in personnel selection competitions, and two vacancies were filled by Altum employees. In 2021, there were no long-term vacancies, which points to a positive image of Altum as an employer and quality recruitment process.

Altum has observed that employees with different experiences and attitudes are able to respond more effectively to customers' needs, find innovative solutions, thereby increasing productivity and efficiency. Working with employees of different age groups, we successfully combine the enthusiasm of youth with many years of experience and knowledge.

The average number of employees in 2021 was 223 – 65% were women and 35% men. 8% of employees are younger than 30, 66% are between the ages of 31 and 50, 26% employees are over the age of 51. The average age of Altum employees was 44 years in 2021.

In 2021, Altum had 43 top and medium-level managers, of which 56% were women and 44% men. 77% of managers are 31 to 50 years old, 23% of managers are older than 51 years. Altum employed 180 specialists in 2021, of which 67.8% were women and 32.2% men. 10% of these employees are aged 20 to 30, 65% of employees are aged 31 to 50, and 25% are older than 51 years.

Altum's Ethical Code prohibits discrimination. An Ethics Commission has been set up at the company and procedures have been introduced for reviewing ethical violations, complaints and proposals. One employee complaint was received in 2021, in line with the procedures of the Ethics Commission.

All Altum employees have written employment contracts and official registration of employment relationships is provided to ensure that the relevant state institutions receive all the necessary information. In 2021, Altum employed an average of 196 employees with an open-ended employment contract and 27 employees with a fixed-term employment contract. In cooperation with higher education institutions, in 2021 Altum provided internships for students from 3 higher education institutions.

Working conditions, remuneration, benefits and other conditions are designed to ensure equal opportunities for all employees and also to facilitate the work-life balance and parental responsibilities. In 2021, Altum did not receive any complaints about violations of working hours, remuneration or absence that would constitute human rights violations.

Altum operates in full compliance with Latvia's laws and regulations, which are in line with the UN standards on forced and child labour, and does not engage in forced or illegal child labour. The Ethical Code sets out the basic principles of fair treatment and prohibition of harassment, as well as provides the guidelines for the development of employment relationships between employees, the desired attitude and conduct, as well as the course of action in case of possible violations. In 2021, Altum received no complaints about forced or illegal child labour, harassment in the workplace, violations of employees' human rights or other ethical issues.

Diversity management

In line with the Diversity, Equality and Inclusion Policy, Altum supports diversity and equal rights in the selection, growth and development of personnel, without supporting or encouraging in any way discrimination against individuals on the grounds of race, religion, age, origin, sexual orientation, disability and other aspects.

As a member of the Latvian Diversity Charter, Altum is one of the official ambassadors for diversity in business and the workplace. Altum strives for respect for diversity both in the workplace and in Latvian society as a whole. In order to improve Altum employees' understanding of diversity management issues, promote a positive attitude towards diversity and encourage the ability of society to see diversity as an opportunity rather than a disadvantage, in 2021, several Altum employees participated in training "Skatu Punkti: Ievuguvmi" ("View Points: Benefits") organized by the Society Integration Fund, the Institute of Corporate Sustainability and Responsibility and organization development centre Spring Valley.

Corporate Governance Report 2021 (cont'd)

ESG – Social aspect (cont'd)

Staff training, competence development

Staff training and development is an important part of the staff management system. Altum, in accordance with its strategic goals, is involved in raising the qualification of employees, continuous development of their skills and knowledge, and the opportunity to gain diverse experience within the company. The aim of staff training is to improve job performance and efficiency, develop the skills needed for the job, provide additional skills for professional growth and prepare employees for new positions and responsibilities. The most suitable solutions for increasing professional development and competence are used in the organization of the training process.

Employee training and professional development in 2021 was organized in accordance with Altum's strategic goals and training needs identified in the annual professional assessment. In 2021, remote learning has become the dominating way for development of professional skills and competencies. Altum employees were offered to participate in 129 different training activities (courses, seminars, training with tests, conferences, etc.), which were attended by 98% of employees. A training on protection and processing of personal data with a concluding test was organised for all employees. Most of the employees participated in internal training on lending issues (31 training activities), lectures and discussions on promoting well-being (20 activities), use of IT systems (2 lectures). For development of leadership and management skills, medium-level and top managers participated in 19 different training activities.

Raising of employees' competencies on sustainability and sustainable business had been in the focus of customer service network in 2021. Considering that in 2022,Altum is significantly expanding its support programs which in turn sets the need for more detailed specialisation of regional employees, customers' demands promote improvement of client service and lending processes that require closer engagement of employees in the improvement of these processes, the principles of the Competency Teams have been improved. One of the main tasks of the Competency Teams is to increase competence levels within team profiles and share knowledge and practical experience among regional colleagues in cooperation with Competency Teams leaders and program owners.

Remuneration

Altum's remuneration policy provides for uniform and fair principles for all employees, based on the strategic goals and performance indicators, and promotes employee development and loyalty to the company. Altum has implemented a financial motivation system for employees, which ensures that employees are systematically evaluated and remunerated in accordance with the quality of work they do, initiative, work intensity, and contribution.

Altum publishes information about the principles of remuneration policy alongside the fundamental principles of Altum's code of ethics, which are available at www.altum.lv, under section ABOUT ALTUM, sub-section Personnel/Vacancies.

Altum participates in the financial sector remuneration survey on a regular basis in order to ensure effective application of the remuneration policy, to balance the remuneration level with the remuneration level in the labour market.

Team-building

Altum strengthens the team spirit and maintains a positive work atmosphere through internal communication fostering cooperation and team-building activities, encouraging active involvement of employees in areas of common interest. Due to the restrictions on gatherings in person, no traditional events were organized for the company's employees in 2021, but team-building and recreational events strengthening the team spirit were organized remotely in a virtual environment, and there were outdoor team-building events for different individual departments.

Corporate Governance Report 2021 (cont'd)

ESG – Social aspect (cont'd)

Work environment, safety, well-being

Tidy, comfortable and aesthetic work environment and working conditions suited to the health condition of each employee are important to Altum. Altum promotes employees' awareness of occupational health and safety and preventive care for their health. Based on the opinions of employees, the work environment and technical equipment are constantly being improved with the aim of providing all workplaces with ergonomic equipment. In order to promote employee responsibility for the environment, Altum educates and informs employees about topics related to environmental protection and the company's environmental goals.

In 2021, Altum paid special attention to measures for safe and healthy work environment in connection with the spread of the Covid-19 virus. By taking timely and well-thought-out measures to limit the spread of the virus, including by providing teleworking opportunities, Altum has avoided an epidemic in the workplace and has been able to ensure uninterrupted and full-fledged work of the employees. Work organization at Altum and measures to prevent the spread of Covid-19 in the workplace are aimed at minimizing meetings between employees and third parties (both when travelling and meeting with customers or partners), providing for remote work opportunities, limiting in-person meetings, introducing distancing requirements and requirements for the use of respiratory protective equipment in the workplace, taking employees' and visitors' temperature, not allowing employees who have returned from countries with mandatory self-isolation requirement upon arrival, sick employees, contacts of sick persons and employees with any typical symptoms to come to work.

Altum employees are provided with the necessary collective and individual protective equipment in their daily work, premises and workplaces are regularly disinfected.

In order to support the mental health of employees and draw their attention to well-being matters, and considering the specifics of the remote work and the growing work load due to development of Covid-19 support programme and customer service, in 2021employees were offered educational online lectures on stress management and well-being, and a project "Health month" was implemented. Employees are periodically surveyed about their well-being, working environments, etc. during remote work to monitor their well-being level.

In 2021, there were no accidents at work in Altum and no occupational diseases were detected, as well as no complaints about occupational safety were received. In order to learn about the working environment safety and cases of near accidents, employee survey was organised. Employees were able to share their opinion about the working environment, and their attention could be repeatedly drawn to practical safety measures, for example, the location of the medical emergency kit, evacuation signs and fire safety rules.

Customers

Improvement of availability of Altum services is closely related with results of customer satisfaction survey. In 2021, an on-line customer survey was introduced for all lending services. In a year, an especially good assessment was received on how customers evaluate knowledge and professionalism of Altum employees. The highest assessments "good" and "very good" was given by 18% and 72% of customers respectively, which together accounts for 92%.

Asked whether the customer would recommend Altum services to his/her family, friends and acquaintances, 24% of customers responded "likely", 70% said "definitely, yes", and the overall positive assessment reached 94%.

Efficient and successful customer service during the crisis significantly depends on the ability to serve customers remotely. Altum offers fully remote customer service, starting from consultations and loan application to decision making.

Improving the remote service and taking care of reducing circulation of paper documents, motivating training of employees on use of electronic signature, signing cooperation documents with customers, were organised throughout the year. In a year we observed growing awareness among employees and customers that resulted in a significantly bigger share of electronically signed documents.

Also, use of several customer service instruments were improved, for example, usability of customer portal mans.altum.lv, customer-friendly loan application format was introduced.

Corporate Governance Report 2021 (cont'd)

ESG – Social aspect (cont'd)

Community support, contribution to development of local community

In promoting cooperation between science and business, youth involvement in research, quality of research and commercialization of innovative ideas, Altum cooperates with the Latvian University of Life Sciences and Technologies, fostering the emergence and implementation of innovative agricultural solutions, and with BA School of Business and Finance to achieve more meaningful connection between studies and the development of the financial sector.

Altum's operations are very important for the country's economic growth. That is why, by engaging in community support activities and supporting organizations, projects and programmes, Altum focuses on initiatives that encourage entrepreneurial activity, improve public welfare and foster environmental protection. Altum does not make donations, but supports projects, financially and with the help of volunteers, that help promote and foster entrepreneurship, innovation, education, meaningful use of the available state aid instruments, and other activities that promote public welfare, environment protection and Latvia's economic growth.

When considering engaging in specific community support activities, Altum's decisions are based on the objectives, policies and values it has defined as a state-owned company, while involved in the implementation of support activities are Altum employees and the general public. The way of involvement and the amount of funding that Altum mobilises for community support projects are determined by Altum's operating strategy and budget, which is approved by the company' Management Board and shareholders.

Initiatives supported in 2021:

Innovations, infrastructure	5G Techritory	Promoting the Baltic Sea Region countries' cooperation in digital infrastructure
	Three Seas Initiative Investment Fund (3SIIF)	Promoting a new financing initiative to support transport, energy and digital infrastructure projects in Central and Eastern Europe, contributing to the region's economic development and quality infrastructure
	Investor of the Year	Popularization of venture capital investments and their positive effect on the national economy of Latvia, highlighting the most successful private and corporate investment deals
Development of business environment	Culture support program during Covid era	In order to ensure uninterrupted operations of the culture industry and respectively organization of events important for the community, we organized seminars about the support instruments for this sector with a goal to ensure planning and organization of these events after the Covid restrictions are lifted
	Business experience days	Promoting sharing of knowledge among entrepreneurs for successful business development in cooperation with partners – LCCI and Swedbank
	Countryside Will Be! competition (Laukiem būt)	Promotion of entrepreneurial activity in rural areas by involving young people, fostering the development of their competencies and involvement in rural entrepreneurship in cooperation with the Latvian Rural Advisory and Training Centre, while promoting a more balanced regional development in Latvia
	Financial Literacy training for business representatives who plant to apply for EU and state aid	Set of seminars "Status of companies experiencing difficulties" on how to organise the accountancy and legal liabilities in order to attract EU funds and state aid easily and simply

Eeffect upon environment, green thinking, sustainability	Living Warmer campaign and Most Energy Efficient Building in Latvia project	Promoting energy-efficient practices in households and business environment, emphasizing both financial and environmental benefits thereof
	Large-scale CO2 seminar – management of pandemic and energy efficiency risks	Altum takes on the leading role and educates business and public sectors on how to reduce the CO2 impact, spread of the pandemic, and increase energy efficiency in public premises. Risk capital community, the State Construction Control Bureau of Latvia, Altum energy efficiency and private sector experts participated in preparing information.
	Energy efficiency of private homes	Launch of the programme and a set of seminars to educate the community
	Project to support SSE EMBA term paper "Why do business representatives not care about energy efficiency and who should take care of it?"	Project with engagement of Latvian and Estonian large corporate managers who, within the framework of a strategy course, studied and presented recommendations for management of energy efficiency in order to promote energy efficiency literacy for business representatives and public sector
	Customer spring and autumn seminars on insulation of residential houses, absorption of the ERDF	Collection of good practices and recommendation to promote the society and project managers to perform renovation of energy efficient residential houses easily and simply
	Online conference "Impact of the Green Course on agricultural economy"	Webinar in which, together with other agriculture partners, organizations were explained the Green Course, opportunities for farmers during the transition and the abilities to adapt and develop
	Expert discussion "Risks – opportunities or obstacles for development?"	Cycle of discussions for better corporate governance, participation in expert discussion "Risks – opportunities or obstacles for development?" that was the fifth event in a cycle of six discussions on different aspects in improving corporate governance. Organised by FCMC, the Ministry of Justice and Nasdaq Riga
	Latvian Capital Market Forum 2021	Participation in a discussion on the opportunities of the state in development of the capital market
	Responsible Idea Market within the framework of Responsible Business Week 2021	#PasakasParDarbu – ATJAUTĪGAIS JĒKABS UN ĻAUNAIS BURVIS (#FairyTalesAboutWork –WITTY JĒKABS AND EVIL WIZARD) Sharing experience about promoting employee well-being and involvement – in the attached video Atbildīgu ideju tirgus 2021
Education	Higher education (Latvia University of Life Sciences and Technologies, BA School of Business and Finance)	Promoting cooperation between science and business, youth involvement in research, commercialization of research quality and innovative ideas
	Latvian student companies' events #CitsBazārs	Educating a new generation of entrepreneurs and industry experts by linking, in the learning process, theoretical knowledge with practice, through participation in the Junior Achievement Latvia programme Student Company (Skolēnu mācību uzņēmums - SMU)
Public welfare, demography	Social Entrepreneurship Association	Promotion of the idea of social entrepreneurship so that Latvia would have increasingly more enterprises with a clear social purpose and positive social impact

	Competition And Grow It Will (Tam labam būs augt)	The aim is to promote the development of the existing social enterprises and new social entrepreneurship ideas, as well as to tell about these ideas and show them to the people of Latvia. The competition is organized by the Social Entrepreneurship Association of Latvia in cooperation with the British Council in Latvia. The competition is supported by SEB Banka, Development Finance Institution Altum, newspaper Dienas Bizness and RISEBA Architecture and Media Centre H2O6.
	Conference "Housing availability for families with children"	Conference was organised by the Association of Organizations for Large Families in cooperation with the Cooperation Platform of the Cross-Sectoral Coordination Centre, the Demographic Affairs Centre, the Economics Ministry, the State Development Financial Institution ALTUM and local governments. Discussions were held on support steps that are needed to improve availability of housing that meets the needs of families with children, and the minimum living space standards guaranteed for children by the state or local governments.
	Think tank on remigration issues	The objective of the think tank is to bring together the parties involved in the remigration process in order to jointly analyse the current situation and consider proposals on how to improve the remigration process. Promoting the availability of information on state support for starting a business by remigrants and support for housing purchases by residents returning to Latvia.
Financial sector development	Finance Latvia association	Promotion of sustainable development of the financial sector by focusing, in cooperation with commercial banks, on the development of lending, personnel, communication, legal and other matters, and encouraging exchange of opinions and decision making in Latvia's public interest
	Development of bankers' training materials on ERDF propositions	Development of guarantee trainings and integration in bankers' training handbook. Video
Export	The Red Jackets	Popularization of export-viable companies' experience and excellence in promoting export culture and positive economic impact
	Competition Export and Innovation Award	Promotion of the production of new products with high export potential by popularizing the performance of Latvian companies and commending the manufacture of quality domestic products for the market, introduction of innovations and development of industrial design
	Seminar LIAA	In cooperation with heads of LIAA representations across the world, we train and thus develop competencies on how exporters with the state aid can protect their business from international risks (customer and country solvency risks)
	Seminar "What support is available for export"	For ALTUM cooperation partners, employees of state institutions and state capital companies who work with exporters

Corporate Governance Report 2021 (cont'd)

ESG – Social aspect (cont'd)

More information about Altum principles for implementation of public support activities and support projects is available on website www.altum.lv.

Corporate Governance Report 2021 is publicly available in Latvian and English at Altum's premises at 4 Dome Square, Riga and in electronic form – on the website www.altum.lv, in section ABOUT ALTUM/CORPORATE GOVERNANCE AND SUSTAINABILITY under CORPORATE GOVERNANCE sub-section.

Reinis Bērziņš
Chairman of the Board

30 March 2022