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# JSC DEVELOPMENT FINANCE INSTITUTION ALTUM

## Annual Report
## for the year ended 31 December 2022

(the 9th reporting period)

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# Altum

**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) 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 2024

Following strategic development directions and long-term objectives are set according to JSC Development Finance Institution Altum Strategy for the period 2022 – 2024:

- The main financial objective in implementing the state support programmes is to ensure positive return on Altum's capital.
- The main non-financial objective is to support and facilitate availability of finances to business and to contribute to national economic development.
- Altum priority areas include issuing and servicing guarantees and loans, venture capital investments, solutions for climate change mitigation including implementation of energy efficiency programmes in both the residential building and corporate segment, initiation of new projects by expanding the range of the financial instruments offered, as well as the development of the Latvian Land Fund
- The main target activities embrace support for entrepreneurs, farmers and certain categories of persons; energy efficiency; the management of the Latvian Land Fund.
- Altum will particularly focus on environmental, social and corporate governance (ESG) considerations, both in financing decisions and in Altum's internal processes.

# Management Report

### Activity during the reporting period

In 2022, the Development Finance Institution Altum (hereinafter – the Company) have ensured stable financial results and earned a profit of EUR 11.4 million.

### Key financial and performance indicators

Based on data from audited financial statements for the respective years

| | 2022 | 2021 | 2020 |
|---|---|---|---|
| Key financial data | | | |
| Net interest income (EUR '000) | 16 974 | 16 717 | 14 572 |
| Operating profit (EUR '000) | 11 484 | 13 829 | 5 539 |
| Profit for the period (EUR '000) | 11 484 | 13 829 | 5 539 |
| Cost to income ratio (CIR) | 38.26% | 39.46% | 47.51% |
| Employees | 234 | 226 | 211 |
| Total assets (EUR '000) | 1 099 588 | 976 204 | 850 704 |
| Financial debt (EUR '000) | 458 382 | 360 909 | 342 490 |
| **Tangible common equity (TCE) / Total tangible managed assets (TMA) *** | **27.01%** | **33.82%** | **33.56%** |
| Equity and reserves (EUR '000) | 395 983 | 440 736 | 382 594 |
| **Total risk coverage: (EUR '000)** | **297 218** | **285 954** | **180 205** |
| Risk coverage reserve | 230 524 | 159 196 | 112 567 |
| Risk coverage reserve used for provisions | (38 039) | (29 496) | (28 197) |
| Portfolio loss reserve (specific reserve capital) | 109 979 | 159 700 | 102 264 |
| Portfolio loss reserve used to compensate provisions in the distribution of annual profit | (5 246) | (3 446) | (6 429) |
| Liquidity ratio for 180 days ** | 366% | 518% | 464% |
| Net Cash flows from operating activities (EUR '000) | 89 534 | 49 555 | 21 966 |
| Net Cash flows from financing activities (EUR '000) | 3 526 | 43 768 | 165 800 |
| Net Cash flow from investing activities (EUR '000) | (8 437) | 4 553 | (4 016) |
| **Support instruments gross value (EUR '000), of which** | **1 064 821** | **979 130** | **872 302** |
| Financial instruments gross value (EUR '000) *** | | | |
| Loans (excluding sales and leaseback transactions) | 311 844 | 315 674 | 302 481 |
| Guarantees | 481 013 | 414 978 | 359 605 |
| Venture capital funds | 90 277 | 85 973 | 73 165 |
| Land Fund, of which: | 80 542 | 79 163 | 68 258 |
| - sales and leaseback transactions | 27 089 | 32 999 | 31 500 |
| - investment properties | 53 453 | 46 164 | 36 758 |
| **Total** | **963 676** | **895 788** | **803 509** |
| Number of transactions | 33 976 | 30 978 | 26 578 |
| **Volumes issued (EUR '000) (by financial instrument) *** | | | |
| Loans (excluding sales and leaseback transactions) | 95 820 | 100 966 | 138 238 |
| Guarantees | 153 067 | 126 997 | 137 425 |
| Venture capital funds | 18 526 | 29 158 | 14 014 |
| Land Fund, of which: | 7 414 | 10 595 | 28 191 |
| - sales and leaseback transactions | 3 105 | 3 254 | 16 796 |
| - investment properties | 4 309 | 7 341 | 11 395 |
| **Total** | **274 827** | **267 716** | **317 868** |
| Number of transactions | 6 539 | 6 579 | 6 147 |
| Total contribution to economy by volumes issued in the reporting period, including the participation of the final recipients (EUR '000) | 765 577 | 791 646 | 696 306 |
| Leverage for raised private funding | 123% | 177% | 114% |
| Volume of support programmes funding per employee (EUR '000) | 4 118 | 3 964 | 3 808 |
| 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)

**Impact of the Russian military invasion of Ukraine**

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 Company as well as the potential social and economic impact in Latvia and the region. This resulted in assumptions and estimates requiring revisions which have led to material adjustments to the carrying value of assets and liabilities in 2022.

The Company does not issue loans directly to businesses in Ukraine, the Russian Federation and Belarus. Contracts with counterparties for the execution of settlements with customers, as well as for the conclusion of financial transactions for the liquidity and asset and liability management of the Company, are concluded with financial institutions established in EU Member States.

In the guarantee's portfolio, the direct impact is from the Company's export credit guarantees issued to offset political and buyer risk losses in trade transactions where the Company's clients' counterparties are residents of Ukraine, the Russian Federation and Belarus. In the 1st quarter of 2022, the Company has created impairment overlay of EUR 1,587 thousand for expected credit losses for such high-risk exposures of export credit guarantees (31 December 2022: EUR 0 thousand), while simultaneously taking the necessary measures to reduce the possible impact. Taking The Company has suspended the issuance of new export credit guarantees to Russian Federation and Belarus since 25 February 2022, as well as terminated contracts where possible in agreement with counterparties as a result of which the exposure to the Russian Federation and Belarus was gradually reduced. As a result of the mentioned measures, the Company currently has no high-risk exposure, where clients' business partners are in the Russian Federation or Belarus and which would need to create an impairment overlay.

To assess the indirect impact of the Russian Federation's invasion of Ukraine, the Company analyses quarterly and, in case of significant changes, reviews the forward-looking macroeconomic indicators used to calculate expected losses, putting forward several scenarios. At the beginning of 2022, it was predicted that geopolitical factors would have a more significant impact in the second half of 2022, however, in the updated macroeconomic forecasts published by the Ministry of Finance and the Bank of Latvia in the 4th quarter of 2022, it was expected that due to the rapidly growing prices of energy resources on the world market and the impact of the decline in purchasing power, as consumption decreases, the rate of economic growth will significantly decrease in early 2023, as a result of which the scenarios used by the Company in the estimation of expected losses were also revised. Changes in the forecasts of macroeconomic indicators in 2022 resulted in an increase in impairment allowances for the expected credit losses by EUR 1,944 thousand for loans and loan commitments. For guarantees, the impact from changes in the forecasts of macroeconomic indicators was small, taking into account that financial guarantees are measured at the higher of the loss allowance determined as expected credit loss, and the amount initially recognized (fair value) less any cumulative amount of amortization. Changes in macroeconomic forecasts have less impact on the fair value of the guarantees.

In order to more fully assess the direct and indirect impact of the geopolitical situation, as well as to identify potential clients in difficulties and provide a further action plan, as well as apply appropriate risk mitigation methods, the Company closely monitors and analyses the large exposures of loans and credit guarantees every quarter. It is assessed whether the increase in the price of energy resources, as well as the imposed sanctions against the Russian Federation and Belarus, has directly or indirectly affected or can significantly affect the solvency of customers. Along with the aforementioned, in the 4th quarter of 2022, the decision-making procedure and the internal information accounting system were improved to ensure the identification and assessment of these impacts on the loan portfolio at the transaction level. Until sufficient data has been accumulated at the transaction level, the Company carried out an assessment of the portfolio of loans and guarantees by sector, separately assessing how industries will be directly and indirectly affected by the increase in energy prices and the imposed sanctions against the Russian Federation and Belarus. The industries were divided into 3 groups: heavily affected industries, moderately affected industries and less affected industries. The assessment was carried out in the 3rd quarter of 2022, using all available data at the time of the assessment. As a result of this assessment, the Company on 31 December 2022 has created an impairment overlay in amount of EUR 1,902 thousand for loans and EUR 856 thousand for guarantees.. Taking into account the macroeconomic forecasts, including the increase in the prices of energy resources, it is expected that households' expenses related to housing will increase. Although there is a state support mechanism for mitigating the effects of cost increases, households may have difficulties covering housing-related expenses in time and in full. It is expected that such a situation can potentially result in higher defaults in the portfolio of housing guarantees and the need to create additional impairment allowances. If the situation does not stabilize within a reasonable time, claims for warranty compensation payments may increase in the coming years. No immediate increase in claims for guarantee compensation payments is expected, given the specific conditions of these exposures, which stipulate that guarantee compensations are paid after the realization of the collateral, which is carried out over a longer period of time.

For more detailed information see Note 3 (9) to the Financial Statements.

# Management Report (cont'd)

**Operational volumes** (cont'd)

The core business lines of the Company 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 Company's portfolio of support instruments.

As at 31 December 2022, the Company's gross portfolio of support instruments amounted to EUR 1,064.7 million (31 December 2021: EUR 979.1 million), of which the gross portfolio of financial instruments totalled EUR 963.6 million and consisted of 33,976 projects (31 December 2021: EUR 895.8 million and 30,978 projects).

In 2022, the Company's financial instrument portfolio increased by EUR 67.8 million (+7.6%) and by 2,998 projects (+9.7%). The growth of the Company's financial instruments portfolio in 2022 was lower than in 2021, 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 92.3 million (+11.5%) and by 4,400 projects (+16.6%), while the demand in 2022 for Covid-19 crisis support instruments continues to decline and the repayments of the principal amounts for a large part of the existing Covid-19 crisis support instruments became due.

Of all the financial instruments, the guarantee portfolio recorded the highest growth in 2022, increasing by EUR 66 million (+15.9%), which is more than in 2021, when it increased by EUR 55.4 million (+15.4%) and by 2,009 projects (+12.9%), which is less than in 2021, when it increased by 4,080 projects (+21.2%). The increase in the guarantee portfolio in 2022 was ensured by Housing Guarantees for Families with Children and Housing Guarantees for Young Professionals (+EUR 23.4 million), loan guarantees for entrepreneurs (+EUR 22 million), as well as by Guarantee Programme for Improving Energy Efficiency in Multi-Apartments Buildings (+EUR 27.4 million). At the same time, as companies have been able to successfully adapt to the new conditions and as the pandemic has been on the decline, demand from companies for Covid-19 crisis support guarantee programmes has fallen sharply, with the portfolio decreasing by EUR 11.4 million in 2022.

In 2022, the loan portfolio decreased by EUR 3.8 million (-1.2%). The greatest impact was caused by the reduction of the Covid-19 crisis related loan portfolio by EUR 26.9 million. The largest increase in the loan portfolio in 2022 was driven by loans for acquisition of agricultural land intended for agricultural production (+EUR 9.4 million), SME growth loans issued to companies for implementing energy efficiency projects (+EUR 8.4 million) and loans for new companies and startups (+EUR 3.3 million).

The low activity in transactions with the Land Fund observed in 2021 continued in 2022 - in 2022, the Land Fund's portfolio increased by EUR 1.4 million (+1.7%) and by 34 projects (+3.7%), which is less than in 2021, when the Land Fund's portfolio increased by EUR 10.9 million (+16%) and by 200 projects (+27.7%).

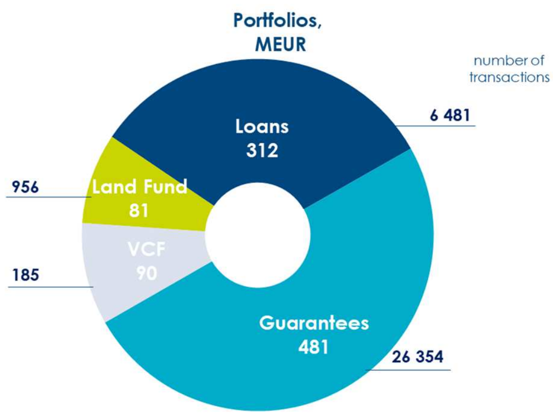
As at 31 December 2022, the balance sheet of the Land Fund included 956 properties with a total land area of 23,888 ha and amounting to EUR 80.5 million, including investment properties with a total area of 14,240 ha and amounting to EUR 53.5 million (31 December 2021: 13,778 ha; EUR 46.2 million), and leaseback transactions for 9,648 ha amounting to EUR 27 million (31 December 2021: 9,661 ha, EUR 33 million).

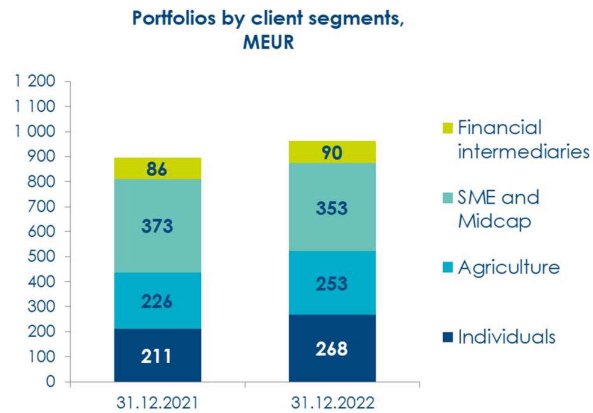
In 2022, the venture capital funds increased by EUR 3 million (+5%), which is significantly less than in 2021, when the volume of the venture capital funds increased by EUR 12.8 million (+17.5%). The small increase in the venture capital funds can be explained by the lower volumes of new transactions in 2022 compared to 2021, respectively EUR 18.5 million and EUR 29.2 million, as well as the exit of investments of the 2nd and 3rd generation venture capital funds, that relates to the expiration of these venture capital funds.

# Management Report (cont'd)

**Operational volumes** (cont'd)

By segment the largest portfolio of the Company is formed in the SMEs and Midcaps segment – 36.6%, while the Agriculture segment accounts for – 26.2%, Individuals – 27.8% and Financial intermediaries – 9.4%.




Company 31/12/2022

In 2022, the largest volume growth was in the Individuals segment, the portfolio growth remained stable in 2022 – EUR 56.8 million (+26.9%), exceeding the increase in 2021 – 46.9 million euro (+28.6%) which was due to the steady demand for state aid programmes for the acquisition and improvement of housing. In the Agriculture segment, the portfolio increased by EUR 26.9 million (11.9%), which is significantly more than in 2021, when the volume of this segment increased by EUR 16.7 million (+8%). There was a slight increase in 2022 in the Financial Intermediaries segment – EUR 4.3 million (+5%), which is significantly less than in 2021, when the portfolio growth in this segment was by EUR 12.7 million (+17.4%). Given that the demand for Covid-19 crisis support instruments continued to decline and the repayments of the principal amounts for a large part of the existing Covid-19 crisis support instruments became due, the SMEs and Midcaps segment volume decreased by EUR 20.1 million (-5.4%), which is in contrast to the EUR 15.9 million (+4.5%) increase in 2021 influenced by the high demand for Covid-19 crisis support instruments from this segment.

**Volume of new transactions**

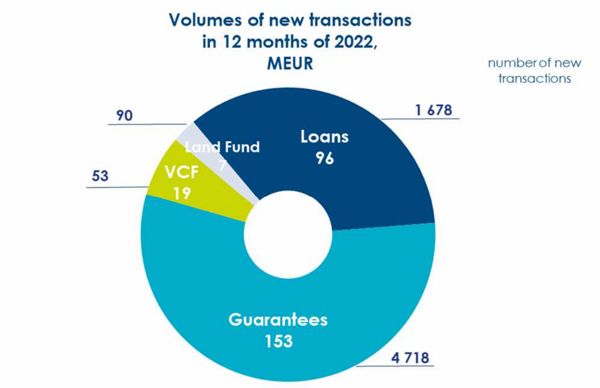
In 2022, the total funding disbursed for the implementation of the support programmes amounted to EUR 274.8 million, breaking down as follows: 55.7% (EUR 153.1 million) for guarantee programmes, 34.9% (EUR 95.8 million) in loan programmes, 2.7% (EUR 7.4 million) in the Land Fund transactions, and 6.7% (EUR 8.5 million) in investments in the venture capital funds. Totally, 6,539 projects were supported. In 2022, the volume of the new transactions was more by 2.7% (+EUR 7.1 million) compared to 2021 as its increase in the Company's ordinary support programmes has been slightly higher than the fall in demand for the Covid-19 crisis support programmes. On the other hand, the impact of the Russian Federation invasion of Ukraine have not yet noticeably affected the volume of new transactions in 2022 (+EUR 0.9 million), however, its impact will be felt in 2023.

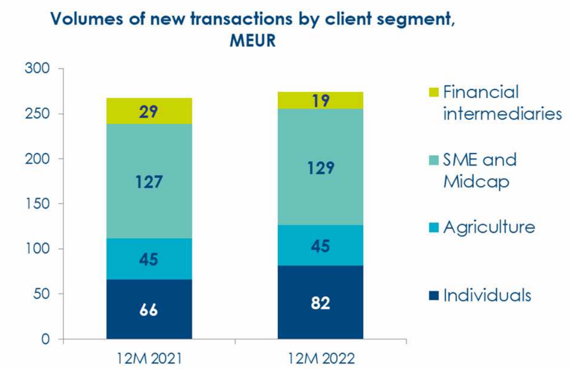
In 2022, the largest volume of the new transactions was recorded in the following segments: SMEs and Mid-caps – 47.3%; Individuals – 29.7%; Agriculture –16.2%; and Financial Intermediaries – 6.8%.

In 2022, new transactions experienced the largest increase in the Individuals segment, where their volume was by 23.5% (+EUR 15.5 million) higher than in 2021. In the SMEs and Midcaps segment, the volume of new transactions was by 2.6% (+EUR 3.2 million) higher than in 2021, as the Covid-19 crisis support programmes were closed in 2022 (issuance of new deals under the Covid-19 crisis support programmes was stopped on 30 June 2022) and were no more of interest, but with the rapidly changing geopolitical situation, the demand for new support instruments is growing.

# Management Report (cont'd)

**Volume of new transactions** (cont'd)




Company 31/12/2022

In 2022, there were issued new guarantees for EUR 153.1 million or by 20.5% (+EUR 26.1 million) more than in 2021, indicating the increased lending activity of commercial banks that had declined during the Covid-19 pandemic. In 2022, the largest increase in the guarantee portfolio was in the loan guarantees for entrepreneurs (EUR 567 million), Housing Guarantees for Families with Children and Housing Guarantees for Young Professionals (EUR 37.1 million) and in programme for energy efficiency in multi-apartment buildings (EUR 30.9 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 69.3 million of guarantees extended in 2022 (in 2021: EUR 65.3 million).

Up until 31 December 2022, a total of 22,643 guarantees for EUR 179.2 million of the state aid for housing acquisition was granted within the framework of the Programme for Housing Guarantees for Families with Children. In 2022, guarantees issued under this programme worth EUR 28.5 million (in 2021: EUR 34.2 million), which is by 16.7% less than in 2021. The decrease in volumes is due to the sharp rise in construction costs, creating considerable uncertainty in the real estate market. Some potential buyers are postponing the purchase of a property, but this process is likely to be short-lived as price increase will continue, so each month of postponement will increase the purchase price. 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. In turn, a total of 4,297 guarantees worth EUR 43.7 million were issued to young professionals, of which 913 guarantees worth EUR 8.6 million were issued in 2022 (in 2021: EUR 8.8 million).

In 2022, the volume of new loans issued amounted to EUR 95.8 million, which is by 5.1% (-EUR 5.1 million) less than in 2021, as the demand for Covid-19-related loans decreased and the increase in the volume of new transactions under the ordinary support programmes has been lower than the fall in demand for the Covid-19 crisis support programmes. In 2022, the largest amount of new loans was issued under the SME Growth Loan Programme (EUR 31.9 million), loans for acquisition of agricultural land for the purpose of agricultural production (EUR 17.6 million) and working capital loans for agricultural enterprises (EUR 10.4 million).

Having launched the European Investment Fund (EIF) COSME and EaSI counter guarantees for loans up to EUR 25 thousand the Company has already supported 445 projects (COSME – 62 projects, EaSI – 383 projects) in total amount of EUR 7.3 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.

# Management Report (cont'd)

**Volume of new transactions** (cont'd)

In 2022, the Company's investments made in the venture capital funds amounted to EUR 18.5 million, of which EUR 7.5 million (in 2021: EUR 8 million) - in the 4th generation venture capital funds, EUR 3 million and EUR 2.2 million (in 2021: EUR 2.2 million and EUR 1.2 million) in the Baltic Innovation Fund and the Baltic Innovation Fund 2 respectively, EUR 2.1 million (in 2021: EUR 14.9 million) – in the Altum Capital Fund and EUR 3.8 million (in 2021: EUR 2.9 million) in the Three Seas Initiative Investment Fund.

The volume of new transactions of the Land Fund experienced large fluctuations in 2022 - if at the end of 2021 and in the first three months of 2022 an active land market was observed, the number of transactions with investment properties increased and interest in leaseback transactions gradually returned, then in the 2nd and 3rd quarter, in response to the geopolitical situation in Europe, the land market became markedly inactive, including demand for leaseback practically stopped. On the other hand, in the 4th quarter, the volume and number of transactions with investment properties increased again, while the demand for leaseback transactions continued to remain at a low level, which was also impacted by the relatively good harvest year for farmers and active lending by banks, as a result, farmers were able to buy available land on the market by themselves, without involving the Land Fund in transactions. In these circumstances, the Land Fund concluded land acquisitions and sales and leaseback transactions for the total amount of EUR 7.4 million, down by 30% (-EUR 3.2 million) compared to 2021.

**Non-financial instrument portfolio**

In order to make accessing to the support instruments more convenient for its clients, apart from the financial instruments, the 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. 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.

Up until 31 December 2022, the EEPMB programme had awarded a total of 676 grants for EUR 169.95 million, of which 231 grants for EUR 72.2 million were granted in 2022 (in 2021: EUR 25.5 million), which is almost three times more than in 2021. Such a rapid growth in the volume of new transactions in the DME programme was related to the end of the financing available within the 2013-2020 planning period. 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, up until 31 December 2022 a total of 1,288 grant agreements worth EUR 4 million were signed, of which 803 grants worth EUR 2.6 million were signed in 2022 (in 2021: 485 grants worth EUR 1.4 million).

Up until 31 December 2022, a total of 200 grants for EUR 12.4 million were granted under the Social Entrepreneurship Programme, of which 53 grants worth EUR 3.2 million were granted in 2022 (in 2021: 40 grants worth EUR 2.5 million).

In order to promote and support planning of the energy efficiency projects, the Company, 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. Up until 31 December 2022, there were a total of 69 grants granted for EUR 0.8 million.

Within the framework of the support programme BALSTS, the Company accepts the 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. Up until 31 December 2022, a total of 958 grants for EUR 8 million were granted, of which 389 grants for EUR 3.2 million were granted in 2022 (in 2021: 508 grants worth EUR 4.2 million).

As at 31 December 2022, the portfolio of grants amounted to EUR 101.1 million.

# Management Report (cont'd)

**New products and increasing operational efficiency**

In order to find solutions at EU level to the current crisis situation and to support businesses in continuing their economic activity while adapting to new market conditions, including supply chain disruptions, on 23 March 2022 the European Commission approved the Temporary Crisis Framework for State aid measures. On 2 June 2022, the Saeima adopted the "Law on Support for Overcoming the Economic Consequences of Sanctions and Countermeasures Applied Due to Russian Federation's Military Aggression Against Ukraine", simultaneously approving EUR 94.9 million financing for companies that suffered from the consequences of Russian Federation's military aggression in Ukraine, which includes EUR 39 million for investment and working capital loans, EUR 22.5 million for credit guarantees and EUR 1.3 million for export credit guarantees as well as EUR 32.1 million through the equity fund (the equity fund was not implemented as a separate programme, as funding was reallocated to other support programmes). Funding is available for viable companies for adapting their business model, improving export capacity, conquering new markets, new technologies and process optimization, product development in the context of the crisis of Russian Federation military aggression against Ukraine. In cooperation with the Ministry of Economy, the new loan and guarantee support programmes to mitigate the effects of Russian Federation's military aggression against Ukraine on the economy and to implement market reorientation. It will provide immediate support to businesses for working capital and liquidity stabilisation through loans and guarantees, while the state ensures conditions for economic stability for long-term development:

- On 14 June 2022, the Cabinet of Ministers approved the loan program, within the framework of which it is planned to issue approximately 500 loans, the maximum loan amount will be up to EUR 3 million, maturity for working capital loan will be up to 3 years, for investment loans - up to 5 years. At the same time, the Cabinet of Ministers approved changes in the export credit guarantee programme, clarifying the conditions for receiving export credit guarantees, including that in the future the possibilities of providing export credit guarantees will not be limited, except that guarantees will not be provided for transactions with Russian Federation, Belarus and Ukraine.
- On 21 June 2022, the Cabinet of Ministers approved the guarantee support programme, within the framework of which approximately 300-400 guarantees can be issued, the maximum amount of guarantee for one customer will be up to EUR 10 million, the term of the guarantees - up to 6 years, taking into account the business operations and working capital cycle.

In the 3rd quarter of 2022, part of the program's funding in amount of EUR 52.5 million was redistributed to the program of large investment loans with a capital rebate for MidCaps, thus EUR 21.5 million is available for working capital and investment loans, EUR 12.5 million for guarantees, while the financing of the equity fund will not be implemented. Financing of the loan and guarantee programmes for companies will be available until 31 December 2023. Acceptance of applications for loans and guarantees began in November 2022. Until the end of 2022, as part of the loan programme, the Company has issued new loans for a total amount of EUR 5.3 million.

The Company 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 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, of which EUR 223.8 million was allocated to the new RRF support programmes. In cooperation with the Ministry of Economics, the four new support programmes were developed and approved by the Cabinet of Ministers:

- On 7 June 2022, the Cabinet of Ministers approved the energy efficiency programme for companies, within the framework of which EUR 80.5 million of the RRF funding will be available to companies for increasing energy efficiency and wider use of renewable energy technologies. Funding to companies will be available in a form of the Company's loan or a parallel loan with a capital rebate for principal repayment, the maximum loan amount is EUR 5 million, loan term – up to 20 years. The capital rebate will be 30%, but no more than EUR 1.5 million and will be awarded when the project has been implemented and the target indicators have been achieved. In September 2022, the program was supplemented with guarantees for the purchase of electric cars for companies, with funding of EUR 5 million for this purpose. Acceptance of applications for the 1st selection round began on 4 October 2022 and ended on 4 January 2023.
- On 5 July 2022, the Cabinet of Ministers approved the digitization programme for companies, within the framework of which EUR 45.1 million of the RRF funding will be available to companies for digital transformations of companies, i.e. for promotion of digitization, automation and robotization. Funding to companies will be available in a form of the Company's loan or a parallel loan with a capital rebate for repayment of the principal amount, the maximum loan amount is EUR 7 million, loan term – up to 10 years. Capital rebate will be up to 35%, but no more than EUR 1.0 million and it will be applied if the preconditions of the digital development roadmap issued by the European Digital Innovation Center (EDIC) are fulfilled and a positive EDIC post-assessment is received no later than 6 months after the completion of the project. Acceptance of applications for this program will start in the 1st quarter of 2023.

# Management Report (cont'd)

**New products and increasing operational efficiency** (cont'd)

- On 14 July 2022, the Cabinet of Ministers approved the energy efficiency program for multi-apartment buildings, within the framework of which EUR 57.3 million of the RRF funding will be available to improve the energy efficiency of multi-apartment buildings and transition to the use of renewable energy technologies. The programme is intended for apartment owners of multi-apartment residential buildings and its purpose is to make investments in the sector of multi-apartment residential buildings in order to promote the resolution of the housing issue in Latvia, help to achieve the set climate goals in reducing gas emissions and reduce the level of energy poverty. Funding will be available in a form of loan or guarantee with a capital rebate for repayment of the principal amount of the loan, the maximum loan amount is EUR 3.75 million, loan term – up to 20 years, maximum guarantee amount – up to 80% of the loan, guarantee term – up to 20 years. Capital rebate will be up to 49% and it will be applied if the project results in at least 30% of primary energy savings. Acceptance of applications started on 22 November 2022, at the time of preparation of the financial report applications from 10 applicants have been received.
- On 14 July 2022, the Cabinet of Ministers approved the low-rent housing construction program, within the framework of which EUR 42.9 million of the RRF funding will be available for the construction of residential rental houses in the regions, in order to promote the availability of low-rent housing that meets construction standards and energy efficiency requirements. Funding to companies will be available in a form of the Company's loan or a parallel loan with a capital rebate for repayment of the principal amount, the term of the loan is up to 30 years. The capital rebate will be up to 30% and will be applied when the building has been put into operation and at least 90% of the apartments have been rented. Acceptance of applications for the program started on 8 December 2022, at the time of preparation of the financial report applications have been received from 6 applicants.

Work continues on the implementation of existing programmes and improvement of conditions of the existing programmes:

- 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 The Company will provide project funding with a loan amounting to the potential 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. A company can qualify for a loan with a capital rebate by achieving the project's objectives and meeting certain criteria. The capital rebate is planned to be applied gradually over three years after the end of the project implementation and monitoring period. The call for applications opened on 19 January 2022. At the time of preparing the financial statements, the Company is still evaluating 16 projects - 3 projects from the first round of project selection (attributable amount of capital rebate EUR 17.9 million) and 13 projects from the closed round of project selection (attributable amount of capital rebate EUR 83.3 million). So far, a positive decision has been made on 5 applications (the amount of the capital rebate EUR 32.1 million), 4 project applicants have withdrawn their applications (the amount of the capital rebate EUR 40 million), while a negative decision on refusal has been made on 6 applications to finance an investment project (relevant amount of capital rebate EUR 41 million). General interest from applicants exceeded the available funding of the programme more than 3 times. On 18 October 2022, the Cabinet of Ministers decided to increase the funding of the programme from EUR 99.6 million to EUR 152.1 million, redistributing additional funding EUR 52.5 million from the allocated, but unused funding for Covid-19 support measures. The first loan in this programme was issued in December of 2022.
- In 2023, the Company, in cooperation with the Ministry of Economy and the Ministry of Finance, plan to finalize work started in previous years on the creation of the Baltic Small and Medium Enterprises Initial Public Offering Fund (SME IPO Fund) with the aim of starting the operation of the SME IPO fund in 2023. The aim of the SME IPO fund is to support and diversify Baltic SMEs, as well as small mid-caps and innovative mid-caps access to financing and to develop the Baltic capital market in accordance with the EU capital market goals.
- 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. Considering the individual's interest in the support provided under this programme, 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 by including support for the installation of solar panels in private houses and facilitating the construction process for the installation of solar panels therefore, 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. The call for applications the Company has opened on 27 April 2022.

# Management Report (cont'd)

**New products and increasing operational efficiency** (cont'd)

- 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. In 2022, applying for the programme was opened also to the owners of rental and historic building as there were found ways to extend support for the renovation of residential buildings. Thus, the Repair Fund will also be available for the renovation of historic pre-war tenement houses and restoration of unoccupied houses, which so far had a limited access to funding.
- The programme of small loans in rural areas: Amendments are made to the Cabinet Regulation on the funding from the European Agricultural Fund for Rural Development (EAFRD) amounting to EUR 20 million. The range of beneficiaries has also been expanded by increasing the applicant's maximum turnover from EUR 100 thousand to EUR 150 thousand.
- the Social Entrepreneurship Programme: on 28 February 2022, the Company resumed accepting applications for grants under the Social Entrepreneurship Programme. The Ministry of Welfare has allocated funding of EUR 3 million for the continuation of the programme, both for the implementation of projects that were previously submitted and for new business projects.

In 2022, 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 Company's operational efficiency, 22% (in 2021: 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. The decrease in the number of applications in the centralised reviewing can be explained by the significant increase in the costs of the applied projects, as a result of which the amount of loan applications exceeds the limit set for the centralised reviewing by EUR 25 thousand. The amount of loans granted in the regions in 2022 compared to 2021 increased by 22% or EUR 12.1 million and the number of loans granted increased by 19%, while the loans granted under the centralised reviewing (up to EUR 25 thousand) decreased by 19% or EUR 951 thousand, but the number of loans granted decreased by 23%, which is due to a decrease in the total number of loan applications in this segment by 22% in 2022 compared to 2021. The average loan amount in the regions increased from EUR 85 thousand in 2021 to EUR 87 thousand in 2022, while the average loan amount reviewed remotely on a centralised basis in 2022 was EUR 14.8 thousand (in 2021: EUR 14.1 thousand).

**Green Funding**

In order to diversify the financing structure, already in October 2017, the Company issued the first transferable securities in the form of green bonds with a total value of EUR 20 million. As at 31 December 2022, the total amount of Altum bonds listed on the Nasdaq Riga stock exchange was EUR 85 million.

In the second half of 2021 Altum Green Bond Framework was updated according to the 2021 edition of Green & Social Bond Principles published by International Capital 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.

# Management Report (cont'd)

**Rating**

On 16 December 2022 Moody's Investors Service (Moody's) affirmed the Company's Baa1 long-term issuer rating, with outlook stable, same as affirmed in 25 March 2019. The baseline credit assessment (BCA) is also affirmed at Baa3, together with the short-term issuer rating at P-2. Soon after on 21 December 2022 Moody's published an updated credit opinion on the Company.

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 Company to implement more successfully the Company's long-term strategy for fund raising.

**Risk Management**

In order to have an adequate risk management, the 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 Company retains the long-term capability of implementing the established operational targets and assignments.

To manage risks, the 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 Company's operations.

In view of the Company's activities in high-risk areas when implementing the state aid programmes, as at 31 December 2022 the Company has the risk coverage of EUR 297 million (31 December 2021: EUR 286 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 Risk Coverage consists of the sum of the Risk Coverage Reserve and Portfolio Loss Reserve (Special Reserve Capital) less provisions for expected credit losses.

In view of the invasion of Ukraine by the Russian Federation, starting from February 2022, the Company has limited all types of cooperation with citizens of the Russian Federation and the Republic of Belarus and their related companies.

In view of the invasion of Ukraine by the Russian Federation, which resulted in the EU and the rest of the world imposing sanctions against the Russian Federation and the Republic of Belarus and their right holders and in order to reduce the risk of sanctions, the Company imposed additional control measures both during the issuance of financial instruments and the monitoring of business relationships, in addition, changes have been made to the Company's policy of legalization of proceeds of crime and the prevention of terrorist financing and proliferation and compliance with sanctions by determining that the Company refrains from cooperation with companies, where the owners, beneficial owners or officers are citizens of the Russian Federation or Belarus.

The Company continuously monitors changes in sanctions and keeps a close eye on developments in Ukraine. The Company takes measures to minimise the potential direct or indirect impact on the Company's operations that might be caused by developments in Ukraine or sanctions against Russian Federation and the Republic of Belarus, including, but not limited to, additional monitoring of transactions with clients whose core business could be affected by both by the events in Ukraine and the sanctions introduced against the Russian Federation and the Republic of Belarus.

In addition to the above, the Company has taken the necessary measures during 2022 to identify potential clients in difficulties and to assess whether the increase in the price of energy resources, as well as the imposed sanctions against the Russian Federation and the Republic of Belarus, has directly or indirectly affected or may significantly affect the solvency of clients, as well as to ensure the quantification of direct and indirect impacts and the establishment of appropriate impairment allowances.

# Management Report (cont'd)

**Contribution to Sustainability**

Sustainability is a key part of Altum's business and strategy and has become an important strategic driver for the banking sector as well as for development finance institutions in Europe. Altum takes responsibility for the long-term economic, environmental and social impact of its day-to-day activities and continuously works to ensure that it's the investment decisions it makes in building its portfolio contributes to sustainable development, do not adversely impact sustainability factors and facilitates its clients' transition towards a sustainable economy and encourage responsible business practises.

Starting in early 2021, Altum's management stated as its priority sustainable financing and the integration of ESG considerations into credit risk management and business processes. This is also one of the objectives of Altum's medium-term strategy 2022-2024 and was included as one of the five key tasks in the Operational Plan for 2022 approved by the shareholders' meeting.

Spring 2022 saw the completion of a detailed Altum roadmap for sustainable finance and integration of ESG aspects in credit risk management in SMEs and Midcaps and Agriculture segments. The roadmap was developed as a detailed plan of activities in areas such as new product development and transforming existing products to sustainable financing, portfolio tagging and monitoring, loans origination as well as collateral valuation and portfolio's sustainability KPI management.

Based on the ESG road map, in the second half of the year work was started on activities of the ESG road map covering the integration of ESG aspects into credit risk management for the Company's loan and guarantee portfolios in the SME, Midcap and Agriculture segments – with a view to developing an ESG risks assessment matrix and scoring model, a tailored client ESG questionnaire to collect information for ESG risks assessment as well as clients' planned/actual sustainability KPI's data. Besides, activities on tagging current green/sustainable projects in the portfolio of SME and Agriculture segments as well as the assessment of CO2 footprint of the loan portfolio of those segments have been commenced.

Since the summer of 2021, investments were made in the Altum-managed AIF "Altum Capital Fund" with due care towards target company's activities in ESG areas and the expected impact of relate economic changes on target company's upstream and downstream value chains. Following requirements of The Sustainable Finance Disclosure Regulation ("SFDR"), the Fund policy on how the Company considers principal adverse impacts of its investment decisions on sustainability factors (Principal Adverse Impact report), as per Article 4 of the SFDR was published at the end of 2022.

On 16 November 2022, Altum joined the Institute for Corporate Sustainability and Responsibility initiative and signed the SUSTAINABILITY CODE (hereinafter - the Code). The Code aims to promote reliable information, including the exclusion of greenwashing, thereby protecting consumer interests and promoting fair competition, as well as reducing the negative impact of business towards environmental, social and governance aspects. The principles of this Code applies to every company and its signatories confirm their readiness to implement them in order to promote the development of the business environment and create common value by observing and promoting responsible and ethical behaviour. Currently, a total of 18 organizations from all over Latvia have signed the Code.

# Management Report (cont'd)

**Contribution to Sustainability** (cont'd)

**Future Outlook**

At the beginning of 2023, the Company, in cooperation with the Ministry of Economy, will start the development of programmes in order to start the implementation of financial instrument support programmes under the new EU Cohesion Policy programming period 2021-2027. The funding available within the planning period of the new EU Cohesion Policy 2021-2027 will not only complement the already available RRF funding in areas such as increasing energy efficiency (buildings, energy-efficient equipment, electric cars) and the use of renewable energy technologies (solar panels, etc.) for companies and increasing energy efficiency of apartment buildings, but the new funding will also be available for new directions such as technology transfer and prototyping, innovation and digitization.

In order to prepare for the InvestEU Programme, the preparations undertaken for Pillar Assessment of the Company was continued. Pillar Assessment is a prerequisite for the Company to be able to apply for the InvestEU implementation partner role and, in the future, engine for implementation of EU funds under direct management thus increasing the scope of new specialized and customized financial instruments to the companies in Latvia. The Company is purposefully moving towards the Pillar Assessment of the Company - an application on the InvestEU Pillar Assessment was prepared in Q3 2021, at the beginning of 2023, an independent auditor selected in the selection process will carry out the Pillar Assessment, while the decision on submitting the application for the InvestEU implementation partner role has not yet been made.

Reinis Bērziņš
Chairman of the Management Board

29 March 2023

# 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 | 27.12.2022. | 26.12.2025. |
| Jānis Šnore | Member of the Council | 27.12.2022. | 26.12.2025. |
| Ilze Baltābola | Member of the Council | 22.03.2022. | temporarily * |

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

There were no changes in the Supervisory Council of the Company in 2022.

**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. |
| Juris Jansons | Member of the Board | 09.01.2023 | 08.01.2026 |

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. The Council approved Juris Jansons as a member of the Board on 9 January 2023.

# Statement of Management's responsibility

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 information disclosed in the Other notes to Annual Report.

The financial statements and notes thereto set out on pages 17 to 115 are prepared in accordance with the source documents and present truly and fairly the financial position of the Company as at 31 December 2022 and 31 December 2021, 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

29 March 2023

# Statement of Comprehensive Income

All amounts in thousands of euro

| | Notes | Company 01.01.2022.- 31.12.2022. | Company 01.01.2021.- 31.12.2021. | Group 01.01.2021.- 31.12.2021. |
|---|---|---|---|---|
| Interest income | 4 | 19 934 | 18 857 | 18 857 |
| Interest expense | 5 | (2 960) | (2 140) | (2 140) |
| Net interest income | | 16 974 | 16 717 | 16 717 |
| | | | | |
| Income for implementation of state aid programmes | 6 | 6 093 | 5 718 | 4 446 |
| Expenses to be compensated for implementation of state aid programmes | 7 | (5 091) | (5 101) | (3 829) |
| Net income for implementation of state aid programmes | | 1 002 | 617 | 617 |
| | | | | |
| Gains from trading securities and foreign exchange translation | 8 | 97 | 51 | 51 |
| Share of (losses) of investment in associate and other investments | 16, 17 | (1 780) | (1 652) | (1 382) |
| Remeasurement gain of investment in associate at fair value through profit or loss | 16 | 48 | 2 817 | 2 817 |
| Gains less losses from liabilities at fair value through profit or loss | 28 | 3 075 | 1 591 | 1 321 |
| Other income | 9 | 6 208 | 3 221 | 3 221 |
| Other expense | 10 | (1 570) | (1 509) | (1 509) |
| Operating income before operating expenses | | 24 054 | 21 853 | 21 853 |
| | | | | |
| Staff costs | 11 | (6 511) | (5 795) | (5 795) |
| Administrative expense | 12 | (1 829) | (1 893) | (1 893) |
| Amortisation of intangible assets and depreciation of property, plant and equipment | 21, 22 | (863) | (935) | (935) |
| Impairment gain / (loss), net | 13 | (3 367) | 599 | 599 |
| Profit before corporate income tax | | 11 484 | 13 829 | 13 829 |
| | | | | |
| **Profit for the period** | | **11 484** | **13 829** | **13 829** |
| Other comprehensive income: | | (1 197) | (515) | (515) |
| *Items to be reclassified to profit or loss in subsequent periods* Net loss from financial assets measured at fair value through other comprehensive income | 36 | (1 197) | (515) | (515) |
| **Total comprehensive income for the period** | | **10 287** | **13 314** | **13 314** |
| Profit is attributable to: | | | | |
| Owners of the Company | | 11 484 | - | 13 829 |
| Non-controlling interest | | - | - | - |
| **Profit for the period** | | **11 484** | **-** | **13 829** |
| Total comprehensive income is attributable to: | | | | |
| Owners of the Company | | 10 287 | - | 13 314 |
| Non-controlling interest | | - | - | - |
| **Total comprehensive income for the period** | | **10 287** | **-** | **13 314** |

The accompanying notes on pages 21 through 115 form an integral part of these financial statements.

Reinis Bērziņš
Chairman of the Management Board

Olga Alksne
Chief Accountant

29 March 2023

# Statement of Financial Position

All amounts in thousands of euro

| | Notes | Company<br>31.12.2022. | Group / Company *<br>31.12.2021. |
|---|---|---|---|
| Assets | | | |
| Due from credit institutions and the State Treasury | 14 | 571 667 | 455 006 |
| Financial assets at fair value through other comprehensive income - investment securities | 15 | 9 515 | 14 051 |
| Financial assets at amortised cost: | | | |
| Investment securities | 15 | 39 | 37 |
| Loans and receivables | 18 | 317 859 | 330 530 |
| Grants | 19 | 58 280 | 45 397 |
| Deferred expense | 24 | 344 | 642 |
| Accrued income | 25 | 927 | 1 424 |
| Other investments | 17 | 15 741 | 8 936 |
| Investments in associates | | | |
| Investments accounted for using the equity method | 16 | 50 413 | 51 727 |
| Investments accounted for using the FVTPL method | 16 | 14 232 | 13 222 |
| Investment property | 20 | 53 453 | 46 164 |
| Property, plant and equipment | 22 | 4 448 | 4 570 |
| Intangible assets | 21 | 1 140 | 1 256 |
| Other assets | 23 | 1 530 | 3 242 |
| **Total assets** | | **1 099 588** | **976 204** |
| | | | |
| Liabilities | | | |
| Due to credit institutions | 26 | 36 290 | 53 416 |
| Due to general government entities | 27 | 153 784 | 121 348 |
| Financial liabilities at amortised cost - Issued debt securities | 32 | 85 513 | 85 558 |
| Deferred income | | 1 017 | 1 978 |
| Accrued expense | 31 | 661 | 806 |
| Liabilities from financial guarantees | 29 | 45 852 | 37 372 |
| Provisions for off-balance sheet liabilities | 29 | 1 453 | 863 |
| Support programme funding | 28 | 375 280 | 230 287 |
| Other liabilities | 30 | 3 755 | 3 840 |
| Total liabilities | | 703 605 | 535 468 |
| | | | |
| Equity | | | |
| Share capital | 33 | 204 862 | 204 862 |
| Reserves | 34 | 180 136 | 221 347 |
| Revaluation reserve of financial assets measured at fair value through other comprehensive income | 36 | (499) | 698 |
| Retained earnings | | 11 484 | 13 829 |
| Net assets attributable to the Company's owners | | 395 983 | 440 736 |
| Total equity | | 395 983 | 440 736 |
| **Total equity and liabilities** | | **1 099 588** | **976 204** |

* Restated. For more detailed information see Note 2 (2)

The accompanying notes on pages 21 through 115 form an integral part of these financial statements.

Reinis Bērziņš
Chairman of the Management Board

Olga Alksne
Chief Accountant

29 March 2023

# 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 2021** | **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 34) | - | 45 489 | - | - | 45 489 |
| 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) |
| Distribution of 2020 profit (Note 34) | - | 5 539 | - | (5 539) | - |
| **As at 31 December 2021** | **204 862** | **221 347** | **698** | **13 829** | **440 736** |
| Profit for the period | - | - | - | 11 484 | 11 484 |
| Other comprehensive income | - | - | (1 197) | - | (1 197) |
| Total comprehensive income | - | - | (1 197) | 11 484 | 10 287 |
| Increase of reserve capital (Note 34) | - | 3 525 | - | - | 3 525 |
| Decrease of reserve capital by increasing financing of support programs (Note 34) | - | (58 565) | - | - | (58 565) |
| Distribution of Specific Reserves to General reserve capital at distribution of the profit for year 2021 | - | 3 446 | - | - | 3 446 |
| Distribution of Specific Reserves to General reserve capital at distribution of the profit for year 2021 | - | (3 446) | - | - | (3 446) |
| Distribution of 2021 profit (Note 34) | - | 13 829 | - | (13 829) | - |
| **As at 31 December 2022** | **204 862** | **180 136** | **(499)** | **11 484** | **395 983** |

# 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 2021** | **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 34) | - | 45 489 | - | - | - | 45 489 |
| 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) |
| Distribution of 2020 profit of the Company (Note 34) | - | 5 539 | - | (5 539) | - | - |
| 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 21 through 115 form an integral part of these financial statements.

# Statement of Cash Flows

All amounts in thousands of euro

| | Notes | Company 01.01.2022.-31.12.2022. | Company 01.01.2021.-31.12.2021. | Group 01.01.2021.-31.12.2021. |
|---|---|---|---|---|
| Cash and cash equivalents at the beginning of period | | 455 007 | 359 949 | 359 949 |
| | | | | |
| Cash flows from operating activities | | | | |
| Profit before taxes | | 11 484 | 13 829 | 13 829 |
| Amortisation of intangible assets and depreciation of property, plant and equipment | 21,22 | 863 | 935 | 935 |
| Interest income | 4 | (19 934) | (18 857) | (18 857) |
| Interest received | | 19 872 | 16 334 | 16 334 |
| Interest expenses | 5 | 2 960 | 2 140 | 2 140 |
| Interests paid | | (2 951) | (1 297) | (1 297) |
| (Decrease) / Increase in impairment allowances | 13 | 3 367 | (599) | (599) |
| **(Decrease) of cash and cash equivalents from operating activities before changes in assets and liabilities** | | **15 661** | **12 485** | **12 485** |
| (Increase) / Decrease of loans | | 9 986 | (17 262) | (17 262) |
| (Increase) of grants | | (12 985) | (14 447) | (14 447) |
| Increase of due from credit institutions | | 15 257 | 5 388 | 5 388 |
| Term deposits (Increase) | 14 | (32 000) | - | - |
| Increase / (Decrease) in deferred income and accrued expense | | (1 107) | 626 | 626 |
| (Increase) / Decrease in deferred expense and accrued income | 24,25 | 795 | (545) | (545) |
| Decrease of other assets | | 1 903 | 394 | 394 |
| Increase in other liabilities | | 92 024 | 62 916 | 62 916 |
| **Net cash flows from operating activities** | | **89 534** | **49 555** | **49 555** |
| | | | | |
| Cash flows from investment activities | | | | |
| Sale of investment securities | | 3 603 | 23 500 | 23 500 |
| Acquisition of property, plant and equipment and intangible assets | 21,22 | (650) | (824) | (824) |
| Purchase of investment properties | 20 | (5 758) | (7 150) | (7 150) |
| Sale of investment properties | 20 | 954 | 211 | 211 |
| Other investments | | (6 194) | (4 723) | (4 723) |
| Investments in associates, net | 16 | (392) | (6 355) | (6 355) |
| Investments of subsidiaries in underlying undertakings | | - | (2 924) | - |
| Investments in subsidiaries | | - | - | (2 924) |
| **Net cash flows from investing activities** | | **(8 437)** | **1 735** | **1 735** |
| | | | | |
| Cash flows from financing activities | | | | |
| Issued debt securities | 32 | - | 20 845 | 20 845 |
| Increase of reserve capital | 34 | 3 526 | 22 923 | 22 923 |
| **Net cash flow from financing activities** | | **3 526** | **43 768** | **43 768** |
| | | | | |
| Increase in cash and cash equivalents | | 84 623 | 95 058 | 95 058 |
| **Cash and cash equivalents at the end of period** | | **539 630** | **455 007** | **455 007** |

The accompanying notes on pages 21 through 115 form an integral part of these financial statements.

# Approval of the Financial Statements

The management of the Company has approved these financial statements on 29 March 2023. 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).

During 2021 several investments in venture capital funds were classified as subsidiaries. Based on the annual assessment of the control it was concluded that the Company has no control over these particular venture capital funds as of 31 December 2021. In accordance with the Company's accounting principles, the subsidiary is included in the consolidated financial statements until the date when control over the company ceases to exist. Therefore, the consolidated financial statements are no longer prepared for the year 2022 and the financial position report already on 31 December 2021 is only the financial position of the Company. The company consolidated its financial statements until 30 December 2021. The data for 31 December 2021 are the same as the consolidated data, so they are combined in one column.

Comparative financial information on the results of financial activity in the 12 months of 2021 is included in the Statement of Comprehensive Income, the Statement of Changes in Equity and the Statement of Cash Flows, as well as in the relevant notes to the financial statements

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 16 December 2022, the international credit rating agency Moody's Investors Service reconfirmed Altum's Baa1 long-term credit rating with outlook stable, which is at the same level as it was confirmed on 25 March 2019. The baseline credit assessment (BCA) has also been approved at Baa3, along with a short-term rating of P-2. 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 Company does not perform any regulated activities related to the financial and capital markets as financial institution, therefore the Company is not required to comply with capital adequacy requirements. However, the Company operates in accordance with the best financial and capital market practices regarding internal control, risk management and compliance.

The Company 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 16 September 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. The investment period agreed with the EC ended on 30 June 2022, after its end, new investments were no longer approved, but investments in the approved portfolio companies continued until 30 June 2022. The amount of the fund's investments in the existing portfolio companies on 31 December 2022 amounted to 36 million euro, while the total amount of the Fund's investments will reach 41.8 million euro after making all the investments.

# 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 of 31 December 2021 and thereafter, classified as Associates * | | |
| KS Overkill Ventures Fund I | Dzirnavu iela 105, Rīgas, Latvija, LV-1011 | 100 |
| KS Buildit Latvia Pre-Seed Fund | Elizabetes iela 20, Rīga, Latvija, LV-1050 | 100 |
| KS Commercialization Reactor Pre-seed Fund | Brīvības gatve 300 -9, Rīga, Latvija | 100 |
| KS INEC 1 | Vīlandes iela 3 - 7, Rīga, Latvijas, LV-1010 | 75 |
| KS INEC 2 | Vīlandes iela 3 - 7, Rīga, Latvija, LV-1010 | 90 |
| Venture capital funds classified as Associates | | |
| KS Overkill Ventures Fund II | Dzirnavu iela 105, Rīgas, Latvija, LV-1011 | 80 |
| KS Buildit Latvia Seed Fund | Elizabetes iela 20, Rīga, Latvija, LV-1050 | 80 |
| KS Commercialization Reactor Seed Fund | Brīvības gatve 300 -9, Rīga, Latvija | 80 |
| KS ZGI-4 | Daugavgrīvas iela 21, Rīga, Latvija, LV-1048 | 60 |
| FlyCap Mezzanine Fund II | Matrožu iela 15A, Rīga, LV-1048 | 60 |
| KS Baltcap Latvia Venture Capital Fund | Jaunmoku iela 34, Rīga, Latvija, LV-1046 | 67 |
| KS Imprimatur Capital Technology Venture Fund | Ščecinas iela 4, Rīga, Latvija, LV-1014 | 67 |
| KS Imprimatur Capital Seed Fund (fund is in the process of liquidation) | Ščecinas iela 4, Rīga, Latvija, LV-1014 | 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 | Vīlandes iela 3 - 7, Rīga, Latvija, LV-1010 | 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). The Company's investments are not classified as subsidiaries as of 31 December 2021, taking into account the annual assessment, as a result of which it was concluded that the Company has no control, however, has significant influence over these venture capital funds. Therefore, the consolidated financial statements are no longer prepared for the year 2022 and the financial position report already on 31 December 2021 is only the financial position of the Company.

# 2 Accounting Policies

**(1) Basis of presentation**

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 Company's financial position, access to financial resources and analysed the impact of the external factors on future operations of the Company. For detailed disclosure on the impact of the Russian Federation military invasion in Ukraine on the Company see Note 3 (9). 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)).

# 2 Accounting Policies (cont'd)

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

The following changes have been made to the presentation of guarantees in the financial statements in 2022:

In accordance with IFRS 9, the premiums received for issued guarantees and provisions are recognized and accounted for together in one item - Liabilities from financial guarantees. Guarantee premiums are amortized on a straight-line basis over the term of the guarantee. Financial guarantees are measured at the higher of the expected credit loss, and the amount initially recognized less any cumulative amount of amortization.

Detailed information on the quantitative impact of the reclassification of comparative indicators for 2021 is provided below, in thousands of euro:

| **Reclassified Statement of Financial Position items *** | **Group / Company** | **Reclassification** | **Group / Company** |
|---|---|---|---|
| | The initial balance as of 31.12.2021 | | The reclassified balance as of 31.12.2021 |
| Deferred income | 5 747 | (3 768) | 1 979 |
| Provisions | 34 466 | (33 603) | 863 |
| Liabilities from financial guarantees | - | 37 371 | 37 371 |

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 Company has been the euro.

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

**(i) Consolidation**

In accordance with the Company's accounting principles, the subsidiary is included in the consolidated financial statements until the date when control over the company ceases to exist. As a result of the annual assessment of whether there is control or significant influence over venture capital funds (see Note 2 (16) item (vii)), it was concluded that as of 31 December 2021 the Company has no control, however, it has significant influence over the investments classified as subsidiaries during 2021. Therefore, the consolidated financial statements are no longer prepared for the year 2022 and the financial position report already on 31 December 2021 is only the financial position of the Company. The Company consolidated its financial statements until 30 December 2021. The data for 31 December 2021 are the same as the consolidated data, so they are combined in one column.

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.

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)).

**(ii) Investments in associates**

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

The 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 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 16.

# 2 Accounting Policies (cont'd)

**(3) Foreign currency translation**

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

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

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

| 31.12.2022 | 31.12.2021 |
|---|---|
| 1 USD = EUR 1.06660 | 1 USD = EUR 1.13260 |
| 1 GBP = EUR 0.88693 | 1 GBP = EUR 0.84028 |

**(4) Income and expense recognition**

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

**(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 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.

# 2 Accounting Policies (cont'd)

**(4) Income and expense recognition** (cont'd)

**(ii) Interest income and expense (cont'd)**

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 28.

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

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

**(i) Initial recognition**

Financial instruments at fair value through profit or loss (FVTPL) are initially recorded at fair value. All other financial instruments are initially recorded at fair value adjusted for transaction costs. Fair value at initial recognition is best evidenced by the transaction price. In cases transaction price is lower than the fair value of guarantee provided due to the fact that the price difference is covered by public funding for expected credit loss classified within Risk Coverage Reserve, the Day 1 loss is directly allocated to Risk Coverage Reserve. See also Note 2 (16) (i). In cases transaction price is lower than the fair value of guarantee 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 Company commits to deliver a financial asset. All other purchases are recognised when the Company becomes a party to the contractual provisions of the instrument.

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

The 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 Company's business model for managing the related assets portfolio and the cash flow characteristics of an asset.

# 2 Accounting Policies (cont'd)

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

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

The business model reflects how the Company manages assets in order to generate cash flows – whether the 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 Company undertakes to achieve the objective set out for the portfolio available at the date of the assessment. Factors considered by the 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 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 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 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 Company in performing the SPPI test for its financial assets.

**(v) Financial assets – reclassification**

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

**(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 or Liabilities from financial guarantee. 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.

# 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)

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

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

Stage 3 includes financial instruments which are credit-impaired.

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

**Measurement of expected credit losses**

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

**Definition of default and credit-impaired financial assets**

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

# 2 Accounting Policies (cont'd)

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

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

**Determining a significant increase in credit risk since initial recognition**

The 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 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 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 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 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 Company's statement of financial position as a reduction of the gross carrying amount of the assets.

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

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

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

# 2 Accounting Policies (cont'd)

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

**(vii) Financial assets – write-off**

Financial assets are written-off, in whole or in part, when the 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 Company may write-off financial assets that are still subject to enforcement activity when the Company seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery.

**(viii) Financial assets – derecognition**

The Company derecognises financial assets when:

- the assets are redeemed or the rights to cash flows from the assets otherwise expired or
- the Company has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all 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 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 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 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 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 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 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 Company does not use hedge accounting.

**(xiv) Investment securities**

Based on the business model and the cash flow characteristics, the 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 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 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 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 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 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 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 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 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 Company acts as an agent when servicing grants. The Company advances grants in instalments to the customers. The grant agreements between the Company and funding providers (grantors) stipulates that the 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 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 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 35).

Payments, which are made by the Company, to reimburse the holder of the guarantee for a loss are included in Other assets (Note 23).

**(xviii) Financial liabilities carried at amortised cost**

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

**(xix) Issued debt securities**

The 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 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 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 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 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 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 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 Company to align the accounting policies of the Associates with accounting policy of the Company.

The carrying value of investment in Associate includes changes in the Company's NAV in the Associate 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 associate.

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

# 2 Accounting Policies (cont'd)

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

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

The 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 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 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 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 28). This coverage mechanism is valid for the all generation VCFs (see Note 16) as well as for Baltic Innovation Fund from the December 2017 (see Note 16) and Baltic Innovation Fund II from June 2019.
- all costs including management fee incurred by the Company as investor in AIF "Altum capital fund" are covered by the Portfolio Loss Reserve from September 2020 (see Note 16).
- value impairment of the investments of the financial engineering instruments due to valuation or revaluation (see Note 16). This coverage mechanism is valid for the 2nd, 3rd and 4th generation VCFs as well as for AIF "Altum capital fund" (see Note 16).

**(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 Company establishes fair value by using valuation techniques. These include the use of discounted cash flow analysis, option pricing models and recent comparative transactions as appropriate. Where, in the opinion of the Management of the Company, the fair values of financial assets and liabilities differ materially from their book values, such fair values are separately disclosed in the notes to the accounts.

The Company measures financial 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 38 |
| 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 | 3.33% p.a. |
| Furniture and fittings | 10 - 25% 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 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 Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

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

The 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 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 Company has the right to obtain all economic benefits from the use of the identifiable asset over its useful life;
- the Company has the right to determine the use of the identifiable asset. The 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 Company should assess whether it uses the asset, or the 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 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 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 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 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 Company under residual value guarantees;
- the exercise price of a purchase option if the Company is reasonably certain to exercise that option;
- payments of penalties for terminating the lease, if the lease term reflects the 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 Company's estimate of expected payments changes, or when the 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 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 Company's profit for the period is transferred to reserves in order to ensure financial stability and sustainable operation of the Company as well as to mitigate the risks of approved support programmes.

**(12) Provisions**

The 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 29). 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 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 Company pays social security contributions for state pension insurance and to the state funded pension scheme in accordance with Latvian legislation. State funded pension scheme is a defined contribution plan under which the Company pays fixed contributions determined by the law and 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 Company has invested using these resources. The management of the 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 Company. In determining the fair value of support programmes funding, the Company applied a discount rate of 3.7% (in 2021: 1%)

Support programme funding includes the Risk Coverage Reserve that can be used for covering the 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 28.

**(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 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 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 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 Company evaluates incorporated credit risk considering the Company's activities in high-risk areas operational risk and other risks like market risks. Since the 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 Company's Specific reserves for support programmes and classified as Portfolio Loss Reserve (see Note 34), or accounted separately as provisions for risk coverage (Risk Coverage Reserve) classified within the liabilities (see Note 28).

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

# 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 28. Further details disclosed in Note 2 (5) item (vi).

*Covid-19 impact*

The Company participated in Covid-19 loan moratoria within which upon 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 Company outside the moratorium of the Finance Latvia Association from 5 May 2020 to 30 September 2020, the Company has applied the same conditions as under the Covid-19 moratorium set by the Finance Latvia Association and the conditions of the Covid-19 moratorium set by the European Banking Authority, which provided that the cumulative term for the loan principal payment deferrals does not exceed nine months for those requests on the loan principal payment deferral that were granted up until 31 March 2021.

The loan principal payment deferrals due to the impact of Covid-19 on the Company were granted until the end of the 2nd quarter of 2022. Loans to which the loan principal payment deferrals were applied in 2020-2022 (both one-time and recurring), including those granted under the Covid-19 moratorium set by the Finance Latvia Association, decreased from EUR 31,861 thousand on 31 December 2021 to EUR 20,920 thousand on 31 December 2022. The decrease in loans was related to loan repayments and fully written off loans. Reliefs for the loan principal payment deferrals had ended for loans in the amount of EUR 20,835 thousand on 31 December 2022, and reliefs for the loan principal payment deferrals had not ended for loans in the amount of EUR 85 thousand.

It should be noted that because of the credit relief granted to the SME segment (Covid-19 moratorium) the quality of the credit portfolio has not deteriorated when customers return to the usual payment schedule after the end of the credit relief, considering the previously mentioned portfolio reduction, and that the quality of loans for a portfolio of EUR 15,382 thousand has not changed during 2022.

Loans in the amount of EUR 2,562 thousand were included in the 3rd stage and EUR 2,073 thousand were included in the 2nd stage. The quality of loans in the amount of EUR 903 thousand improved and they were transferred to a lower 1st or 2nd stage.

When postponing loan principal payments under the Covid-19 moratorium, the credit classification was not revised unless the SICR criteria were met at the time of the loan principal payment postponement. The credit classification was also not reviewed for individual requests to postpone loan principal payments for a short period of time after 30 September 2020, which were not formally requested under the Covid-19 moratorium established by the Finance Latvia Association but were applied and were similar to them. In both cases, other risk parameters (including, among others, the number of days past due and breaches of contract terms) were monitored and credit classification was applied according to standard procedures.

Considering the uncertainties that existed regarding the duration of the Covid-19 situation and the significance of its consequences, as well as regarding possible disruptions in the economy and the operations of the Company's customers, the Company created a general impairment overlay for credit exposures classified in stage 1. The additional impairment overlay was a response to the increased uncertainty regarding the future of the economy in the Covid-19 situation, considering that the models for calculating ECL, which were calibrated based on historical data and adjusted for future trends, could not fully include such increased uncertainty. As of 31 December 2022, the unused general impairment overlay for covering individual impairments was EUR 269 thousand (31 December 2021: EUR 1,301 thousand).

In fact, it can be considered that the negative impact of Covid-19 on the economic activity of companies has ended with the end of Covid-19 restrictions and the restoration of supply chains that were disrupted during Covid-19 at the end of 2022.

*Impact of the Russian military invasion of Ukraine*

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 Company as well as the potential social and economic impact in Latvia and the region.

The Company does not issue loans directly to businesses in Ukraine, the Russian Federation and Belarus. Contracts with counterparties for the execution of settlements with customers, as well as for the conclusion of financial transactions for the liquidity and asset and liability management of the Company, are concluded with financial institutions established in EU Member States.

# 2 Accounting Policies (cont'd)

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

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

*Impact of the Russian military invasion of Ukraine* (cont'd)

To assess the indirect impact of the Russian Federation's invasion of Ukraine, the Company analyses quarterly and, in case of significant changes, reviews the forward-looking macroeconomic indicators used to calculate expected losses, putting forward several scenarios.

The Company improved its expected loss methodology by including three economic scenarios in the forecasts used to estimate expected losses starting from Q3 2022:

- a baseline scenario, which forecasts the most likely future economic development, taking into account the impact of the Russian Federation invasion of Ukraine and the sharp increase in commodity and energy prices, as well as the impact on Latvia's economic growth rates of sanctions imposed against Russian Federation and Belarus;
- an adverse scenario, which foresees a less likely but potentially negative change, reflecting the larger and more persistent impact of the geopolitical crisis and sanctions, commodity and energy price increases compared to the baseline scenario;
- an optimistic scenario, which is less likely but potentially more favourable than the baseline scenario.

Summarised below are the annual GDP growth rates derived from external macroeconomic forecasts, which are among the key input variables in the expected loss model:

| | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|
| GDP annual growth rate, in % | | | | |
| Base case scenario * | 1.9 | -0.5 | 3.7 | 3.3 |
| Adverse scenario | 1.9 | -2.1 | 2.6 | 3.4 |
| Optimistic scenario | 1.9 | 1.0 | 4.7 | 3.4 |
| **Weighted average **** | **1.9** | **-0.6** | **3.6** | **3.3** |

* The baseline scenario combines two external scenarios:

(i) the macroeconomic development scenario of the Ministry of Finance (published on 6 December 2022) projects GDP slower growth – the sanctions imposed against Russian Federation and Belarus, the difficulties in doing business with Ukraine, and sharp price increase, especially of energy prices, will result in GDP growth falling to 1.6% in 2022 and in 2023 in GDP falling by 0.6% (the December 2021 forecast was 5.4% growth in 2022 and GDP growth 3.5% in 2023). The GDP growth in 2024 and 2025, is forecasted to 3% per year;

(ii) the Bank of Latvia's macroeconomic scenario (published on 16 December 2022) projects that the Russian Federation invasion of Ukraine and sanctions and the associated fall in exports, disruptions to imports of raw materials and supplies, an intensification of global price increase for energy and other commodities and supplies, and a fall in business and consumer confidence will reduce Latvia's GDP growth rate in 2022 to 2.1% (in December 2021, GDP growth was forecast to be 4.2%). In 2023, a moderate GDP slowdown is forecast -0.3% (the December forecast for 2023 was a growth of 4.0%). In 2024 and 2025, economic growth is projected to recover more rapidly, by 4.4% and 3.5%, respectively, as confidence improves. A 50% probability of the scenario was applied to each of the external scenarios, those of the Ministry of Finance and the Bank of Latvia.

** A weight of 70% was applied to the baseline scenario, 20% to the adverse scenario and 10% to the optimistic scenario.

Changes in the forecasts for macroeconomic indicators in the first 12 months of 2022 resulted in an increase in the ECL allowances for loans and loan commitments by EUR 1,944 thousand. Changes in macroeconomic forecasts had negligible impact on guarantees, given that financial guarantees are measured at the higher of the loss allowance determined as expected credit loss, and the amount initially recognized (fair value) less any cumulative amount of amortization. Changes in macroeconomic forecasts have less impact on the fair value of the guarantees.

**(iii) Fair value of investments in the VCF**

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

# 2 Accounting Policies (cont'd)

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

### (iv) Impairment allowance for securities valued at amortised cost

Similarly as for loans, the 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 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.

### (v) Revaluation of investment properties

The Company carries its investment properties at fair value, with changes in fair value being recognised in the statement of profit or loss. The Company engaged an independent valuation specialist to assess fair value as at 31 December 2022 and 31 December 2021 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 20.

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

The 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 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 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 16). The main reason for the 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 Company's ability to exercise its power over the VCFs is limited by the terms of the agreements signed between the Company and the VCFs managers. The Company has assessed that it doesn't control the VCFs, but can exercise significant influence over them. The Company is forbidden to take part in the management of the VCFs' businesses. However, the 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 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 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 Company given it is a finance development institution. The 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 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 Company exercises the sole right of dismissing the VCFs' managers without any additional reasons should be treated as the subsidiaries of the Company as the Company has power over the investment object. While the investments in these VCFs over which the Company exercises no such right should be treated as associates over which the Company has no control, but significant influence. The management of the Company is aware that on most occasions the circumstances that point to the power of the 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 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 venture capital funds the Company's previously reported 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 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 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 Company given it is a finance development institution.

**(viii) Investments in AIF "Altum Capital Fund"**

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.

In accordance with the Limited Partnership Agreement, the General Partner is the Company and as the Fund manager is fully responsible for all aspects of the Fund's operation, including the revaluation of the investments. The fair value of the investments is recognized and reflected in the audited annual report.

The Company's investment in the Fund constitutes 48.91% of the Fund's capital, is classified as an Associate and is measured using the equity method.

# 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 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 Company's principles, the 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 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 Company's accounting system.

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

The 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 Company (ranging from 20% to 100%). The portion of losses that the government reimburses by decreasing the amount of the loan repayable to the government, does not affect the Company's profit or loss as the loan received from 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 Company and therefore cannot be considered as the Company's income. For this reason, the Company carries as income only that part of the financial resources of the Loan Fund that is used to cover the management costs of the Loan Fund and this amount is included in the profit or loss calculation.

**(xii) Loans below market rate**

The 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 Company may include the funds from the 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 35.

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 35), loans received from the State Treasury (see Notes 18 and 27) and support programmes funding (see Note 28).

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

**(i) New and amended IFRS Accounting Standards that are effective for the current year**

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. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements:

- **Amendments to IFRS 3 "Business Combinations"** — Reference to the Conceptual Framework with amendments to IFRS 3 issued by IASB on 14 May 2020;
- **Amendments to IAS 16 "Property, Plant and Equipment"** — Proceeds before Intended Use issued by IASB on 14 May 2020;
- **Amendments to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"** — Onerous Contracts — Cost of Fulfilling a Contract issued by IASB on 14 May 2020;
- **Amendments to various standards due to "Improvements to IFRSs (cycle 2018 -2020)",** issued by IASB on 14 May 2020. Amendments to various standards 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.

**(ii) New and revised IFRS Accounting Standards in issue and adopted by the EU but not yet effective**

At the date of authorisation of these financial statements, the Company has not applied the following new and revised IFRS Accounting Standards that have been issued and adopted by the EU but are not yet effective:

- **IFRS 17 "Insurance Contracts"** — IFRS 17 supersedes IFRS 4 "Insurance Contracts" and related interpretations while applied, issued by IASB on 18 May 2017;
- **Amendments to IAS 1 "Presentation of Financial Statements"** — Disclosure of Accounting Policies adopted by the EU on 2 March 2022;
- **Amendments to IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"** — Definition of Accounting Estimates issued by IASB on 12 February 2021;
- **Amendments to IAS 12 "Income Taxes"** — Deferred Tax related to Assets and Liabilities arising from a Single Transaction issued by IASB on 6 May 2021.

The Company do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Company in future periods

# 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)

**(iii) New and revised IFRS Accounting Standards in issue but not adopted by the EU**

At present, IFRS as adopted by the EU do not significantly differ from IFRS adopted by the International Accounting Standards Board (IASB) except for the following new standards and amendments to the existing standards, which were not adopted by the EU as at the date of authorisation of these financial statements:

- **Amendments to IAS 1 "Presentation of Financial Statements"** — Classification of Liabilities as Current or Non-Current issued by IASB on 23 January 2020;
- **Amendments to IAS 1 "Presentation of Financial Statements"** — Non-current Liabilities with Covenants issued by IASB on 31 October 2022, amendments clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability;
- **Amendments to IFRS 16 "Leases"** — Lease Liability in a Sale and Leaseback issued by IASB on 22 September 2022;
- **IFRS 14 "Regulatory Deferral Accounts"** — 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 issued by IASB on 23 January 2020 (the effective date by one year to 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"** – 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).

The Company makes further assessment on the impact of these new standards and amendments, but the 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 Company in the period of initial application.

# 3 Risk Management

For risk management, the 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 Company manages the risks affecting its operations in compliance with the risk management internal regulatory documents approved by the Company that detail and establish the aggregate of measures used in management of the risks inherent to its operations.

The following major risk management principles are followed:

- risk management is a component of every-day functions;
- the Company identifies and assesses the probable risks before launching of new products or services;
- while assuming the risks the companies forming the Company are capable of long-term pursuit of the delegated aims and assignments;
- the 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 Company makes use of various risk analysis methods and instruments as well as establishes risk limits and restrictions.

The major risks that the Company is exposed to are credit risk, operational and compliance risks. Considering the geopolitical events of 2022, anti-money laundering and terrorism and proliferation financing risks (hereinafter - AML) and sanctions, as well as interest rate risk, have also increased. According to the Company's assessment, the climate risk has no negative impact on the possible decrease in the value of the Company's non-financial assets.

**(1) Credit Risk**

The credit risk is a risk that a customer or cooperation partner of the Company is unable or unwilling to meet its liabilities towards the Company in full and within the established term The Company is mainly exposed to credit risk within the framework of its lending activities, issuing guarantees to third parties, investing in venture capital funds, as well as implementing other financial instruments within the framework of the state support and development program. The 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 Company's Risk Management Policy and Credit Policy:

- The Council determines the total amount of risk that the Company wishes to undertake and in order to ensure the execution of the Council, risk limits and/or goals are set in the Company in terms of geographical regions, countries, sectors of the economy, transaction portfolios exposed to credit risk, as well as limits are set for risk transactions with one clients/cooperation partners or groups related to them, etc. risk limits or targets.
- The Risk Management Department is responsible for the independent supervision and control of credit risk management. The task of the Risk Management Department is to develop and maintain a credit risk management framework appropriate to the specifics of the Company's operations, as well as to monitor and ensure that the level of credit risk assumed does not exceed the Council's.
- The units that ensure cooperation with the client on a daily basis (hereinafter - the business unit) are responsible for credit risk assessment and monitoring before starting a risk transaction with the client, as well as during the transaction relationship, observing the risk limits and goals set by the Company, and in compliance with the Company's internal procedures and the order specified in the regulations.
- The Internal Audit performs independent periodic reviews of the credit risk management system.

# 3 Risk Management (cont'd)

**(1) Credit Risk** (cont'd)

### (ii) Credit Risk Assessment, Reduction and Monitoring

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

Before starting risk transactions, the Company carefully analyses and evaluates the customer's or cooperation partner's ability and willingness to cover the assumed obligations to the Company. When the Company decides on undertaking a risk transaction with a customer or cooperation partner, the main criterion is the solvency of the customer or cooperation partner.

The Company reduces its exposure to credit risk by requesting collateral or other collateral that meets the terms of the exposure and program. The term "collateral" includes pledges and guarantees. A pledge or other security is not required if the program rules allow it. The collateral assessment is based on a thorough examination and analysis of the pledged assets and is an integral part of the customer's credit risk assessment. The value of the collateral is updated periodically, including when reviewing the terms of the risk transaction issued to the customer or cooperation partner, as well as in situations when the Company has reason to believe that the value has changed or when the risk transaction has become a problematic loan.

The risk profile of portfolios exposed to credit risk is continuously analysed. Monitoring of portfolios and individual customers or cooperation partners with a higher risk of default is performed more regularly. Business units are responsible for the continuous monitoring of criteria and conditions that indicate an increase in the credit risk of individual risk transactions. If the risk profile of a customer or business partner has deteriorated, corrective measures are considered and implemented. In such situations, a series of actions adapted to the situation are immediately implemented to reduce the Company's risk or losses, including involving a specially created restructuring and collection unit, which concentrates relevant competences in insolvency management and restructuring.

Breakdown of 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 | 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** |
| Total gross loans | 4 903 | 37 293 | 57 109 | 92 974 | 59 493 | 31 483 | 17 909 | 4 918 | 32 851 | 338 933 |
| Impairment allowances | (35) | (343) | (1 232) | (2 004) | (3 829) | (4 124) | (4 136) | (2 338) | (3 033) | (21 074) |
| **Total net loans as at 31 December 2022** | **4 868** | **36 950** | **55 877** | **90 970** | **55 664** | **27 359** | **13 773** | **2 580** | **29 818** | **317 859** |

Breakdown of 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 | 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** |
| Total gross outstanding guarantees | 53 | 43 543 | 45 143 | 47 700 | 34 090 | 15 724 | 14 728 | 856 | 279 176 | 481 013 |
| Impairment allowances * | (2) | (1 457) | (2 528) | (5 457) | (2 791) | (3 227) | (1 676) | (324) | (24 356) | (41 818) |
| **Total net outstanding guarantees as at 31 December 2022** | **51** | **42 086** | **42 615** | **42 243** | **31 299** | **12 497** | **13 052** | **532** | **254 820** | **439 195** |

* The 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. Financial guarantees are measured at the higher of the loss allowance determined as expected credit loss, and the amount initially recognized (fair value) less any cumulative amount of amortization.

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# 3 Risk Management (cont'd)

**(1) Credit Risk** (cont'd)

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

| | Stage 1 | | Stage 2 | | Stage 3 | | POCI | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 31.12.2022. | 31.12.2021. | 31.12.2022. | 31.12.2021. | 31.12.2022. | 31.12.2021. | 31.12.2022. | 31.12.2021. | 31.12.2022. | 31.12.2021. |
| Financial assets at AC | | | | | | | | | | |
| Due from credit institutions and the Treasury | 571 682 | 455 007 | - | - | - | - | - | - | 571 682 | 455 007 |
| Impairment allowances | (15) | (1) | - | - | - | - | - | - | (15) | (1) |
| **Total net due from credit institutions and the Treasury** | **571 667** | **455 006** | **-** | **-** | **-** | **-** | **-** | **-** | **571 667** | **455 006** |
| Investment securities | - | - | - | - | 3 927 | 3 704 | - | - | 3 927 | 3 704 |
| Impairment allowances | - | - | - | - | (3 888) | (3 667) | - | - | (3 888) | (3 667) |
| **Total net investment securities** | **-** | **-** | **-** | **-** | **39** | **37** | **-** | **-** | **39** | **37** |
| Loans and receivables | 250 575 | 256 865 | 56 895 | 67 091 | 31 061 | 24 717 | 402 | - | 338 933 | 348 673 |
| Impairment allowances* | (4 106) | (3 545) | (4 751) | (4 425) | (11 815) | (10 173) | (402) | - | (21 074) | (18 143) |
| **Total net loans and receivables** | **246 469** | **253 320** | **52 144** | **62 666** | **19 246** | **14 544** | **-** | **-** | **317 859** | **330 530** |
| Grants | 58 716 | 45 729 | - | - | - | - | - | - | 58 716 | 45 729 |
| Impairment allowances | (436) | (332) | - | - | - | - | - | - | (436) | (332) |
| **Total net grants** | **58 280** | **45 397** | **-** | **-** | **-** | **-** | **-** | **-** | **58 280** | **45 397** |
| Other financial assets | 1 393 | 2 531 | - | - | 2 138 | 2 634 | - | - | 3 531 | 5 165 |
| Impairment allowances | - | (21) | - | - | (2 029) | (1 930) | - | - | (2 029) | (1 951) |
| **Total net other financial assets** | **1 393** | **2 510** | **-** | **-** | **109** | **704** | **-** | **-** | **1 502** | **3 214** |
| **Total financial assets at AC** | **882 366** | **760 132** | **56 895** | **67 091** | **37 126** | **31 055** | **402** | **-** | **976 789** | **858 278** |
| Impairment allowances | (4 557) | (3 899) | (4 751) | (4 425) | (17 732) | (15 770) | (402) | - | (27 442) | (24 094) |
| **Total net financial assets at AC** | **877 809** | **756 233** | **52 144** | **62 666** | **19 394** | **15 285** | **-** | **-** | **949 347** | **834 184** |

# 3 Risk Management (cont'd)

**(1) Credit Risk** (cont'd)

Breakdown of financial assets, off-balance sheet items and contingent liabilities by their qualitative assessment, in thousands of euro (cont'd):

| | Stage 1 | | Stage 2 | | Stage 3 | | POCI | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 31.12.2022. | 31.12.2021. | 31.12.2022. | 31.12.2021. | 31.12.2022. | 31.12.2021. | 31.12.2022. | 31.12.2021. | 31.12.2022. | 31.12.2021. |
| Financial assets at FVOCI | | | | | | | | | | |
| Investment securities | 9 515 | 14 051 | - | - | - | - | - | - | 9 515 | 14 051 |
| Impairment allowances | - | - | - | - | - | - | - | - | - | - |
| **Total net investment securities** | **9 515** | **14 051** | **-** | **-** | **-** | **-** | **-** | **-** | **9 515** | **14 051** |
| **Total financial assets at FVOCI** | **9 515** | **14 051** | **-** | **-** | **-** | **-** | **-** | **-** | **9 515** | **14 051** |
| Impairment allowances | - | - | - | - | - | - | - | - | - | - |
| **Total net financial assets at FVOCI** | **9 515** | **14 051** | **-** | **-** | **-** | **-** | **-** | **-** | **9 515** | **14 051** |
| Off-balance sheet items and contingent liabilities | | | | | | | | | | |
| Outstanding guarantees | 443 277 | 378 876 | 29 811 | 32 885 | 7 925 | 3 217 | - | - | 481 013 | 414 978 |
| Impairment allowances * | (32 768) | (28 088) | (4 046) | (3 505) | (5 004) | (2 010) | - | - | (41 818) | (33 603) |
| **Total net outstanding guarantees** | **410 509** | **350 788** | **25 765** | **29 380** | **2 921** | **1 207** | **-** | **-** | **439 195** | **381 375** |
| Loan commitments | 60 106 | 21 730 | 1 125 | 3 755 | 2 | 87 | - | - | 61 233 | 25 572 |
| Impairment allowances * | (1 015) | (484) | (61) | (287) | (1) | (19) | - | - | (1 077) | (790) |
| **Total net loan commitments** | **59 091** | **21 246** | **1 064** | **3 468** | **1** | **68** | **-** | **-** | **60 156** | **24 782** |
| Grant commitments | 47 824 | 11 089 | - | - | - | - | - | - | 47 824 | 11 089 |
| Impairment allowances | (376) | (73) | - | - | - | - | - | - | (376) | (73) |
| **Total net grant commitments** | **47 448** | **11 016** | **-** | **-** | **-** | **-** | **-** | **-** | **47 448** | **11 016** |
| **Total off-balance items and contingent liabilities** | **551 207** | **411 695** | **30 936** | **36 640** | **7 927** | **3 304** | **-** | **-** | **590 070** | **451 639** |
| Impairment allowances | (34 159) | (28 645) | (4 107) | (3 792) | (5 005) | (2 029) | - | - | (43 271) | (34 466) |
| **Total net off-balance items and contingent liabilities** | **517 048** | **383 050** | **26 829** | **32 848** | **2 922** | **1 275** | **-** | **-** | **546 799** | **417 173** |

* Includes net impairment allowances of EUR 5,246 thousand covered by Portfolio Loss Reserve (Special Reserve Capital) upon approval of the 2022 annual report. In the distribution of the 2022 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 34.

# 3 Risk Management (cont'd)

**(1) Credit Risk** (cont'd)

Changes in 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 | POCI | Total | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| **As at 31 December 2021** | **3 545** | **4 425** | **10 173** | | **18 143** | **256 865** | **67 091** | **24 717** | | **348 673** |
| Transfers between stages: | | | | | | | | | | |
| from Stage 1 to Stage 2 | (394) | 833 | - | - | 439 | (25 457) | 22 493 | - | - | (2 964) |
| to credit impaired (from Stage 1 and Stage 2 to Stage 3) | (179) | (242) | 3 943 | - | 3 522 | (6 062) | (9 308) | 12 559 | - | (2 811) |
| from Stage 3 to Stage 2 | - | 25 | (264) | - | (239) | - | 1 074 | (1 310) | - | (236) |
| to 12-months ECL (from Stage 2 and Stage 3 to Stage 1) | 53 | (315) | - | - | (262) | 12 618 | (16 152) | - | - | (3 534) |
| New originated or purchased | 1 020 | 378 | 264 | 413 | 2 075 | 63 610 | 6 704 | 412 | 413 | 71 139 |
| Derecognised during the period | (276) | (490) | (541) | - | (1 307) | (29 630) | (6 205) | (1 613) | - | (37 448) |
| Changes to ECL measurement model assumptions (PD, LGD) | (141) | (202) | (277) | - | (620) | - | - | - | - | - |
| Changes to ECL measurement model assumptions (macroeconomic factors) | 822 | 687 | 122 | - | 1 631 | - | - | - | - | - |
| Other movements | 174 | 696 | - | - | 870 | - | - | - | - | - |
| Write-offs | - | - | (1 117) | - | (1 117) | - | - | (1 117) | - | (1 117) |
| Change of outstanding balance ** | (518) | (1 044) | (488) | (11) | (2 061) | (21 369) | (8 802) | (2 587) | (11) | (32 769) |
| **As at 31 December 2022** | **4 106 *** | **4 751** | **11 815** | **402** | **21 074** | **250 575** | **56 895** | **31 061** | **402** | **338 933** |

* Includes the impairment overlay EUR 2,170 thousand that represents an additional loss reserve for SME and Midcaps portfolio
** Change of outstanding balance includes cash flows from repayment of principal

# 3 Risk Management (cont'd)

**(1) Credit Risk** (cont'd)

Changes in 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 2021** | **28 088** | **3 505** | **2 010** | **33 603** | **378 876** | **32 885** | **3 217** | **414 978** |
| Transfers between stages: | | | | | | | | |
| from Stage 1 to Stage 2 | (1 512) | 1 852 | - | 340 | (16 631) | 15 843 | - | (788) |
| to credit impaired (from Stage 1 and Stage 2 to Stage 3) | (76) | (702) | 3 012 | 2 234 | (967) | (4 732) | 5 023 | (676) |
| from Stage 3 to Stage 2 | - | 17 | (87) | (70) | - | 88 | (136) | (48) |
| to 12-months ECL (from Stage 2 and Stage 3 to Stage 1) | 583 | (929) | (8) | (354) | 6 052 | (5 982) | (8) | 62 |
| New originated or purchased | 10 739 | 316 | 265 | 11 320 | 131 066 | 1 620 | 469 | 133 155 |
| Derecognised during the period | (2 594) | (630) | (314) | (3 538) | (47 566) | (8 021) | (410) | (55 997) |
| Changes to ECL measurement model assumptions (PD, LGD) | 207 | 45 | 251 | 503 | - | - | - | - |
| Changes to ECL measurement model assumptions (macroeconomic factors) | 70 | 11 | 2 | 83 | - | - | - | - |
| Other movements | (954) | 856 | - | (98) | - | | - | - |
| Paid-out guarantees | (4) | (19) | (55) | (78) | (270) | (216) | (94) | (580) |
| Write-offs | - | - | - | - | - | - | - | - |
| Change of outstanding balance ** | (1 779) | (276) | (72) | (2 127) | (7 283) | (1 674) | (136) | (9 093) |
| **As at 31 December 2022** | **32 768 *** | **4 046** | **5 004** | **41 818** | **443 277** | **29 811** | **7 925** | **481 013** |

* includes the impairment overlay EUR 856 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

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

| | Company | Group / Company |
|---|---|---|
| | 31.12.2022. | 31.12.2021. |
| Performing | 314 185 | 326 852 |
| Past due up to 30 days | 11 577 | 10 540 |
| Past due from 31 to 60 days | 2 136 | 2 346 |
| Past due from 61 to 90 days | 503 | 727 |
| Past due over 90 days | 10 532 | 8 208 |
| **Total gross loans, with interest accrued on the loans** | **338 933** | **348 673** |
| Impairment allowances | (21 074) | (18 143) |
| **Total net loans** | **317 859** | **330 530** |

The Company has performed sensitivity analysis of the 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 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.

# 3 Risk Management (cont'd)

**(1) Credit Risk** (cont'd)

Results of the Company's sensitivity analysis of the Company's credit loss allowance for loans as at 31 December 2022, thousands of euro:

| | | Change in GDP | | Change in real estate prices | |
|---|---|---|---|---|---|
| | Gross carrying amount | + 1% | - 1% | + 5% | - 5% |
| Credit loss allowance for loans | 21 074 | (318) | 317 | (532) | 521 |
| **Total credit loss allowance for loans** | **21 074** | **(318)** | **317** | **(532)** | **521** |

Results of the Company's sensitivity analysis of the 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 Company's sensitivity analysis of the Company's credit loss allowance for outstanding guarantees as at 31 December 2022, thousands of euro:

| | | Change in GDP | | Change in real estate prices | |
|---|---|---|---|---|---|
| | Gross carrying amount | + 1% | - 1% | + 5% | - 5% |
| Credit loss allowance for outstanding guarantees | 41 818 | (74) | 90 | (300) | 309 |
| **Total credit loss allowance for loans** | **41 818** | **(74)** | **90** | **(300)** | **309** |

Results of the Company's sensitivity analysis of the 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** |

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 :

| | **Company**<br>31.12.2022. | **Group / Company**<br>31.12.2021. |
|---|---|---|
| Real estate (loans) | 196 417 | 189 991 |
| Real estate (leaseback) | 27 089 | 32 993 |
| Movable property | 47 171 | 43 239 |
| Guarantees | 3 534 | 4 974 |
| **Total collateral** | **274 211** | **271 197** |
| Loan portfolio, gross * | 338 933 | 348 673 |
| Impairment allowances | (21 074) | (18 143) |
| Loan portfolio, net | 317 859 | 330 530 |
| **Exposed** | **13.73%** | **17.95%** |

* includes loans in amount of EUR 31,218 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).

# 3 Risk Management (cont'd)

**(1) Credit Risk** (cont'd)

The 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:

| | Company 31.12.2022. | Group / Company 31.12.2021. |
|---|---|---|
| Assets exposed to credit risk | | |
| Due from credit institutions and the Treasury | 571 667 | 455 006 |
| Financial assets at fair value through other comprehensive income - investment securities | 9 515 | 14 051 |
| Financial assets at amortised cost: | | |
| Investment securities | 39 | 37 |
| Loans and receivables | 317 859 | 330 530 |
| Grants | 58 280 | 45 397 |
| Other investments | 15 246 | 8 936 |
| Investments in associates | 65 381 | 64 949 |
| Other assets | 1 530 | 3 242 |
| **Total** | **1 039 517** | **922 148** |
| Off-balance sheet items exposed to credit risk | | |
| Contingent liabilities (Note 35) | 481 013 | 414 978 |
| Financial commitments (Note 35) | 214 255 | 161 276 |
| **Total** | **695 268** | **576 254** |

Part of subitem "Loans and receivables" are loans to agriculture segment (see Note 18) 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 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 28 and Note 34.

As at 31 December 2022, part of the Company's assets in amount of EUR 187,053 thousand (31 December 2021: EUR 152,296 thousand) were pledged. Detailed information on the Company's outstanding loan agreement as at 31 December 2022 is provided in Note 26 and Note 27.

Article 31 of the Law on State Budget 2022 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 2022 was EUR 236,350 thousand (31 December 2021: EUR 268,256 thousand).

**(2) Liquidity Risk**

Liquidity risk is the risk that the 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 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 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 Company's Resource Management Strategy and the Company's Risk Management Strategy.

# 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 2022, 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 | 14 443 | 21 881 | - | - | - | 36 324 |
| Due to general governments | 11 649 | 38 052 | 52 920 | 31 376 | 48 718 | 182 715 |
| Issued debt securities | 1 605 | 86 226 | - | - | - | 87 831 |
| Support programme funding ** | 68 076 | 29 088 | 211 914 | 46 571 | 19 631 | 375 280 |
| Other liabilities | 2 966 | 789 | - | - | - | 3 755 |
| **Total financial liabilities** | **98 739** | **176 036** | **264 834** | **77 947** | **68 349** | **685 905** |
| Off-balance sheet items and contingent liabilities | 453 774 | 87 645 | 153 849 | - | - | 695 268 |
| **Total financial liabilities, off-balance items and contingent liabilities ***** | **552 513** | **263 681** | **418 683** | **77 947** | **68 349** | **1 381 173** |
| Due from credit institutions and the Treasury | 571 667 | - | - | - | - | 571 667 |
| Investment securities | 76 | 9 478 | - | - | - | 9 554 |
| **Liquid assets** | **571 743** | **9 478** | **-** | **-** | **-** | **581 221** |

* 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 2022 and supporting analysis is presented in table below.

** After expiring of the support programme its funding remains on the 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 117,443 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 2022, 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 | - | 1 615 | 5 631 | 7 197 | 14 443 |
| Due to general governments | 2 055 | 366 | 2 821 | 6 407 | 11 649 |
| Issued debt securities | 721 | 161 | 241 | 482 | 1 605 |
| Support programme funding | 1 404 | 5 078 | - | 61 594 | 68 076 |
| Other liabilities | 2 946 | 11 | - | 9 | 2 966 |
| **Total financial liabilities** | **7 126** | **7 231** | **8 693** | **75 689** | **98 739** |
| Off-balance sheet items and contingent liabilities * | 417 734 | 6 970 | 10 015 | 19 055 | 453 774 |
| **Total financial liabilities, off-balance items and contingent liabilities** | **424 860** | **14 201** | **18 708** | **94 744** | **552 513** |
| Due from credit institutions and the Treasury | 539 667 | - | - | 32 000 | 571 667 |
| Investment securities | 39 | - | - | 37 | 76 |
| **Liquid assets** | **539 706** | **-** | **-** | **32 037** | **571 743** |

* 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 35.

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

Outstanding financial guarantees in amount of EUR 305,468 thousand (up to 1 year) – from respective guarantee support programme funding (see Note 28) and Specific reserve capital (see Note 34). 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 61,233 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 26 and 27) and respective loan support programme funding (see Note 28).

Grant commitments in amount of EUR 47,824 thousand (up to 1 year) – from respective grant support programme funding (see Note 28).

Commitments to investments in associates in amount of EUR 29,228 thousand (up to 1 year) – from respective venture capital fund support programme funding (see Note 28).

Commitments to AIF "Altum capital fund" in amount of EUR 3,121 thousand (up to 1 year) – from specific reserve capital (see Note 34) and additional funding from shareholders expected in 2022.

Commitments to other investments in amount of EUR 6,900 thousand (up to 1 year) – for Baltic Innovation Fund 2 from support programme funding, repayments on different support programmes and the 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 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 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 investments in associates and other investments, are presented in Note 35.

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 28) and Specific reserve capital (see Note 34). 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 26 and 27) and respective loan support programme funding (see Note 28).

Grant commitments in amount of EUR 11,089 thousand (up to 1 year) – from respective grant support programme funding (see Note 28).

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 28).

Commitments to AIF "Altum capital fund" in amount of EUR 32,124 thousand (up to 1 year) – from specific reserve capital (see Note 34) and additional funding from shareholders expected in 2021.

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.

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

# 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 2022 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 | 539 667 | - | - | 32 000 | - | - | 571 667 |
| Investment securities | 39 | - | - | 37 | 9 478 | - | 9 554 |
| Loans * | 13 075 | 16 063 | 18 606 | 31 364 | 125 886 | 112 865 | 317 859 |
| Grants | 871 | 220 | 10 040 | 2 014 | 44 569 | 566 | 58 280 |
| Deferred expense and accrued income | - | 143 | - | 1 128 | - | - | 1 271 |
| Other investments | - | - | - | - | - | 15 741 | 15 741 |
| Investments in associates | 3 733 | - | - | 10 775 | 21 241 | 28 896 | 64 645 |
| Investment property | - | - | - | - | - | 53 453 | 53 453 |
| Property, plant and equipment | - | - | - | - | - | 4 448 | 4 448 |
| Intangible assets | - | - | - | - | - | 1 140 | 1 140 |
| Other assets | 981 | 99 | 21 | 45 | 384 | - | 1 530 |
| **Total assets** | **558 366** | **16 525** | **28 667** | **77 363** | **201 558** | **217 109** | **1 099 588** |
| Liabilities | | | | | | | |
| Due to credit institutions | - | 1 605 | 5 625 | 7 187 | 21 873 | - | 36 290 |
| Due to general governments | 1 428 | 366 | 1 773 | 4 300 | 42 019 | 103 898 | 153 784 |
| Issued debt securities | (1) | 505 | 2 | 38 | 84 969 | - | 85 513 |
| Deferred income and accrued expense | 67 | 298 | 362 | - | 951 | - | 1 678 |
| Liabilities from financial guarantees and Provisions for off-balance sheet liabilities ** | 43 454 | 354 | 440 | 534 | 1 680 | 843 | 47 305 |
| Support programme funding | 1 404 | 5 078 | - | 61 594 | 29 088 | 278 116 | 375 280 |
| Other liabilities | 2 946 | 11 | - | 9 | 789 | - | 3 755 |
| **Total liabilities** | **49 298** | **8 217** | **8 202** | **73 662** | **181 369** | **382 857** | **703 605** |
| **Net liquidity** | **509 068** | **8 308** | **20 465** | **3 701** | **20 189** | **(165 748)** | **395 983** |

* With regard to loans and advances to customers, the Company uses the same basis of expected repayment behaviour as used for estimating the effective interest rate. Investments in securities reflect their contractual coupon amortisations.
** Deferred income for premiums for guarantees 4,035 thousand euro (in 2021: 3,768 thousand euro) are added to the Liabilities from financial guarantees.

# 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 |
| 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 | 10 | 63 | - | 1 761 | 951 | - | 2 785 |
| Liabilities from financial guarantees and Provisions for off-balance sheet liabilities ** | 34 642 | 338 | 418 | 472 | 1 541 | 823 | 38 234 |
| 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 Company uses the same basis of expected repayment behaviour as used for estimating the effective interest rate. Investments in securities reflect their contractual coupon amortisations.
** Deferred income for premiums for guarantees 3,768 thousand euro are added to the Liabilities from financial guarantees.

**(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 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 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 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 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 Company's interest income and expenses over 12-month period, with all other variables held constant:

All amounts in thousands of euro

| | Company<br>31.12.2022. | Group / Company<br>31.12.2021. |
|---|---|---|
| Change in interest rates by +100 bps | 1 123 | 742 |
| Change in interest rates by -100 bps | (58) | 166 |

Considering the rapid increase in interest rates in 2022, the Company performed an additional interest rate sensitivity analysis regarding the impact of change in interest rates by 100 bps on the Company's interest income and expenses over 12-month period, with all other variables held constant, and the results of this sensitivity analysis are reflected in the table below:

All amounts in thousands of euro

| | Company<br>31.12.2022. | Group / Company<br>31.12.2021. |
|---|---|---|
| Change in interest rates by +200 bps | 2 246 | 1 484 |
| Change in interest rates by -200 bps | (116) | 331 |
| Change in interest rates by +300 bps | 3 369 | 2 226 |
| Change in interest rates by -300 bps | (174) | 497 |

**(4) Foreign Currency Risk**

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

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

| | Company<br>31.12.2022. | Group / Company<br>31.12.2021. |
|---|---|---|
| EUR | | |
| Financial assets | 1 039 177 | 921 480 |
| Financial liabilities | 790 796 | 494 449 |
| **Net position** | **248 381** | **427 031** |
| USD | | |
| Financial assets | 99 | 668 |
| Financial liabilities | - | - |
| **Net position** | **99** | **668** |
| GBP | | |
| Financial assets | - | - |
| Financial liabilities | - | - |
| **Net position** | - | - |

Based on the net current position of the Company as at 31.12.2022 and 31.12.2021, if the exchange rate for the US dollar changes according to the scenario presented, the possible changes in the Company's total capital (excluding tax effects) would be as follows:

All amounts in thousands of euro

| | Company<br>31.12.2022. | Group / Company<br>31.12.2021. |
|---|---|---|
| Change in USD/EUR exchange rates by +5% | (5) | (33) |
| Change in USD/EUR exchange rates by -5% | 5 | 33 |

# 3 Risk Management (cont'd)

**(5) Operational Risk**

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

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

**(6) AML / CTF / sanctions risk**

The Company is subject to the Law on the Prevention of Money Laundering and Terrorism and Proliferation Financing (AML/CTF) and strictly complies with the international legal acts and legal acts of the Republic of Latvia which regulate prevention of legalization of proceeds derived from financing of terrorism and proliferation and ensures compliance with sanction lists. The internal control system of the 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 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 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.

Considering the Russian Federation's invasion of Ukraine, starting from February 2022, the Company has limited all types of cooperation with citizens of the Russian Federation and the Republic of Belarus and their related companies.

As a result of the Russian Federation's invasion of Ukraine, the EU and the rest of the world imposed sanctions against the Russian Federation and the Republic of Belarus and their legal subjects. In order to reduce the risk of sanctions, the Company established additional control measures both during the allocation of financial instruments and the monitoring of business relationships, in addition, changes have been made to the Company's policy of legalization of proceeds of crime and the prevention of terrorist financing and proliferation and compliance with sanctions, stipulating that the Company refrains from cooperation with clients, where the owners, beneficial owners or business leaders are citizens of the Russian Federation or Belarus. The Company does not support transactions in which funds are intended to be used to purchase goods/services from persons registered in the Russian Federation or the Republic of Belarus.

The Company continuously monitors the changes in sanctions, as well as continuously and attentively follows the development of the situation in Ukraine. The Company takes monitoring measures to reduce as much as possible the possible direct or indirect impact on Altum's operations from events in Ukraine or because of sanctions against the Russian Federation and the Republic of Belarus, including but not limited to additionally monitoring transactions with clients whose core business could be affected by the events in Ukraine, and the sanctions introduced against the Russian Federation and the Republic of Belarus.

Within the scope of sanctions risk management, the Company thoroughly analyses customers and their cooperation partners, where there is a connection with countries that have information that they are involved or could be involved in the circumvention of the established sanctions against the Russian Federation and the Republic of Belarus.

In 2022, in addition to the annual training of employees on AML/CTF risk and Sanctions risk management, the Company also conducted regular internal target trainings, which were focused on a current topic, considering the duties of the employees, the knowledge required for the level of responsibility and authority.

# 3 Risk Management (cont'd)

**(7) Capital Management**

Capital management is forward-looking and aligned with short-term and long-term business plans and the macroeconomic environment.

Capital management ensures that the 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 Company 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 2020, as delegated by the government, the Company 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 Company 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.

Covid-19 loan and guarantee portfolio as at 31 December 2022 was EUR 31,218 thousand (31 December 2021: EUR 58,832 thousand) and EUR 16,433 thousand (31 December 2021: EUR 27,861 thousand) respectively. For detailed information on full set of Covid-19 products see Management Report.

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 16 September 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 2022 the total assets of the Fund managed by the Company constitutes EUR 34,629 thousand (31 December 2021: 30,772). The investment period of the Fund ended on 30 June 2022.

During the reporting year, the spreading of Covid-19 continued to affect the Fund's portfolio and target companies, as well as the overall Latvian economy, but to a lesser extent than in the previous reporting period. Although there were no restrictions imposed, the volatility of raw material prices, value chain disruptions, remote work and other factors continue to have an effect.

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

The Company has recognised uncertainty regarding duration and severity of Covid-19 situation and associated possible disruptions to the economy and customers of the Company. The 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).

# 3 Risk Management (cont'd)

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

*(iii) Covid-19 impact on loan portfolio*

Analysis of the Company's loan portfolio by client segments as at 31 December 2022, 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 * | 46 | 1 | - | - | - | - | 46 | 1 |
| Agriculture * | 139 654 | 540 | 12 913 | 313 | 6 942 | 2 073 | 159 509 | 2 926 |
| SME and Midcaps | 81 255 | 2 077 | 43 781 | 3 740 | 22 333 | 9 813 | 147 369 | 15 630 |
| of which, | | | | | | | | |
| *Covid-19 crisis related working capital loans* | *11 234* | *498* | *12 902* | *874* | *7 082* | *4 525* | *31 218* | *5 897* |
| *Daily loan products* | *70 021* | *1 579* | *30 879* | *2 866* | *15 251* | *5 288* | *116 151* | *9 733* |
| Private individuals | 3 318 | 12 | 201 | 3 | 1 401 | 328 | 4 920 | 343 |
| Land Fund | 26 302 | 2 | - | - | 787 | 3 | 27 089 | 5 |
| **Total segments, gross** | **250 575** | **2 632** | **56 895** | **4 056** | **31 463** | **12 217** | **338 933** | **18 905** |
| Impairment overlay * | - | 269 | - | - | - | - | - | 269 |
| **Total segments, net** | **250 575** | **2 901** | **56 895** | **4 056** | **31 463** | **12 217** | **338 933** | **19 174** |

* The classification of customer segments is changed in 2022, determining that loans with the support program code "Agricultural Credit Fund Loans", classified as Financial Intermediaries in 2021, are assigned to the segment Agriculture.

** 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 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.

# 3 Risk Management (cont'd)

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

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

Loans issued by the 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 2022, in thousands euro:

| | Gross loans 31.12.2022. | (Decrease) in 2022 | Issued in 2022 | Issued in 2021 | Impairment allowance 31.12.2022. | Changes to 31.12.2021. | Net loans 31.12.2022. | % of Total Gross loans, SME & Midcap |
|---|---|---|---|---|---|---|---|---|
| Covid-19 more exposed industries | | | | | | | | |
| Retail | 2 053 | (2 142) | 555 | 1 768 | 393 | 84 | 1 660 | 1.4% |
| Tourism services | 1 711 | (861) | 572 | 521 | 194 | (68) | 1 517 | 1.2% |
| Land transport services | 1 468 | (572) | 250 | 1 625 | 91 | 16 | 1 377 | 1.0% |
| Hotels and restaurants | 1 259 | (1 562) | 344 | 600 | 265 | 58 | 994 | 0.9% |
| Art, entertainment and leasure | 1 224 | (366) | 2 676 | 1 518 | 152 | 10 | 1 072 | 0.8% |
| Beauty | 64 | (36) | - | 100 | 4 | (1) | 60 | 0.0% |
| **Total Covid-19 more exposed industries** | **7 779** | **(5 539)** | **4 397** | **6 132** | **1 099** | **99** | **6 680** | **5.3%** |
| Covid-19 less exposed industries | | | | | | | | |
| Manufacturing | 6 714 | (8 163) | 426 | 5 596 | 915 | (98) | 5 799 | 4.6% |
| Construction | 5 491 | (2 364) | 617 | 2 906 | 2 197 | 1 435 | 3 294 | 3.7% |
| Wholesale | 5 164 | (5 614) | 245 | 1 771 | 972 | 38 | 4 192 | 3.5% |
| Transport, warehousing and communications | 2 247 | (844) | 759 | 1 040 | 372 | 202 | 1 875 | 1.5% |
| Information technologies and communication | 1 041 | (1 342) | 30 | 640 | 44 | (11) | 997 | 0.7% |
| Professional, science and technical services | 857 | (1 004) | - | 547 | 162 | 89 | 695 | 0.6% |
| Municipal authorities | 598 | (301) | - | 305 | 30 | (5) | 568 | 0.4% |
| Real estate | 357 | (133) | - | 100 | 17 | 3 | 340 | 0.2% |
| Electricity, gas and water utilities | 108 | (349) | - | 34 | 25 | 8 | 83 | 0.1% |
| Health and social care | 52 | (106) | - | 45 | 2 | (2) | 50 | 0.0% |
| Forestry | - | (1 432) | - | 218 | - | (94) | - | 0.0% |
| Other industries | 810 | (423) | 250 | 310 | 62 | 28 | 748 | 0.5% |
| **Total Covid-19 less exposed industries** | **23 439** | **(22 075)** | **2 327** | **13 512** | **4 798** | **1 593** | **18 641** | **15.9%** |
| **Total Covid-19 crisis related working capital loans** | **31 218** | **(27 614)** | **6 724** | **19 644** | **5 897** | **1 692** | **25 321** | **21.2%** |

The support instruments related to the mitigation of the consequences of Covid-19 were issued in Latvia until 30 June 2022, in compliance with the regulatory framework established by the EU. It should be noted that the portfolio of the Covid loan product is amortizing rapidly, as the average remaining loan term is 1.4 years.

# 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 2022, in thousands euro:

| | Gross loans 31.12.2022. | Increase/ (decrease) in 2022 | Issued in 2022 | Issued in 2021 | Impairment allowance 31.12.2022. | Increase/ (decrease) in 2022 | Net loans 31.12.2022. | % of Total Gross loans, SME & Midcap |
|---|---|---|---|---|---|---|---|---|
| Covid-19 more exposed industries | | | | | | | | |
| Hotels and restaurants | 3 510 | (1 090) | 767 | 1 947 | 259 | (76) | 3 251 | 2.4% |
| Retail | 2 722 | 843 | 1 781 | 604 | 126 | 16 | 2 596 | 1.8% |
| Art, entertainment and leasure | 2 083 | 242 | 985 | 598 | 444 | 149 | 1 639 | 1.4% |
| Beauty and sports | 639 | (5) | 186 | 55 | 273 | 22 | 366 | 0.4% |
| Land transport services | 530 | (5) | 339 | 264 | 27 | 6 | 503 | 0.4% |
| Tourism services | 310 | (23) | - | - | 83 | (23) | 227 | 0.2% |
| **Total Covid-19 more exposed industries** | **9 794** | **(38)** | **4 058** | **3 468** | **1 212** | **94** | **8 582** | **6.6%** |
| Covid-19 less exposed industries | | | | | | | | |
| Manufacturing | 48 811 | (3 686) | 15 649 | 20 815 | 3 604 | (490) | 45 207 | 33.1% |
| Real estate | 15 321 | 2 091 | 5 167 | 5 387 | 1 475 | (472) | 13 846 | 10.4% |
| Electricity, gas and water utilities | 8 527 | 2 865 | 3 967 | 596 | 869 | 17 | 7 658 | 5.8% |
| Health and social care | 7 189 | 1 451 | 3 099 | 2 420 | 494 | 306 | 6 695 | 4.9% |
| Wholesale | 6 134 | (1 255) | 1 476 | 3 008 | 579 | 22 | 5 555 | 4.2% |
| Municipal authorities | 5 073 | 35 | 1 570 | 1 577 | 110 | 90 | 4 963 | 3.4% |
| Construction | 4 473 | 141 | 1 949 | 2 344 | 225 | 12 | 4 248 | 3.0% |
| Transport, warehousing and communications | 2 723 | 1 533 | 2 010 | 792 | 280 | 89 | 2 443 | 1.8% |
| Professional, science and technical services | 2 547 | (506) | 770 | 1 143 | 73 | 37 | 2 474 | 1.7% |
| Fishery | 1 680 | (404) | 36 | 761 | 342 | 223 | 1 338 | 1.1% |
| Information technologies and communication | 945 | 369 | 517 | 196 | 278 | 214 | 667 | 0.6% |
| Forestry | - | (2 691) | - | 1 320 | - | (54) | - | 0.0% |
| Other industries | 2 934 | 8 | 1 258 | 1 648 | 192 | 7 | 2 742 | 2.0% |
| **Total Covid-19 less exposed industries** | **106 357** | **(49)** | **37 468** | **42 007** | **8 521** | **1** | **97 836** | **72.2%** |
| **Total daily (ordinary) loan products** | **116 151** | **(87)** | **41 526** | **45 475** | **9 733** | **95** | **106 418 *** | **78.8%** |

* excludes impairment overlay in amount of EUR 269 thousand 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).

The situation caused by Covid-19 has not eased the credit application evaluation process applicable to the daily support product portfolio, including the accepted credit risk level, the applicable credit rating, the expected debt servicing capacity, collateral evaluation processes. Such a process also applies to specific support instruments related to the mitigation of the consequences of Covid-19 - working capital loans.

It should be noted that as a result of the credit relief provided to the SME segment (Covid-19 moratorium), the quality of the credit portfolio has not deteriorated when customers return to the usual payment schedule after the end of the credit relief.

The largest exposures of the Company's loan portfolio by segments/sectors in 2022 and the impact of Covid-19 on them:

- In the agricultural segment, in 2022, there was an increase in the prices of raw materials and energy resources, and this was followed by an increase in sales prices. The companies of the agricultural segment have concluded the 2022 season with reasonably good financial results. It should also be mentioned that the agricultural segment is heavily subsidized and loans to this segment are mostly secured by agricultural land, which is conservatively valued. Therefore, the Company does not see a deterioration in the quality of the credit portfolio of this segment, which would have been affected by the Covid-19 crisis.

# 3 Risk Management (cont'd)

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

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

- Manufacturing in the SME segment. Taking into account the restrictions on the entertainment, catering, tourism and other service industries, public consumption trends were significantly affected, and a larger part of income was directed to the purchase of various goods, which strengthened the sales volumes of processing companies. The sub-sector of the manufacturing industry, which experienced the sharpest fluctuations during 2022, is woodworking - on the one hand, the trend continued in 2022 with rapidly growing sales prices, but on the other hand, the economic sanctions against Belarus and Russian Federation have created new challenges in the availability of raw materials and additional risks for companies in the sector , including possible sharp changes in product prices following demand corrections. The manufacturing industry shows reasonably good results. Therefore, it can be concluded that the negative impact of Covid-19 on the operations of companies in the sector has been insignificant.
- The second largest industry in terms of loan portfolio volume in the SME segment is real estate operations. The most affected were real estate portfolios, where the hotel business is located, as well as shopping centers. Positive trends were observed in the 2nd and 3rd quarters of 2022, as the Covid restrictions were significantly reduced. On the other hand, in the office segment, the majority of office workers have had to work remotely and for many, working from home is still everyday, therefore the question of the need for offices in the future has become relevant in the real estate industry. Covid restrictions had an insignificant impact on the warehouse segment, as thanks to the boom in e-commerce, the volume of delivered goods has increased significantly. At the same time, the demands of buyers to ensure the speed of delivery of goods create an additional demand for warehouse space.
- The third largest sector by the size of the loan portfolio is energy. Recently, a transformation of the industry has been observed, with more and more investments being diverted to electricity and heat generation projects from renewable resources. In 2022, the industry experienced large price fluctuations both in raw material purchases and sales prices. In the summer of 2022, there was great uncertainty about the availability of fossil fuels, thus the record price of oil, natural gas, electricity and energy wood was reached. Thanks to the rapid diversification of supply chains and the relatively warm weather conditions, the prices of raw materials started to fall in the 4th quarter of 2022. In the near future, a stable flow of investments in new energy projects is predicted, thanks to which the prices of electricity and thermal energy could stabilize in the long term. It should be noted that the negative impact of Covid-19 on the operations of companies in the sector has been insignificant and the sharp fluctuations experienced by the sector in 2022 are related to the Russian Federation invasion of Ukraine and the sanctions against Russian Federation.
- In the wholesale sector, similarly to the manufacturing sector, the impact of the Covid-19 crisis has been different depending on the sub-sector. For example, lumber wholesalers have similar challenges to manufacturers in the woodworking industry. Fuel and fuel traders have been able to take advantage of the positive effect of rising prices, however, additional rising prices could have a negative impact on demand in the long term. On the positive side, most companies in this industry have reasonably high equity ratios and the owners were able to financially support the companies.
- The relatively largest exposures of the loan portfolio from the sectors most affected by Covid-19 are in the Accommodation and catering services and retail trade sectors. In the summer of 2022, companies in the accommodation and catering services sector were able to promptly respond to the growing demand, thus ensuring a significant increase in turnover, which, however, did not reach pre-pandemic levels. In the retail sector, the reporting period was challenging for all sub-sectors, especially in the 2nd and 3rd quarter of 2022, rapidly rising prices, which continued in the 4th quarter as well, could have a negative impact on consumer demand in the long term, but this trend has not been formed under the influence of Covid-19.

Basically, with the end of the restrictions of Covid-19 and the recovery of supply chains that were disrupted during Covid-19, it can be considered that the negative impact of Covid-19 on the economic activity of companies has ended. Regarding the Russian Federation invasion of Ukraine, the sanctions directed against Russian Federation, their indirect impact on companies through the rapid increase in energy resource prices, the shortage of raw materials and changes in supply chains, see below in detail Annex 3 (9) note Impact of the Russian Federation invasion of Ukraine.

# 3 Risk Management (cont'd)

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

*(iv) Covid-19 impact on guarantee portfolio*

Analysis of the Company's guarantees portfolio by client segments as at 31 December 2022, 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 | 10 409 | 1 568 | 2 213 | 113 | 179 | 130 | 12 801 | 1 811 |
| SME and Midcaps | 170 602 | 10 251 | 27 271 | 3 033 | 7 512 | 4 645 | 205 385 | 17 929 |
| of which, | | | | | | | | |
| *Covid-19 crisis related guarantees ** | *3 933* | *271* | *8 658* | 758 | 3 842 | 2 544 | 16 433 | 3 573 |
| *Daily guarantees products* | *166 669* | *9 980* | *18 613* | 2 275 | 3 670 | 2 101 | 188 952 | 14 356 |
| Private individuals | 262 266 | 20 949 | 327 | 44 | 234 | 229 | 262 827 | 21 222 |
| **Total segments, gross** | **443 277** | **32 768** | **29 811** | **3 190** | **7 925** | **5 004** | **481 013** | **40 962** |
| Impairment overlay | - | - | - | - | - | - | - | - |
| **Total segments, net** | **443 277** | **32 768** | **29 811** | **3 190** | **7 925** | **5 004** | **481 013** | **40 962** |

* Includes SME loan credit holiday guarantees and portfolio guarantees

Analysis of the 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

** Includes impairment overlay 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)*

Guarantees issued by the Company to SME and Midcap client segment are split between specific Covid-19 related support instrument – SME loan credit holiday guarantees and portfolio 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 2022, in thousands euro:

| | Gross outstanding guarantees 31.12.2022. | (Decrease) in 2022 | Issued in 2022 | Issued in 2021 | Impairment allowance | Increase/ (decrease) in 2022 | Net outstanding guarantees 31.12.2022. | % of Total gross outstanding guarantees, SME & Midcap |
|---|---|---|---|---|---|---|---|---|
| Covid-19 more exposed industries | | | | | | | | |
| Hotels and restaurants | 3 780 | (1 379) | - | - | 446 | (204) | 3 334 | 1.8% |
| Passenger transport services | 1 344 | (1 696) | - | 1 457 | 162 | (263) | 1 182 | 0.7% |
| Retail | 996 | - | - | 304 | 30 | (31) | 966 | 0.5% |
| Art, entertainment and leasure | 323 | (29) | - | - | 29 | (2) | 294 | 0.2% |
| **Total Covid-19 more exposed industries** | **6 443** | **(3 104)** | **-** | **1 761** | **667** | **(500)** | **5 776** | **3.1%** |
| Covid-19 less exposed industries | | | | | | | | |
| Wholesale | 6 012 | (1 118) | - | 4 735 | 2 607 | 1 650 | 3 405 | 2.9% |
| Manufacturing | 1 547 | (6 011) | - | 2 794 | 77 | (555) | 1 470 | 0.8% |
| Municipal authorities | 1 381 | (580) | - | 1 352 | 185 | (100) | 1 196 | 0.7% |
| Construction | 778 | (12) | - | - | 10 | (29) | 768 | 0.4% |
| Health and social care | 206 | (16) | - | - | 12 | (8) | 194 | 0.1% |
| Forestry | 33 | (339) | - | - | 10 | (45) | 23 | 0.0% |
| Information technologies and communication | 33 | (8) | - | 32 | 5 | (2) | 28 | 0.0% |
| Electricity, gas and water utilities | - | (239) | - | - | - | (27) | - | 0.0% |
| **Total Covid-19 less exposed industries** | **9 990** | **(8 323)** | **-** | **8 913** | **2 906** | **884** | **7 084** | **4.9%** |
| **Total specific COVID-19 related guarantee products *** | **16 433** | **(11 427)** | **-** | **10 674** | **3 573** | **384** | **12 860** | **8.0%** |

* Includes SME loan credit holiday guarantees and portfolio guarantees.

The support instruments related to the mitigation of the consequences of Covid-19 were issued in Latvia until 30 June 2022, in compliance with the regulatory framework established by the EU. It should be noted that the portfolio of Covid guarantees is amortizing rapidly, as the average remaining guarantee period is 1.6 years.

# 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 2022, in thousands euro:

| | Gross outstanding guarantees 31.12.2022. | Increase/ (decrease) in 2022 | Issued in 2022 | Issued in 2021 | Impairment allowance | Increase/ (decrease) in 2022 | Net outstanding guarantees 31.12.2022. | % of Total gross outstanding guarantees, SME & Midcap |
|---|---|---|---|---|---|---|---|---|
| Covid-19 more exposed industries | | | | | | | | |
| Retail | 8 792 | 3 132 | 1 971 | 1 766 | 945 | 256 | 7 847 | 4.3% |
| Passenger transport services | 1 558 | 332 | 106 | 441 | (122) | (146) | 1 680 | 0.8% |
| Hotels and restaurants | 517 | (6) | 8 | 45 | 95 | 34 | 422 | 0.3% |
| Art, entertainment and leasure | 216 | (84) | 24 | 182 | 18 | (5) | 198 | 0.1% |
| **Total Covid-19 more exposed industries** | **11 083** | **3 374** | **2 109** | **2 434** | **936** | **139** | **10 147** | **5.4%** |
| Covid-19 less exposed industries | | | | | | | | |
| Manufacturing | 56 630 | 694 | 6 403 | 20 713 | 4 345 | 265 | 52 285 | 27.6% |
| Wholesale | 47 671 | 4 446 | 4 637 | 13 921 | 2 670 | 761 | 45 001 | 23.2% |
| Construction | 40 874 | 9 630 | 2 994 | 5 361 | 4 092 | 1 857 | 36 782 | 19.9% |
| Forestry | 10 874 | 1 902 | - | 1 977 | 297 | (81) | 10 577 | 5.3% |
| Transport, warehousing and communications | 5 426 | (947) | - | 396 | 569 | 19 | 4 857 | 2.6% |
| Real estate | 3 418 | (1 608) | 40 | 1 704 | 393 | (14) | 3 025 | 1.7% |
| Professional, science and technical services | 5 623 | 1 084 | 1 575 | 1 242 | 489 | 174 | 5 134 | 2.7% |
| Information technologies and communication | 2 488 | (368) | 92 | 1 059 | 176 | 23 | 2 312 | 1.2% |
| Municipal authorities | 2 229 | 57 | 359 | 1 006 | 229 | 6 | 2 000 | 1.1% |
| Electricity, gas and water utilities | 1 610 | 802 | 726 | 386 | 74 | 39 | 1 536 | 0.8% |
| Health and social care | 639 | 45 | 137 | 164 | 61 | (2) | 578 | 0.3% |
| Other industries | 387 | (115) | 20 | 89 | 25 | (8) | 362 | 0.2% |
| **Total Covid-19 less exposed industries** | **177 869** | **15 622** | **16 983** | **48 018** | **13 420** | **3 039** | **164 449** | **86.6%** |
| **Total daily (ordinary) guarantee products** | **188 952** | **18 996** | **19 092** | **50 452** | **14 356** | **3 178** | **174 596** | **92.0%** |

The situation caused by Covid-19 has not eased the process of evaluating the guarantees applicable to everyday guarantee products, including the assumed level of credit risk, the credit rating applied to customers, the expected ability to service debt. This process also applies to specific support instruments related to mitigating the consequences of COVID-19 - credit holiday guarantees, portfolio guarantees.

The largest exposures of the Company's guarantee portfolio by segments/sectors in 2022 and the impact of Covid-19 on them:

- Manufacturing industry in the SME segment is the largest sector not only in the SME loan portfolio, but also in the SME guarantee portfolio. For a description of this sector, see the loan portfolio sector analysis above.
- The second largest sector in terms of the volume of the guarantee portfolio is wholesale. For a description of this sector, see the loan portfolio sector analysis above.
- Construction, which is the third largest sector in the SME guarantee portfolio, was affected both directly and indirectly by the Covid-19 crisis. Due to restrictions on movement and illness of employees, the construction process was delayed in many companies and the cash flow of the company suffered accordingly. In 2022, the easing of travel conditions allows Latvian companies to return to the Scandinavian market. Many industries that were directly affected by Covid-19 refused to implement construction projects or postponed them to a later period. However, in general, the industry shows good results in 2022. In the near term, the main challenges are adapting to changes in material supply chains and new payment conditions, which disrupt the usual project financing balance, as well as the challenge will be the rising costs of construction materials, which can cause significant losses to those construction companies whose projects the customers refuse to revise estimates and increase project financing.

# 3 Risk Management (cont'd)

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

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

- Regarding the retail sector, which has the largest exposure of the guarantee portfolio among the sectors most affected by Covid-19, see above under the analysis of the loan portfolio sectors.

Basically, with the end of the restrictions of Covid-19 and the recovery of supply chains that were disrupted during Covid-19, it can be considered that the negative impact of Covid-19 on the economic activity of companies has ended. Regarding the Russian Federation invasion of Ukraine, the sanctions directed against Russian Federation, their indirect impact on companies through the rapid increase in energy resource prices, the shortage of raw materials and changes in supply chains, see below in detail Annex 3 (9) note *Impact of the Russian invasion of Ukraine*.

*(v) Investments in venture capital funds*

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

The Covid-19 crisis hindered 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 did not negatively impact any Company's undertaken commitments.

The activity of venture capital fund managers became active in the second half of 2022, when the restrictions of Covid-19 ended. It can be considered that the negative impact of Covid-19 on investments in venture capital funds has ended.

**(9) The Russian military invasion of Ukraine and related sanctions' impact**

The ongoing war in Ukraine and the related sanctions directed against the Russian Federation, as well as against Belarus, create social and economic effects in Latvia and the region, as well as affect the Company. This has triggered an energy crisis, an increase in inflation and a sharp rise in interest rates. This indirectly affects our portfolio. This leads to significant adjustments to the accounting value of assets and liabilities during 2022. We describe below how we have assessed the direct and indirect impact of these events.

The Company does not issue loans directly to companies in Ukraine, the Russian Federation and Belarus. Contracts with business partners for the execution of settlements with clients, as well as for concluding financial transactions to ensure the Company's liquidity and asset and liability management, are concluded only with financial institutions registered in the Republic of Latvia.

In the guarantee portfolio, there is a direct impact from the export credit guarantees issued by the Company for the compensation of losses of political and buyer risks in trade transactions where the business partners of the Company's clients are residents of Ukraine, the Russian Federation and Belarus. In the 1st quarter of 2022, impairment overlay of 1,587 thousand euros was established for expected credit losses for such high-risk exposures of export credit guarantees, while simultaneously Company was taking the necessary measures to reduce the possible impact. Since 25 February 2022, the company suspended the issuance of new export guarantees to the Russian Federation and Belarus, as well as in agreement with customers, where possible, terminated contracts, as a result of which the amount of risk transactions to the Russian Federation and Belarus was gradually reduced. As a result of the above-mentioned measures, the Company currently has no high-risk exposure where the customer's business partners are in the Russian Federation or Belarus and for which it would be necessary to create impairment overlay Of the exposures for which an impairment overlay was made, only one case resulted in a compensation of EUR 262 thousand.

The Company has made investments in AIF Altum Capital Fund. In the context of the Russian Federation war in Ukraine, the Altum Capital Fund's investment portfolio is diversified both by sectors and by the regions in which the portfolio companies generate revenues, which is seen as a loss mitigating factor. The impact of the Russian Federation war in Ukraine on each of the five portfolio companies is therefore different.

# 3 Risk Management (cont'd)

**(9) The Russian military invasion of Ukraine and related sanctions' impact** (cont'd)

Direct impact - cutting off cooperation with Russia and Belarus as well as scaling back activities in war-torn Ukraine have affected two portfolio companies. Both companies used to generate a significant part of their revenues in these countries and have applied measures to sever their links with the aggressor countries and to develop or stabilise their activities in the new reality. The value of the Company's investment in AIF Altum Capital Fund decreased by EUR 234 thousand in 12 months of 2022 as a result of the portfolio revaluation.

To assess the indirect impact of the Russian Federation invasion of Ukraine, the Company analyses and in case of significant changes revises the forward-looking forecasts of macroeconomic indicators in a number of scenarios used to calculate expected losses on a quarterly basis.

At the beginning of 2022, it was forecasted that geopolitical factors would have a stronger impact in the second half of 2022. However, in Q4 2022, the Ministry of Finance and the Bank of Latvia published updated macroeconomic forecasts predicting a slowdown in economic growth in early 2023 due to the sharp increase in global energy prices and the significant decrease in consumption due to the fall in purchasing power, as a result, there were revised the scenarios the Company used for estimating expected losses. In parallel to the revision of the macroeconomic forecasts, the Company improved its expected loss methodology by including three economic scenarios in the forecasts used to estimate expected losses starting from Q3 2022:

- a baseline scenario, which forecasts the most likely future economic development, taking into account the impact of the Russian Federation invasion of Ukraine and the sharp increase in commodity and energy prices, as well as the impact on Latvia's economic growth rates of sanctions imposed against Russian Federation and Belarus,
- an adverse scenario, which foresees a less likely but potentially negative change, reflecting the larger and more persistent impact of the geopolitical crisis and sanctions, commodity and energy price increases compared to the baseline scenario,
- an optimistic scenario, which is less likely but potentially more favourable than the baseline scenario.

Summarised below are the annual GDP growth rates derived from external macroeconomic forecasts, which are among the key input variables in the expected loss model:

| | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|
| GDP annual growth rate, in % | | | | |
| Base case scenario * | 2.90 | 0.40 | 3.70 | 3.40 |
| Adverse scenario | 1.20 | -2.00 | 3.70 | 3.40 |
| Optimistic scenario | 4.40 | 2.50 | 3.70 | 3.40 |
| **Weighted average ****| **2.70** | **0.10** | **3.70** | **3.40** |

* The baseline scenario combines two external scenarios:

(i) the macroeconomic development scenario of the Ministry of Finance (published on 6 December 2022) projects GDP slower growth – the sanctions imposed against Russian Federation and Belarus, the difficulties in doing business with Ukraine, and sharp price increase, especially of energy prices, will result in GDP growth falling to 1.6% in 2022 and in 2023 in GDP falling by 0.6% (the December 2021 forecast was 5.4% growth in 2022 and GDP growth 3.5% in 2023). The GDP growth in 2024 and 2025, is forecasted to 3% per year;

(ii) the Bank of Latvia's macroeconomic scenario (published on 16 December 2022) projects that the Russian Federation invasion of Ukraine and sanctions and the associated fall in exports, disruptions to imports of raw materials and supplies, an intensification of global price increase for energy and other commodities and supplies, and a fall in business and consumer confidence will reduce Latvia's GDP growth rate in 2022 to 2.1% (in December 2021, GDP growth was forecast to be 4.2%). In 2023, a moderate GDP slowdown is forecast - 0.3% (the December forecast for 2023 was a growth of 4.0%). In 2024 and 2025, economic growth is projected to recover more rapidly, by 4.4% and 3.5%, respectively, as confidence improves. A 50% probability of the scenario was applied to each of the external scenarios, those of the Ministry of Finance and the Bank of Latvia.

** A weight of 70% was applied to the baseline scenario, 20% to the adverse scenario and 10% to the optimistic scenario.

# 3 Risk Management (cont'd)

**(9) The Russian military invasion of Ukraine and related sanctions' impact** (cont'd)

Changes in the forecasts for macroeconomic indicators in 2022 resulted in an increase in the ECL allowances for loans and loan commitments by EUR 1,944 thousand. Changes in macroeconomic forecasts had negligible impact on guarantees, given that allowances for them are made at the higher of the estimated ECL and fair value. Changes in macroeconomic forecasts have less impact on the fair value of the guarantees.

In order to better assess the direct and indirect impact of the geopolitical situation as well as to identify potential distressed clients and provide a roadmap for further action and appropriate risk mitigation techniques, the Company closely monitors and analyses key loan and credit guarantee exposures on a quarterly basis. An assessment is made of whether the increase in energy prices and the sanctions imposed against the Russian Federation and Belarus have had, or are likely to have, a significant direct or indirect impact on client's ability to pay.

In addition to the above, the decision-making procedure and the internal information accounting system were improved during the year to ensure the identification and assessment of these impacts on the loan portfolio at the transaction level.

Until sufficient historical data has been accumulated at the transaction level, the Company carried out an assessment of the portfolio of loans and guarantees by industries, separately assessing how the industries will be directly and indirectly affected by the increase in the prices of energy resources and how the industries will be directly or indirectly affected by the imposed sanctions against the Russian Federation and Belarus. The industries were divided into 3 groups: heavily affected industries, moderately affected industries and less affected industries. The assessment was carried out in the 3rd quarter of 2022, using all available data at the time of the assessment. The possible impact of the increase in the prices of energy resources was assessed based on the assessment of the Company's experts on energy-intensive industries and industries that are most affected by rising costs, as well as by evaluating the financial data of the largest customers in the portfolio of industry. The possible impact of the sanctions against the Russian Federation and the Republic of Belarus was assessed taking into account the data of the Central Statistical Office on foreign trade with the Russian Federation and the Republic of Belarus, as well as data on the business specifics of the customers in the portfolio of industry (including, but not limited to, analysing the export markets, markets of raw materials, supply chains, opportunities to reorient operations, etc.). As a result of this assessment, as of 31 December 2022, the Company has made impairment overlay for loans of 1,902 thousand euros and for guarantees of 856 thousand euros.

Potential impact upon loan portfolio triggered by interest rate increase due to steep rise of Euribor rates is covered by changes in the forecasts for macroeconomic indicators. Changes in amortisation terms of respective financial instruments due to increasing interest rates are considered when estimated ECL allowances. For key loan and guarantee exposures the client's capacity for debt service when interest rates are increasing is analysed by the Company on a quarterly basis. Particular attention is paid to such exposures where concerns for not meeting debt service in respective terms and at full amount due to increasing debt burden are in place based on clients' reported operational ratios.

In the light of macroeconomic projections, including rising prices of energy resources, households are expected to face higher housing-related expenditure. Although there is a public support mechanism to cushion the impact of rising costs, households may find it difficult to cover their housing costs in full and on time. This is expected to potentially result in higher defaults in the housing guarantee portfolio and the need to make additional allowances. If the situation does not stabilise in the foreseeable future, claims for guarantee indemnities may increase in the coming years. We do not expect an immediate increase in claims for guarantee indemnities, given the specific terms of these exposures, which require that guarantee indemnities are paid upon the realisation of collateral that is carried out over an extended period of time.

Investments of venture capital funds have both direct and indirect effects as a result of the war in Ukraine. The venture capital funds co-financed by Altum operate in accordance with the current sanctions regulation and actively monitor changes in the binding regulatory acts. According to the estimates of fund managers, the impact on the investments of venture capital funds and their value due to the Ukrainian war is currently evaluated as negative, but relatively low.

# 3 Risk Management (cont'd)

**(9) The Russian military invasion of Ukraine and related sanctions' impact** (cont'd)

In the medium and long term, under the influence of macroeconomic changes (including factors such as inflation, supply disruptions, lack of raw materials, etc.), changes in the investment values of venture capital funds may be significant and may require a reorientation of the company's operations, at the same time, together with changes in the market situation, macroeconomic changes may open up new opportunities for individual companies and stimulate faster growth. Altum's assessment of venture capital fund investments is based on Altum's conservative approach on a quarterly basis, performing an individual assessment of all venture capital fund investments, taking into account the specific situation of each investment.

During the initial risk assessment in the first quarter of 2022 due to the consequences of the war in Ukraine, the initial estimates from fund managers and Altum's calculations indicated that the impact on the portfolio's fair value could be within -5%. During 2022, risk capital funds co-financed by Altum have experienced a drop in value at the fund level of 3,886 thousand euro, or -11.0% of the total portfolio value. Based on the quarterly investment reports of the fund managers and the additional information provided, Altum's estimate of the decrease in fair value as a result of the war between the Russian Federation and Ukraine at the fund level is 2,073 thousand euro, or -5.9% of the total portfolio value in the same period of time, which results in a decrease in fair value recognized at the Altum level of 1,960 thousand euro. Since Altum's internal venture capital evaluation procedures and policy have historically been more conservative in evaluating the valuations submitted by fund managers and their assumptions, the impact of the fair value of the portfolio is not as significant as for fund managers.

Both the fund managers and Altum do not expect additional significant economic disruptions in the near future due to the consequences of the Ukrainian war, which would significantly affect the fluctuations in the fair values of the portfolios in the future. Under the management of fund managers, portfolio company teams have been able to adapt to the global geopolitical situation, which has been achieved by redeploying suppliers from war-torn areas, as well as vertical integration in the supply chain, which significantly reduces geographic risks and helps companies achieve higher profitability in the long term. When evaluating investments, Altum already takes into account future perspectives, and the fair value of companies that have not been able to adapt to the new reality is already adjusted accordingly in time.

The biggest risk that both the fund managers and Altum anticipate in 2023 is the geopolitical risk attributed to the Baltic and Eastern European countries in connection with the relatively nearby war in Ukraine and the possibility that this war may spread beyond the borders of Ukraine. This risk mainly affects venture capital funds co-financed by Altum in two ways - in the realization of investments and in attracting new rounds of financing. With the start of the war in Ukraine, investors are more carefully and in detail evaluating the possibilities of participating in financing rounds and buying companies in Latvia and elsewhere in the region. Signs of this risk were already visible starting from the 2nd quarter of 2022, when investors suddenly became more cautious, either wanting to extend the period of in-depth research, or immediately refusing to make investments. Although the leading mood among investors was pessimistic, the risk materialized only for several early-stage investments, which usually have low free liquidity to cover project implementation expenses (runway). At the same time, several investment realizations have been carried out, where the fair value was not affected, taking into account Altum's conservative investment evaluation approach.

While there is still uncertainty in the venture capital market due to the war in Ukraine, not knowing when it might end, and companies facing various types of challenges, this is also a time of opportunity. The best business ideas and the strongest teams will survive this time - as weaker teams and ideas disappear, stronger teams and ideas have the opportunity to attract new talent to their companies. In addition, as there is particular pressure on price increases and supply shortages, it also creates a need for new ideas, which can also attract venture capital. Altum's co-financed venture capital funds, when making investment choices and making decisions, have also placed a strong emphasis on the sustainability of companies in the last year, so that the risks of external factors could not shake them.

# 4 Interest income

All amounts in thousands of euro

| | Company 01.01.2022.- 31.12.2022. | Group / Company 01.01.2021.- 31.12.2021. |
|---|---|---|
| Interest on loans* | 16 563 | 15 537 |
| Interest on guarantees** | 3 061 | 2 938 |
| Interest on securities at fair value | 258 | 370 |
| Interest on securities at amortised cost | 52 | - |
| Other interest income | - | 12 |
| **Total interest income** | **19 934** | **18 857** |

* The Company's sub-item Interest income on loans does not include interest income from loans 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 2022 amounts to EUR 976 thousand (2021: EUR 169 thousand).

** The Company's sub-item Interest income on guarantees does not include 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 2022 amounts to EUR 1,139 thousand (2021: EUR 1,111 thousand).

# 5 Interest expense

All amounts in thousands of euro

| | Company 01.01.2022.- 31.12.2022. | Group / Company 01.01.2021.- 31.12.2021. |
|---|---|---|
| Interest on balances due to credit institutions | 1 659 | 760 |
| Interest on issued debt securities | 896 | 844 |
| Allocation of state support programmes' profit to support programme funding * | 348 | 504 |
| Other commission expense | 57 | 32 |
| **Total interest expense** | **2 960** | **2 140** |

* 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 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

| | Company 01.01.2022.- 31.12.2022. | Company 01.01.2021.- 31.12.2021. | Group 01.01.2021.- 31.12.2021. |
|---|---|---|---|
| Compensation of expenses for management of state support programmes | 2 458 | 2 088 | 2 088 |
| Compensation of venture capital fund management fees | 2 629 | 2 983 | 1 711 |
| Compensation of expenses for management of state support programmes of the previous years | 582 | 316 | 316 |
| Compensation of expenses of capital congestion | 424 | 331 | 331 |
| **Total income from implementation of state support programmes** | **6 093** | **5 718** | **4 446** |

# 7 Expenses to be compensated for implementation of state support programmes

All amounts in thousands of euro

| | Company 01.01.2022.-31.12.2022. | Company 01.01.2021.-31.12.2021. | Group 01.01.2021.-31.12.2021. |
|---|---|---|---|
| Compensated staff costs | 1 814 | 1 675 | 1 675 |
| Compensated administrative expense | 644 | 413 | 413 |
| Compensated venture capital fund management fees | 2 633 | 3 013 | 1 741 |
| **Total compensated expense for implementation of state support programmes** | **5 091** | **5 101** | **3 829** |

# 8 Gains from debt securities and foreign exchange transactions

All amounts in thousands of euro

| | Company 01.01.2022.-31.12.2022. | Group / Company 01.01.2021.-31.12.2021. |
|---|---|---|
| Gains / (losses) on currency exchange and trade and revaluation of other financial instruments, net | 97 | 51 |
| **Total gain from debt securities and foreign exchange transactions** | **97** | **51** |

# 9 Other income

All amounts in thousands of euro

| | Company 01.01.2022.-31.12.2022. | Group / Company 01.01.2021.-31.12.2021. |
|---|---|---|
| Income from lease payments for operating leases | 1 853 | 1 393 |
| Income from payments for financial leases | 3 | 5 |
| Profit from investment property revaluation | 2 321 | 804 |
| Profit from sale of investment property | 474 | 191 |
| Profit from sale of repossessed collateral | 7 | 8 |
| Other commission income | 4 | 22 |
| Income from management of the AIF "Altum capital fund" and compensation of set-up costs | 485 | 620 |
| Other operating income | 1 061 | 178 |
| **Total other income** | **6 208** | **3 221** |

# 10 Other expense

All amounts in thousands of euro

| | Company 01.01.2022.-31.12.2022. | Group / Company 01.01.2021.-31.12.2021. |
|---|---|---|
| Maintenance and service costs of Land Fund | 477 | 330 |
| Debt collection costs | 212 | 167 |
| Maintenance costs of repossessed collateral | 1 | 1 |
| Depreciation of right-of-use assets | 157 | 145 |
| Commission expense on investments in securities | 93 | 92 |
| AIF "Altum capital fund" management costs | 485 | 620 |
| Other commission expense | 3 | 2 |
| Changes in fair value of support programme funding | 142 | 152 |
| **Total other expense** | **1 570** | **1 509** |

# 11 Staff Costs

All amounts in thousands of euro

| | Company<br>01.01.2022.-<br>31.12.2022. | Group / Company<br>01.01.2021.-<br>31.12.2021. |
|---|---|---|
| Remuneration to the Supervisory Council and the Management Board * | 465 | 459 |
| *to the Supervisory Council* | *92* | *75* |
| *to the Management Board* | *373* | *384* |
| Remuneration to staff | 6 260 | 5 573 |
| Social security contributions | 1 600 | 1 438 |
| **Total staff costs** | **8 325** | **7 470** |
| Compensated staff costs (Note 7) | (1 814) | (1 675) |
| **Net staff costs** | **6 511** | **5 795** |

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

In 2022, the Company employed 239 persons on average, incl. 5 members of the Supervisory Board and the Audit Committee (2021: 228). Number of employees engaged in implementation of support programmes as at 31 December 2022 was 235 (31 December 2021: 223).

# 12 Administrative expenses

All amounts in thousands of euro

| | Company<br>01.01.2022.-<br>31.12.2022. | Group / Company<br>01.01.2021.-<br>31.12.2021. |
|---|---|---|
| Information system and communication expense | 530 | 507 |
| Premises and equipment maintenance expense | 733 | 680 |
| Advertising and public relations | 246 | 241 |
| Training and other staff expense | 293 | 186 |
| Professional services * | 428 | 442 |
| Other expense | 70 | 74 |
| Real estate tax | 173 | 176 |
| **Total administrative expenses** | **2 473** | **2 306** |
| Compensated administrative expense (Note 7) | (644) | (413) |
| **Net administrative expenses** | **1 829** | **1 893** |

* The item *Professional services* includes audit services in the amount of EUR 75 thousand (in 2021: EUR 60.5 thousand), which were received from the auditor Deloitte Audits Latvia SIA and consulting services in the amount of EUR 41.0 thousand, which were received from Deloitte Latvia SIA. On 10 March 2023, the Company's shareholders supported the amendments to the agreement on the audit of the 2020, 2021 and 2022 financial statements and the increase of compensation by EUR 17 thousand for the Company's auditor Deloitte Audits Latvia SIA. All amounts include VAT.

# 13 Impairment losses, net

All amounts in thousands of euro

| | | Company 01.01.2022.- 31.12.2022. | | Group / Company 01.01.2021.- 31.12.2021. | |
|---|---|---|---|---|---|
| Impairment losses on: | | 17 540 | | 13 907 | |
| Loans, net | | 8 775 | | 7 523 | |
| | *impairment losses* | | *6 252* | | *6 072* |
| | *impairment losses covered by Portfolio Loss Reserve* | | *3 947* | | *3 559* |
| | *impairment losses covered by Risk Coverage Reserve* | | *(1 424)* | | *(2 108)* |
| Grants | | 258 | | 199 | |
| | *impairment losses* | | *255* | | *199* |
| | *impairment losses covered by Portfolio Loss Reserve* | | *3* | | |
| Other assets | | - | | 479 | |
| | *impairment losses* | | *67* | | *479* |
| | *impairment losses covered by Risk Coverage Reserve* | | *(67)* | | *-* |
| Due from credit institutions and the Treasury | | 15 | | - | |
| Financial assets related to loan agreements | | 69 | | 107 | |
| Guarantees, net | | 7 376 | | 4 735 | |
| | *impairment losses* | | *19 777* | | *13 230* |
| | *impairment losses covered by Portfolio Loss Reserve* | | *4 287* | | *2 841* |
| | *impairment losses covered by Risk Coverage Reserve* | | *(16 688)* | | *(11 336)* |
| Loan commitments, net | | 672 | | 792 | |
| | *impairment losses* | | *1 472* | | *1 116* |
| | *impairment losses covered by Portfolio Loss Reserve* | | *87* | | *239* |
| | *impairment losses covered by Risk Coverage Reserve* | | *(887)* | | *(563)* |
| Grant commitments | | 375 | | 72 | |
| Reversal of impairment on: | | (13 172) | | (13 746) | |
| Loans, net | | (5 117) | | (8 037) | |
| | *reversal of impairment* | | *(5 376)* | | *(10 114)* |
| | *reversal of impairment covered by Portfolio Loss Reserve* | | *(1 971)* | | *(1 881)* |
| | *reversal of impairment covered by Risk Coverage Reserve* | | *2 230* | | *3 958* |
| Disbursed guarantee compensations | | (2) | | (59) | |
| | *reversal of impairment* | | *(107)* | | *(83)* |
| | *reversal of impairment covered by Portfolio Loss Reserve* | | *(2)* | | *(3)* |
| | *reversal of impairment covered by Risk Coverage Reserve* | | *107* | | *27* |
| Grants | | (156) | | (101) | |
| | *impairment loss* | | *(156)* | | *(101)* |
| | *reversal of impairment covered by Portfolio Loss Reserve* | | *-* | | *-* |
| Other assets | | (21) | | (13) | |
| | *reversal of impairment* | (88) | | (13) | |
| | *compensation of decrease in value from Risk Coverage Reserve* | 67 | | - | |
| Financial assets related to loan agreements | | (238) | | (15) | |
| Debt securities | | (8) | | (16) | |
| Guarantees, net | | (7 324) | | (4 943) | |
| | *reversal of impairment* | | *(13 608)* | | *(11 407)* |
| | *reversal of impairment covered by Portfolio Loss Reserve* | | *(1 706)* | | *(1 509)* |
| | *reversal of impairment covered by Risk Coverage Reserve* | | *7 990* | | *7 973* |
| Loan commitments, net | | (236) | | (547) | |
| | *reversal of impairment* | | *(303)* | | *(542)* |
| | *reversal of impairment covered by Portfolio Loss Reserve* | | *(143)* | | *(162)* |
| | *reversal of impairment covered by Risk Coverage Reserve* | | *210* | | *157* |
| Grant commitments | | (70) | | (15) | |
| Total impairment losses / (reversal), net | | 4 368 | | 161 | |
| Recovery of loans written off in previous periods | | (1 001) | | (760) | |
| **Total impairment losses and (income) from recovery of loans written-off** | | **3 367** | | **(599)** | |

Additional information Including on impairment allowances covered by Portfolio Loss Reserve (Special Reserve Capital) upon approval of the 2022 annual report available in Note 3 item 1.

# 14 Due from credit institutions and general government entities

All amounts in thousands of euro

| | Company 31.12.2022. | Group / Company 31.12.2021. |
|---|---|---|
| Due from credit institutions and general government entities | 571 682 | 455 007 |
| *cash and cash equivalent* | *539 630* | *455 007* |
| *term deposits* | *32 000* | *-* |
| Impairment allowances | (15) | (1) |
| **Net due from credit institutions and State Treasury** | **571 667** | **455 006** |

The increase in the Company's *Due from credit institutions and general government entities* is due to the financing received by the Company from the Ministry of Economy, the Central Finance and Contracting Agency (CFCA) and the Treasury for the implementation of state support programmes and the launch of a new state support programme (Investment Loans with Capital Allowance).

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 | - | - | 437 249 | 17 757 | - | - | - | - | 455 006 |
| **Total gross as at 31 December 2021** | **-** | **-** | **437 249** | **17 757** | **-** | **-** | **-** | **-** | **455 006** |
| Due from credit institutions registered in the Republic of Latvia and the Treasury | - | - | 559 156 | 12 511 | - | - | - | - | 571 667 |
| **Total gross as at 31 December 2022** | **-** | **-** | **559 156** | **12 511** | **-** | **-** | **-** | **-** | **571 667** |

As at 31 December 2022, the 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 2022 was 0.08% (31 December 2021: -0.01%).

# 15 Investment Securities

All amounts in thousands of euro

| | Company 31.12.2022. | Group / Company 31.12.2021. |
|---|---|---|
| Investment securities valued at amortised cost | | |
| OECD corporate bonds | 3 927 | 3 704 |
| **Total investment securities valued at amortised cost** | **3 927** | **3 704** |
| Impairment allowances | (3 888) | (3 667) |
| **Net investment securities valued at amortised cost** | **39** | **37** |
| Investment securities valued at fair value through other comprehensive income | | |
| Latvian Treasury bills and government bonds | 9 515 | 14 051 |
| **Total investment securities valued at fair value through other comprehensive income** | **9 515** | **14 051** |
| **Total gross investment securities** | **13 442** | **17 755** |
| **Total net investment securities** | **9 554** | **14 088** |

# 15 Investment Securities (cont'd)

When making investments in securities, the Company analyses the external credit ratings assigned to these financial institutions and entities and their financial and operational standing. Once funds are placed, the Company monitors the monetary financial institutions and follows the compliance of the imposed limits to the credit risk rating. 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 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 | - | - | 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** |
| Investment securities valued at fair value through other comprehensive income | - | - | 9 515 | - | - | - | - | - | 9 515 |
| Investment securities valued at amortised cost | - | - | - | - | - | - | - | 3 927 | 3 927 |
| **Total gross as at 31 December 2022** | **-** | **-** | **9 515** | **-** | **-** | **-** | **-** | **3 927** | **13 442** |

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 1.45% as at 31 December 2022 (31 December 2021: 1.98%)

# 16 Investments in Associates

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

| | | Net asset value, VCF | | Net asset value, Altum | |
|---|---|---|---|---|---|
| **Company or venture capital fund generation** | **Country of incorporation** | 31.12.2022. | 31.12.2021. | 31.12.2022. | 31.12.2021. |
| The 2nd generation VCFs | LV | 9 778 | 16 929 | 6 855 | 11 885 |
| The 3rd generation VCFs | LV | 9 230 | 13 310 | 7 653 | 10 473 |
| The 4th generation VCFs | LV | 30 313 | 20 073 | 19 017 | 14 371 |
| AIF "Altum capital fund" | LV | 34 529 | 19 008 | 16 888 | 14 998 |
| Baltic Innovation Fund * | LU | 88 534 | 85 544 | 14 232 | 13 222 |
| **Total investments in associates** | | **172 384** | **154 864** | **64 645** | **64 949** |

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

# 16 Investments in Associates (cont'd)

As at 31 December 2022 the total venture capital funds' portfolio value at cost value was EUR 74,858 thousand (31 December 2021: EUR 85,973 thousand).

Movement in the 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 | |
|---|---|---|---|---|---|---|---|---|
| | 31.12.2022. | 31.12.2021. | 31.12.2022. | 31.12.2021. | 31.12.2022. | 31.12.2021. | 31.12.2022. | 31.12.2021. |
| Carrying amount at the beginning of period | 36 729 | 32 969 | 14 998 | - | 13 222 | 15 019 | 64 949 | 47 988 |
| Invested | 7 489 | 4 233 | 2 240 | 14 918 | 2 700 | 1 817 | 12 429 | 20 968 |
| Refunded | (9 293) | (7 431) | (945) | (282) | (1 799) | (6 900) | (12 037) | (14 613) |
| Reclassification (increase in funding of support programs, see Note 28) | - | 6 563 | - | - | - | - | - | 6 563 |
| Mezzanine interest received and realised gain on exit * | 1 675 | 1 730 | 945 | 282 | - | - | 2 620 | 2 012 |
| Unrealised gain from refunded | - | - | - | - | 61 | 469 | 61 | 469 |
| Share of net gain / (loss) of investment in associate | (3 075) | (1 335) | (350) | 80 | - | - | (3 425) | (1 255) |
| Gain from investment in associate at fair value through profit or loss | - | - | - | - | 48 | 2 817 | 48 | 2 817 |
| **Net carrying amount at the period ended at 31 December** | **33 525** | **36 729** | **16 888** | **14 998** | **14 232** | **13 222** | **64 645** | **64 949** |

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

The 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 | |
|---|---|---|---|---|---|---|---|---|
| | 31.12.2022. | 31.12.2021. | 31.12.2022. | 31.12.2021. | 31.12.2022. | 31.12.2021. | 31.12.2022. | 31.12.2021. |
| Share of net gain / (loss) of investment in associate | (3 075) | (1 335) | (350) | 80 | - | - | (3 425) | (1 255) |
| Net income / (expense), excluding revaluation gain / (loss) | - | - | 945 | (75) | - | - | 945 | (75) |
| Share of net gain / (loss) of investment in Three Seas Initiatives Investment Fund | - | - | - | - | 700 | (52) | 700 | (52) |
| **Share of net gain / (loss) of investment in associate** | **(3 075)** | **(1 335)** | **595** | **5** | **700** | **(52)** | **(1 780)** | **(1 382)** |

In 2022, the Company's expenses included:

- Management fees for the 2nd and 3rd generation venture capital funds amounted EUR 425 thousand (2021: EUR 522 thousand) which were compensated from the risk coverage reserve;
- Management fees for the 4th generation venture capital funds amounted EUR 1,820 thousand (2021: EUR 834 thousand) which were compensated from the risk coverage reserve;
- Management fees for the Baltic Innovation Fund amounted EUR 141 thousand (2021: EUR 198 thousand) which were compensated from the risk coverage reserve;
- Management fees for the AIF "Altum capital fund" amounted EUR 289 thousand (2021: EUR 404 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 2022 amounted EUR 1,261 thousand (2021: EUR 1,261 thousand) which were compensated from the Risk Coverage reserve.

# 17 Other Investments

Total cost of other investments on 31 December 2022 was EUR 15,419 thousand (31 December 2021: EUR 8,793 thousand). The initial cost of the investment also includes the fund management fee in the amount of EUR 913 thousand (31 December 2021: EUR 250 thousand), which is later recognized as an expense, and thus is not included in the investment's book value at the end of the reporting period.

All amounts in thousands of euro

| | Company 31.12.2022. | Group / Company 31.12.2021. |
|---|---|---|
| Baltic Innovation Fund 2 | 4 478 | 1 982 |
| Three Seas Initiatives Investment Fund | 11 263 | 6 954 |
| **Total other investments** | **15 741** | **8 936** |

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 Company signed agreement on BIF 2 on 16 August 2019. The total capital committed by the 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 Company signed the subscription agreement on 16 September 2020. The total capital committed by the Company to the Three Seas Initiative Investment Fund is EUR 20,000 thousand thus arriving at the ownership rate of 2.15% on 31 December 2022 (31 December 2021: 2.17%) of the total committed capital the Three Seas Initiative Investment Fund (31 December 2022: EUR 928,100 thousand, 31 December 2021: EUR 923,000 thousand).

In 2022, the Company's expenses included:

- Management fees for the Baltic Innovation Fund II amounted EUR 222 thousand (2021: EUR 112 thousand) which were compensated from the risk coverage reserve (see Note 20);
- Management fees for the Three Seas Initiatives Investment Fund amounted EUR 281 thousand (2021: EUR 225 thousand) which were compensated from the risk coverage reserve.

The accounting policy applied to other investments is described in Note 2 (6) item (v).

# 18 Loans

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

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

| | Company 31.12.2022. | Group / Company 31.12.2021. |
|---|---|---|
| SME and Midcaps | 147 369 | 175 016 |
| Agriculture | 159 509 | 134 079 |
| Private individuals | 4 920 | 6 513 |
| Financial Intermediaries | 46 | 66 |
| Land Fund | 27 089 | 32 999 |
| **Total gross loans** | **338 933** | **348 673** |
| Impairment allowances | (21 074) | (18 143) |
| **Total net loans** | **317 859** | **330 530** |

# 18 Loans (cont'd)

Breakdown of loans by industries, in thousands of euro:

| | Company<br>31.12.2022. | Group / Company<br>31.12.2021. |
|---|---|---|
| Agriculture and forestry | 173 937 | 170 808 |
| Manufacturing | 58 511 | 67 635 |
| Retail and wholesale | 16 968 | 24 241 |
| Real estate | 15 790 | 13 719 |
| Construction | 10 554 | 12 238 |
| Electricity, gas and water utilities | 8 744 | 6 120 |
| Municipal authorities | 7 767 | 8 843 |
| Health and social care | 7 408 | 5 896 |
| Transport, warehousing and communications | 7 025 | 6 856 |
| Hotels and restaurants | 5 910 | 7 498 |
| Professional, science and technical services | 3 592 | 4 914 |
| Fishing | 2 095 | 2 084 |
| Information technologies and communication | 1 986 | 2 959 |
| Other industries | 13 724 | 8 344 |
| Private individuals | 4 922 | 6 518 |
| **Total gross loans** | **338 933** | **348 673** |
| Impairment allowances | (21 074) | (18 143) |
| **Total net loans** | **317 859** | **330 530** |

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

| | Company<br>01.01.2022.-<br>31.12.2022. | Group / Company<br>01.01.2021.-<br>31.12.2021. |
|---|---|---|
| Impairment allowances at the beginning of the period | 18 143 | 20 713 |
| Increase in impairment allowances (Note 13: the sum of impairment losses and impairment losses covered by Portfolio Loss Reserve) | 10 199 | 9 631 |
| Decrease in impairment allowances (Note 13: the sum of reversal of impairment and reversal impairment losses covered by Portfolio Loss Reserve) | (7 347) | (11 995) |
| Write-off of loans | (1 117) | (1 080) |
| Reclassification (increase of impairment allowances due to changes in off-balance sheet and balance sheet) | 1 196 | 874 |
| **Impairment allowances at the end of the period ended 31 December** | **21 074** | **18 143** |
| *Company's share of impairment allowances* | *10 497* | *9 334* |
| *Impairment allowances covered by Portfolio Loss Reserve* | *5 999* | *4 144* |
| *Impairment allowances covered by Risk Coverage Reserve* | *4 578* | *4 665* |

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

| | Company<br>31.12.2022. | Group / Company<br>31.12.2021. |
|---|---|---|
| Number of customers | 40 | 42 |
| Total credit exposure of customers (EUR '000) | 59 416 | 67 623 |
| Percentage of total gross portfolio of loans | 17.53% | 19.39% |

As at 31 December 2022 the average annual interest rate for the loan portfolio of the Company was 5.59% (31 December 2021: 4.05%).

# 19 Grants

All amounts in thousands of euro

| | Company 31.12.2022. | Group / Company 31.12.2021. |
|---|---|---|
| Energy Efficiency Programme for Multi-apartment Buildings | 55 582 | 43 153 |
| Social Entrepreneurship Programme | 892 | 1 290 |
| Grants for development of energy efficiency projects | 188 | 41 |
| Housing grant programme "Balsts" | 1 384 | 1 042 |
| Grants for renovation of private houses | - | 167 |
| Grants for energy efficiency improvement of private houses | 1 | - |
| Grants for cultural industry support programme * | 669 | 36 |
| **Total grants, gross** | **58 716** | **45 729** |
| Impairment allowances | (436) | (332) |
| **Total grants, net** | **58 280** | **45 397** |

* Combined financial instrument.

Movement in the Company's net book value of grants in 2022, in thousands of euro:

| | Company 31.12.2022. | Group / Company 31.12.2021. |
|---|---|---|
| **Carrying amount** | | |
| Carrying amount at the beginning of period | 45 729 | 31 282 |
| Changes | 12 987 | 14 447 |
| Carrying amount at the end of period ended 31 December | 58 716 | 45 729 |
| **Impairment allowances** | | |
| At the beginning of period | (332) | (175) |
| Changes | (102) | (215) |
| Reclassification (increase of impairment allowances due to changes in off-balance sheet and balance sheet) | (2) | 58 |
| At the end of period ended 31 December | (436) | (332) |
| **Grants net book at the beginning of the period** | **45 397** | **31 107** |
| **Grants net book value at the end of the period ended 31 December** | **58 280** | **45 397** |

# 20 Investment Properties

All amounts in thousands of euro

| | Company 31.12.2022. | Group / Company 31.12.2021. |
|---|---|---|
| Carrying amount at the beginning of period | 46 164 | 36 759 |
| Acquired during the reporting period * | 5 758 | 7 150 |
| Recognized on termination of reverse leases | 164 | 1 662 |
| Disposals during the reporting period | (954) | (211) |
| Net gain from fair value adjustment | 2 321 | 804 |
| **Carrying amount at the end of the period** | **53 453** | **46 164** |

* 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 11 March 2015, the Company is the manager of the Land Fund. The Law "On Land Privatisation in Rural Areas" stipulated establishment of the Land Fund. The Land Fund of Latvia is one of the tools used to ensure that agricultural land is preserved and used for agricultural purposes.

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

# 21 Intangible Assets

The balance sheet value of intangible assets includes the following intangible assets, in thousands of euro:

| | Company<br>31.12.2022. | Group / Company<br>31.12.2021. |
|---|---|---|
| Computer software | 1 140 | 1 256 |
| **Total intangible assets** | **1 140** | **1 256** |

Movement in net book value of intangible assets, in thousands of euro:

| | Company<br>31.12.2022. | Group / Company<br>31.12.2021. |
|---|---|---|
| **Original cost** | | |
| At the beginning of period | 4 677 | 4 785 |
| Additions | 236 | 234 |
| Disposals | (14) | (342) |
| At the end of period ended at 31 December | 4 899 | 4 677 |
| **Accumulated depreciation** | | |
| At the beginning of period | 3 421 | 3 387 |
| Depreciation charge | 338 | 376 |
| Disposals | - | (342) |
| At the end of period ended at 31 December | 3 759 | 3 421 |
| **Net book value at the beginning of period** | **1 256** | **1 398** |
| **Net book value as at 31 December** | **1 140** | **1 256** |

# 22 Property, Plant and Equipment

The Company uses assets that have been fully depreciated.

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

| | Company 31.12.2022. | Group / Company 31.12.2021. |
|---|---|---|
| Property, plant and equipment | 4 141 | 4 289 |
| Right-of-use assets | 307 | 281 |
| **Total property, plant and equipment** | **4 448** | **4 570** |

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

| | Land and buildings | Vehicles | Office equipment * | Total |
|---|---|---|---|---|
| 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 |
| **Carrying amount at 31 December 2021** | **3 531** | **-** | **758** | **4 289** |
| Cost at 1 January 2022 | 5 399 | 44 | 4 993 | 10 436 |
| Accumulated depreciation | (1 868) | (44) | (4 235) | (6 147) |
| **Carrying amount at 1 January 2022** | **3 531** | **-** | **758** | **4 289** |
| Additions | 239 | - | 176 | 415 |
| Disposals | (21) | - | (81) | (102) |
| Depreciation charge | (209) | - | (326) | (535) |
| Change in depreciation from disposals | - | - | 74 | 74 |
| **Carrying amount at 31 December 2022** | **3 540** | **-** | **601** | **4 141** |
| Cost at 31 December 2022 | 5 617 | 44 | 5 088 | 10 749 |
| Accumulated depreciation | (2 077) | (44) | (4 487) | (6 608) |
| **Carrying amount at 31 December 2022** | **3 540** | **-** | **601** | **4 141** |

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

# 22 Property, Plant and Equipment (cont'd)

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

| | Land and buildings | Vehicles | Total |
|---|---|---|---|
| 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) |
| Cost at 31 December 2021 | 434 | 228 | 662 |
| Accumulated depreciation | (252) | (129) | (381) |
| **Carrying amount at 31 December 2021** | **182** | **99** | **281** |
| Additions | 5 | 174 | 179 |
| Disposals | | (48) | (48) |
| Depreciation charge | (86) | (67) | (153) |
| Change in depreciation from disposals | | 48 | 48 |
| Cost at 31 December 2022 | 439 | 354 | 793 |
| Accumulated depreciation | (338) | (148) | (486) |
| **Carrying amount at 31 December 2022** | **101** | **206** | **307** |

# 23 Other Assets

All amounts in thousands of euro

| | **Company** 31.12.2022. | **Group / Company** 31.12.2021. |
|---|---|---|
| Financial assets | 3 531 | 5 165 |
| Other assets (repossessed collateral) | 28 | 28 |
| **Total other assets, gross** | **3 559** | **5 193** |
| Impairment allowances for financial assets | (2 029) | (1 951) |
| *Company's share of provisions* | *(582)* | *(786)* |
| *Impairment allowances covered by Portfolio Loss Reserve* | *(273)* | *(186)* |
| *Provisions covered by risk coverage* | *(1 174)* | *(979)* |
| **Total financial assets, net** | **1 502** | **3 214** |
| **Total other assets, net** | **1 530** | **3 242** |

The 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 Company's net book value of financial assets in 2022, in thousands of euro:

| | Disbursed guarantee compensations | Financial assets related to loan agreements | Other financial assets | Total |
|---|---|---|---|---|
| **Financial assets** | | | | |
| At the beginning of period | 1 590 | 870 | 2 705 | 5 165 |
| Changes | 279 | (622) | (1 291) | (1 634) |
| As at 31 December 2022 | 1 869 | 248 | 1 414 | 3 531 |
| **Impairment provision** | | | | |
| At the beginning of period | (1 590) | (330) | (31) | (1 951) |
| Changes in impairment allowances | (279) | 179 | 22 | (78) |
| As at 31 December 2022 | (1 869) | (151) | (9) | (2 029) |
| **Net book value at the beginning of period** | **-** | **540** | **2 674** | **3 214** |
| **Net book value as at 31 December 2022** | **-** | **97** | **1 405** | **1 502** |

# 23 Other Assets (cont'd)

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** |

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

| | Company 31.12.2022. | Group / Company 31.12.2021. |
|---|---|---|
| At the beginning of period | 28 | 503 |
| Additions | - | 53 |
| Disposals | - | (528) |
| **Total other assets at the end of period ended 31 December** | **28** | **28** |

# 24 Deferred Expense

All amounts in thousands of euro

| | Company 31.12.2022. | Group / Company 31.12.2021. |
|---|---|---|
| Management fees paid in advance to venture capital funds' managers | 131 | 29 |
| Other deferred expense | 213 | 613 |
| **Total deferred expense** | **344** | **642** |

# 25 Accrued Income

All amounts in thousands of euro

| | Company 31.12.2022. | Group / Company 31.12.2021. |
|---|---|---|
| Compensation for management expenses of state support programs | 503 | 1 424 |
| Other accrued income | 424 | - |
| **Total accrued income** | **927** | **1 424** |

# 26 Due to Credit Institutions

All amounts in thousands of euro

| | Company 31.12.2022. | Group / Company 31.12.2021. |
|---|---|---|
| Due to credit institutions registered in OECD countries | 36 290 | 53 416 |
| **Total due to credit institutions** | **36 290** | **53 416** |

Balances due to credit institutions registered in the OECD countries include loan received by the Company from the European Investment Bank (EIB) of EUR 36,290 thousand (31 December 2021: EUR 53,416 thousand), of which EUR 40 thousand constitutes accrued interest expenses (31 December 2021: EUR 14 thousand).

On 2 October 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 2022 the principal amount of the loan EUR 6,250 thousand (31 December 2021: EUR 12,153 thousand), the accrued interest on the loan amounts to EUR 40 thousand (31 December 2021: EUR 14 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 2022, the amount of the secured claim was EUR 6,290 thousand (31 December 2021: EUR 12,166 thousand).

On 8 July 2020, Altum signed an agreement with the European Investment Bank for a loan of EUR 80,000 thousand to finance working capital and investment loans to small and medium-sized enterprises, including those affected by the Covid-19. As at 31 December 2022 the principal amount of the loan EUR 30,000 thousand (31 December 2021: EUR 41,250 thousand), the final repayment date 20 November 2025. As at 31 December 2022, according to the loan agreement the Company is available the financing in the amount of EUR 35,000 thousand, utilization deadline is 5 January 2024. 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 and investment loans to small and medium-sized enterprises, with the final repayment date 10 December 2028, the absorption of which had not been started until 31 December 2022, utilization deadline is 10 December 2023. 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 2022, the average interest rate for the balances *Due to credit institutions* was 0.30% (31 December 2021: 0.08%).

# 27 Due to General Governments

All amounts in thousands of euro

| | Company 31.12.2022. | Group / Company 31.12.2021. |
|---|---|---|
| Loans received from Rural Support Service | 3 318 | 3 321 |
| Loans received from the Treasury | 150 466 | 118 027 |
| **Total due to general governments** | **153 784** | **121 348** |

Item *Loans from Rural Support* 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 2022 the Company liabilities to Rural Support Service consist of the principal amount of EUR 3,072 thousand (31 December 2021: EUR 3,104 thousand) and accrued interest – EUR 246 thousand (31 December 2021: 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 Company for the implementation the following loan programmes:

- Agricultural land acquisition programme: as at 31 December 2022 the principal amount of the loan EUR 81,718 thousand (31 December 2021: EUR 69,077 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 Company under the programme. As at 31 December 2022, according to the loan agreement the Company is available the financing in the amount of EUR 18,282 thousand, the size and pace of its drawdown relates to the further volume of new loan transactions. As at 31 December 2022, the amount of the secured claim was EUR 98,070 thousand (31December 2021: EUR 82,893 thousand).

# 27 Due to General Governments (cont'd)

- SME development programme: as at 31 December 2022 the principal amount of the loan EUR 53,555 thousand (31 December 2021: EUR 32,103 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 Company under the programme. As at 31 December 2022, according to the loan agreement the Company still is available the financing in the amount of EUR 1,445 thousand, the size and pace of its drawdown relates to the further volume of new loan transactions. As at 31 December 2022, the amount of the secured claim was EUR 64,271 thousand (31 December 2021: EUR 38,524 thousand).
- Parallel loan programme: as at 31 December 2022 the principal amount of the loan EUR 4,600 thousand (31 December 2021: EUR 4,600 thousand), 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 Company under the programme. As at 31 December 2022, 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 2022, the amount of the secured claim was EUR 5,521 thousand (31 December 2021: EUR 5,520 thousand).
- Programme of Small Loans for Rural Areas: as at 31 December 2022 the principal amount of the loan EUR 2,079 thousand (31 December 2021: 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 Company under the programme. As at 31 December 2022, according to the loan agreement the Company still is available the financing in the amount of EUR 3,921 thousand, the size and pace of the drawdown the loan relates to the further volume of new loan transactions. As at 31 December 2022, the amount of the secured claim was EUR 2,495 thousand (31 December 2021: 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 2022 the principal amount of the loan EUR 8,502 thousand (31 December 2021: 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 2022, the amount of registered mortgage was EUR 10,406 thousand (31 December 2021: EUR 10,400 thousand).

As at 31 December 2022 the accrued interest on the loans received from the Treasury amounts to EUR 11.4 thousand (31 December 2021: EUR 2.2 thousand).

The Company has also concluded the following loan agreements with the Treasury, the absorption of which has not been started until 31 December 2022:

- 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.
- Loan program for construction works of apartment houses and improvement of their territories: the amount of the loan agreement EUR 30,000 thousand, the final repayment date 20 January 2044, commercial pledge on the Company's claims for the loans under the program. The size and pace of the drawdown the loan relates to the further volume of new loan transactions. The maximum secured claim is EUR 36,000 thousand.

# 28 Support programme funding

The Company's information on the risk coverage reserve included in the support programme funding and state aid, which can be used for covering the Company's credit risk losses as at 31 December 2022, in thousands of euro:

| Financial Instrument / Programme | Programme funding | Of which, risk coverage reserve | Fair value adjustment | Provisions covered by risk coverage | Net programme funding |
|---|---|---|---|---|---|
| **Loans** | | | | | |
| ERDF II | 8 265 | 1 275 | - | (102) | 8 163 |
| ESF II | 851 | 30 | - | (9) | 842 |
| Microcredits of Swiss programme (closed programme) | 565 | 35 | - | (2) | 563 |
| ERDF I | 414 | - | - | - | 414 |
| ESF I | 316 | 5 | - | (2) | 314 |
| ERDF II (second round) | 2 252 | 115 | - | (34) | 2 218 |
| Incubators (from ESF II) | 82 | 2 | - | - | 82 |
| ERDF II 2 Public fund | 226 | - | - | - | 226 |
| Fund of Funds programme – Start-up loans | 2 698 | 1 830 | (104) | (187) | 2 407 |
| Fund of Funds programme – Microcredits | 291 | 53 | (2) | (7) | 282 |
| Fund of Funds programme – Parallel loans | 4 012 | 4 012 | (117) | (1 205) | 2 690 |
| Energy Efficiency Loans for Multi-apartment Buildings (I) | 7 245 | 7 245 | (77) | (80) | 7 088 |
| Start-up State Aid Cumulation Lending Programme | 1 888 | 1 888 | (443) | (407) | 1 038 |
| Other loans to start-ups | 1 800 | 116 | - | (38) | 1 762 |
| Mezzanine Programme – Loans | 3 630 | 3 558 | - | (837) | 2 793 |
| Guarantees and interest grants programme | 4 287 | 4 287 | (1 196) | - | 3 091 |
| SME energy efficiency loans | 3 723 | 3 723 | (142) | (365) | 3 216 |
| ERAF SME growth loans | 15 000 | 900 | - | (213) | 14 787 |
| ERAF loans for business sustainability | 15 000 | 3 263 | - | (269) | 14 731 |
| Parallel loans | 2 000 | 2 000 | (119) | (297) | 1 584 |
| Parallel loans 2 | 3 286 | 1 216 | - | (424) | 2 862 |
| Loans for enterprises in rural territories | 7 803 | 1 707 | (413) | (149) | 7 241 |
| Start-up loans to innovative entrepreneurs | 6 000 | 1 200 | - | (155) | 5 845 |
| Multi-apartment building improvement loans* | 750 | 750 | (7) | (8) | 735 |
| Rental multi-apartment building improvement loans | 4 074 | 244 | - | (36) | 4 038 |
| Energy Efficiency Loans for Multi-apartment Buildings (II) | 250 | 250 | - | - | 250 |
| ERDF Multi-apartment building improvement loans | 500 | 14 | - | - | 500 |
| Cultural industry support programme ** | 2 220 | - | - | - | 2 220 |
| ELFLA Agricultural and rural development loans | 4 996 | 1 199 | - | (31) | 4 965 |
| Investment Loans with a capital rebate * | 99 565 | 50 778 | - | - | 99 565 |
| **Total loans** | **203 989** | **91 695** | **(2 620)** | **(4 857)** | **196 512** |

* Combined financial instrument.

** Combined financial instrument. Risk coverage (Portfolio Loss Reserve) of EUR 809 thousand has been included in the reserve for mitigation of the consequences of Covid-19, which is part of the specific reserves attributable to support programs (see Note 34).

# 28 Support programme funding (cont'd)

The Company's information on the risk coverage reserve included in the support programme funding and state aid, which can be used for covering the Company's credit risk losses as at 31 December 2022, in thousands of euro (cont'd):

| Financial Instrument / Programme | Programme funding | Of which, risk coverage reserve | Fair value adjustment | Provisions covered by risk coverage | Net programme funding |
|---|---|---|---|---|---|
| **Guarantees** | | | | | |
| Fund of Funds programme – Guarantees | 45 199 | 45 199 | - | (8 385) | 36 814 |
| Energy Efficiency Guarantees for Multi-apartment Buildings | 8 238 | 8 214 | - | (1 486) | 6 752 |
| Housing Guarantee Programme | 22 114 | 22 114 | (2 532) | (16 033) | 3 549 |
| Housing Guarantee Programme for NAF soldiers | 160 | 160 | - | - | 160 |
| Portfolio guarantees for renovation of family buildings | 502 | 502 | - | - | 502 |
| Guarantee Programme for Clients of State Aid Accumulation, Grace Period and Large Economic Operators | 8 753 | 8 753 | (2 567) | (1 049) | 5 137 |
| Mezzanine Programme – Guarantees | 865 | 848 | - | (278) | 587 |
| Portfolio Guarantee Fund | 9 994 | 9 664 | (2 196) | (3 399) | 4 399 |
| Export credit guarantees | 3 390 | 3 390 | (635) | (697) | 2 058 |
| Study and student portfolio guarantees *** | 658 | - | - | - | 658 |
| ELFLA Agricultural and rural development guarantees | 2 500 | 2 500 | - | - | 2 500 |
| Agricultural Guarantees | 2 741 | 2 741 | (374) | (1 501) | 866 |
| **Total guarantees** | **105 114** | **104 085** | **(8 304)** | **(32 828)** | **63 982** |
| **Grants** | | | | | |
| Energy Efficiency Grants for Multi-apartment Buildings | 60 784 | - | - | - | 60 784 |
| Housing grant programme "Balsts" | 4 465 | - | - | - | 4 465 |
| Grants for energy efficiency improvement of family buildings | 1 142 | - | - | - | 1 142 |
| Social Entrepreneurship Programme | 1 657 | - | - | - | 1 657 |
| Grants for development of energy efficiency project | 1 596 | - | - | - | 1 596 |
| Grants for improving energy efficiency of family buildings | 810 | - | - | - | 810 |
| Grants for Cultural industry support * | 1 089 | - | - | - | 1 089 |
| **Total grants** | **71 543** | **-** | **-** | **-** | **71 543** |
| **Venture Capital Funds** | | | | | |
| Fund of Funds and venture capital funds | 35 488 | 30 268 | - | - | 35 488 |
| Investment Fund Activity | 4 209 | 3 367 | - | (354) | 3 855 |
| Baltic Innovation Fund | 1 794 | 538 | (511) | - | 1 283 |
| Baltic Innovation Fund II | 1 902 | 571 | (548) | - | 1 354 |
| **Total venture capital funds** | **43 393** | **34 744** | **(1 059)** | **(354)** | **41 980** |
| **Other Activities** | | | | | |
| Energy Efficiency Fund | 580 | - | - | - | 580 |
| Regional Creative Industries Alliance | - | - | - | - | - |
| **Total other activities** | **580** | **-** | **-** | **-** | **580** |
| Funding allocated to increase reserve capital | 683 **** | - | - | - | 683 |
| **Total support programme funding** | **425 302 ***** ** | **230 524** | **(11 983)** | **(38 039)** | **375 280** |

* Combined financial instrument.

*** Risk coverage (Portfolio Loss Reserve) of EUR 3,308 thousand has been included in the reserve for non-Covid-19 programmes, which is part of the specific reserves attributable to support programs (see Note 34)

**** The financing included in the reserve capital is intended for guarantees of the Housing Guarantee Program for NAF soldiers in the amount of 320 thousand euro and for the Housing Guarantee Support Program in the amount of 363 thousand euro.

***** Support programme funding contains EUR 12,999 thousand allocated for management costs of the Company to be compensated from support programme funding.

# 28 Support programme funding (cont'd)

The Company's information on the risk coverage reserve included in the support programme funding and state aid, which can be used for covering the 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 Loans for Multi-apartment Buildings (I) | 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 |
| Multi-apartment building improvement loans ** | 1 000 | 1 000 | - | 1 000 |
| Rental multi-apartment building improvement loans | 1 000 | 60 | - | 1 000 |
| Cultural industry support programme *** | 2 717 | - | - | 2 717 |
| **Total loans** | **52 940 ****** | **33 037** | **(5 127)** | **47 813** |
| **Guarantees** | | | | |
| Fund of Funds programme - Guarantees | 29 909 | 29 909 | (6 183) | 23 726 |
| Energy Efficiency Guarantees for Multi-apartment Buildings | 8 294 | 7 985 | (1 015) | 7 279 |
| Housing Guarantee Programme | 21 530 | 21 530 | (11 971) | 9 559 |
| Portfolio guarantees for renovation of family buildings | 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 credit 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** |

* The IFRS 9 implementation adjustment of EUR (7,645) thousand incorporated in 2018 (for details see financial report of 2021 Note 2 (15)) consisting of Accrued liabilities of state aid of EUR 4,876 thousands and Fair value adjustment 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 2021. 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 adjustment 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 34).

**** 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.

***** 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 34)

# 28 Support programme funding (cont'd)

The Company's information on the risk coverage reserve included in the support programme funding and state aid, which can be used for covering the 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 |
|---|---|---|---|---|
| **Grants** | | | | |
| Energy Efficiency Grants for Multi-apartment Buildings | 48 826 | - | - | 48 826 |
| Housing grant programme "Balsts" | 7 350 | - | - | 7 350 |
| Grants for energy efficiency improvement of family buildings ** | 1 872 | - | - | 1 872 |
| Social Entrepreneurship Programme | 1 849 | - | - | 1 849 |
| Grants for Cultural industry support ** | 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 financial report of 2021 Note 2 (15)) consisting of Accrued liabilities of state aid of EUR 4,876 thousands and Fair value adjustment 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 2021. 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 adjustment for the year 2021 of EUR 152 thousands has been also netted off vs Programme funding as at 31 December 2021.

** Combined financial instrument.

****** Financing was transferred to the Company's reserve capital following the decision of the shareholders' meeting in the 1st quarter of 2022.

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

# 28 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 Company need not have to repay the reductions of funding to the funding provider.

Movement in the Company's support programme funding in 2022, in thousands of euro:

| Financial Instrument / Programme | Financing, net 31.12.2021. | 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 31.12.2022. |
|---|---|---|---|---|---|---|---|---|---|---|
| **Loans** | | | | | | | | | | |
| ERDF II | 1 579 | - | (2 000) | - | - | - | 29 | 8 490 | 65 | 8 163 |
| ESF II | 969 | - | (1 450) | - | - | - | 24 | 1 321 | (22) | 842 |
| Microcredits of Swiss programme (closed programme) | 77 | - | - | - | - | - | - | 484 | 2 | 563 |
| ERDF I | 119 | - | - | - | - | - | (35) | 327 | 3 | 414 |
| ESF I | 314 | - | - | - | - | - | - | - | - | 314 |
| ERDF II (second round) | 5 762 | - | (4 800) | - | - | - | 33 | 1 223 | - | 2 218 |
| Incubators (from ESF II) | 82 | - | - | - | - | - | - | - | - | 82 |
| ERDF II 2 Public fund | 226 | - | - | - | - | - | - | - | - | 226 |
| Fund of Funds programme – Start-up loans | 2 479 | - | - | - | - | - | - | (105) | 33 | 2 407 |
| Fund of Funds programme – Microcredits | 282 | - | - | - | - | - | - | (2) | 2 | 282 |
| Fund of Funds programme – Parallel loans | 1 714 | - | (286) | - | - | - | - | (117) | 1 379 | 2 690 |
| Energy Efficiency Loans for Multi-apartment Buildings (I) | 5 282 | 5 000 | (3 000) | - | (176) | - | 128 | (77) | (69) | 7 088 |
| Start-up State Aid Cumulation Lending Programme | 1 606 | - | - | - | - | - | - | (427) | (141) | 1 038 |
| Other loans to start-ups | 1 468 | - | - | - | - | - | 32 | 254 | 8 | 1 762 |
| Mezzanine Programme – Loans | 2 438 | - | 47 | - | - | - | 98 | - | 210 | 2 793 |
| Guarantees and interest grants programme | 4 269 | - | - | - | - | - | 18 | (1 196) | - | 3 091 |
| SME energy efficiency loans | 3 373 | - | - | - | - | - | - | (142) | (15) | 3 216 |
| ERDF SME growth loans | - | - | 15 000 | - | - | - | - | - | (213) | 14 787 |
| ERDF loans for business sustainability | - | - | 15 000 | - | - | - | - | - | (269) | 14 731 |
| Parallel loans | 1 845 | - | - | - | - | - | - | (119) | (142) | 1 584 |
| Parallel loans 2 | - | - | 3 286 | - | - | - | - | - | (424) | 2 862 |
| Loans for enterprises in rural territories | 7 738 | - | - | - | - | - | - | (413) | (84) | 7 241 |
| Start-up loans to innovative entrepreneurs | 1 474 | - | 4 500 | - | - | - | - | - | (129) | 5 845 |
| Multi-apartment building improvement loans* | 1 000 | - | (250) | - | - | - | - | (7) | (8) | 735 |

# 28 Support programme funding (cont'd)

Movement in the Company's support programme funding in 2022, in thousands of euro (cont'd):

| Financial Instrument / Programme | Financing, net 31.12.2021. | 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 31.12.2022. |
|---|---|---|---|---|---|---|---|---|---|---|
| Rental multi-apartment building improvement loans | 1 000 | - | 3 000 | - | - | - | 74 | - | (36) | 4 038 |
| Energy Efficiency Loans for Multi-apartment Buildings (II) | - | - | 250 | - | - | - | - | - | - | 250 |
| ERDF Multi-apartment building improvement loans | - | - | 500 | - | - | - | - | - | - | 500 |
| Cultural industry support programme * | 2 717 | - | (364) | - | (63) | - | - | (70) | - | 2 220 |
| ELFLA Agricultural and rural development loans | - | 5 000 | - | - | (63) | - | 59 | - | (31) | 4 965 |
| Investment Loans with a capital rebate * | - | 99 565 | - | - | - | - | - | - | - | 99 565 |
| **Total loans** | **47 813**** | **109 565** | **29 433** | **-** | **(302)** | **-** | **460** | **9 424** | **119** | **196 512** |
| **Guarantees** | | | | | | | | | | |
| Fund of Funds programme - Guarantees | 23 726 | - | 15 300 | - | - | - | - | (1) | (2 211) | 36 814 |
| Energy Efficiency Guarantees for Multi-apartment Buildings | 7 279 | - | - | - | (285) | - | 230 | - | (472) | 6 752 |
| Housing Guarantee Programme | 9 559 | 737 | - | - | - | - | - | (2 685) | (4 062) | 3 549 |
| Housing Guarantee Programme for NAF soldiers | - | 160 | - | - | - | - | - | - | - | 160 |
| Portfolio guarantees for renovation of family buildings* | 502 | - | - | - | - | - | - | - | - | 502 |
| Guarantee Programme for Clients of State Aid Accumulation, Grace Period and Large Economic Operators | 6 757 | - | 1 000 | - | - | - | - | (2 567) | (53) | 5 137 |
| Mezzanine Programme - Guarantees | 702 | - | (47) | - | - | - | 21 | - | (89) | 587 |
| Portfolio Guarantee Fund | 1 555 | - | 6 250 | - | (137) | - | - | (2 196) | (1 073) | 4 399 |
| Export credit guarantees | 1 841 | - | 1 000 | - | - | - | - | (635) | (148) | 2 058 |
| Study and student portfolio guarantees | 549 | 156 | - | - | (47) | - | - | - | - | 658 |
| ELFLA Agricultural and rural development guarantees | - | 2 500 | - | - | - | - | - | - | - | 2 500 |
| Agricultural Guarantees | 1 721 | - | - | - | - | - | - | (374) | (481) | 866 |
| **Total guarantees** | **54 191** | **3 553** | **23 503** | **-** | **(469)** | **-** | **251** | **(8 458)** | **(8 589)** | **63 982** |
| **Grants** | | | | | | | | | | |
| Energy Efficiency Grants for Multi-apartment Buildings | 48 826 | 33 582 | - | (20 630) | (994) | - | - | - | - | 60 784 |
| Housing grant programme "Balsts" | 7 350 | - | - | (2 885) | - | - | - | - | - | 4 465 |
| Grants for energy efficiency improvement of family buildings * | 1 872 | - | - | (730) | - | - | - | - | - | 1 142 |
| Social Entrepreneurship Programme | 1 849 | 3 172 | - | (3 205) | (159) | - | - | - | - | 1 657 |
| Grants for development of energy efficiency project | - | - | 3 269 | (1 537) | (136) | - | - | - | - | 1 596 |
| Grants for improving energy efficiency of family buildings | - | 810 | - | - | - | - | - | - | - | 810 |
| Grants for Cultural industry support * | 1 849 | - | 364 | (1 051) | (63) | - | - | (10) | - | 1 089 |
| **Total grants** | **61 746** | **37 564** | **3 633** | **(30 038)** | **(1 352)** | **-** | **-** | **(10)** | **-** | **71 543** |

* Combined financial instrument.

** Support programme funding includes funding that had to be reallocated between the programmes, partly done in 2022 (from the Microcredits of Swiss programme), to be continued in 2023

# 28 Support programme funding (cont'd)

Movement in the Company's support programme funding in 2022, in thousands of euro (cont'd):

| Financial Instrument / Programme | Financing, net 31.12.2021. | 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 31.12.2022. |
|---|---|---|---|---|---|---|---|---|---|---|
| **Venture Capital Funds** | | | | | | | | | | |
| Fund of Funds and venture capital funds | 52 084 | 40 000 | (53 300) | - | (3 200)*** | (2 336) | 2 240 ***** | - | - | 35 488 |
| Investment Fund Activity | 5 008 | - | - | - | (616)**** | (2 060) | 1 679 ****** | 198 ******** | (354) | 3 855 |
| Baltic Innovation Fund | 1 939 | - | - | - | (206) | - | 61 ******* | (511) | - | 1 283 |
| Baltic Innovation Fund II | 2 166 | - | - | - | (264) | - | - | (548) | - | 1 354 |
| **Total venture capital funds** | **61 197** | **40 000** | **(53 300)** | **-** | **(4 286)** | **(4 396)** | **3 980** | **(861)** | **(354)** | **41 980** |
| **Other Activities** | | | | | | | | | | |
| Energy Efficiency Fund | 3 888 | 46 | (3 269) | - | (85) | - | - | - | - | 580 |
| Regional Creative Industries Alliance | - | 3 | - | - | (3) | - | - | - | - | - |
| **Total other activities** | **3 888** | **49** | **(3 269)** | **-** | **(88)** | **-** | **-** | **-** | **-** | **580** |
| Funding allocated to increase reserve capital | 1 452 | 683 | - | - | - | - | - | (1 452) | - | 683 |
| **Total support programme funding** | **230 287** | **191 414** | **-** | **(30 038)** | **(6 497)** | **(4 396)** | **4 691** | **(1 357)** | **(8 824)** | **375 280** |

*** include EUR 1,820 thousand management fees for the 4th generation venture capital funds (see Note 16).
**** include EUR 446 thousand management fees for the 2nd and 3rd generation venture capital funds (see Note 16).
***** include EUR 536 thousand mezzanine interest received and EUR 42 thousand realised gain on investments in 4th generation venture capital funds in 2022 (see Note 16).
****** include EUR 225 thousand mezzanine interest received and EUR 872 thousand realised gain on investments in 2nd and 3rd generation venture capital funds in 2022 (see Note 16) and received deferred payments EUR 582 thousand.
******* include EUR 48 thousand realised gain on investment in Baltic Innovation Fund in 2022 (see Note 16).
******** include deferred payments in amount of EUR 12 thousand (deferred income) from exited investments in 2nd and 3rd generation venture capital funds.

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

| | Company 01.01.2022.-31.12.2022. | Company 01.01.2021.-31.12.2021. | Group 01.01.2021.-31.12.2021. |
|---|---|---|---|
| Revaluation of investments in 2nd and 3rd generation venture capital funds | (2 414) | (1 805) | (1 805) |
| Realised gain on investments in 2nd and 3rd generation venture capital funds | 872 | (429) | (429) |
| Mezzanine interest received from investments in 2nd and 3rd generation venture capital funds | 225 | 489 | 489 |
| Revaluation of investments in 4th generation venture capital funds | (2 336) | (551) | (65) |
| Mezzanine interest received from investments in 4th generation venture capital funds | 42 | 528 | 313 |
| Realised gain on investment in Baltic Innovation Fund | - | 153 | 153 |
| Mezzanine interest received from investments in Baltic Innovation Fund | 536 | 24 | 24 |
| **Total gains less losses from liabilities at fair value through profit or loss** | **(3 075)** | **(1 591)** | **(1 320)** |

# 29 Liabilities from financial guarantees and Provisions for off-balance sheet liabilities

Provisions for impairment of off-balance sheet liabilities, in thousands of euro:

| | Company<br>31.12.2022. | Group / Company<br>31.12.2021. |
|---|---|---|
| Provisions for loan commitments | 1 077 | 790 |
| *Company's share of provisions* | *432* | *140* |
| *Provisions covered by Portfolio Loss Reserve* | *12* | *188* |
| *Provisions covered by Risk Coverage Reserve* | *633* | *462* |
| Provisions for grant commitments | 376 | 73 |
| *Company's share of provisions* | *376* | *73* |
| **Total provisions** | **1 453** | **863** |
| *Company's share of provisions* | *808* | *213* |
| *Provisions covered by Portfolio Loss Reserve* | *12* | *188* |
| *Provisions covered by Risk Coverage Reserve* | *633* | *462* |

Movement of Liabilities from financial guarantees, in thousands of euro:

| | Company<br>01.01.2022.-31.12.2022. | Group / Company<br>01.01.2021.-31.12.2021. |
|---|---|---|
| Provisions at the beginning of the period | 37 373 | 31 413 |
| Increase in provisions (Note 13: the sum of *impairment losses* and *impairment losses covered by Portfolio Loss Reserve*) | 24 064 | 16 071 |
| Decrease in provisions (Note 13: the sum of *reversal of impairment* and *reversal impairment losses covered by Portfolio Loss Reserve*) | (15 314) | (12 916) |
| Reclassification (Disbursed guarantee) | (536) | (964) |
| Fair value component - guarantee premiums | 265 | 3 769 |
| **Provisions at the end of the period ended 31 December** | **45 852** | **37 373** |
| *Fair value component - guarantee premiums* | *4 034* | *3 769* |
| *Company's share of provisions* | *2 683* | *5 494* |
| *Provisions covered by Portfolio Loss Reserve* | *7 481* | *4 719* |
| *Provisions covered by Risk Coverage Reserve* | *31 654* | *23 390* |

Deferred income for guarantee premiums EUR 4,034 thousand (in 2021: EUR 3,769 thousand) are combined with provisions for guarantees EUR 41,818 thousand (in 2021: EUR 33,603 thousand), creating a new balance sheet item Liabilities from financial guarantees.

# 30 Other Liabilities

All amounts in thousands of euro

| | Company<br>31.12.2022. | Group / Company<br>31.12.2021. |
|---|---|---|
| Due to customers | 2 008 | 2 574 |
| Other liabilities | 1 747 | 1 266 |
| **Total other liabilities** | **3 755** | **3 840** |

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

# 31 Accrued Expense

All amounts in thousands of euro

| | Company<br>31.12.2022. | Group / Company<br>31.12.2021. |
|---|---|---|
| Other accrued expense | 607 | 762 |
| Audit services | 53 | 43 |
| Bonuses of the employees and the Management Board | 1 | 1 |
| **Total accrued expense** | **661** | **806** |

# 32 Issued Debt Securities

All bonds are listed on the Baltic bond list by Nasdaq Riga.

All amounts in thousands of euro

| ISIN | Currency | Number of initially issued securities | Par Value | Date of issuance | Maturity Date | Discount / Coupon Rate | Company<br>31.12.2022. | Group / Company<br>31.12.2021. |
|---|---|---|---|---|---|---|---|---|
| LV0000802353 | EUR | 20 000 | 1 000 | 17.10.2017 | 17.10.2024 | 1.37% | 20 001 | 19 963 |
| LV0000880037 | EUR | 10 000 | 1 000 | 07.03.2018 | 07.03.2025 | 1.30% | 10 091 | 10 435 |
| LV0000880037 | EUR | 15 000 | 1 000 | 05.06.2019 | 07.03.2025 | 1.30% | 15 251 | 15 163 |
| LV0000880037 | EUR | 20 000 | 1 000 | 15.04.2020 | 07.03.2025 | 1.30% | 20 195 | 19 997 |
| LV0000870095 | EUR | 20 000 | 1 000 | 08.10.2021 | 08.10.2026 | 0.44% | 19 975 | 20 000 |
| **Total issued debt securities at the end of period ended 31 December** | | | | | | | **85 513** | **85 558** |

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:

| | Company<br>31.12.2022. | Group / Company<br>31.12.2021. |
|---|---|---|
| At the beginning of period | 85 558 | 65 522 |
| Bond issue | - | 20 000 |
| Accrued coupon | 869 | 873 |
| Coupon pay-out | (933) | (845) |
| Discount amortisation | (30) | (50) |
| Commission amortisation | 49 | 58 |
| **Total issued debt securities at the end of period ended 31 December** | **85 513** | **85 558** |

Information about bondholders structure according to holders groups and total number of bondholders at 31 December 2022:

| Bondholders group | Number | % |
|---|---|---|
| Pension funds and investment funds | 70 | 68% |
| Financial institutions | 13 | 13% |
| Other legal entities | 9 | 9% |
| Insurance companies | 8 | 8% |
| Private individuals | 2 | 2% |
| **Total** | **102** | **100%** |

# 33 Share capital

All amounts in thousands of euro

| | Quantity | | Carrying amount | |
|---|---|---|---|---|
| | 31.12.2022. | 31.12.2021. | 31.12.2022. | 31.12.2021. |
| 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 Company's profit for the period is transferred to reserves in order to ensure financial stability and sustainable operation of the Company as well as to mitigate the risks of approved support programmes.

# 34 Reserves

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

| | Specific reserves for support programmes | Other specific reserves-difference recognised in Company's reorganisation reserve | General reserve capital | Total reserves |
|---|---|---|---|---|
| **Reserves as of 1January 2021** | **161 133** | **(15 935)** | **25 121** | **170 319** |
| Decrease of Specific Reserves to General reserve capital at allocation of the profit for year 2020 | (6 429) | - | 6 429 | - |
| Distribution of 2020 year profit of the Company | - | - | 5 539 | 5 539 |
| Increase of reserve capital | 45 489 | - | - | 45 489 |
| **Reserves as of 31 December 2021** | **200 193** | **(15 935)** | **37 089** | **221 347** |
| Distribution of 2021 year profit of the Company | - | - | 13 829 | 13 829 |
| Decrease of Specific Reserves to General reserve capital at allocation of the profit for year 2021 | (3 446) | - | 3 446 | - |
| Increase of reserve capital | 3 525 | - | - | 3 525 |
| Decrease of reserve capital | (58 565) | - | - | (58 565) |
| **Reserves as of 31 December 2022** | **141 707** | **(15 935)** | **54 364** | **180 136** |

Subitem *Reserve capital for non-Covid-19 programmes* includes the following increases in the Specific Reserve capital for non-Covid-19 programmes in 2022 12 months:

- An increase of EUR 1,452 thousand for housing guarantees in accordance with the decision of the Extraordinary General Shareholders' Meeting of 27 June 2022, 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 concluded on 22 December 2021 Agreement on dwelling guarantee support program funding No.2/2021 with the Ministry of Economics
- An increase for study and student portfolio guarantees for the total amount of EUR 2,073 thousand in accordance with the decision of the Extraordinary General Shareholders' Meeting of 27 June 2022, 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 agreement concluded on 10 August 2020 (with the amendments of 27 December 2021) on the financing, implementation, cooperation, supervision and mutual exchange of information of the study and student loan guarantee program with the Ministry of Education and Science.

Item *Reserve capital for mitigation of impact of Covid-19* includes a decrease in the Special Reserve capital of EUR 58,565 thousand in accordance with the decision of the Extraordinary General Meeting of Shareholders of the Company of 1 April 2022, adopted on the basis of the clauses 2 and 3 of the Cabinet of Ministers Order as of 6 July 2021 (Meeting Minutes No.51). A decrease in the reserve capital consists of:

- Decrease of Special Reserve Capital by EUR 22,565 thousand for loans to large companies (MidCap Loans)
- Decrease of Special Reserve Capital by EUR 16,000 thousand for portfolio guarantees to mitigate impact of the Covid-19 crisis (were included in Credit Holiday Guarantees)
- Decrease of Special Reserve Capital by EUR 20,000 thousand for guarantees to large companies (MidCap Guarantees) whose activities have been affected by the spread of Covid-19

As result of reduction of the Special Reserve Capital, redistributed funding will be diverted to finance the new Investment Loan with a capital rebate programme. Thus, the expected reduction of the Special 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 programme is maintained, maintaining the same funding - financing for a new support programme and expected losses. By transferring financing from the Special Reserve Capital, the Portfolio Loss Reserve will decrease by EUR 49,800 thousand.

# 34 Reserves (cont'd)

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.

The following changes in the distribution of special reserve capital are expected for financing new programs:

- to reduce the special reserve capital by EUR 34,000 thousand, including:
  - for EUR 21,500 thousand for the program implemented in accordance with the Cabinet of Ministers' regulations of 19 March 2020 No.149 "Regulations on loans of working capital to economic operators whose operations have been affected by the spread of Covid-19";
  - for EUR 8,500 thousand for the portfolio guarantee program of the crisis caused by Covid-19, which was implemented in accordance with the Cabinet of Ministers' regulations No.537 of 5 September 2017 "Regulations on portfolio guarantees for the promotion of lending to small (micro), small and medium-sized economic operators - legal entities";
  - for EUR 4,000 thousand for the program implemented in accordance with the Cabinet of Ministers' regulations No.150 of 19 March 2020 "Regulations on guarantees for economic operators whose operations have been affected by the spread of Covid-19";
- to create a special reserve capital and transfer and transfer of funding to the reserve capital in the amount of EUR 34,000 thousand, including:
  - in the amount of EUR 21,500 thousand for the program, which can be realized in accordance with the Cabinet of Ministers regulations No.349 of 14 June 2022 (prot. No.32 § 27) "Regulations on the loan program for mitigating the economic consequences of Russia Federation's military aggression against Ukraine";
  - in the amount of EUR 12,500 thousand for the program, which can be realized in accordance with the Cabinet of Ministers regulations No.377 of 21 June 2022 (prot. No.33 § 54) "Regulations on the guarantee program for mitigating the economic consequences of Russia Federation's military aggression against Ukraine".

Taking into account the funding currently received for the implementation of certain support programmes and to cover their expected losses, where there is no demand in these programs as originally envisaged by the financial sector, then in accordance with the Regulations of the Cabinet of Ministers of 6 July 2022 No.662 "Amendments to the Cabinet of Ministers Regulations of 6 July 2021 No.503 " Regulations on Capital Discounted Loans for Investment Projects to Promote Competitiveness "", 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 27,500 thousand to be diverted to finance the new Investment Loan with a capital discount from the following programs:

- 17,500 thousand euro from Loans for financing current assets,
- 10,000 thousand euro from Credit Holiday Guarantees

Pursuant to Cabinet Regulation No.503 of 6 July 2021, p.7 "Regulations on Capital Discounted Loans for Investment Projects to Promote Competitiveness", the financing of the capital discounted investment loan program is used to cover the expected losses of Altum and the capital discount. Thus, the expected reduction of the special reserve capital by reducing the funding for certain support programs and the transfer of the respective funding in the amount of EUR 27,500 thousand to finance a new support program is maintained, maintaining the same funding - financing for a new support program and expected losses.

# 34 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 | Working capital loans | Loan holiday guarantees | **Reserve capital for AIF "Altum capital fund"** | **Total specific reserves for support programmes** |
| **Specific reserves as of 1 January 2021** | **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) |
| Portfolio Loss Reserve (Specific Reserves) 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)* |
| Portfolio Loss Reserve (Specific Reserves) used to cover credit loss upon approval of the 2021 annual report | - | (1 140) | - | - | - | - | (1 683) | (186) | (437) | (3 446) |
| Increase of reserve capital | 1 452 | 2 073 | - | - | - | - | - | - | - | 3 525 |
| Decrease of reserve capital, directing funds to risk coverage of program Loans with capital discount | - | - | - | - | (22 565) | (20 000) | - | (16 000) | - | (58 565) |
| **Specific reserves as of 31 December 2022** | **19 138** | **3 308** | **5 788** | **4 500** | **-** | **-** | **56 465** | **28 130** | **24 378** | **141 707** |
| of which: | | | | | | | | | | |
| *Portfolio Loss Reserve (Specific Reserves)* | *19 138* | *3 308* | *5 788* | *4 500* | *-* | *-* | *40 702* | *28 130* | *8 413* | *109 979* |
| *Portfolio Loss Reserve (Specific Reserves) to be used to cover credit loss upon approval of the 2022 annual report* | *-* | *(1 906)* | *-* | *(482)* | *-* | *-* | *(1 914)* | *(473)* | *(471)* | *(5 246)* |

# 34 Reserves (cont'd)

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

| | Portfolio loss reserve for non-Covid-19 guarantees programmes | | | | Portfolio loss reserve for mitigating of impact of Covid-19 | | | | Reserve capital for AIF "Altum capital fund" | Total portfolio loss reserve |
|---|---|---|---|---|---|---|---|---|---|---|
| | Housing Guarantee Programme | Study and student portfolio guarantees | Guarantees for agriculture, fisheries and rural development | 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 | | |
| **Portfolio Loss Reserve as of 1 January 2021** | **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 | - | (392) | - | - | - | - | (2 668) | (3 184) | (185) | (6 429) |
| Reallocation of funding within portfolio loss reserve – funding for management fee | - | - | - | - | - | - | - | - | 2 060 | 2 060 |
| 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)* |
| Reallocation of funding within Portfolio Loss Reserve – funding for management fee | - | (1 140) | - | - | - | - | (1 683) | (186) | (437) | (3 446) |
| Increase of reserve capital | 1 452 | 2 073 | - | - | - | - | - | - | - | 3 525 |
| Decrease of reserve capital, directing funds to capital discount of program Loans with capital discount | - | - | - | - | (13 800) | (20 000) | - | (16 000) | - | (49 800) |
| **Portfolio Loss Reserve as of 31 December 2022** | **19 138** | **3 308** | **5 788** | **4 500** | **-** | **-** | **40 702** | **28 130** | **8 413** | **109 979** |
| *of which:* | | | | | | | | | | |
| *Portfolio Loss Reserve (Specific Reserves) to be used to cover credit loss upon approval of the 2022 annual report* | - | *(1 906)* | - | *(482)* | - | - | *(1 914)* | *(473)* | *(471)* | *(5 246)* |

# 35 Off-balance sheet items and contingent liabilities

All amounts in thousands of euro

| | Company<br>31.12.2022. | Group / Company<br>31.12.2021. |
|---|---|---|
| Contingent liabilities: | | |
| Outstanding guarantees | 481 013 | 414 978 |
| Financial commitments: | | |
| Loan commitments | 61 233 | 25 572 |
| Grant commitments | 47 824 | 11 089 |
| Commitments to AIF "Altum capital fund" * | 31 209 | 33 450 |
| Commitments to investments in associates ** | 44 130 | 54 426 |
| Commitments to other investments | 29 859 | 36 739 |
| **Total contingent liabilities and financial commitments** | **695 268** | **576 254** |

* Considering the investments made by AIF Altum capital fund as of 31 December 2022 (EUR 34,400 thousand) and the planned investments of EUR 7,400 thousand for existing portfolio companies, as well as scheduled contributions to cover management fee, the position " Commitments to AIF Altum capital fund" could decrease by EUR 22,500 thousand.

** Considering the investments are realized in the 2nd and 3rd generation venture capital funds and the subsequent liquidation of the funds, the position " Commitments to investments in associates" could decrease by EUR 5,700 thousand.

Impairment allowances for loan commitments, in thousands of euro:

| | Company<br>31.12.2022. | Group / Company<br>31.12.2021. |
|---|---|---|
| Unutilised loan facilities | 61 233 | 25 572 |
| Impairment allowances | (1 076) | (790) |
| **Total unutilized loan facilities, net** | **60 157** | **24 782** |

Impairment allowances for grant commitments, in thousands of euro:

| | Company<br>31.12.2022. | Group / Company<br>31.12.2021. |
|---|---|---|
| Grant commitments | 47 824 | 11 089 |
| Impairment allowances | (376) | (73) |
| **Total grant commitments, net** | **47 448** | **11 016** |

# 35 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 2022, 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 | 305 461 * | - | - | 7 | 30 835 | 144 710 | 481 013 |
| Financial commitments | | | | | | | |
| Loan commitments | 61 233 | - | - | - | - | - | 61 233 |
| Grant commitments | 47 824 | - | - | - | - | - | 47 824 |
| Commitments to AIF "Altum capital fund"** | 19 | 577 | 596 | 1 929 | 28 088 | - | 31 209 |
| Commitments to investments in associates*** | 2 622 | 5 243 | 7 694 | 13 669 | 13 461 | 1 441 | 44 130 |
| Commitments to other investments | 575 | 1 150 | 1 725 | 3 450 | 15 261 | 7 698 | 29 859 |
| Total financial commitments | 112 273 | 6 970 | 10 015 | 19 048 | 56 810 | 9 139 | 214 255 |
| **Total contingent liabilities and financial commitments** | **417 734** | **6 970** | **10 015** | **19 055** | **87 645** | **153 849** | **695 268** |

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

** Considering the investments made by AIF Altum capital fund as of 31 December 2022 (EUR 34,400 thousand) and the planned investments of EUR 7,400 thousand for existing portfolio companies, as well as scheduled contributions to cover management fee, the position " Commitments to AIF Altum capital fund" could decrease by EUR 22,500 thousand.

*** Considering the investments are realized in the 2nd and 3rd generation venture capital funds and the subsequent liquidation of the funds, the position " Commitments to investments in associates" could decrease by EUR 5,700 thousand.

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 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 Company has to make a decision on payment of guarantee claim within one month.

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

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 Company to allocate financial resources to the fund.

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

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

| | | Committed funding | | Uncalled committed funding | |
|---|---|---|---|---|---|
| | Contract period | 31.12.2022. | 31.12.2021. | 31.12.2022. | 31.12.2021. |
| Investments in Associates | | | | | |
| KS Overkill Ventures Fund I | 09.05.2026 | 3 200 | 3 200 | 626 | 769 |
| KS Buildit Latvia Pre-Seed Fund | 20.06.2026 | 4 160 | 3 200 | 1 352 | 761 |
| KS Commercialization Reactor Pre-seed Fund | 24.07.2026 | 4 160 | 3 200 | 1 746 | 1 076 |
| KS INEC 1 | 29.11.2028 | 13 650 | 13 650 | 6 747 | 8 897 |
| KS INEC 2 | 29.11.2028 | 5 850 | 5 850 | 3 562 | 3 957 |
| KS Overkill Ventures Fund II | 09.08.2026 | 1 800 | 1 800 | 743 | 1 099 |
| KS Buildit Latvia Seed Fund | 30.06.2026 | 2 200 | 1 800 | 1 192 | 1 270 |
| KS Commercialization Reactor Seed Fund | 22.08.2026 | 1 800 | 1 800 | 1 132 | 1 478 |
| KS ZGI-4 | 14.08.2028 | 19 500 | 19 500 | 12 263 | 13 642 |
| KS Baltcap Latvia Venture Capital Fund | 22.01.2023 | 20 000 | 20 000 | 3 841 | 3 841 |
| KS Imprimatur Capital Technology Venture Fund | 10.06.2023 | 4 966 | 4 966 | 133 | 168 |
| KS Imprimatur Capital Seed Fund (fund is in the process of liquidation) | 11.06.2022 | 10 000 | 10 000 | - | 492 |
| KS ZGI-3 | 31.12.2023 | 11 800 | 11 800 | 806 | 853 |
| KS FlyCap investment Fund | 31.12.2023 | 15 000 | 15 000 | 757 | 939 |
| FlyCap Mezzanine Fund II | 28.08.2029 | 12 790 | 12 790 | 6 110 | 9 581 |
| KS Expansion Capital fund | 31.12.2023 | 15 000 | 14 998 | 132 | 266 |
| AIF "Altum capital fund" | 02.09.2027 | 48 910 | 48 910 | 31 209 | 33 450 |
| Baltic Innovation Fund I | 01.01.2029 | 26 000 | 26 000 | 2 987 | 5 687 |
| Other investments | | | | | |
| Baltic Innovation Fund II | 12.07.2036 | 26 000 | 26 000 | 20 800 | 23 517 |
| Three Seas Initiatives Investment Fund | 27.02.2035 | 20 000 | 20 000 | 9 059 | 12 872 |
| **Total funding** | | **266 786** | **264 464** | **105 197** | **124 615** |

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

All amounts in thousands of euro

| | Company | Group / Company |
|---|---|---|
| | 31.12.2022. | 31.12.2021. |
| At the beginning of period | 698 | 1 213 |
| (Loss) from changes in fair value | (1 197) | (514) |
| Impairment loss* | - | (1) |
| Other comprehensive income (Note 34) | (1 197) | (515) |
| **Revaluation reserve of financial assets measured at fair value through other comprehensive income at the end of period ended December 31** | **(499)** | **698** |

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

# 37 Related party transactions

Related parties include members of the Supervisory Council and the Management Board of the 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 Company's operations are treated as related parties to the Company. The powers granted to the heads of the structural units of the Company do not entitle them to manage the operations of the Company and decide on material transactions that could affect the Company's operations and/or result in legal consequences.

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

The 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 Altum shareholders | |
|---|---|---|---|---|---|---|
| | 31.12.2022. | 31.12.2021. | 31.12.2022. | 31.12.2021. | 31.12.2022. | 31.12.2021. |
| Investments in venture capital funds | - | - | 47 680 | 50 077 | - | - |
| Investments in AIF "Altum capital fund" | - | - | 17 701 | 14 871 | - | - |
| Due to general governments | - | - | - | - | 3 318 | 3 321 |
| Support programme funding | 288 737 | 222 774 | - | - | 86 327 | 51 559 |
| Off-balance sheet financial liabilities for venture capital funds | - | - | 44 130 | 54 426 | - | - |
| Off-balance sheet financial liabilities for AIF "Altum capital fund" | - | - | 31 209 | 33 450 | - | - |

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

| | Received State aid funding | | Issued State aid funding or funding paid back | |
|---|---|---|---|---|
| | 01.01.2022.-31.12.2022. | 01.01.2021.-31.12.2021. | 01.01.2022.-31.12.2022. | 01.01.2021.-31.12.2021. |
| Transactions with shareholders | | | | |
| Ministry of Finance of the Republic of Latvia | 32 703 | 35 931 | (13 054) | (17 378) |
| Ministry of Agriculture of the Republic of Latvia | - | 7 000 | - | - |
| Ministry of Economics of the Republic of Latvia | 42 146 | 33 744 | - | (2 435) |
| Associates | | | | |
| Venture capital funds | 12 429 | 20 968 | (12 037) | (14 613) |
| Other companies owned by the Company's shareholders | | | | |
| Rural Support Service | 7 500 | - | - | - |
| Central Finance and Contracting Agency of the Republic of Latvia | 78 582 | 51 559 | - | - |
| Ministry of Education and Science of the Republic of Latvia | 2 245 | 2 003 | - | - |
| Ministry of Culture of the Republic of Latvia | 3 003 | 3 815 | (3 070) | (2 185) |
| Ministry of Wealth Fair of the Republic of Latvia | 3 172 | 2 454 | - | - |

The remuneration of the members of the Supervisory Council, Audit Committee and the Management Board of the Company in 2022 amounted to EUR 776 thousand (2021: EUR 713 thousand), incl. social insurance contributions.

# 38 Fair values of assets and liabilities

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 | |
|---|---|---|---|---|
| | 31.12.2022. | 31.12.2021. | 31.12.2022. | 31.12.2021. |
| Assets | | | | |
| Due from credit institutions and the Treasury | 571 667 | 455 006 | 571 724 | 455 006 |
| Financial assets at fair value through other comprehensive income - investment securities | 9 515 | 14 051 | 9 515 | 14 051 |
| Financial assets at amortised cost: | | | | |
| Investment securities | 39 | 37 | 90 | 90 |
| Loans | 317 859 | 330 530 | 325 250 | 321 991 |
| *Individuals* | *30 735* | *25 475* | *31 227* | *24 897* |
| *Companies* | *287 124* | *305 055* | *294 023* | *297 094* |
| Grants | 58 280 | 45 397 | 58 280 | 45 397 |
| Investments in associates (investments in Baltic Innovation Fund) | 14 232 | 13 222 | 14 232 | 13 222 |
| Investment properties | 53 453 | 46 164 | 53 453 | 46 164 |
| Other assets | 1 502 | 3 214 | 1 502 | 3 214 |
| **Total assets** | **1 026 547** | **907 621** | **1 034 046** | **899 135** |
| Liabilities | | | | |
| Due to credit institutions | 36 290 | 53 416 | 36 290 | 53 416 |
| Due to general governments | 153 784 | 121 348 | 153 784 | 121 348 |
| Financial liabilities at amortised cost - Issued debt securities | 85 513 | 85 558 | 85 513 | 85 558 |
| Support programme funding | 375 280 | 230 287 | 375 280 | 230 287 |
| **Total liabilities** | **650 867** | **490 609** | **650 867** | **490 609** |

# 38 Fair values of assets and liabilities (cont'd)

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

| | Level 1 | | Level 2 | | Level 3 | | Total | |
|---|---|---|---|---|---|---|---|---|
| | 31.12.2022. | 31.12.2021. | 31.12.2022. | 31.12.2021. | 31.12.2022. | 31.12.2021. | 31.12.2022. | 31.12.2021. |
| Assets measured at fair value | | | | | | | | |
| Financial assets at fair value through other comprehensive income - investment securities | - | 3 516 | 9 515 | 10 535 | - | - | 9 515 | 14 051 |
| Investments in venture capital funds – associates (investments in BIF) | - | - | - | - | 14 232 | 13 222 | 14 232 | 13 222 |
| Investment properties | - | - | - | - | 53 453 | 46 164 | 53 453 | 46 164 |
| Assets with fair values disclosed | | | | | | | | |
| Due from credit institutions and the Treasury | - | - | 571 724 | 455 006 | - | - | 571 724 | 455 006 |
| Financial assets at amortised cost: | | | | | | | | |
| Investment securities | - | - | 90 | 90 | - | - | 90 | 90 |
| Loans | - | - | - | - | 325 250 | 321 991 | 325 250 | 321 991 |
| Grants | - | - | - | - | 58 280 | 45 397 | 58 280 | 45 397 |
| Other assets | - | - | - | - | 1 502 | 3 214 | 1 502 | 3 214 |
| **Total assets** | **-** | **3 516** | **581 329** | **465 631** | **452 717** | **429 988** | **1 034 046** | **899 135** |
| Liabilities measured at fair value | | | | | | | | |
| Support programme funding | - | - | - | - | 375 280 | 230 287 | 375 280 | 230 287 |
| Liabilities with fair value disclosed | | | | | | | | |
| Due to credit institutions | - | - | - | - | 36 290 | 53 416 | 36 290 | 53 416 |
| Due to general governments | - | - | - | - | 153 784 | 121 348 | 153 784 | 121 348 |
| Financial liabilities at amortised cost - Issued debt securities | - | - | - | - | 85 513 | 85 558 | 85 513 | 85 558 |
| **Total liabilities** | **-** | **-** | **-** | **-** | **650 867** | **490 609** | **650 867** | **490 609** |

# 38 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 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 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 Company has 3 levels:

- Level 1 includes listed financial instruments for which an active market exists, if in determining their fair value the 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 Company that enable a credible measurement of the financial instrument's value.

**Investment securities**

Investment securities are measured applying quoted prices or valuation techniques using observable or unobservable market inputs or combination of both. The majority of investment securities recognised at fair value are the 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.

**Investments in venture capital funds**

The Company have a number of investments in venture capital funds. The 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 at the Company level. Investments in Baltic Innovation Funds are measured at fair value through profit or loss.

# 38 Fair values of assets and liabilities (cont'd)

**Investment properties**

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

**Support programme funding**

Support programme funding are liabilities used to ensure the liquidity of the support programme and to cover expected credit losses, as well as to compensate the costs of managing the support programme. Expected credit losses of the support programme throughout the life of the programme are covered by the Risk Coverage Reserve, which is part of the support programme funding. The Company determines the fair value of the support programme funding once a year using the discounted cash flow method. The discounted cash flow method is used to determine the present value of the estimated expected credit losses in the next three years after the end of the reporting period in those support programme in which the Company is a principal and new volumes are issued. The Company uses internal information to estimate the expected credit losses, which are included in the cash flows in an amount that does not exceed the amount of the Risk Coverage Reserve at the end of the reporting period. On the other hand, the discount rate used in the calculations (see Note 2 (15)) reflects the Company's current financial market borrowing rate at the end of the reporting period. The discount rate is an unobservable input, therefore the Company performed its sensitivity analysis. If the discount rate were 1.0% higher/lower, while all other variables were unchanged, the carrying amount of the support programme funding would (decrease)/increase by EUR (230) / 238 thousand respectively.

# 39 Segment Information

The Company's management considers that the Company'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 Company doesn't provide detailed information on the type of transaction since all the transactions are external.

# 39 Segment Information (cont'd)

Analysis of the operating segments of the Company for the period from 1 January 2022 till 31 December 2022, 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 | 13 780 | 3 218 | 12 | 1 | 2 851 | - | 72 | 19 934 |
| *of which, interest on loans (Note 4)* | *13 640* | | - | - | *2 851* | - | *72* | 16 563 |
| *of which, interest on guarantees (Note 4)* | - | *3 061* | - | - | - | - | - | 3 061 |
| Interest expense | (2 147) | (96) | (4) | - | (713) | - | - | (2 960) |
| Net interest income | 11 633 | 3 122 | 8 | 1 | 2 138 | - | 72 | 16 974 |
| Income for implementation of state aid programmes | 818 | 1 195 | 3 405 | 587 | - | - | 88 | 6 093 |
| Expenses to be compensated for implementation of state aid programmes | (735) | (530) | (3 151) | (587) | - | - | (88) | (5 091) |
| Net income for implementation of state aid programmes | 83 | 665 | 254 | - | - | - | - | 1 002 |
| Gains from debt securities and foreign exchange translation | 43 | 50 | 4 | - | - | - | - | 97 |
| Share of (losses) of investment in associates and other investments | - | - | (1 780) | - | - | - | - | (1 780) |
| Share of gain of investment in associates at fair value through profit or loss | - | - | 48 | - | - | - | - | 48 |
| Gains less losses from liabilities at fair value through profit or loss | - | - | 3 075 | - | - | - | - | 3 075 |
| Other income | - | - | 1 007 | 5 | 4 650 | 485 | 61 | 6 208 |
| Other expense | (338) | (84) | (132) | (36) | (485) | (485) | (10) | (1 570) |
| **Operating income / (loss) before operating expenses** | **11 421** | **3 753** | **2 484** | **(30)** | **6 303** | **-** | **123** | **24 054** |
| Staff costs | (3 627) | (875) | (46) | (1 400) | (246) | - | (317) | (6 511) |
| Administrative expense | (996) | (331) | 9 | (324) | (107) | - | (80) | (1 829) |
| Amortisation of intangible assets and depreciation of property, plant and equipment | (350) | (168) | (84) | (172) | (52) | - | (37) | (863) |
| (Impairment) gain, net | (3 230) | 92 | - | (407) | 13 | - | 165 | (3 367) |
| Profit or (loss) from assets held for sale revaluation | - | - | - | - | - | - | - | - |
| **Total segment profit/(loss)** | **3 218** | **2 471** | **2 363** | **(2 333)** | **5 911** | **-** | **(146)** | **11 484** |
| Financial assets at fair value through profit or loss | - | - | 50 413 | - | - | - | - | 50 413 |
| Other investments | - | - | 14 232 | - | - | - | - | 14 232 |
| Investments in associates | - | - | 15 741 | - | - | - | - | 15 741 |
| Additions of property and equipment, intangible assets and investment property | 319 | 98 | 24 | 133 | 5 779 | - | 23 | 6 376 |
| **Total segment assets** | **555 335** | **151 112** | **162 433** | **74 252** | **89 970** | - | **66 486** | **1 099 588** |
| **Total segment liabilities** | **404 004** | **112 089** | **38 780** | **73 835** | **74 088** | **-** | **809** | **703 605** |
| **Total off-balance** *(Note 35)* | **61 060** | **481 013** | **73 989** | **47 824** | **173** | **31 209** | **-** | **695 268** |
| Assets under management (AUM) | - | - | - | - | - | 34 629 | - | 34 629 |

* The financial result of the segment also includes the financial result of the combined financial instruments, which are not disclosed separately in the segment analysis, but which include the component of financial instrument (such as a loan or guarantee) and the component of the capital rebate.

# 39 Segment Information (cont'd)

Analysis of the operating segments of the Company 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 (Note 4)* | *13 270* | | *-* | *-* | *2 256* | *-* | *11* | *15 537* |
| *of which, interest on guarantees (Note 4)* | *-* | *2 938* | *-* | *-* | *-* | *-* | *-* | *2 938* |
| 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 and other investments | - | - | (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** |
| **Total off-balance** (*Note 35*) | **25 572** | **414 978** | **91 165** | **11 089** | **-** | **33 450** | **-** | **576 254** |
| | | | | | | | | |
| Assets under management (AUM) | - | - | - | - | - | 30 772 | - | 30 772 |

# 40 Events after the reporting date

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

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# Independent Auditors' Report

## To the shareholders of JCS Finance Development Institution Altum

### Report on the audit of the Financial Statements

**Our Opinion on the Financial Statements**

We have audited the financial statements of JSC Finance Development Institution Altum ("the Company") included in the annual report contained in the file altum-2022-12-31-en.zip (SHA-256-checksum: C6571E61F6BD44E2B2B32D43F8CF70771DB16A11BC7A3D42B52F32582873E9AC), which comprise:

- the statement of financial position as at 31 December 2022,
- the statement of comprehensive income for the year then ended,
- the statement of changes in equity for the year then ended,
- the statement of cash flows for the year then ended, and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2022, and of its financial performance and its 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 Financial Statements* section of our report.

We are independent of the Company 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 financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, 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, 18 and 29 to the financial statements* | *Our procedures included, but were not limited to:* |
| The assessment of allowances for loan losses 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 significant in 2022 due to the impact of the Russian military invasion of Ukraine, related sanctions and COVID-19 pandemic.<br><br>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 to derive a more appropriate estimation of losses in the future.<br><br>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.<br><br>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.<br><br>As of 31 December 2022, the total allowances for loan losses amount to EUR 21 074 thousand and the carrying amount of liabilities from financial guarantees is EUR 45 852 thousand. | We assessed the appropriateness of the methodology used by the Company to assess the level of credit risk, identify impairment and quantify provisions for selected significant portfolios.<br><br>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 of loans and guarantees, input of contractual data and accuracy, completeness and approval of loan loss provisions.<br><br>Our credit risk specialists assessed the appropriateness of management judgments regarding the determination of loan losses by considering the suitability of selected statistical models and their application to a sample of significant portfolios, and by comparing the inputs used in the models to the historical data about losses experienced by the Company.<br><br>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 Financial Instruments* models.<br><br>We evaluated the estimates made by management to reflect the impact of the Russian military invasion of Ukraine and the related sanctions on the loan loss provisions and the carrying amount of liabilities from financial guarantees.<br><br>On a sample of loans and guarantees, we evaluated the correctness of *IFRS 9 Financial Instruments* staging and appropriateness of provisioning levels.<br><br>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.<br><br>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 Financial Instruments* impairment stages and in the levels of loan loss provision.<br><br>We considered the completeness and accuracy of disclosures related to expected credit losses on loans and financial guarantees. |

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**Accounting for investments in venture capital funds**

*Refer to Notes 2 (16), 16 and 17 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.

Investments in associates are accounted for using the equity method, except for the specific investments designed as 'at fair value through profit and loss'. Investments in category "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 2022, the total value of investments in VCFs reported by the Company amounts to EUR 80 386 thousand.

*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.

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.

For a sample of VCF Assets, our valuation specialists have assessed the appropriateness of management judgment used in determining the fair values of the underlying VCF Assets.

We assessed the appropriateness of adjustments made by the Company to the net asset values reported by the VCFs.

We considered the completeness and accuracy of disclosures relating to investments in VCF's.

**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 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 Company and its 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.

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**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 Article 56.1, Section 1, clauses 3, 4, 6, 8, and 9, as well as Article 56.2, section 2, clauses 1, 2, 3, 5, 7 and 8, and section 3 of the Financial Instruments Market Law.

In our opinion, the Statement of Corporate Governance includes the information required in Article 56.1, section 1, clauses 3 ,4, 6, 8, and 9, as well as Article 56.2, section 2, clauses 1, 2, 3, 5, 7 and 8, and section 3 of the Financial Instruments Market Law.

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

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

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

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

**Auditors' Responsibility for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company'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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves a fair presentation.

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 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 third 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 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.

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## Report on the compliance of format of the financial statements with the requirements for European Single Electronic Reporting Format

The Company's management has applied European Single Electronic Format for the Company's financial statements in order to implement the requirement of Article No. 3 of the Commission Delegated Regulation (EU) 2019/815 that amends European Parliament and Commission Directive 2004/109 / EC with regulatory technical standards establishing a single format for electronic reporting (hereinafter "the ESEF Regulation"). These requirements specify the Company’s obligation to prepare its financial statements in an XHTML format. We confirm that the European single electronic reporting format of the financial statements for the year ended 31 December 2022 complies with the ESEF Regulation in this respect.

The responsible certified auditor on the audit resulting in this independent auditors’ report is Inguna Stasa.

Deloitte Audits Latvia SIA
Licence No.43

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

Riga, Latvia

The Independent Auditors’ report is signed with secure electronic signature and contains a timestamp

# OTHER NOTES TO THE ANNUAL REPORT

# OTHER NOTES TO THE ANNUAL REPORT

## KEY FINANCIAL AND PERFORMANCE INDICATORS

Based on data from audited financial statements for the respective years

| | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 (corrected) * |
|---|---|---|---|---|---|---|
| **Key financial data** | | | | | | |
| Net interest income (EUR '000) | 16 974 | 16 717 | 14 572 | 11 569 | 11 302 ** | 11 602 |
| Operating profit (EUR '000) | 11 484 | 13 829 | 5 539 | 8 131 | 4 092 | 8 709 |
| Profit for the period (EUR '000) | 11 484 | 13 829 | 5 539 | 8 131 | 4 092 | 8 709 * |
| Cost to income ratio (CIR) | 38.26% | 39.46% | 47.51% | 52.58% | 74.84% *** | 50.30% * |
| Employees | 234 | 226 | 211 | 203 | 222 | 230 |
| Total assets (EUR '000) | 1 099 588 | 976 204 | 850 704 | 560 061 | 495 939 | 453 668 * |
| Financial debt (EUR '000) | 458 382 | 360 909 | 342 490 | 217 943 | 177 249 | 146 157 |
| **Tangible common equity (TCE) / Total tangible managed assets (TMA) ****** | **27.01%** | **33.82%** | **33.56%** | **29.40%** | **31.70%** | **35.10% *** |
| Equity and reserves (EUR '000) | 395 983 | 440 736 | 382 594 | 232 738 | 221 590 | 222 848 * |
| **Total risk coverage: (EUR '000)** | **297 218** | **285 954** | **180 205** | **87 456** | **77 815** | **67 593 *** |
| Risk coverage reserve | 230 524 | 159 196 | 112 567 | 99 778 | 85 276 | 62 651 |
| Risk coverage reserve used for provisions | (38 039) | (29 496) | (28 197) | (27 829) | (19 268) | (4 753) |
| Portfolio loss reserve (specific reserve capital) | 109 979 | 159 700 | 102 264 | 15 507 | 11 807 | 9 695 |
| Portfolio loss reserve used to compensate provisions upon approval of the annual report | (5 246) | (3 446) | (6 429) | - | - | - |
| Liquidity ratio for 180 days ***** | 366% | 518% | 464% | 582% | 227% | 482% * |
| Net Cash flows from operating activities (EUR '000) | 89 534 | 49 555 | 21 966 | 39 813 | 7 997 | (10 146) |
| Net Cash flows from financing activities (EUR '000) | 3 526 | 43 768 | 165 800 | 18 700 | 12 013 | 22 299 |
| Net Cash flow from investing activities (EUR '000) | (8 437) | 4 553 | (4 016) | (11 230) | 8 307 | 3 891 |
| **Support instruments gross value (EUR '000), of which** | **1 064 821** | **979 130** | **872 302** | **667 649** | **553 628** | **465 724** |
| **Financial instruments gross value (EUR '000) ***** | | | | | | |
| Loans (excluding sales and leaseback transactions) | 311 844 | 315 674 | 302 481 | 225 144 | 210 208 | 207 065 |
| Guarantees | 481 013 | 414 978 | 359 605 | 284 232 | 236 895 | 182 376 |
| Venture capital funds | 90 277 | 85 973 | 73 165 | 68 331 | 59 698 | 62 299 |
| Land Fund, of which: | 80 542 | 79 163 | 68 258 | 39 634 | 21 717 | 11 328 |
| - sales and leaseback transactions | 27 089 | 32 999 | 31 500 | 15 268 | 6 923 | 520 |
| - investment properties | 53 453 | 46 164 | 36 758 | 24 366 | 14 794 | 10 808 |
| **Total** | **963 676** | **895 788** | **803 509** | **617 341** | **528 518** | **463 068** |
| Number of transactions | 33 976 | 30 978 | 26 578 | 22 437 | 18 603 | 14 655 |
| **Volumes issued (EUR '000) (by financial instrument) ******** | | | | | | |
| Loans (excluding sales and leaseback transactions) | 95 820 | 100 966 | 138 238 | 64 320 | 59 608 | 51 349 |
| Guarantees | 153 067 | 126 997 | 137 425 | 98 240 | 88 765 | 68 615 |
| Venture capital funds | 18 526 | 29 158 | 14 014 | 9 022 | 4 149 | 2 638 |
| Land Fund, of which | 7 414 | 10 595 | 28 191 | 16 384 | 10 823 | 6 359 |
| - sales and leaseback transactions | 3 105 | 3 254 | 16 796 | 7 239 | 6 835 | 520 |
| - investment properties | 4 309 | 7 341 | 11 395 | 9 145 | 3 988 | 5 839 |
| **Total** | **274 827** | **267 716** | **317 868** | **187 966** | **163 345** | **128 961** |
| Number of transactions | 6 539 | 6 579 | 6 147 | 5 559 | 5 590 | 4 839 |
| Total contribution to the economy by volumes issued in the reporting period, including the contribution of the final recipients (EUR '000) | 765 577 | 791 646 | 696 306 | 531 661 | 460 045 | 370 560 |
| Leverage for raised private funding | 123% | 177% | 114% | 142% | 162% | 185% |
| Volume of support programmes funding per employee (EUR '000) | 4 118 | 3 964 | 3 808 | 3 041 | 2 381 | 2 013 |
| Long-term rating assigned by Moody's Investors Service | Baa1 | 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 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'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 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".<br><br>"Risk Coverage Reserve" is disclosed in the Note on Support Programme Funding to the Financial statements of Altum. "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. |
| *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.<br><br>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 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".<br><br>Data for the calculation of both indicators (TCE, TMA) are obtained from Altum'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's capital position adequacy and to measure Altum's tangible common equity in terms of Altum'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'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. "Risk Coverage Reserve" is disclosed in the Note on Support Programme Funding to the Financial statements of Altum. "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. "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.<br><br>"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'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's ability to fulfil Altum's contractual and/or contingent liabilities during 6 (six) month with the currently available liquidity resources. "180-days-liquidity ratio" helps to manage Altum's liquidity risk in line with 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 by volumes issued in the reporting period, including the participation of the final recipients, by volumes issued in the period* | "The 'Total contribution to the economy by volumes issued in the reporting period, 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 2022

The Corporate Governance Report 2022 of the joint-stock company Attīstības Finanšu Institūcija Altum (Development Finance Institution Altum, hereinafter – Altum), unified registration No.50103744891, is prepared in accordance with the requirements of Article 56(2)(3) of the Financial Instrument Market Law and based on the good corporate governance recommendations for capital companies in Latvia Corporate Governance Code (January 2021) (hereinafter – the Code) developed by the Corporate Governance Advisory Council. The recommendations were developed taking into consideration the requirements for companies provided in the legislation of the Republic of Latvia as well as corporate governance recommendations of the Organization for Economic Co-operation and Development. Besides, the Corporate Governance Report covers environmental, social and corporate governance (hereinafter – ESG) considerations based on the Nasdaq ESG Reporting Guide 2.0 (May 2019).

Altum is a Latvia state-owned company ensuring to enterprises and households access to financing resources by means of financial support 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 in such a way enhancing mobilisation of private capital and financial resources.

In its day-to-day operations in implementing the state-delegated functions to foster the development of national economy and taking voluntary company responsibility for impact on society and environment, Altum acts in compliance with the organization's strategy and values. Our values define our daily activities, are reflected in our operations and conduct, and fully permeate our positive attitude and openness to changes and innovation. Altum's value system is designed to provide a clear perception of Altum to our external partners and clients as well as to our employees.

**TEAM**

We work professionally as a team with our clients and partners to design and implement effective state support programmes that meet our clients' needs

**EXCELLENCE**

Using our experience and creativity, we strive for excellence in everything we do. We evolve constantly. We make the complicated simple. We look at things and challenges creatively

**RESPONSIBILITY**

To achieve our goals, we act efficiently, with integrity and respect in our daily work

Altum is also the manager of the AIF "Altum capital fund" (hereinafter - the Fund) registered by the Financial and Capital Market Commission (integrated into the Bank of Latvia as of 1 January 2023) (hereinafter - FCMC). The fund was established in the spring of 2020 to support overcoming the impact of Covid-19. Its aim is to support well-managed, perspective large companies (Midcaps and large SMEs) that being under the virus impact are ready to adjust their operations by changing their business model, adjusting product development, introducing new technology, expanding into new export markets, thereby fostering their growth. The Fund's investment period was extended until 30 June 2022 along with the duration of other Covid-19 crisis related programmes. As at 31 December 2022, the total subscribed amount of the Fund's investments amounted to EUR 42 million. The total amount of the Fund's assets managed by Altum was EUR 31 million.

## Strategy 2022 – 2024

On 9 March 2022, the Supervisory Board of Altum approved *Altum's Medium-TERM Operational Strategy* 2022-2024 (hereinafter – the Strategy), underlining the importance of sustainable financing and ESG considerations both at product level and their full integration into Altum's credit risk management.

Altum continues to strengthen its role as a key partner of the Government in the implementation of financial instrument programmes and is actively involved in the development of new financial instrument programmes together with the relevant ministries.

According to Altum's Strategy since Q4 2022, there are available new programmes funded from the European Recovery and Resilience Facility (hereinafter – RRF), which target specific areas of support: climate change mitigation solutions, namely, improving energy efficiency in multi-apartment buildings and switching to renewable energy technologies, improving energy efficiency in enterprises, and construction of rental houses, while a programme for digitisation projects in enterprises is available from February 2023.

The new Strategy period sees the launch of granting loans with capital rebate for large investment projects, the creation and launch of the 5th generation venture capital funds and other programmes to be financed from the EU funds during the new programming period (2021-2027). Support to the existing programmes for entrepreneurs as well as introducing brand new ones to promote business productivity, research and innovation are continued as well as supporting energy efficiency improvements in both multi-apartment buildings and private homes. Transitional funding from the European Agricultural Fund for Rural Development (EAFRD) is to provide additional funding for the Programme for Agricultural and rural development guarantees and the Programme for Loans for Enterprises for Rural Territories, while a new measure – loans with capital rebate for small rural businesses – is to be introduced with funding from the Common Agricultural Policy Strategic Plan 2023-2027.

Altum also continues to implement other ongoing state support programmes in areas identified as the state supported and prioritised, ensuring access to finance for enterprises at different stages of development and for specific target groups of the population.

Altum follows the demand in the financial market and current market failures, improving and adapting state support instruments to the needs of clients and cooperation partners as well as to economic policy priorities.

In addition to the EU funds invested through financial instruments under the Cohesion Policy, Altum plans to mobilise guarantees under the European Commission's InvestEU programme.

Following strategic development directions and long-term objectives are set in the approved JSC Development Finance Institution Altum Strategy for the period 2022 – 2024:

- The main financial objective in implementing the state support programmes is to ensure positive return on Altum's equity.
- The main non-financial objective is to support and facilitate availability of finances to business and to contribute to national economic development.
- Altum priority areas include issuing and servicing guarantees and loans, venture capital investments, solutions for climate change mitigation including implementation of energy efficiency programmes in both the residential building and corporate segment, initiation of new projects by expanding the range of the financial instruments offered, as well as the development of the Latvian Land Fund
- The main target activities embrace support for entrepreneurs, farmers and certain categories of persons; energy efficiency; the management of the Latvian Land Fund
- Altum will particularly focus on environmental, social and corporate governance (ESG) considerations, both in financing decisions and in Altum's internal processes.

Altum's objective is to continue ensuring the highest possible credit rating that is not more than two notches below the Latvian sovereign rating assigned by Moody's Investors Service (hereinafter – Moody's), the international credit rating agency.

## Financial and Non-Financial Targets

According to the Altum's Strategy, the following key financial targets on Altum's financial operations and non-financial targets driven by Altum strategic objectives, regulatory framework and policy planning documents in order to ensure the performance of functions assigned to public entity, were set:

- 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 portfolio of financial instruments is expected to grow at an average annual rate of 10%, reaching a total portfolio size of EUR 1.3 billion by the end of 2024.
- Contribution to economy by Altum volumes issued characterises a projected increase in Altum's impact on economic development by facilitating mobilisation of private capital and financial resources in the priority areas. In 2024, this indicator is planned at EUR 773 million level.
- *Return on Equity* (ROE) is planned to remain above 1.3% during the Strategy implementation period.
- *Equity* at the end of the reporting year is expected to show positive dynamics.
- To ensure Altum's financial efficiency, the Cost-to-Income Ratio is planned to be no more than 65%.

**Information on achieving the 2022 non-financial targets set out in the Strategy:**

- **New transaction volumes (incl. grants)** reached **EUR 358 million** in 2022, which is by EUR 15 million less (-4%) than the targeted EUR 373 million in the Strategy. Reaching the indicator set in the Strategy was affected by (i) lower volumes of Covid-19 crisis related support instruments (loans, equity investments) – the Strategy foresaw EUR 50 million in 2022, while the actual volume was only EUR 9 million due to a better economic situation in the country, (ii) smaller new transaction volumes in several new loan programmes, such as the Programme for Large Investment Loans with Capital Rebate for Midcaps (- EUR 20 million), launching of which and new transactions were planned in the first half of 2022, but the first loans were actually disbursed at the end of the year and (iii) 4th generation venture capital fund investments ( - EUR 7 million). This decrease was offset by significantly higher than expected, as drawn up in the Strategy, new transaction volumes for the daily products - working capital guarantees in the SME segment and Guarantee and Grant Programmes for Improving Energy Efficiency in Multi-Apartment Buildings in the Individuals segment.

  At the same time, new transaction volumes (incl. grants) are significantly higher compared to 2021 - + EUR 57 million (+ 19%). New transactions in financial instruments total EUR 275 million. Of these, 55.7% (EUR 153 million, + 20.5% compared to 2021) were issued under guarantee programmes; 34.9% (EUR 96 million, - 5.1% compared to 2021) in loan programmes; 2.7% (EUR 7 million, - 30% compared to 2021) in the Land Fund transactions, 6.7% (EUR 19 million, -36.5% compared to 2021) in venture capital investments. Due to the nature of the business, guarantees for working capital and investment loans as well as bank guarantees require regular review and extension for existing clients; however, such transactions are not included in the amount of new guarantees issued, although their volumes are significant – in 2022, guarantees of EUR 69 million were extended. In 2022, Altum issued 1,504 grants for a total amount of EUR 83 million (2021: EUR 65 million) which was by EUR 50 million (+150%) more than in 20212021;

- **At the end of 2022, the gross portfolio (incl. grants)** amounted to **EUR 1,065 million** (- EUR 47 million / -4% against EUR 1,112 million targeted in the Strategy, and + EUR 86 million / +9% against 2021).

  At the end of 2022, the gross portfolio of financial instruments (excl. grants) was by EUR 69 million (-6%) less than targeted in the Strategy. This was due to a smaller amount of actual new transactions in 2022 (see the indicator *New transaction (incl. grants) volumes* above).

  Overall, in 2022, the loan portfolio decreased by EUR 3.8 million (-1.2%) by volume. It was by EUR 32.3 million (-9%) less than targeted in the Strategy.

  As of 25 February 2022, Altum stopped issuing new export guarantees to the Russian Federation (hereinafter - Russia) and the Republic of Belarus (hereinafter - Belarus), gradually reducing the exposure to these countries; as a result, at the end of 2022, Altum had no high-risk exposure- in case client counterparties were based in Russia or Belarus. At the end of 2022, the total export guarantee portfolio was by about EUR 6 million less than targeted in the Strategy.

## Financial and Non-Financial Targets (cont'd)

The guarantee portfolio, on the other hand, showed a significant increase, exceeding the amount targeted in the Strategy by EUR 46.6 million (+11%) at yearend. In 2022, the guarantee portfolio increased by EUR 66 million (+15.9%). This was slightly faster than in 2021, when the guarantee portfolio grew by EUR 55.4 million (+15.4% compared to the previous year). The guarantee portfolio exceeded considerably the one targeted in the Strategy: under the SME Guarantee Programme - by EUR 26.4 million (+30%), under the Guarantee Programme for Improving Energy Efficiency in Multi-Apartment Buildings - by EUR 17.1 million (+37%), under the Study and Student Portfolio Guarantee Programme - by EUR 9.4 million (+113%) and the Guarantee Programme for Clients of State Aid Accumulation, Grace Period and Large Economic Operators – by EUR 7.4 million (+57%).

Besides financial instruments, Altum also operates grant programmes to provide clients with easier access to support instruments. As at 31 December 2022, the grant portfolio totalled EUR 101.1 million which exceeded the amount targeted in the Strategy by EUR 22 million (+27.7%). This was because of a significant increase in new transactions, mainly under the Energy Efficiency Programme for Multi-Apartment Buildings (EEPMB).

In comparison with 2021, Altum's portfolio of financial instruments increased by EUR 67.8 million (+7.6%) by volume and by 2,998 (+9.7%) by the number of projects. As at 31 December 2022, Altum's gross portfolio of support instruments totalled EUR 1,064.7 million (31 December 2021: EUR 979.1 million) of which the gross portfolio of financial instruments amounted to EUR 963.6 million made of 33,976 projects (31 December 2021: EUR 895.8 million and 30,978 projects);

- **Moody's credit rating** in the Strategy is set two notches below the Moody's rating assigned to the Latvian state. On 16 December 2022, Moody's reaffirmed Altum's **Baa1** long-term credit rating with a stable outlook, at the same level as that assigned on 25 March 2019 (and accordingly also in 2021). Moody's long-term credit rating Baa1 assigned to Altum is one notch below the rating assigned to the Latvian state, which at the end of 2022 was A3, and was above the threshold set in the Strategy.

  Altum's long-term credit rating Baa1 is one of the highest assigned to Latvian capital companies and allows Altum to better implement its long-term strategy of raising funds by being a regular capital market participant and issuing bonds;
- **Total contribution to economy by Altum volumes issued in 2022** totalled **EUR 766 million** (- EUR 98 million /-11% against the targeted in the Strategy EUR 864 million;
- **The volume of the state support programmes (incl. grants) per employee** amounted to **EUR 4.7 million** (-EUR 0.1 million/-1% against targeted in the Strategy EUR 4.8 million);
- **Voluntary employee turnover** was **7.3%**, which is below the indicator targeted in the Strategy (<10%) and above the same indicator of 2021 (+ 0.2%);
- **The number of trained employees** reached **98%,** exceeding the number targeted in the Strategy (>70%) while being the same (+0%) if compared to 2021.

In 2022, Altum met its main non-financial target as set out in the Strategy: **to support and facilitate availability of finances to business and to contribute to national economic development**.

**Information on achieving the 2022 financial targets set out in the Strategy**

- in 2022**, Return on Equity ROE** was **2.9%,** which was above the indicator targeted in the Strategy (>=1.3%, -0.46% in absolute terms compared to 2021);
- **The profit of EUR 11.5 million** exceeded the indicator targeted in the Strategy (EUR 9.2 million, -EUR 2.3 million compared to 2021);
- **Equity (at the end of the year) totalled EUR 396 million** (EUR 405 million was targeted in the Strategy, -EUR 45 million compared to 2021).

  In 2022, the equity was reduced by EUR 58.6 million. In line with the Cabinet decision, the funding for the COVID-19 mitigation programmes was reduced and reallocated to Support programme funding in the liabilities for implementation of a new support Programme for Large Investment Loans with Capital Rebate for Midcaps. Thus, the nature of the funding was maintained, i.e., funding to implement a new support programme and to cover expected losses;

## **Financial and Non-Financial Targets** (cont'd)

- **Cost-to-Income Ratio was 38%** which was below the targeted in the Strategy(<=65%, -1% in absolute terms compared to 2021);
- **The 6-month liquidity ratio of 366%** was higher than the targeted ratio (>=100%, -152% in absolute terms compared to 2021). Altum maintained high liquidity;
- **Tangible common equity (TCE) / Total tangible managed assets (TMA)** was **27%,** which was above the indicator targeted in the Strategy (>=20%). However, compared to 2021, this ratio decreased by 7% in absolute terms due to the change in equity (see the commentary to the indicator "Equity (year-end)"). In 2022, Altum's total assets under management increased by 13%, which also reduced this ratio. The above ratio shows that Altum has sufficient own funds to cover the risks associated with its operations.

In 2022, Altum's main financial target as set out in the Strategy was met: **to deliver a positive return on Altum's equity through the state support programmes.**

The deviations of some indicators from the targets set in the Strategy were not significant and had no negative impact on achieving Altum's main objectives and the implementation of the Strategy.

Additional information on the achievement of non-financial and financial targets is available in Annual Report for the year ending 31 December 2022 - the Management Report and Other Notes to the Annual Report.

**Approving Altum's business plan and budget for 2023, the Shareholders' Meeting, in line with the Strategy, set the following key goals and objectives for Altum in 2023:**

<u>the main objective</u> is to ensure, through the implementation of state support programmes, the growth of Altum's portfolio while maintaining a positive return on capital and efficiency;

<u>goals and targets:</u>

Successful implementation of programmes under the Recovery and Resilience Facility (RRF), where the main areas to be supported are climate change mitigation solutions, digitisation of enterprises and construction of low-rent houses as well as investment loans with capital rebate, which will be financed from the state budget.

Introducing financial instruments to mitigate the consequences of the Russian- launched war in Ukraine and prompt adjustment of programme terms and conditions in response to the changing external situation.

Conducting a Pillar Assessment to qualify Altum as an InvestEU Implementing Partner in 2023.

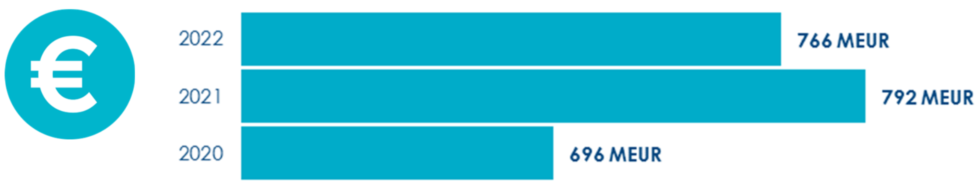
Focusing on environmental, social and corporate governance (ESG) considerations, both in financing decisions and in further improving Altum's internal processes.

## Contribution to Economy

Altum has a long-term vision for raising funding, with the aim of providing resources to finance business projects that are important to the national economy.

As at 31 December 2022, Altum's gross portfolio of support instruments totalled EUR 1,065 million (31 December 2021: EUR 979 million) of which the gross portfolio of financial instruments amounted to EUR 964 million made of 33,976 projects (31 December 2021: EUR 896 million and 30,978 projects.

**Total contribution to economy by ALTUM volumes issued in the reporting year:**




As driven by the Strategy, in early 2022 the Programme for Large Investment Loans with Capital Rebate for Midcaps (ticket size up to EUR 10 million) opened for application. The rest of the funding for the investment project is to be raised from other sources. The new programme differs from previous business support programmes as it includes capital rebate, or full or partial cancellation of the principal amount of a loan, for which a company can qualify if the project's objectives and certain criteria are met. Overall, the number of interested applicants exceeded more than threefold the available funding. On 18 October 2022, the Cabinet decided to increase the programme funding to EUR 152.1 million from EUR 99.6 million. The additional funding was reallocation from the EUR 52.5 million earmarked but unused for Covid-19 crisis related support instruments. The first loan under this programme was issued in December 2022.

In autumn 2022, in cooperation with the Ministry of Economy, new loan and guarantee support programmes were developed to mitigate the economic effects of Russia's military aggression against Ukraine and to implement market reorientation which enabled to offer immediate support to businesses providing working capital and stabilising liquidity, while ensuring stability conditions on the part of the state for long-term development.

In total, at least EUR 650 million is available as financial instruments under the RRF and the EU Cohesion Policy programming period 2021-2027. Of this, EUR 224 million is earmarked for the new RRF support programmes. In 2022, four new RRF support programmes were developed in cooperation with the Ministry of Economy and approved by the Cabinet. The following programmes can avail of the RRF funding:

- the energy efficiency programme for corporates – EUR 81 million to companies for increasing energy efficiency and wider use of renewable energy technologies;
- the digitization programme for corporates – EUR 43 million for digital transformations of companies, i.e., for promotion of digitization, automation and robotization;
- the energy efficiency program for multi-apartment buildings – EUR 57 million to improve the energy efficiency of multi-apartment buildings and transition to the use of renewable energy technologies;
- affordable housing construction program – EUR 43 million for the construction of residential rental houses in regions to promote the availability of affordable housing that meets the construction standards and energy efficiency requirements.

To get ready for the implementation of the new EU InvestEU programme, the preparation, started in 2019, for Altum's Pillar Assessment, continues. The Pillar Assessment is a prerequisite for Altum to apply for the role of InvestEU Implementing Partner and, in the future, also for the role of Direct Cooperation Partner in the implementation of EU funds, thus increasing the offer of new specialised and appropriate financial instruments for Latvian companies. Altum is committed to carry out a compliance assessment of its operations – the application for the InvestEU Pillar Assessment was prepared in Q3 2021, the selected independent auditor to conduct the Pillar Assessment set to work in early 2023, while the decision on the submission of the application for the InvestEU Implementing Partner role has not yet been taken.

## Internal Control and Risk Management System

### Internal control

The purpose of the internal control system is to ensure the company efficient, sustainable and successful operation, 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 reasonable assurance that the assets of Altum are secured against loss and unauthorised management and use, 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, the transactions are performed in line with the procedures established by Altum, the company operates reasonably, prudently and efficiently in compliance with the legal requirements, and the drawbacks identified in the Altum management are timely eliminated.

The Altum management bears responsibility for establishing a comprehensive internal control system (ICS) and its effective functioning. Regarding the preparation of financial statements and veracity , impartiality, clarity and completeness of the information presented , this responsibility manifests as selecting adequate accounting methods, accordingly described in internal regulatory documents.

The **Internal Audit Division**, an independent body subordinated to Altum Supervisory Board, monitors Altum's internal control system and assesses its adequacy and efficiency. The Head of the Internal Audit Division is appointed by a decision of Altum's shareholders' meeting. The objective of the Internal Audit Division is to strengthen Altum's values and to help the Supervisory Board, Management Board and heads of business units to achieve their strategic and business objectives more effectively through independent and impartial assessment. Every year the shareholders' meeting approves the annual action plan of the Internal Audit Division, about the implementation of which the Internal Audit Division reports to the shareholders' meeting. The Supervisory Board supervises the Management Board in ensuring that the internal control system is established and operates effectively

In 2022, the Internal Audit Division prepared 11 audit reports in accordance with the agreed action plan, providing an assessment of the functioning of the process management and control system; they were presented to Altum Supervisory Board. During the reporting year, 63 audit recommendations were made, all recommendations are implemented where deadline has been incurred. Audit reports provide assurance to Altum management on business processes, e.g., SME Growth Loan Programme, Altum's Asset and Infrastructure Management, implementation of COVID-19 crises related programmes, Stressed assets Restructuring, Information System Management and other audits.

The Internal Audit Division performs its functions in accordance with the applicable laws and regulations, international standards for the professional practice of internal auditing, and Altum's internal regulations. The Internal Audit Division prepares and submits to the shareholders' meeting, at least once a year, a report on the audits performed, the main problems and drawbacks identified, assessing the effectiveness of the internal control system and giving an opinion on the measures to be taken to improve the functioning of the internal control system.

Since 1 December 2017, Altum has an **Audit Committee;** among other things, it monitors the effectiveness of the internal control and risk management to the extent it relates to financial reporting and impartiality. The Audit Committee monitors Altum's financial reporting process and performs other duties as required by the Financial Instrument Market Law. The Audit Committee worked closely with the Internal Audit Division on the audits.

Altum has an Accounting Policy and a Provisioning Policy, the purpose of which is to set out the principles, methods and rules relating to the items for accounting, measuring and presenting transactions, facts and events in financial statements. Altum management has established financial accounting principles that ensure that the financial statements provide information that is reliable and useful for decision-making of users of the financial statements. The Accounting and Provisioning Policies applied ensure that the information presented in Altum's financial statements is true, comparable, timely, significant, understandable, relevant and complete. Altum has internal regulatory documents governing financial reporting.

### Risk management

Risk management aims to identify, assess, manage and control potential events and situations to provide assurance that the strategic objectives of the business are achieved.

## **Internal Control and Risk Management System** (cont'd)

Altum has a risk management framework, taking into account the Company size, structure and operational specificities as well as the limited capacity to manage individual risks. Altum manages risks affecting its operations in accordance with the Company approved internal regulations for risk management, which describe and define the measures used to manage risks inherent in its operations.

The following are the major risk management principles adhered to:

- risk management is part of day-to-day functions;
- Altum identifies and assesses potential risks before introducing new products or services;
- while assuming risks, Altum maintains its long-term capacity to meet its objectives and targets;
- Altum does not engage in transactions, activities, etc., which create risks that threaten the stability of its business or which may significantly harm its reputation.

Altum uses various risk analysis methods and tools to manage its risks, and sets risk limits and restrictions.

Although the impact of Covid-19 diminished in 2022, Altum continued to monitor the portfolios exposed to Covid-19. In 2022, it could be observed that the transactions that were granted relief due to Covid-19 impact were able to meet their obligations after the expiry of the relief period and there was no significant increase in defaults.

In view of the Russian invasion of Ukraine, as of February 2022, Altum already limited any cooperation with Russian and Belarusian residents and related companies.

As a result of the Russian invasion of Ukraine, the EU and the rest of the world imposed sanctions against Russia and Belarus and their legal entities. To mitigate the sanctions risk, Altum imposed additional control measures during both the granting of financial instruments and the monitoring of the business relationship; moreover, changes were made to the Company Policy for Prevention of Money Laundering and Terrorism and Proliferation Financing and Sanctions Compliance to the effect that Altum refrains from dealing with clients where the owners, ultimate beneficiaries or officials are Russian or Belarusian nationals.

Altum monitors the changes to sanctions on an ongoing basis and follows the situation in Ukraine closely and continuously. Altum takes appropriate measures to see that potential direct or indirect impact on its business because of events in Ukraine or sanctions against Russia and Belarus are minimised, including but not limited to additional monitoring of transactions with clients whose core business could be affected by both the above factors. As part of its sanctions risk management, Altum conducts an in-depth analysis of clients and their business partners concerning their links with countries known to be or likely to be involved in circumventing the sanctions imposed against Russia and Belarus.

Along with the above, in 2022, Altum took the necessary steps to identify potential clients in difficulty and to assess whether the increase in energy prices as well as the sanctions imposed against Russia and Belarus had directly or indirectly affected or might affect significantly clients' solvency as well as to ensure that direct and indirect effects were quantified and appropriate allowances made.

In managing the Fund, Altum follows the best practices of the private equity and venture capital industry: the Investment Committee includes independent industry experts carrying out investment appraisals and making investment decisions; reporting to the Fund's investors is carried out in accordance with Invest Europe guidelines, and investment valuation is carried out according to an established internal procedure based on the valuation guidelines approved by the IPEV Council.

The Annual Report is publicly available in Latvian and English at Altum's office at Doma laukums 4, Riga, and in an electronic form on the website https://www.altum.lv/en/, under "FINANCIAL INFORMATION" in the section "FOR INVESTORS" and under "ABOUT ALTUM" in the section "FINANCIAL INFORMATION".

**Independent audit**

The financial statements of Altum are independently audited, and the independent auditors state whether, in their opinion, the financial statements give a true and fair view of Altum's financial position, performance and cash flows in accordance with International Financial Reporting Standards as adopted by the European Union. Deloitte Audits Latvia SIA was the approved auditor of Altum's financial statements for 2020-2022. In accordance with EU Regulation No.537/2014 on specific requirements regarding statutory audit of public-interest entities, Altum Audit Committee was involved in the auditor selection process in open tendering, which procedure is laid down in the Public Procurement Law.

## **Internal Control and Risk Management System** (cont'd)

The selection of the auditor was based on the following qualification criteria:

- performing of at least three (3) audits of the financial statements of credit institutions within the previous three (3) years (2017, 2018, 2019 and 2020 up to the tender submission date), where the carrying amount of the credit institution's loan portfolio was not less than EUR 200 million;
- a license for providing the services of certified auditors;
- the auditor in-charge holds a certificate of a certified auditor issued by the Latvian Association of Certified Auditors;
- the applicant as well as any business partner of the applicant's network of audit firms (if the applicant is a business partner of a network of audit firms) has not provided to Altum or companies controlled by it in the European Union prohibited non-audit services referred to in Article 5 of EU Regulation No.537/2014 during the period specified in the same Article and meets the requirements of Articles 4 and 5 of Regulation No.537/2014 of the European Parliament and the Council.

The following criteria were applied for the auditor selection:

- the most economically advantageous proposal with the lowest price;
- involvement of an expert in International Financial Reporting Standards in the performance of the contract.

## Contribution to Sustainability

The financial sector has a crucial role to play in achieving the European Green Deal objectives, including the transition to a climate-neutral, climate-resilient, resource-efficient and fair economy. Sustainability is a key part of Altum's business and strategy and has become an important strategic driver for the banking sector as well as for development finance institutions in Europe. Altum takes responsibility for the long-term economic, environmental and social impact of its day-to-day activities and continuously works to ensure that the investment decisions it makes in building its portfolio contribute to sustainable development, do not adversely impact sustainability factors and facilitates its clients' transition towards a sustainable economy and encourage responsible business practices.

In support of the Global Shared Agenda to halt climate change, eradicate poverty and fight inequality by 2030, Altum follows those companies committed to contributing to sustainable development and has prioritised the UN Sustainable Development Goals (UN SDGs), which are closely linked to the company operations and strategic objectives. The UN SDGs have been identified based on a stakeholder survey and the Company influence, as shown in Altum's materiality matrix (see further on in this section).

| Impact | Materiality aspect | UN SDGs |
|---|---|---|
| **Climate issues** | Financial instruments for climate change mitigation<br>Climate resilience considered in all financing decisions<br>Raising awareness of climate change improving climate resilience<br>Impact of own daily activities on climate |  |
| **Governance** | Fair and ethical governance, anti-corruption<br>Open communication and stakeholder involvement<br>Sustainable procurement<br>Cybersecurity, right to privacy and data protection |  |
| **Services** | Promoting entrepreneurship, employment<br>Governance decisions upon all financing issues<br>Social considerations in all financing decisions |  |
| **Working environment** | Employee health and safety<br>Fair treatment of employees<br>Staff training and development<br>Diverse and inclusive working environment, gender equality |  |

| | | |
|---|---|---|
| **Society** | Fostering and strengthening the entrepreneurial spirit<br>Promoting financial literacy in society<br>Improving the economic status of women |  |



## **Contribution to Sustainability** (cont'd)

Altum's long-term performance can only be ensured by adhering to the principle of sustainable business, which consists of three interrelated and equally important ESG considerations - environmental, social and corporate governance.

Starting in early 2021, Altum's management stated as its priority sustainable financing and the integration of ESG considerations into credit risk management and business processes. This is also one of the objectives of Altum's Strategy 2022-2024 and was included as one of the five key targets in the Operational Plan 2022 approved by the shareholders' meeting.

In 2022, the Financial and Capital Market Commission developed a roadmap for a sustainable financial sector in Latvia with a view to clarifying the financial sector watchdog's expectations on the position and actions of financial and capital market participants in identifying and managing sustainability risks. The Roadmap aims to promote a common understanding of the steps to be taken by financial and capital market participants to identify and manage sustainability risks. The aspects and steps towards sustainable finance included in the road map developed by Altum correspond to the road map developed by FCMC.

Towards sustainable finance and the integration of sustainability into all Altum processes and disclosures related to sustainability in the financial services sector -

| | | | | |
|---|---|---|---|---|
| work is under way to expand the range of sustainable finance instruments | SMEs and Midcaps are promoted to move towards sustainable development through appropriate access to finance and incentives | overall, financial sector and public support is increased to accelerate the transition of businesses to a sustainable economy | internal processes are reviewed to integrate ESG considerations in financing decisions and further portfolio monitoring | staff competencies are developed in integrating sustainable finance and ESG considerations into risk management |

Altum's ambitions for sustainable finance are realised voluntary and are driven by (i) the expectations of stakeholders, such as investors, credit rating agencies, international lenders, Nasdaq, for Altum to be a Latvian development finance institution with a highly significant impact on the Latvian economy, and (ii) eligibility requirements for public funding available from the EU Cohesion Policy and/or RRF instrument contributing to the Sustainable Europe Investment Plan/Green Deal Investment Plan, where Altum plays a critical role in the implementation of financial instruments in the SME sector in Latvia. The ambition level of Altum is also influenced by the sustainable financing framework already in place for part of Altum's portfolio (e.g., the portfolio financed under the Altum Green Bond Financing Framework 2021, taking into account the Green and Social Bond Principles published by the International Capital Market Association (ICMA)) and the Taxonomy Regulation. Although not binding on Altum, the Company follows the practices of the international financial institutions sector in its day-to-day operations. Thus, the EBA (European Banking Authority) guidelines on the integration of ESG considerations in credit risk management, including lending and monitoring, are reviewed alongside with assessing their further integration into Altum's credit risk management processes, both when making financing decisions and improving Altum's internal processes.

State support programmes implemented by Altum will promote the execution of projects whose measurable indicators will contribute positively to the assessment of social and environmental factors related to the sustainability of enterprises and their impact on society. Monitoring the implementation of the programmes will ensure that the planned results and objectives are achieved.

## **Contribution to Sustainability** (cont'd)

All the new programmes available within the framework of RRF funding have a sustainability focus in terms of the activities to be supported, but they are of different types and fall into the following groups: (i) climate programmes that ensure compliant with DNSH for the specific environmental objective of the Taxonomy (ii) a digitisation programme aimed at increasing productivity, and (iii) a rental housing programme with the social objective of reducing inequalities.

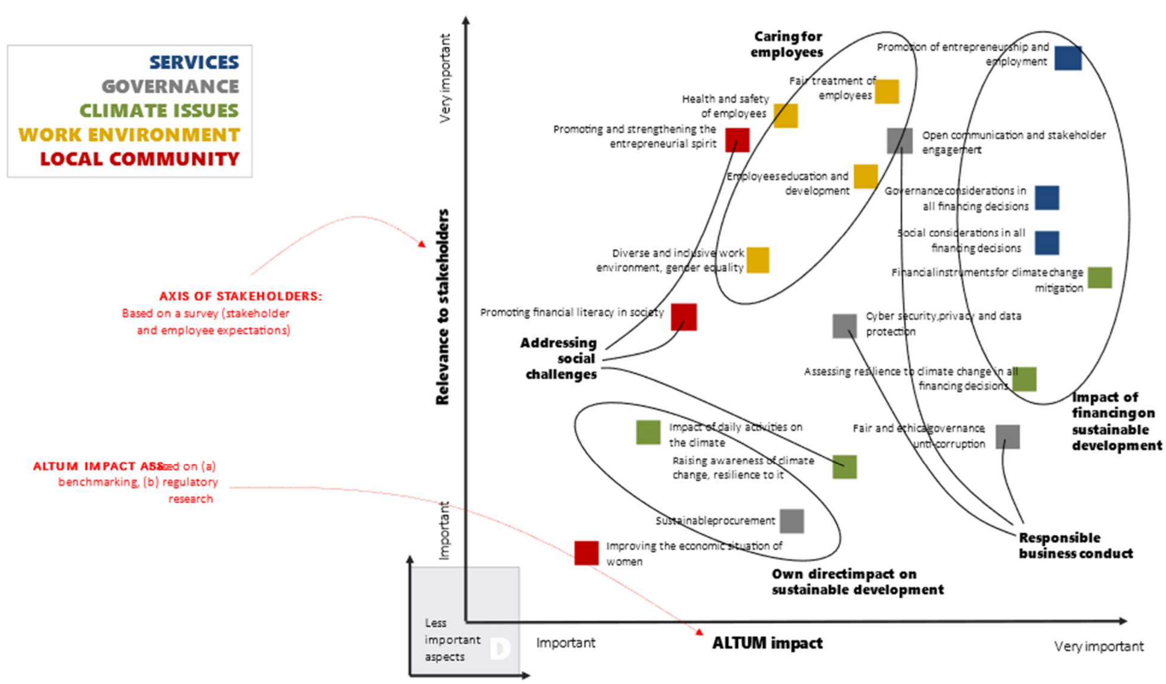
Altum works closely with its stakeholders, and recognising Altum's specific role in the national economy identified the needs of stakeholders and address them. Altum is aware of and assesses the social, environmental and economic impacts of its activities and involves stakeholders in solving issues of mutual concern. In building relationships with stakeholders, Altum organises and engages them in consultations, partnerships, informative and educational events.

To establish Altum's materiality matrix for sustainability and define the ambition level for sustainable finance in the loan portfolio, stakeholder identification, mapping and a survey were carried out at the end of 2021 to identify the material aspects to be included in the sustainability content. There were more than 620 respondents from a wide range of stakeholder groups, including employees, shareholders, clients, capital market participants, commercial banks, financiers, sustainability experts and representatives of such sectors as financial services, education and science, suppliers, NGO members, policy makers, media, professional associations, business support organisations and supervisory and control authorities. The survey questions covered such issues as requesting to give assessment of Altum's performance so far in the areas of environmental, social and corporate governance as well as their expectations of Altum in the areas of sustainability in the business environment, day-to-day operations, community support and development, as well as Altum as an employer.

One of the most important questions in the stakeholder survey related to Altum's ambition level, and respondents were asked to select 1-3 areas of sustainable financing. The stakeholder feedback on this issue highlighted the TOP3 priorities; they include (i) improving access to sustainable financing for SMEs, (ii) promoting projects that will have a positive environmental and social impact and (iii) expanding the sustainable set of financial instruments.

As a result, the focus on sustainability is further strengthened both by expanding the pool of sustainable financing and enabling better accessibility for companies as well as by improving Altum's internal processes in making financing decisions.

This process resulted in the identification of the most significant areas of impact and materiality aspects, reflected in the materiality matrix.




Spring 2022 saw the completion of a detailed Altum road map for sustainable finance and integration of ESG aspects in credit risk management in SMEs and Midcaps and Agriculture segments. The roadmap was developed as a detailed plan of activities in areas such as new product development and transforming existing products to sustainable financing, portfolio tagging, the integration of ESG considerations in loan monitoring and management of portfolio sustainability KPI's.

## **Contribution to Sustainability** (cont'd)

Based on the ESG road map, in the second half of the year work was started on activities of the ESG road map covering the integration of ESG aspects into credit risk management for Altum's loan and guarantee portfolios in the SME, Midcap and Agriculture segments –with a view to developing an ESG risk assessment matrix and scoring model, a tailored client ESG questionnaire to collect information for ESG risk assessment and clients' planned/actual sustainability KPI's data. Besides, work started on tagging current green/sustainable projects in the SME and Agriculture segments and the assessment of the $CO_2$ footprint of the loan portfolio of these segments.

Since the summer of 2021, investments were made in the Altum-managed the Fund, with due care towards target company's activities in ESG areas and the expected impact of related economic transitional changes on target company's target company's upstream and downstream value chains. Following requirements of the Sustainable Finance Disclosure Regulation (SFDR), the Fund policy was published at the end of 2022; Altum considers the principal adverse impacts of its investment decisions on sustainability factors (Principal Adverse Impact Report) in accordance with Article 4 of the SFDR.

Altum is committed to follow the best industry practice in Europe with its 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 those that already now do not finance fossil fuel power generation projects. An ambition level will be set later this year, where the Green Asset Ratio for new loans and the existing loan portfolio will be defined for both a 3-year period and up to 2030. Among other things, the existing client portfolio will be reviewed, stimulating clients to move towards sustainable development as well as phasing out the financing of projects that do not meet Altum ESG considerations in credit risk management.

### **Environmental and Social Impacts of Altum-funded projects**

Since 2016, Altum is actively involved in improving the energy efficiency of multi-apartment buildings. In recent years, client interest and use of support experienced rapid growth. It should be noted that in 2022, the increase in client activity coincided with the change of EU programmes due to the change of EU programming periods, which consequently stimulated a significant activity at the end of the current programme. This resulted in significant volumes of new transactions in the Individuals segment, contributing to the achievement of the environmental objectives.

In the new EU planning period, there was observed a consistently high level of interest and client activity relating to the new Energy Efficiency Programme for Multi-Apartment Buildings. Given the high level of activity and relevance to the Individuals segment, Altum will continue to focus on this area.


New transactions under the Energy Efficiency Programme for Multi-Apartment Buildings and Private houses in 2022 gave

**7,180 $tCO_2e$ reduction p.a.**

(total expected impact of the projects)


Already in autumn 2017, Altum issued Green Bonds of EUR 20 million in the capital markets which initiated the financing of sustainable projects and educating the market.

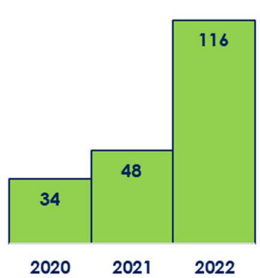
The Covid-19 pandemic significantly dampened the SME segment's interest in energy efficiency, renewable energy and sustainable transport projects. The cautious attitude continued in 2022 with the outbreak of Russia's war in Ukraine. Only with the energy crisis did business activity pick up, but rather tentatively, hoping for a faster start of the RRF energy efficiency programme. This explains the relatively low volumes of funding in 2022. It should be noted that for such projects there is a rather considerable time lag between the granting of the funding and the implementation of the project, which is why the funding granted but not yet disbursed is also shown as at the end of 2022.

It should be recognized that in 2022 the committed funding by Altum for implementation of SME projects contributing to environmental objectives had a very high $CO_2$ footprint reduction intensity, although the loan volume was relatively small.


**1 158 $tCO_2e$ reduction p.a.**
**per invested 1 MEUR**
(total expected impact of the projects)

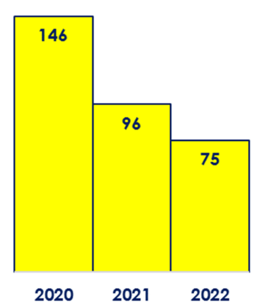
The above activities providing guarantees and grants under the programmes for improving energy in multi-apartment buildings and private houses in the Individuals segment and loans for sustainable projects in the SME segment resulted in the following volumes of new transactions contributing to reaching the environmental objectives:

**New transactions contributing to reaching the environmental objectives 2020 - 2022, MEUR**




Providing guarantees for home purchase (Individuals segment) and a full range of state support financial instruments to companies to overcome the effects of the Covid-19 pandemic resulted in the following volumes of new transactions contributing to social objectives:

**New transactions contributing to reaching the social objectives 2020 - 2022, MEUR**



## ESG - Governance

To ensure the achievement and sustainability of Altum's strategic objectives, a corporate governance model was elaborated and developed. Starting with 2021, Altum applies the Corporate Governance Recommendations, incorporated in the Code.

Adherence to the principles of corporate governance set out in the Code contributes to the value growth of the company in the long term, its effective management and transparency of its operations. The principles are applicable at all levels of Altum, creating a successful system of interrelationships between shareholders, the Supervisory Board, the Management Board, employees, clients and the rest of society. Altum's day-to-day activities include open and trustworthy communication with all stakeholders as well as 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 the compliance of Altum's activities with these principles, it can be concluded that Altum fully complies with them as set out in the Code, except the principle "Independent members of the Supervisory Board".

**Nomination and selection of the supreme governing bodies**

Competent and experienced management is a precondition for effective business performance and decision-making that contributes to long-term value growth.

Altum's governance model is designed to follow good corporate governance practices, contained in the Code, separating strategic and operational management. The company has a three-tier governance structure. Altum is governed by a shareholders' meeting, the Supervisory Board and the Management Board. In the cases set out in the Law on Governance of Capital Shares of a Public Person and Capital Companies, decisions are also taken by the Cabinet of Ministers as the supreme decision-making body. Under the Commercial Law, both the Management Board and the Supervisory Board are jointly and severally liable.

Evaluating the compliance of Altum's corporate governance system with corporate governance principles set out in the Code and compliance with these principles in Altum's operations, Altum fully complies with the corporate governance principles defined in the Code, with exception of the principle "The Company's Supervisory Board has independent supervisory board members". The composition and terms of operation of Altum's Supervisory Board as well as the Management board are determined by the Law on Development Finance Institution (hereinafter - AFI Law)

According to Article 7 of the AFI Law, members of Altum Supervisory Board and Management Board are subject to the requirements set out in the Credit Institution Law for members of the Supervisory Board and the Management Board of a credit institution.

Altum Supervisory Board is composed of three members. Each shareholder is entitled to nominate one candidate for election to the Supervisory Board. Chairperson of the Supervisory Board is a member of the Supervisory Board nominated by the Ministry of Finance. Altum Management Board is limited to five members. The Supervisory Board elects Chairperson of the Management Board from among its members. The term of office of the Supervisory Board and the members of the Management Board is three years.

The procedure for nominating members of the Management Board and the Supervisory Board is governed by the Law on Governance of Capital Shares of a Public Person and Capital Companies and Regulations of the Cabinet of Ministers "The procedure for nominating management board and supervisory board members in capital companies where capital shares are owned by the State or derived public person". The holder of the state capital shares or the Supervisory Board of the capital company establishes a Nomination Committee to evaluate the candidates for membership of the Management Board or the Supervisory Board. The Nomination Committee includes representatives nominated by the holder of the state capital shares or the Supervisory Board and the Cross-Sectoral Coordination Centre (from 1 March 2023 the Cross-Sectoral Coordination Department of the State Chancellery) (hereinafter - SCC) as well as independent experts and, if necessary, observers with advisory rights.

Potential candidates for the Management Board and the Supervisory Board are selected through a application procedure. An exception is made only in cases provided for by law where a member of the Supervisory Board or the Management Board is reappointed for a new term of office or it is not possible to nominate a person for a term of office that would ensure the capacity of the Supervisory Board or the Management Board.

If it is not possible to nominate a candidate for a member of the Supervisory Board or the Management Board within a time limit which would ensure the institution's legal capacity, a candidate meeting the relevant criteria of professionalism and competence shall be appointed as a member of the Supervisory Board or the Management Board. The person so elected holds office until a member of the Supervisory Board or of the Management Board is elected in accordance with the nomination procedure laid down by law, but for no longer than one year.

## ESG – Governance (cont'd)

The nomination procedure for Altum Supervisory Board and Management Board members ensures the recommendations set in the Code on Corporate Governance and promotes good corporate governance in the Company.

### Shareholders

Effective involvement of shareholders in decision-making helps to achieve the Company's financial and non-financial objectives and ensures its sustainability.

Finanšu ministrija

**Baiba Bāne,**

State Secretary of the Ministry of Finance,

continues as a representative of Altum shareholders

Ekonomikas ministrija

**Edmunds Valantis,**

State Secretary of the Ministry of Economics,

continues as a representative of Altum shareholders

Zemkopības ministrija

**Raivis Kronbergs,**

State Secretary of the Ministry of Agriculture,

took up his post as a representative of Altum shareholders; he was approved by the Cabinet as the State Secretary of the Ministry of Agriculture on 3 January 2022

### Supervisory Board

The members of Altum Supervisory Board have relevant experience and expertise, and possess a range of skills and knowledge, including in the financial sector, business development management as well as corporate strategy and financial management. The Supervisory Board is gender-balanced and respects the principles of diversity.

**Līga Kļaviņa**

**Chairperson of the Supervisory Board**

Deputy State Secretary for Financial Policy at the Ministry of Finance of the Republic of Latvia. Prior to that, she held several senior positions in the Ministry of Finance, representing the interests of the Latvian State in state-owned companies as well as working for a long time in international financial institutions.

Holder of a Master's degree in Law from the Institute of International Affairs, University of Latvia.

Term of office: 26.12.2025

**Ilze Baltābola**

**Member of the Supervisory Board**

Experience in coordinating policies to improve the business environment and implementing business support programmes in Latvia.

Deputy Director of the Department of Entrepreneurship Competitiveness, Ministry of Economics.

Graduated from the Faculty of Economics and Management at the University of Latvia with a Master's degree in European Studies.

Term of office: for the period until a candidate is selected in accordance with the procedure laid down in the Law on Governance of Capital Shares of a Public Person and Capital Companies.

**Jānis Šnore**

**Member of the Supervisory Board**

15 years' experience in financial management and planning, currently Deputy State Secretary at the Ministry of Agriculture of the Republic of Latvia.

Holder of a Master's degree in Agricultural Science from the Latvian University of Agriculture (now the Latvian University of Life Sciences and Technologies) and a diploma in International Economic Relations from the Institute of International Affairs, University of Latvia.

Term of office: 26.12.2025

Altum has a defined and comprehensible work organisation of the Supervisory Board and the availability of timely, high-quality and relevant information that facilitates effective performance of the Supervisory Board's tasks and full involvement of the Supervisory Board members in decision-making. In 2022, the Supervisory Board held 13 meetings, which addressed issues related to t supervision and management of Altum's activities as well as the work of the Audit Committee, the performance and independence of the Internal Audit Division, the functioning of the Internal Control System, the implementation and monitoring of state support programmes. The Supervisory Board was actively involved in the Strategy development.

## ESG – Governance (cont'd)

### Management Board

**Reinis Bērziņš**

**Chairperson of the Management Board**

Business management and finance professional with extensive experience in managing companies and institutions.

Holder of a Master's degree in International Finance and Banking from BA School of Business and Finance, a Master's degree in Business Administration from the Swiss Business School and a Master's degree in Law from the University of Latvia.

Main areas of responsibility: finance and resource management, sustainability management and human resources.

Member of the Supervisory Board of the Three Seas Initiative Investment Fund, an international investment fund, Chairman of the Advisers' Convention of BA School of Business and Finance. Chairman of the Supervisory Board of Riga Stradiņš University.

Managing Altum since 12 October 2015.

Term of office: 26.05.2024

**Jēkabs Krieviņš**

**Member of the Management Board**

Financial expert with more than 25 years of experience in the organisation and management of corporate lending, gained working in both the commercial banking and public financial institutions sectors.

Holder of a Master's degree in Business and Institutional Management from Riga Business School, a Certificate in Banking from BA School of Business and Finance and a Bachelor's degree in Economics from the Latvian University of Agriculture (now the Latvian University of Life Sciences and Technologies).

Main areas of responsibility: IT and technology development, Altum's customer and regional service centres, private housing guarantees, oversight of the Latvian Land Fund.

Member of the Board of the European Association of Guarantee Institutions (AECM)

Term of office: 26.05.2024

**Inese Zīle**

**Member of the Management Board**

20 years' experience in the financial sector, including more than 15 years managing various departments, as well as experience in the public sector.

Holder of a Master's degree in International Economics and Business from the University of Latvia.

Main areas of responsibility: development and implementation of Altum's state support programmes, energy efficiency in residential buildings, corporate client services, marketing and public relations.

Altum's representative on the Supervisory Board of the Finance Latvia Association. Member of the Supervisory Board of VAS Sadales tīkls.

Term of office: 26.05.2024

**Ieva Jansone-Buka**

**Member of the Management Board**

Experience in the financial sector, working in senior positions in both commercial and corporate banking.

Holder of a Professional Master's degree in business from the Stockholm School of Economics in Riga, a Bachelor's degree in Management and Political Science from the University of Latvia.

Main areas of responsibility: venture capital financial instruments, organisation and management of the lending process, export guarantees, implementation of the social entrepreneurship and energy efficiency programmes, compliance and monitoring of client liabilities.

Member of the Supervisory board of SIA Tet.

Term of office: 17.03.2024

**Juris Jansons**

**Member of the Management Board**

More than 20 years of experience in operational compliance, financial crime prevention and risk management, gained in senior positions in the commercial banking sector.

A Master's degree in Law from the University of Latvia. In addition to many years of experience in the field of anti-money laundering, holding CAMS certificate.

Main areas of responsibility: risk management, anti-money laundering and countering the financing of terrorism and proliferation, legal and administrative management.

Term of office: 08.01.2026

## **ESG – Governance** (cont'd)

On 31 March 2022, Aleksandrs Bimbirulis resigned from the Management Board of Development Finance Institution Altum. Juris Jansons, the new member of the Board, was selected through the nomination procedure set out in Article 31 of the Law on Governance of Capital Shares of a Public Person and Capital Companies and started his new position on 9 January 2023.

In 2023, the Management Board held 101 meetings.

Information on Altum management, Altum shareholder representatives, Altum Audit Committee and Altum governance is available on Altum's website www.altum.lv, in the "ABOUT ALTUM" section under "Corporate Governance".

The remuneration of the Supervisory Board and the Management Board is determined by the legislation of the Republic of Latvia - the Law on Governance of Capital Shares of a Public Person and Capital Companies and the Cabinet Regulations issued on the basis thereof. The law establishes a uniform framework for the remuneration of the members of the Supervisory Board and the Management Board of state owned companies. SCC Guidelines for Determining the Remuneration of Members of the Management Board and the Supervisory Board of a Capital Company of a Public Person and a Public Private Capital Company define the procedure for payment of a bonus or variable remuneration to the Management Board after the approval of the annual report and assessing the performance of the company, its Management Board and Supervisory Board in the reporting year.

**Transparency of the Company's operations**

Transparency is the foundation for effective investor relations and successful communication with shareholders and other stakeholders. Altum regularly and timely informs shareholders and other stakeholders about the company business activities, financial performance, governance and other relevant issues, disclosing accurate, complete, objective, up-to-date and reliable information. The Company's website publishes information on governance, the strategy and the lines of business, the annual report as well as the articles of association, the Code of Conduct guidelines, company key policies and the corporate governance report.

Disclosure is made within the time limits prescribed by law or immediately after the occurrence of an event requiring disclosure. The information is disclosed in Latvian and English.

Altum has its regulated information as well as internal and external communication procedures. On behalf of the company, authorized persons answer inquiries made by investors and stakeholders as well as communicate with the media. In October 2017, Altum started listing on Nasdaq Riga, and regularly Altum discloses information in accordance with the "Procedure by which Nasdaq Riga OMX issuers disclose information" and Altum's internal rules.

**Organisational culture and ethical conduct**

Altum has zero tolerance for bribery and corruption and prohibits it in any form, directly or indirectly. Altum does not engage in corrupt practices and fully condemns them. To ensure adequate management of corruption, bribery and conflict of interest risks, Altum has established an organizational control system that ensures preventive risk management and a control environment that aims to prevent corruption risks by preventing conflict of interest and corrupt practices and bribery in decision-making and in the working environment in general.

To improve the professional competence of Altum employees and the processes of preventing corruption and conflict of interest in the working environment, in 2022 a group of Altum employees participated in the webinar "Preventing Corruption as Part of Good Corporate Governance" and a declaration procedure in preventing conflict of interest situations at work was introduced.

Altum's ethical principles are laid down in the Ethical Code and serve as the standard of conduct for Altum management and all employees. The Ethical Code comprises guidelines for employees' day-to-day communication with colleagues, customers, business partners; it helps create a responsible, safe and comfortable working environment, which in turn promotes loyalty and ethical conduct among employees, thus ensuring the attainment of the Company's long-term goals.

Altum provides a number of secure and protected channels, among them for raising an alarm, 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 2022.

Altum's principles on the processing of personal data, recruitment processes including, provide information on the way Altum handles personal data through its internal resources, including information systems. Personal data is any information relating to an identified or identifiable natural person. In order to provide information on the processing of personal data, Altum gives the above information on its website under the section "Privacy Policy" 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.

## ESG – Governance (cont'd)

### Highlights and achievements 2022

| | | | | |
|---|---|---|---|---|
| Long-term credit rating Baa1 | 3rd place winner in the nomination "Best Investor Relations in the Baltics among Bond Issuers" | Nomination "Risk Management Strategist" | Platinum category award in the Sustainability Index | Sustainability Code signed |

On 16 December 2022, Moody's reaffirmed Altum's long-term credit rating Baa1 with a stable outlook, the same level as the one assigned in March 2019. The baseline credit assessment was also reaffirmed at baa3, together with the short-term rating at P-2. Altum originally received a Baa1 long-term credit rating from Moody's in 2017, which is one of the highest among Latvian corporates. The high rating allows Altum to better pursue its long-term strategy of raising funds by being a regular capital market participant and issuing bonds.

Altum was awarded 3rd place in the Nasdaq Baltic Awards 2023 nomination "Best Investor Relations in the Baltics among Bond Issuers". To be awarded, the Nasdaq Baltic listed companies were judged on their achievements in transparency, investor relations and good corporate governance practices. Moreover, the companies trading activity was assessed, taking into account market analysts and investors' assessments.

Altum is one of the few state owned companies to have issued a bond. Participation in the stock exchange is also an advantage for employers and international funds, which entrust Altum to make significant investments for the Latvian economy to grow. The aim of the award is to highlight the companies with the best investor relations and share price growth on the exchange, as well as to honour the best performance of the exchange members and other significant events of the year that seriously influenced the development of the Baltic capital market. The Baltic Stock Exchanges companies and members are evaluated by local and international experts in corporate governance and investor relations.

In September 2022, Altum received the Latvian Corporate Governance Award 2022 in the nomination "Risk Management Strategist", demonstrating Altum's ability to successfully identify, assess, manage and control potential risks, events or situations, showing confidence in achieving the Company's strategic objectives as well as successfully launching the priority medium-term strategy - sustainable financing and integration of ESG considerations into credit risk management and business processes. The award was created to strengthen the practical implementation of the Latvian Corporate Governance Code in Latvian companies, promoting the efficiency and long-term value growth of companies, as well as to reveal examples of good practice in the implementation of the Code. The competition was organised by the Corporate Governance Advisory Board, which brings together private and public sector experts in the field of corporate governance: the Ministry of Justice; the Financial and Capital Market Commission; Nasdaq Riga; PricewaterhouseCoopers; Baltic Institute of Corporate Governance; Alphinox Quality; Walless; Cobalt; Baiba Strupiša law firm and law firm Eversheds Sutherland Bitāns.

For the fourth year running, Altum participated in the Sustainability Index organised by the Institute for Corporate Sustainability and Responsibility, which assesses a Company's sustainability according to international requirements in all areas of corporate social responsibility, and in 2022, for the second consecutive year, the company received the high Platinum category award. The Sustainability Index score is one of the visible manifestations of the invisible day-to-day work that companies are doing to uphold the principles of corporate sustainability and responsibility, balancing the interests of shareholders, employees, customers, the environment, business partners and others with the conditions for sustainable performance, thereby becoming the leaders of tomorrow.

On 16 November 2022, Altum joined the Institute for Corporate Sustainability and Responsibility (ICSR) initiative and signed the Sustainability Code. The Sustainability Code aims to promote reliable information, including the exclusion of greenwashing, thereby protecting consumer interests and promoting fair competition as well as reducing the negative impact of business towards environmental, social and governance aspects. The principles of this Sustainability Code apply to every company and its signatories declare their willingness to contribute to their implementation in order to promote the development of the business environment and the creation of shared value by respecting and promoting responsible and ethical behaviour. To date, a total of 18 organisations from across the country have signed the Sustainability Code.

## ESG – Environmental Considerations

Altum runs a continuous environmental management and operational improvement cycle, including the revision of 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. Altum's environmental policy defines its objectives and commitment to conduct its activities with the least possible negative impact on the environment, both directly and indirectly.

As the Latvian development finance institution, Altum's environmental impact is mostly indirect and comes from the support programmes it provides to its clients. Altum recognises its important role as a state owned company and a financial sector player in achieving the ambitious targets set out in the National Energy and Climate Plan 2021-2030. Altum's credit policy as well as its cooperation with other financial sector actors are reviewed in line with these challenges.

Altum implements a continuous cycle of environmental management and performance improvement, including the review of long-term and short-term environmental performance targets. The Environmental Management Principles are available on Altum's website under "Corporate Governance and Sustainability" in the "Environmental Management" sub-section.

**Mitigation of direct impacts**

Being a development finance institution, Altum has a relatively small direct impact on environment.  Still the Company aims to further reduce its own environmental footprint.

One of the most widely used calculation frameworks worldwide for measuring $CO_2$ or GHG emissions is the Greenhouse Gas Protocol (GHGP), a voluntary accounting and reporting mechanism for GHG emissions. Altum uses it as a basis for voluntarily calculating, accounting for and later comparing the company $CO_2$ footprint and publicly reporting about the results. To make the data collection structured and comparable, the GHG Protocol is based on three Scopes:

| | |
|---|---|
| Scope 1 | direct emissions or GHG emissions from company-owned and controlled resources. The scope covers GHGs emitted in the course of carrying out its business activities or in the production of its products; |
| Scope 2 | indirect GHG emissions from the consumption of purchased electricity, steam, heat and cooling; |
| Scope 3 | all other indirect emissions in the value chain, starting with logistics, suppliers, product use, etc. generated outside the company. |

*Corporate Governance Report 2022* provides data on Scope 1 and Scope 2 emissions.

The $CO_2$ footprint is a measure of the total carbon dioxide emissions directly and indirectly caused by Altum activities. Altum measures its $CO_2$ footprint since 2018 and the calculations are made in accordance with Cabinet Regulation No.42 of 23 January 2018 "Methodology for Calculating Greenhouse Gas Emissions", which sets out the calculation methodology and $CO_2$ emission factors for transport fuels, district heating and electricity.

**In 2022, the Company** (Scope 1 and Scope 2) **emitted 99 $tCO_2e$, 54.2% less than in benchmarking 2018 (216 $tCO_2e$):**

| SCOPE 1 | | |
|---|---|---|
| | fuel | 31 $tCO_2e$ |
| | diesel | 2 $tCO_2e$ |
| | **Total:** | **33 $tCO_2e$** |

| SCOPE 2 | | |
|---|---|---|
| | electricity | 20 $tCO_2e$ |
| | heat | 46 $tCO_2e$ |
| | **Total:** | **66 $tCO_2e$** |

In order to achieve its intention for reduction of GHG emissions, an energy audit of the Company was also carried out in 2018, covering the analyses of natural gas, car fleet and electricity consumption and possible activities to improve energy efficiency. Based on the conclusions and recommendations of the energy audit, Altum annually implements targeted activities to increase the Company's energy efficiency: work is underway to improve the energy efficiency of operations and buildings, reduce business travel through remote meetings, teleworking and the transition to an energy-efficient car fleet for the company needs. Special emphasis is placed on educating employees, encouraging a change in their attitudes and increasing their commitment to reducing their individual environmental impact as well.

## **ESG – Environmental Considerations** (cont'd)

**Assessment of the intensity of $CO_2$ emissions:**

**per one Altum employee** — while in 2018 these were 0.97 $CO_2$ emissions per employee, in 2022 these were 0.42 $tCO_2$ emissions (-56.7%);

**against Altum's gross portfolio of financial instruments** — while in 2018 Altum produced 0.41 $tCO_2$ emissions per EUR 1 million portfolio of financial instruments, these were only 0.10 $tCO_2$in 2022 (-75.6%). This was due to significantly increasing the portfolio of financial instruments (growth by 82.2% in 5 years) and by reducing $CO_2$ emissions.

The opinion on the greenhouse gas emission volumes was prepared by Altum and approved by the technical expert SIA TUV NORD Baltic on 13 March 2023.

Altum strives to minimise the amount of waste it produces, segregates waste, provides separate waste bins for batteries (hazardous waste) in offices, promotes recycling and reduces greenhouse gas emissions that are directly linked to Altum activities.

**Key actions:**

- Replacement and upgrading of the heating system in the central office
- Replacement of the car fleet, significantly reducing fuel consumption and CO2 emissions
- LED lighting installed in offices, as well as motion sensors in certain areas
- Waste sorting ensured
- Digital document management system established
- Reduced office paper consumption
- Drinking water filters installed, PET bottles phased out
- Cleaning service ensured, including the use of environmentally friendly products
- Continuous recycling of waste paper
- Bike parking and shower facilities installed

**Mitigation of indirect impacts**

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 Latvian 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 mitigation of the impact of climate change. Altum initiated work on prevention of 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, its clients 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.

## ESG – Environmental Considerations (cont'd)

°C CICERO Medium Green

In the second half of 2021, Altum updated its Green Bond Framework, taking into consideration the Green and Social Bond Principles published by the International Capital Market Association (ICMA) in June 2021. In order to assure investors that the funding raised by the green bonds are 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 Altum Green Bond Framework and graded the bonds Medium Green, equivalent to the grading received in 2017.

The funding attracted from issuing 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) servicing companies in these fields.

To make sure the investors can follow Altum Green Bond 2021 investments and gain an insight into the funded projects, Altum published the annual ALTUM Green Bonds Investor report as at 30 June 2022.

As at 30 June 2022 Altum has committed a total of EUR 18.5 million and disbursed a total of EUR 17.3 million for green projects. Almost all funded projects have been completed and their contribution to sustainability has commenced during the reporting period generating annual reduction of GHG emissions corresponding to 7 963 tons $CO_2$e per year. That in turn corresponds to an actual reduction of 430 tonnes $CO_2$e p.a. per committed 1 million EUR boosted above average by projects of Energy Efficiency. Covid-19 pandemic restrictions leading to decrease of economic activities negatively affected actual sustainability KPI's that are slightly lower than originally estimated and reported last year. The largest share of sustainable loans, or 74%, was issued in the Energy Efficiency segment which by the number of projects and financing prevails over the Renewables, Sustainable Transportation and Green buildings segments, but as the activity in the three latter segments continues to increase, a better balance is likely to be struck.

Issuance of green bonds ensured Altum to become the first company from Latvia to join the Nasdaq Sustainable Bond Network globally in September 2021.

In autumn 2021, Altum embarked upon improving employees' competence in Green Deal areas, so they were able to promote and explain the essential role of sustainability and ESG considerations in clients' business development and the ability to successfully operate in supply chains. This type of training continued in 2022.

## ESG – Social Considerations

The social dimension refers to the trust and support of shareholders, employees, cooperation partners, clients and the general public.

**Collective Agreement**

Altum maintains a social dialogue with employees and their representatives. Employees actively participated in the drafting and voting on the new version of the Collective Agreement, submitting their proposals, and in 2022 a new Collective Agreement was signed which provides additional guarantees for Altum employees, regulates rest period, pay and matters related to safety at work as well as ensures the principles of fairness, mutual trust, understanding and openness. The Collective Agreement applies to all Altum employees who have an employment contract for an indefinite period or for a period of not less than twelve months and whose probationary period under the employment contract has expired. At the end of 2022, the Collective Agreement was not binding to only 2.5% or six employees whose probationary period had not expired at that time.

The Collective Agreement is permanently accessible to all employees in Altum's document management system. Altum upholds social dialogue with the authorised representatives of Altum employees on a regular basis.

All employees are obliged to know the basic terms and conditions of their employment. They have the right to join or associate with various organisations and associations of their own free will, without any discriminatory restrictions, in order to defend their social, economic and professional rights and interests and to enjoy all the benefits they provide.

## ESG – Social Considerations (cont'd)

### Employees

Altum cares for the well-being of its employees by providing advancement opportunities, appropriate working conditions as well as the social guarantees and social security measures set out in the Collective Agreement. Altum has an organisational culture that values mutual respect, diversity, inclusiveness and equal treatment, and creates an environment in which these values are respected, nurtured and embedded. Work environment and processes are designed to avoid the possibility of infringing or violating the human rights of employees.

In April 2022, the Society Integration Foundation, implementing the national programme "Family Friendly Workplace", recognised Altum as an employer that cares for promoting family well-being and creating favourable conditions for the interaction of family and work life. The aim of the programme is to promote the development of a culture in Latvia that is empathetic, humane and understanding, while offering tools to assess the existing working environment.

To attract qualified, professional and motivated staff, Altum continues to pursue clear principles for their recruitment. The legislation of the Republic of Latvia contains extensive provisions regulating non-discriminatory treatment and Altum fully complies with them. The current staff composition is the one that matches Altum required professional competences with the offer in the labour market.

In 2022, the total staff turnover was 12.4%. Last year, 43 job positions were advertised. All employees had the opportunity to participate in 17 internal recruitment competitions; as a result, the three vacancies were filled from Altum staff. The vacancies advertised in 2022 were filled in a timely manner, communicating Altum as a positive employer brand and high quality of the recruitment process.

Altum everyday work shows that employees with different backgrounds and attitudes are able to respond more effectively to client needs and find innovative solutions, thereby increasing productivity and efficiency. Working with employees of different age groups, the enthusiasm of youth is successfully combined with years of experience and knowledge.

In 2022, the average number of employees was 234 or 67% women and 33% men. As to age groups: 10% aged under 30, 64% aged between 31 and 50, 26% over 51. In 2022, the average age of Altum employees was 47 years.

In 2022, Altum had 52 senior and middle managers, 67% of whom were women and 33% men. 77% of managers were between 31 and 50 years of age, 23% of managers were over 51 years of age. On the other hand, the number of professionals in 2022 was 182 employees, of which 68% were women and 32% men, where 13% of employees were under 30, 61% of employees were between 31 and 50 and 26% of employees were over 51. In terms of professional development, 9% or 21 staff members were promoted in 2022.

Altum's Code of Conduct prohibits discrimination. The company has an Ethics Committee and a procedure for handling ethical violations, complaints and proposals. No complaints from staff members were received by the Ethics Committee in 2022.

All Altum employees have written employment contracts and formal registration of employment relationships, providing all necessary information to the relevant authorities. In 2022, Altum employed on average 208 employees on open-end contracts and 26 on fixed-term contracts. In 2022, Altum provided internships for 10 students from six higher education institutions – BA School of Business and Finance (BASBF), University of Latvia, Riga Technical University, Rēzekne Academy of Technology, Stockholm School of Economics in Riga and RISEBA University of Applied Sciences.

Working conditions, pay, benefits and other terms and conditions are designed to ensure equal opportunities for all employees and also to make it easier to combine work, private life and parenthood. Altum has not received any complaints of working time, pay or absence violations that would qualify as human rights violations in 2022.

Altum operates in full compliance with the Latvian regulatory framework prohibiting forced and child labour, which is in line with the UN standards, and does not engage in forced or illegal employment of children. The Code of Conduct sets out the basic principles of fair treatment and prohibition of harassment, as well as describes guidelines for establishing working relationships between employees, desired attitudes and behaviours, and patterns of behaviour in the event of possible violations. In 2022, Altum received no complaints of forced or illegal child labour, workplace harassment, violations of employees' human rights or other ethical concerns.

## ESG – Social Considerations (cont'd)

### Diversity management

In accordance with its Diversity, Equality and Inclusion Policy, Altum supports diversity and equal rights in the recruitment, development and advancement of staff, in no manner supporting or promoting discrimination against individuals on the basis of race, religion, age, origin, sexual orientation, disability, etc.

As a member of the Latvian Diversity Charter, Altum is one of the official ambassadors of diversity in business and the workplace. The Diversity Charter is a voluntary agreement aimed at promoting respectful attitudes and inclusion of different groups in society. Altum strives to respect diversity in the workplace and in Latvian society as a whole.

In order to improve Altum employees' understanding of diversity management issues, increase positive attitudes towards diversity and promote the ability of Altum employees to see diversity as an opportunity rather than a disadvantage, several Altum managers and employees of various levels participated in the training events "Skatu Punkti: Ieguvumi" ("Perspectives: Benefits") and "Skatu Punkti: Cieņa" ("Perspectives: Respect") organised by the Society Integration Foundation, the Institute for Corporate Sustainability and Responsibility and SIA Spring Valley, a corporate development centre. In 2022, Altum repeatedly shared its experience and practices in addressing diversity issues in the company.

The diversity, different needs and interests of Altum employees are constantly taken into account in the organisation of corporate events, training, workplace and work environment design and other day-to-day work processes.

### Staff training, competency development

Staff training and development is an important part of the staff management system. As the strategic goals set it , Altum's concern is raising the qualification of employees, continuous development of their skills and knowledge, and the opportunity of gaining 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 competency are used in the organization of the training process.

Employee training and professional development in 2022 was organized in accordance with Altum's strategic goals and training needs identified in the annual professional assessment. In 2022, remote learning became the dominating way for the development of professional skills and competencies; however, the practice of face-to-face training was also resumed. Altum staff participated in 95 different training events (lectures, courses, seminars, webinars), conferences and forums, with 98% of the staff attending. The training was completed with all Altum employees taking a final test on personal data protection and processing issues, and IT security issues. The most attended in-house training was on lending issues (21 training sessions). In 2022, a strong focus was placed on developing leadership and management skills for middle and senior managers and on effective working in hybrid work, covering 13 training topics, including how to conduct full-fledged growth development and appraisal interviews, managing effective remote and face-to-face meetings, building a sense of team in remote and hybrid work, team coaching and goal planning, employee motivation, etc.

To improve staff communication and dispute resolution skills and ensure a high level of customer service, the staff received training in customer service and respectful problem-solving.

In 2022, the customer service network focused on building staff competency in sustainability and sustainable business. As Altum expanded its range of support programmes, for example in the areas of energy efficiency and digitisation, the customer service staff had to acquire increasingly specific knowledge, becoming experts in these areas at the Latvian level. The Competency Teams, operating effectively already for three years, are excellent means for reaching this purpose. In close cooperation, employees acquire new knowledge in their respective specialisations, improve existing competencies by sharing practical experience in projects, mentor new employees, develop new programmes, adapt them to the needs of customer segments, and participate in the improvement of customer service and lending processes.

### Remuneration

Altum remuneration policy provides for uniform and fair principles for all employees; it is based on the strategic goals and performance indicators, and promotes employee development and loyalty to the company. Altum has a financial motivation system for employees, which ensures that employees are systematically evaluated and remunerated in accordance with the quality of their performance, initiative, work intensity, and contribution.

Altum publishes information about the principles of remuneration policy alongside the fundamental principles of Altum's code of professional ethics, available at www.altum.lv, under the section ABOUT ALTUM, sub-section "Personnel/Vacancies".

## ESG – Social Considerations (cont'd)

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 that 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.

In 2022, the structural units actively used the opportunity provided by Altum to organise team-building events. It was particularly important in 2022 to bring the staff closer together after the long period of remote working due to COVID-19 constraints and to renew a team spirit. Employees also participated in corporate employee events and activities organised by Altum, both in person and remotely.

**Working environment, safety, well-being**

Altum is committed to a tidy, comfortable and aesthetically pleasing working environment and to working conditions that are suitable for the health of every employee. Altum promotes employee awareness of occupational health and preventive care. Employees feel heard and the working environment and its technical equipment are constantly improved, thus ergonomic equipment in all workplaces was introduced. To promote environmental responsibility, Altum educates and informs employees on topics related to both environmental protection and the Company's environmental objectives.

Although the restrictions on the spread of COVID-19 were eased or lifted completely in 2022, Altum continued to focus on safe and healthy working environment concerning the spread of the Covid-19 virus, among other things providing remote working opportunities. In this way, Altum avoided an epidemic in the workplace and was able to ensure uninterrupted and full functioning all the time. Altum employees are provided with the necessary collective and personal protective equipment for their daily work.

In order to focus on mental health and well-being issues, including the specificities of remote working, in 2022, there was organised staff training on stress management and well-being and the Health Month project was implemented. This included a webinar for the staff on time management and emotions in times of crisis. Twice-weekly there were offered online sports sessions and practical tips and techniques to reduce stress and anxiety, to strengthen back muscles and to promote well-being. Exercise and fresh air when working remotely are important preconditions, they were not forgotten either. Altum organised a competition where employees challenged one another, competing in kilometres run and steps taken during walks. At the end of the Health Month, employees went together for a hike along one of the trails in Latvia.

In 2022, the staff was also given access to the Life Balance Forum Its agenda covered topics about promoting balance between different areas of life and focusing on individual's needs and preferences.

The well-being of employees is monitored periodically through a survey of employees on well-being issues in the working environment, including remote working.

Altum aims to ensure and continuously improve a safe and healthy working environment by preventing conditions that impair workers' health and by supporting measures that promote well-being. In 2022, significant improvements were made to Altum's administrative buildings at Doma laukums 4 and Doma laukums 3, undergoing the renovation and betterment of 780 m$^2$ of office space. The courtyard pavement of the Altum building was renovated on an area of 370 m$^2$.

The Company's safe system of work is in line with the general principles of ensuring safety at work, including an organisational structure, internal monitoring of the working environment, risk assessment, consultation with workers and their involvement in improving the existing system.

A staff survey was organised to identify the risks of workplace safety and near misses. This gave employees the opportunity to express their views on workplace issues, as well as to renew attention to practical safety measures such as the location of the medical kit, evacuation instructions and fire safety requirements.

In 2022, Altum had no accidents at work, no occupational diseases, no complaints about safety at work and no critical remarks from supervisory authorities.

## ESG – Social Considerations (cont'd)

### Internal communication and engagement

A communication channel is set up in the MS Office environment to ensure direct day-to-day communication with the staff. Altum's internal communication channels also include email, phone, WhatsApp groups, meetings, employee surveys and direct communication with their line manager.

In 2022, the Management Board held an online meeting with employees on the MS Team platform, during which the management presented the new Strategy, updates, operational data and results, planned work, as well as offered the opportunity to ask questions to the management. 211 employees took part in the online discussions with the management.

Regular face-to-face and online meetings were increasingly organised within departments, involving departmental staff in the discussion of progress, plans and other issues, thus providing and receiving mutual support.

Employees' views are sought periodically through employee surveys, in cooperation with their authorised representatives, working groups, hackathons, etc. Employee involvement is essential for the improvement of Altum's working environment, safety, training processes, etc., as well as for the development of new Altum business lines, the creation, implementation and improvement of support programmes.

### Clients

Altum's client service network is subordinated to the Company's main non-financial objective to promote access to finance for business. This is achieved by maximising the availability of staff advice to all customer segments, both face-to-face and remotely.

Clients are offered face-to-face consultations in all regions of Latvia, and employees regularly visit clients to get to know their business better. There is also an efficient customer service system for clients who wish to communicate remotely. Altum offers fully remote customer service starting with a consultation and loan application to the decision-making. In order to improve remote servicing and reduce the need for paper, the staff encourages clients to increasingly use electronic signatures.

In 2022, several aspects of the usability of the customer portal mans.altum.lv were significantly improved, which was welcomed by customers through feedback in the customer satisfaction survey.

### Client satisfaction

Altum carried out its annual partner survey as a part of the engagement assessment of its cooperation partners, i.e., banks, in which very good results were once again achieved in 2022: 94% of bank employees in this year's online survey indicated that they had used Altum loan guarantees in 2022.

Highlights of the cooperation with Altum in the area of credit guarantees, where the following were highly rated:

- ease of communication with Altum;
- Altum's clear assessment criteria;
- Prompt decision making.

Feedback received to conduct additional training of bank staff on #Esfondi guarantees to closer acquaint new-hires about the issue. Altum, for its part, approached bank product managers with an offer to deliver the respective training. The same as last year, bank staff believes that Altum guarantees allow the execution of transactions otherwise (85%) not taking place. In 2022, 83% of bank representatives considered Altum's reputation to be excellent and very high, compared to 82% in 2021 and 72% in 2020.

For the second year running, client satisfaction was measured by their feedback to an on-line survey. All clients of our lending services were requested to complete it. The survey asked clients to comment on the simplicity and clarity of the processes, the competence and responsiveness of the staff, the performance of the client portal, the speed of decision-making and other important aspects of client service.

Overall, the client evaluation 2022 did not reveal significant changes compared to the one of the previous year. The biggest increase of positive feedback related the question "Is the process of submitting documents to mans.altum.lv simple, easy and understandable?". The overall positive rating (satisfactory, good and very good) increased from 92% to 95% in 2022 compared to 2021, and from 85% to 91% for remote client service. The score increase shows that clients positively evaluated the improvements made to the functionality of mans.altum.lv.

## **ESG – Social Considerations** (cont'd)

A decrease in positive ratings was observed about the question "Is the speed of transaction processing what you had imagined?", which decreased from 92% (2021) to 87% (2022). The downgrade was due to the introduction of a more thorough analysis of the documents submitted by clients, ensuring meeting the requirements of sanctions compliance relating to the Russian invasion of Ukraine. To reduce the impact of the increase in internal workload on the speed of transaction processing, there is ongoing improving of the lending processes.

The consistently high level of positive ratings was maintained for issues related to the attitude and competence of the client service staff. 96% of client rated the service level and knowledge of the staff positively.

The majority of clients (93%) valued their experience with Altum and are willing to recommend Altum to their family, friends and acquaintances.

**Complaints**

Client complaints or dissatisfaction about issues within Altum's remit or the actions of its employees open an opportunity to improve the services provided, enhance cooperation with clients and develop the Company's internal processes.

In 2022, there were no complaints related to breaches of client privacy and the processing of personal data, nor were there any cases related to the loss, leakage or theft of client data.

**Client education**

Altum regularly organises informational and educational events for different client groups and other stakeholders. The year 2022 was notable for the launch of several new state support programmes for different client segments, ranging from support for energy efficiency of private houses to an ambitious large investment loan programme and SME energy efficiency improvement programme. For all programmes, Altum organised informative, well-attended online, face-to-face and hybrid events independently or together with the Ministry of Economics and other partners.

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LATVIJAS BANKA
EIROSISTĒMA

Twenty partners from the public, private and non-governmental sectors, including Altum, have signed a Memorandum of Cooperation to implement the Financial Literacy Strategy 2021-2027. The partners commit to work together to increase the financial literacy of the Latvian people by improving their competencies, creating a sustainable culture of financial literacy, ensuring a quality financial environment and developing a strategic and collaborative institutional approach to improving financial literacy. In the Memorandum, the partners commit to work towards the three objectives set out in the Strategy: developing sustainable financial literacy and competences; ensuring the quality of the financial environment; and increasing the impact of strategic financial literacy planning by linking it to national strategic planning documents and involving stakeholders more broadly and effectively.

The employees of ALTUM client service network carry out several educational activities on a daily basis with the aim of increasing the financial literacy of the Latvian population, in particular would-be entrepreneurs. Altum staff participates in seminars/webinars organised by Altum and its partners, improving entrepreneurs' financial literacy and their ability to use finance to build their/Company's financial well-being for the future. Common topics include creating a viable business plan, cash flow planning, risk management.

Lectures on these topics are given in many Latvian educational institutions, such as the Latvian University of Life Sciences and Technologies, Ventspils University of Applied Sciences, University of Latvia, Albert College, RISEBA, Turība University, Riga Technical College, Riga Stradiņš University, etc.

Ekonomikas ministrija

Altum joined the Memorandum of Cooperation between the Ministry of Economics, public administration institutions, non-governmental organisations and state capital companies, the main objective of which is to provide access to information on opportunities for renovation, conversion and energy efficiency improvement of buildings (residential, public and industrial).

In 2022, a major focus of outreach activities was on various aspects of energy efficiency improvement in multi-apartment buildings to facilitate both the most efficient completion of projects under the programming period 2016-2022 and the opening of the RRF and informing residents about the opportunities of the new state support programme. In cooperation with the Ministry of Economics and the Latvian Investment and Development Agency (hereinafter – LIAA), a series of informational events were also held in Latvian regions to inform entrepreneurs about all current state support programmes. To promote the visibility and wider use of venture capital financing, there were organised a series of broadcasts in cooperation with an industry association for the first time.

## ESG – Social Considerations (cont'd)

**Accessibility for people with disabilities**

In order to ensure accessibility to Altum HQ premises, in June 2022 a contract was concluded with SIA Arhitektoniskās izpētes grupa" for architectural research and surveying work in the historical building Doma laukums 4 (1st-3rd floors) to determine the feasibility of constructing a passenger lift. In December, a contract was concluded with SIA "Arhitekta J. Pogas birojs" for the development of a construction design and already in February 2023 a contract was concluded with SIA "Būvinženieru konstruktoru birojs" for geological work, at the same time preparing the procurement documents for the design and construction of a specialised lift.

Regional centres provide access to counselling for people with disabilities. Where office space is difficult to access, agreements are signed with local authorities for the use of accessible space.

In 2022, Altum pursued targeted outcomes when participating in the activities of the Accessibility Working Group of the Finance Latvia Association together with governmental, non-governmental organizations and other industry partners. On 17 April 2019, Directive (EU) 2019/882 of the European Parliament and of the Council on the accessibility requirements for products and services was adopted. In order to transpose the requirements of the Directive, the Ministry of Welfare, in cooperation with other ministries, drafted a new law, the Accessibility of Goods and Services Law. The draft law was adopted by the Cabinet at its meeting on 14 July 2022 and is still to be discussed and voted on by the Saeima. The law will enter into force on 28 June 2025. Consequently, from that date, in the internal market of the European Union, including Latvia, only goods and services that are accessible (i.e., usable through more than one sensory channel) can be distributed and provided in certain areas). Within the Accessibility Working Group, GUIDELINES ON ACCESSIBILITY OF FINANCIAL SERVICES (DEVELOPMENT. TECHNOLOGIES. RESPONSIBILITY) of the Finance Latvia Association are developed.

In 2022, Altum migrated to a new website platform that ensures accessibility requirements in line with Cabinet Regulation No.455 "Procedures for Publishing Information on the Internet by Institutions", dated 14 July 2020. The new functionality allows for the four basic principles of accessibility, which require digital content to be:

- perceivable - accessibility to alternative display of images, multimedia content and other digital content;
- operable - the ability to access and use digital content freely - not only with a computer mouse, but also with the so-called assistive technologies such as the TAB key;
- understandable - presenting digital content in plain language so that it can be understood by all users, including people with different perceptual limitations, including the ability to change text size, contrast;
- robust - the ability to align digital content with different types of devices such as screen readers, virtual voice assistants for smartphones, etc.)

## Membership in Professional Associations and Partnerships

**Altum internationally:**

Altum is an investor in the Three Seas Initiative Investment Fund. The fund was established to support transport, energy and digital infrastructure projects in the Central and Eastern Europe, boosting the region's economic development and bringing infrastructure up to high standards. Reinis Bērziņš, Chairman of the Management Board, is a member of the Supervisory Board.

In June 2022, the Company successfully co-organised the Three Seas Summit and Business Forum as well as holding the meeting of the Supervisory Board of the Three Seas Initiative Investment Fund at Altum.

## Membership in Professional Associations and Partnerships (cont'd)

Altum is a member of the following bodies:

ELTI - European Long Term Investors Association. It brings together development finance institutions from Central and Eastern Europe. ELTI aims to develop a common position in order to participate in EU institutions and, in cooperation with them, to act as a single interlocutor, mainly by acting as a negotiator on behalf of its members in their dealings with EU institutions and organisations.

NEFI - Network of European Financial Institutions for SMEs. The network brings together European financial institutions that share a common government mandate to facilitate SMEs access to finance by offering financial services and expertise.

AECM - European Association of Guarantee Institutions. The aim of the Association is to represent its members in EU institutions, to promote the exchange of knowledge between AECM members and to develop the guarantee instrument. Jēkabs Krieviņš, Board Member of Altum Management Board, is an AECM Board Member.

Invest Europe - European Venture Capital Association. It represents the European private equity, venture capital and infrastructure sector

Altum cooperates with the European Commission Representation in Latvia; Altum has also agreements on fundraising with the European Investment Bank (EIB), the Nordic Investment Bank (NIB) and the European Investment Fund (EIF).

**Altum in Latvia:**

Altum is a member of the Finance Latvia Association, where, in cooperation with public, non-governmental and other cross-sectoral partners, it targets improvement of business and financial services environment in Latvia and enhances the international reputation and competitiveness of Latvian financial sector. The Association's objectives in the priority areas are pursued through committees, sub-committees and working groups, together with the participation of Altum. The committees are tasked with promoting the strategic development of the area and implementing concrete measures.

Altum is a member of the following organisations representing the interests of industry, economic development and entrepreneurs:

- LDDK –Employers' Confederation of Latvia;
- LTRK – Latvian Chamber of Commerce and Industry;
- LVCA – Latvian Private Equity and Venture Capital Association.

Altum representatives are also members of regional organisations representing the interests of entrepreneurs, thus contributing not only to the development of Altum, but also to business in general.

For more information on the principles and projects of Altum community support activities, please visit www.altum.lv.

## Community Support, Contribution to the 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 correlation 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 financially and through volunteering, supports projects that help promote and foster entrepreneurship, innovation, education, meaningful use of the available state support 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 in the implementation of support activities Altum employees and the general public are involved. 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 implemented in 2022:**

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| **Innovations, 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, boosting the region's economic development and fostering infrastructure compliance with high standards. In June 2022, Altum co-organised the Three Seas Initiative Summit and Business Forum in Riga, attended by leaders from 12 countries. |
| | Investor of the Year Award | Investor of the Year 2022 Award for the most significant investments in Latvia last 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. |
| | Investor Talks podcast series | Pragmatic interviews with influential industry players on alternative financing for scalable ideas: new concepts, experience stories and lessons to be learned for entrepreneurs and investors to assess the vast industry opportunities. |
| **Development of business environment** | Large Investment Loans with Capital Rebate for Midcaps | Public announcement of the programme and a call for tenders event alongside a workshop for entrepreneurs. |
| | New product - loans for low-rent housing construction with capital rebate | A public event for local government leaders and industry stakeholders on the new support programme for regional municipalities, boosting regional housing affordability and retaining and attracting labour resources. |
| | Latvian Capital Market Forum 2022 | Participation in a discussion on the state opportunities for the capital market development. |
| | Competition "Laukiem būt!" (Countryside to Be!) | 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. |

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| | Strategy for developing the start-up ecosystem | By approving the Strategy for the Development of the Startup Ecosystem 2022-2025, the Ministry of Economics, the Investment and Development Agency of Latvia and the Development Finance Institution Altum and organisations representing the interests of startups operating in Latvia - the foundation TechChill, the Latvian Private Equity and Venture Capital Association, the Latvian Startup Association, Riga Technical University, the foundation TechHub, the Latvian Business Angels Network 2022, on 7 September 2012 signed a Memorandum of Cooperation on the implementation of the Strategy. |
| | "#Support for Entrepreneurs - Impetus for a New Breakthrough" series of forums in all regions of Latvia | In cooperation with the organisers, the Ministry of Economics and the LIAA, a visit to the State cities and major towns with a pragmatic programme on all state support opportunities for entrepreneurs. The aim of the forums is to start a discussion on the planned support for business to promote exports and competitiveness. |
| | Seminar for French entrepreneurs operating in Latvia | In cooperation with the Embassy of France, participation in a seminar for French entrepreneurs on national and EU support opportunities as well as the planned financial opportunities under the Recovery and Resilience Facility. |
| | Support for business start-ups What (NOT) to do when starting and growing your own business? | In cooperation with Citadele, SEB and Swedbank, four experts tell their stories on how to be confident of oneself that everything has been noticed, anticipated, thought of and one is ready to go further in developing one's business. How to grow with the help of commercial banks and state support, and how to avoid mistakes when making calculations regarding fundraising. |
| **Environmental impact, green thinking, sustainability** | The campaign "Let's live warmer!" and the contest "The Most Energy Efficient Building in Latvia" | Promoting energy-efficient practices in households and business environment, emphasizing both their financial and environmental benefits. The aim of the contest "The Most Energy Efficient Building in Latvia" is to promote good practice in energy efficiency and sustainability of buildings through energy efficient construction, renovation and conversion/rebuild thereby reducing greenhouse gas emissions into the atmosphere and raising public awareness about the thermal performance of buildings, indoor microclimate and the importance and potential of reducing greenhouse gas emissions to create high quality, architecturally expressive living spaces. |
| | Energy Efficiency in Multi-Apartment Buildings - new programme under the Renewal and Resilience Facility | A pre-launch seminar for the interested about expectation management to be better prepared for the programme and ready for its opening. A public seminar dedicated to the launch of the programme, explaining in simple and detailed terms to the new project managers how to embark on the programme promptly. |
| | Renewal and Resilience Facility application | RRF Business Programmes: digitization and energy efficiency of companies opening cycle, which included publicity events, opening events, as well as practical seminars. |
| | Energy efficiency of private homes | A series of seminars about launching the programme and educating the general public. |

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| | Conversation Festival Lampa | Typical mistakes made by entrepreneurs when planning and implementing energy efficiency projects. Discussion. Summary of lessons learned. Workshop face-to-face and remotely. |
| | Spring and autumn seminars for clients on home insulation, absorption of the ERDF and RRF funding | A compendium of good practices and recommendations to help the public and project managers move towards energy-efficient home renovation easily and simply. |
| | Energy forum 2022 - the largest energy efficiency conference in the Baltic States for entrepreneurs | Best practices, state and EU support solutions for entrepreneurs, client experience stories - a full-day forum for stakeholders, entrepreneurs and media. |
| | Forum Sustainability | Participation in the Forum Sustainability which aims to ensure a sustainable future. In a period of climate change, having a major impact on human well-being, the economy and security as well as putting great pressure on business operations, solutions are sought to achieve economic benefits through sustainable and environmentally, socially and human-friendly activities. |
| | Improving energy efficiency in business (including a shift to renewable energy technologies for heating) | In cooperation with the Ministry of Economics, Altum invites entrepreneurs to participate in webinars on the new Recovery Fund support programme in November 2022. At the event, experts provide information not only about the possibilities to attract support for energy efficiency, the introduction of renewable energy sources and the purchase of electric vehicles, but also about biogas, heat pumps and about the regulatory framework for construction. |
| **Education** | Higher education (Agricultural Science from the Latvian University of Agriculture (now the Latvian University of Life Sciences and Technologies), BA School of Business and Finance) | Promoting science-business cooperation, youth participation in scientific research, quality of research and commercialisation of innovative ideas. |
| | Latvian Student Company Festival #CitsBazārs | Educating a new generation of entrepreneurs and industry experts by linking theoretical knowledge with practice through the Junior Achievement Latvia programme "Skolēnu mācību uzņēmums" (SMU) (Student Company). |
| **Public welfare, demography** | Social Entrepreneurship Association | Popularizing the idea of social entrepreneurship to promote the growth of businesses with a clear social aim and positive impact in Latvia. |
| | Competition "Tam labam būs augt" (What is good will grow) | 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, the newspaper *Dienas Bizness* and RISEBA Architecture and Media Centre H2O6. |

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| **Financial sector development** | Finance Latvia Association | Promoting the sustainable development of the financial sector by developing in-depth group work with commercial banks on credit development, human resources, communication, legal and other issues and to facilitate exchange of views and decision-making in the interests of the people of Latvia. |
| | Development of bankers' handbook on ERDF propositions | Development of guarantee training and participation in the writing of bankers' training handbooks. Video. Overall, in 2022, the bank activity was significantly higher in raising new loan guarantees compared to previous years. This trend once again demonstrates that cooperation between banks and Altum is a successful way to provide financing to companies in various sectors and to contribute to the development of the national economy. |
| **Export** | Export and Innovation Award | Promoting the production of new and exportable products, promoting the performance of Latvian entrepreneurs and expressing appreciation for providing the market with high-quality domestic products, introducing innovations and developing industrial design. Altum special award in the Safe Exporter category. |
| | Seminar together with LIAA | In cooperation with LIAA, we train the heads of representative offices abroad all over the world to build competences on how exporters can protect their businesses with state support from international risks (client and country solvency risks). |

## Corporate Social Responsibility

#STAND WITH UKRAINE

In 2022, Altum employees were involved in charity activities organised by the charity organisation ziedot.lv and the association "Tavi draugi" (Your Friends) to support Ukrainian citizens and refugees.

To promote the values of an inclusive and equal society, Altum employees were also involved in the activities of the participation and mutual aid platform "Dod iespēju" (Give an Opportunity) organised by the Society Integration Foundation, which aims to encourage society to be more supportive towards people with disabilities and more inclusive of this group in the labour market and in social life as well as organising charity activities themselves to support children in social care centres.

The twice-yearly *Donor Days* of the State Blood Donor Centre organised at Altum premises by the Ministry of Finance and actively supported by Altum staff is a tradition.

*Corporate Governance Report 2022 is publicly available in Latvian and English at Altum's premises at Doma laukums 4, Riga and in electronic form – on the website www.altum.lv , in the section ABOUT ALTUM/CORPORATE GOVERNANCE AND SUSTAINABILITY under Corporate Governance sub-section.*

Reinis Bērziņš
Chairman of the Board

29 March 2023