



**ANNUAL REPORT**

**FOR THE YEAR ENDED 31 DECEMBER 2013**

**TOGETHER WITH INDEPENDENT AUDITORS' REPORT**

**REVERTA**

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## Management Report

### Reverta continues to perform in line with the plan

In 2013, the performance of JSC Reverta has been successful and the objectives stipulated in the Restructuring Plan have been achieved. During the reporting period, 40.3m lats (EUR 57.3m) has been paid to the State Treasury in repayment of State Aid. This sum comprised the principal in the amount of 22.6m lats (EUR 32.2m) and the interest in the amount of 17.7m lats (EUR 25.1m). The total of the cash funds recovered through the management of the loan portfolio and the realisation of the assets of Reverta was 61.1m lats (EUR 86.9m).

Overall, since 01 August 2010 to the end of 2013, Reverta has paid 110.9m lats (EUR 157.8m) to the Treasury in repayment of State Aid to Parex banka. In addition the Syndicated Loan of Parex banka (which was State guaranteed) of EUR 234m was repaid in full together with interest of EUR 10.6m. The repayment to the Treasury has started significantly ahead of the term set in the Restructuring Plan.

### More than half a billion euros recovered

Since 01 August 2010 to the end of 2013, Reverta has recovered more than half a billion euros - EUR 511.7m (359.6m lats) from the management and realisation of the distressed loans and from the sales of the bonds portfolio. The result achieved clearly shows the appropriateness of Reverta's chosen strategy and the ability of the Company to work with maximum efficiency, even in disadvantageous situations and with low quality assets.

### A significant increase of revenue from the sales of real estates

With the income level of the general population gradually stabilising and even starting to grow, the well-considered sales strategy has allowed for recovery of 26.5m lats (EUR 37.8m) from the real estate portfolio during the reporting period. This is the best real estate sales performance since the beginning of Parex banka/Reverta on 01 August 2010. As a result of the many activities commenced in the real estate market and the successful sales campaigns, Reverta has become one of the three leading companies of Latvia managing and selling real estates owned by current and former banks.

In the beginning of 2013, the real estate portfolio was at its highest level by value and by quantity. Thanks to effective work in selling real estates, within a short period, the number of objects sold started to considerably exceed those repossessed by Reverta. According to the real estate portfolio management strategy, this tendency is going to prevail also in the future years.

### Losses as planned

The reporting period ended with a 95.9m lats (EUR 136.4m) loss, which reflects the underlying nature of the Company. As in years before, the loss mostly comprises provisions for impairment of the loan portfolio and net interest expense. The interest payments to the Treasury and interest on the subordinated capital (mostly to the former shareholders of Parex banka and their family members) represent most of this interest expense.

The complicated and lengthy court proceedings, the inadequacies in legislation, the low quality of the loans/assets and the counteractions of some defaulting borrowers are the main obstacles to the recovery of the State Aid in reasonable terms and amounts. There are also significant differences observed in the historical value of the collaterals pledged in favour of Parex banka and their current and actual market value – quite often the value has decreased even by 90 per cent. Taking the aforementioned facts into account, the Restructuring Plan envisages that there are losses to be expected also in the future years of Reverta.

### Asset portfolio

At the end of 2013, the total assets of Reverta were 238.6m lats (EUR 339.5m). As a result of a successful loan restructuring and recovery, the net balance sheet value of the loan portfolio has decreased to 194.1m lats (EUR 276.1m).

### Changes in the Supervisory and Management Boards of Reverta

On 26 July 2013, with the term of office of the Supervisory Board ending, an extraordinary shareholders' meeting was held and a new Supervisory Board was elected. The former Chairman of the Supervisory Board Michael Bourke was re-elected along with the former Member of the Supervisory Board Mary Ellen Collins. Two new members – Kaspars Āboliņš and Andris Ozoliņš, were elected.

The two newly elected members of the Supervisory Board have a significant experience in the field of finances. Kaspars Āboliņš is the Treasurer of the State Treasury and has also been a member of the Board of Directors at the Nordic Investment Bank. Andris Ozoliņš has worked for more than 13 years at the DNB bank, including as the President of the bank for eight years. He has also worked as the Chairman of the Council of the Association of the Latvian Commercial Banks and has provided financial consultations.

On 01 August 2013, Michael Bourke was appointed the Chairman of the Supervisory Board for another term, and the new member of the Supervisory Board Kaspars Āboliņš was appointed the Deputy Chairman of the Board. According to the Articles of Association of Reverta, the Supervisory Board is elected for three years.

On 31 December 2013, the Chairman of the Management Board of Reverta Christopher Gwilliam discontinued his employment relationship with the Company.

### The most significant events after the end of the reporting period

On 01 January 2014, the Supervisory Board of Reverta appointed Solvita Deglava the new Chairperson of the Management Board. She had been the Member of the Management Board and the Senior Vice-President of the Company since 2010. S.Deglava has proved herself to be a high-level professional in company management, business deals, restructuring, finances, accounting and other significant spheres. Since the takeover of the former Parex banka by the State, she has worked in several top-level positions and has participated in the restructuring process of the bank. She has many years of experience as an auditor with the international audit company PricewaterhouseCoopers. She has worked as the CFO, vice-president and the member of the board of Latvian Shipping Company.

On 01 February 2014, the Supervisory Board appointed the Head of Real Estate Management Department and Vice-President Edgars Miļūns the new Member of the Management Board. The Supervisory Board resolved to appoint E.Miļūns after having considered his valuable experience and high-level professionalism in real estate management field, as well as after having considered the recommendations of the Nominating Committee of the Privatisation Agency.



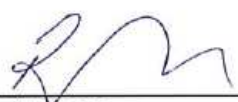
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Solvita Deglava  
Chairperson of the Management Board



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Edgars Miļūns  
Member of the Management Board



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Ruta Amlmane  
Member of the Management Board

Riga,  
29 April 2014

## The Council and the Management Board

### The Council

<b>Name</b>	<b>Position</b>
Michael Joseph Bourke	Chairman of the Council
Mary Ellen Collins	Member of the Council
Sarmīte Jumīte	Deputy chairperson of the Council (till 31.07.2013)
Vladimirs Loginovs	Member of the Council (till 31.07.2013)
Kaspars Āboliņš	Deputy chairman of the Council (from 01.08.2013)
Andris Ozoliņš	Member of the Council (from 01.08.2013)

### The Management Board

<b>Name</b>	<b>Position</b>
Christopher John Gwilliam	Chairman of the Management Board, p.p. (till 31.12.2013)
Solvita Deglava	Member of the Management Board, p.p. (till 31.12.2013)
Solvita Deglava	Chairperson of the Management Board (from 01.01.2014)
Ruta Amtmane	Member of the Management Board
Edgars Miļūns	Member of the Management Board (from 01.02.2014)

## Statement of Responsibility of the Management

The Management of AS Reverta (hereinafter – the Company) are responsible for the preparation of the financial statements of the Company as well as for the preparation of the consolidated financial statements of the Company and its subsidiaries (hereinafter – the Group).

The financial statements set out on pages 7 to 54 are prepared in accordance with the source documents and present fairly the financial position of the Company and the Group as at 31 December 2013 and the results of their operations, changes in shareholders' equity and cash flows for the twelve month period ended 31 December 2013. The management report set out on pages 3 to 4 presents fairly the financial results of the reporting period and future prospects of the Company and the Group.

The financial statements are prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board as adopted by the European Union on a going concern basis. Appropriate accounting policies have been applied on a consistent basis. Prudent and reasonable judgments and estimates have been made by the Management in the preparation of the financial statements.

The Management of AS Reverta are responsible for the maintenance of proper accounting records, the safeguarding of the Group's assets and the prevention and detection of fraud and other irregularities in the Group.



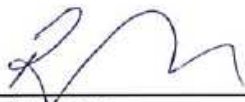
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Solvita Deglava  
Chairperson of the Management Board



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Edgars Milūns  
Member of the Management Board



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Ruta Amlmane  
Member of the Management Board

Riga,  
29 April 2014

## Statements of Comprehensive Income

	Notes	LVL 000's			
		2013	2012	2013	2012
		Group	Group	Company	Company
Interest income	3	5,720	7,369	5,731	7,516
Interest expense	3	(20,363)	(26,344)	(20,363)	(26,344)
<b>Net interest expense</b>		<b>(14,643)</b>	<b>(18,975)</b>	<b>(14,632)</b>	<b>(18,828)</b>
Commission and fee income		36	135	36	83
Commission and fee expense		(18)	(21)	(11)	(17)
<b>Net commission and fee income / (expense)</b>		<b>18</b>	<b>114</b>	<b>25</b>	<b>66</b>
Net realised loss on available-for-sale financial assets	4	-	(32)	-	(32)
Result of revaluation of financial instruments and foreign currency, net	4	(1,079)	1,846	(1,028)	1,722
Other income	5	72	361	1,079	922
<b>Net financial result of the segment</b>		<b>(15,632)</b>	<b>(16,686)</b>	<b>(14,556)</b>	<b>(16,150)</b>
Real estate segment income		3,522	1,312	84	362
Real estate segment expense		(1,311)	(1,127)	(111)	(198)
Revaluation result, net		(560)	4,290	279	4,042
<b>Net result of RE segment</b>	<b>6</b>	<b>1,651</b>	<b>4,475</b>	<b>252</b>	<b>4,206</b>
Collaterals and assets under repossession expense		(136)	(278)	(136)	(278)
Administrative expense	7,8	(7,173)	(9,373)	(6,919)	(8,955)
Amortisation and depreciation charge		(117)	(293)	(115)	(291)
Impairment of assets, net	9	(66,996)	(73,622)	(74,248)	(75,010)
<b>Loss before taxation</b>		<b>(88,403)</b>	<b>(95,777)</b>	<b>(95,722)</b>	<b>(96,478)</b>
Corporate income tax	10	(176)	(346)	(174)	(315)
<b>Loss for the year</b>		<b>(88,579)</b>	<b>(96,123)</b>	<b>(95,896)</b>	<b>(96,793)</b>
<b>Other comprehensive income:</b>					
To be reclassified through profit or loss in future periods					
Change in fair value of available-for-sale securities		-	487	-	487
<b>Total comprehensive loss for the year</b>		<b>(88,579)</b>	<b>(95,636)</b>	<b>(95,896)</b>	<b>(96,306)</b>

The notes on pages 11 to 54 are an integral part of these financial statements.

## Statements of Financial Position

	Notes	LVL 000's			
		2013	2012	2013	2012
		Group	Group	Company	Company
<b>Assets</b>					
Balances due from credit institutions	11	15,100	4,441	9,949	3,908
Shares and other non-fixed income securities		7	10	7	10
Bonds and other fixed income securities		-	78	-	78
Loans	12	169,970	278,507	194,063	314,807
Fixed assets		54	108	45	97
Intangible assets		63	102	63	102
Investments in subsidiaries	13	-	-	23,030	25,702
Investment property	14	51,227	63,966	3,860	5,583
Other assets	15	10,022	11,727	7,591	7,959
<b>Total assets</b>		<b>246,443</b>	<b>358,939</b>	<b>238,608</b>	<b>358,246</b>
<b>Liabilities</b>					
Issued debt securities	16,20	364,503	387,717	364,503	387,717
Other liabilities		2,548	3,303	2,199	2,778
Subordinated liabilities	17	53,185	53,134	53,185	53,134
<b>Total liabilities</b>		<b>420,236</b>	<b>444,154</b>	<b>419,887</b>	<b>443,629</b>
<b>Equity</b>					
Paid-in share capital	18	311,027	311,027	311,027	311,027
Share premium		12,694	12,694	12,694	12,694
Accumulated losses		(497,514)	(408,936)	(505,000)	(409,104)
<b>Total shareholders' equity attributable to the shareholders of the Company</b>		<b>(173,793)</b>	<b>(85,215)</b>	<b>(181,279)</b>	<b>(85,383)</b>
<b>Total liabilities and equity</b>		<b>246,443</b>	<b>358,939</b>	<b>238,608</b>	<b>358,246</b>

The notes on pages 11 to 54 are an integral part of these financial statements.



## Statements of Changes in Equity

Group	LVL 000's				
	Issued share capital	Share premium	Fair value revaluation reserve	Retained earnings	Total equity
<b>Balance as at 31 December 2011</b>	<b>311,027</b>	<b>12,694</b>	<b>(487)</b>	<b>(312,812)</b>	<b>10,422</b>
Loss for the year	-	-	-	(96,123)	(96,123)
Other comprehensive income for the period	-	-	487	-	487
<b>Balance as at 31 December 2012</b>	<b>311,027</b>	<b>12,694</b>	<b>-</b>	<b>(408,935)</b>	<b>(85,214)</b>
Loss for the period	-	-	-	(88,579)	(88,579)
<b>Balance as at 31 December 2013</b>	<b>311,027</b>	<b>12,694</b>	<b>-</b>	<b>(497,514)</b>	<b>(173,793)</b>

Company	LVL 000's				
	Issued share capital	Share premium	Fair value revaluation reserve	Retained earnings	Total equity
<b>Balance as at 31 December 2011</b>	<b>311,027</b>	<b>12,694</b>	<b>(487)</b>	<b>(312,311)</b>	<b>10,923</b>
Loss for the period	-	-	-	(96,793)	(96,793)
Other comprehensive income for the year	-	-	487	-	487
<b>Balance as at 31 December 2012</b>	<b>311,027</b>	<b>12,694</b>	<b>-</b>	<b>(409,104)</b>	<b>(85,383)</b>
Loss for the period	-	-	-	(95,896)	(95,896)
<b>Balance as at 31 December 2013</b>	<b>311,027</b>	<b>12,694</b>	<b>-</b>	<b>(505,000)</b>	<b>(181,279)</b>

The notes on pages 11 to 54 are an integral part of these financial statements.

## Statements of Cash Flows

	LVL 000's			
	2013	2012	2013	2012
	Group	Group	Company	Company
<b>Cash flows from operating activities</b>				
Loss before tax	(88,403)	(95,777)	(95,722)	(96,478)
Amortisation and depreciation	117	293	115	291
Change in impairment allowances and other accruals	66,996	78,266	74,248	81,009
Interest income	(5,720)	(7,014)	(5,731)	(7,040)
Interest expense	20,363	26,229	20,363	26,229
Other non-cash items	(560)	(4,043)	(1,480)	(3,793)
Foreign currency transactions	-	(1,688)	-	(1,688)
<b>Cash generated before changes in assets and liabilities</b>	<b>(7,207)</b>	<b>(3,734)</b>	<b>(8,207)</b>	<b>(1,470)</b>
Decrease in loans and receivables	44,895	74,129	55,710	65,376
Decrease/( increase) in investment property	26,536	9,420	1,316	2,978
Decrease in deposits	-	(10,151)	-	(10,151)
(Increase)/decrease in other assets	(9,049)	(26,542)	1,561	(14,672)
(Decrease)/ increase in other liabilities	(755)	585	(580)	1,221
<b>Cash generated from operating activities before corporate income tax</b>	<b>54,420</b>	<b>43,707</b>	<b>49,800</b>	<b>43,282</b>
Corporate income tax paid	(176)	(346)	(174)	(315)
<b>Net cash flows from operating activities</b>	<b>54,244</b>	<b>43,361</b>	<b>49,626</b>	<b>42,967</b>
<b>Cash flows from investing activities</b>				
Purchase of intangible and fixed assets	(54)	(74)	(54)	(65)
Sale of subsidiaries	-	1,943	-	1,943
Sale of available-for-sale securities	-	128	-	128
<b>Net cash flow from investing activities</b>	<b>(54)</b>	<b>1,997</b>	<b>(54)</b>	<b>2,006</b>
<b>Cash flows from financing activities</b>				
Redemption of issued debt securities (principal)	(22,623)	(42,974)	(22,623)	(42,974)
Interest for issued debt securities	(17,664)	(20,044)	(17,664)	(20,044)
Interest for subordinated debt	(3,244)	(3,487)	(3,244)	(3,487)
<b>Net cash flow used in financing activities</b>	<b>(43,531)</b>	<b>(66,505)</b>	<b>(43,531)</b>	<b>(66,505)</b>
<b>Net cash flow for the reporting period</b>	<b>10,659</b>	<b>(21,147)</b>	<b>6,041</b>	<b>(21,532)</b>
<b>Cash and cash equivalents at the beginning of the reporting period</b>	<b>4,441</b>	<b>25,588</b>	<b>3,908</b>	<b>25,440</b>
<b>Cash and cash equivalents at the end of the reporting period</b>	<b>15,100</b>	<b>4,441</b>	<b>9,949</b>	<b>3,908</b>

The notes on pages 11 to 54 are an integral part of these financial statements.

## Notes

Figures in parenthesis represent amounts as at 31 December 2012 or for year ended 31 December 2012, if not stated otherwise. If not mentioned otherwise, referral to Group's policies and procedures should be also considered as referral to the respective Company's policies and procedures.

### AUTHORISATION OF THE FINANCIAL STATEMENTS

These financial statements have been authorised for issuance by the Management on 29 April 2014. In accordance with the Commercial Law of the Republic of Latvia, the shareholders' meeting has the right to make decision on approval of the financial statements.

#### NOTE 1. GENERAL INFORMATION

AS Parex banka was registered as a joint stock company on 14 May 1992, which commenced its operations in June 1992.

On March 15, 2012 the Financial and Capital Market Commission supported *Parex banka's* request to voluntarily give up the credit institution licence and decided on the cancellation of the respective licence. Thus, marking the changes in the status and corporate identity of the company a new name – *Reverta* (hereinafter – the Company) was introduced on May 10, 2012.

The legal address of the Company is Republikas laukums 2a, Riga, LV-1522. The Company is parent company of the Group.

*AS Reverta* with a gross loan portfolio exceeding LVL 570 million is the largest manager of distressed assets in the Baltic countries and an important player in Eastern Europe. The activities of *AS Reverta* are focused in three main directions: loan restructuring, legal recovery, and real estate management.

The main coverage of *AS Reverta* loan portfolio in the Baltic countries is real estate-related assets – residential, commercial and industrial objects in various construction stages, including apartment houses, villages, offices, commercial premises and land. In the CIS region *AS Reverta* deals with clients representing such industries as oil/ gas production and refinement, agriculture, retail business, manufacturing, shipping and air transport.

As at 31 December 2013, the Company had 116 (127) employees and the Group had 126 (131) employees.

The Company's activities are carried out in accordance with the Restructuring plan approved by the European Commission (decision On the State Aid C 26/2009 (ex N 289/2009)). The primary objective of the Company is to manage the residual assets portfolio by maximising its returns to achieve the objectives outlined in the Restructuring plan within the approved time frame till the end of 2017.

The Company had negative equity of LVL 181,279 thousand as at 31 December 2013 and in view of the specifics of the Company's assets, there can be no certainty of profits in the future. In August 2010 the Company's liabilities have been restructured to match its assets maturities structure and ensure the Company's ability to continue as going concern. The Company does not have any overdue liabilities as at 31 December 2013 and expects to meet its obligations on time over the next 12-24 months and as such has prepared these financial statements on a going concern basis. However, ultimately if the Company does not make profits in the future or raises additional capital there will be insufficient funds to fully repay certain of the long term liabilities of the Company in the future (see note 16).

#### NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

During the year the Group has adopted the following IFRS amendments:

- **Amendment to IAS 1 *Financial Statement Presentation - Presentation of Items of Other Comprehensive Income (OCI)*.** This amendment changes the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from

items that will never be reclassified. The amendment affects presentation only and has no impact on the Group’s financial position or performance. Since the Group has just one OCI item, the change to its presentation is minimal.

- **Amendments to IAS 19 Employee Benefits.** These amendments range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. This amendment did not impact the financial statements of the Group, because the Group does not have material defined benefit obligations.
- **Amendment to IFRS 7 Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities.** The amendment introduces common disclosure requirements. These disclosures would provide users with information that is useful in evaluating the effect or potential effect of netting arrangements on an entity’s financial position. This amendment did not impact the financial statements of the Group, because the Group does not have netting arrangements.
- **IFRS 13 Fair Value Measurement.** The main reason of issuance of IFRS 13 is to reduce complexity and improve consistency in application when measuring fair value. It does not change when an entity is required to use fair value but, rather, provides guidance on how to measure fair value under IFRS when fair value is required or permitted by IFRS. The implementation of this standard did not have a material impact on the amounts recognised in these financial statements, however it resulted in additional disclosures (see Note 14).
- **IFRIC Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine.** This interpretation applies to stripping costs incurred in surface mining activity during the production phase of the mine ('production stripping costs'). This interpretation had no impact on the Group’s financial statements, as the Group is not involved in mining activity.

#### **Standards issued but not yet effective**

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

**Amendments to IAS 19 Employee Benefits** (effective for financial years beginning on or after 1 July 2014, once endorsed by the EU)

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

**Amendment to IAS 27 Separate Financial Statements** (effective for financial years beginning on or after 1 January 2014)

As a result of the new standards IFRS 10, IFRS 11 and IFRS 12 this standard was amended to contain accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. IAS 27 Separate Financial Statements requires an entity preparing separate financial statements to account for those investments at cost or in accordance with IFRS 9 Financial Instruments. The implementation of this amendment will not have any impact on the financial statements of the Group.

**Amendment to IAS 28 Investments in Associates and Joint Ventures** (effective for financial years beginning on or after 1 January 2014)

As a result of the new standards IFRS 10, IFRS 11 and IFRS 12 this standard was renamed and addresses the application of the equity method to investments in joint ventures in addition to associates. The implementation of this amendment will not have any impact on the financial statements of the Group.

**Amendment to IAS 32 Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities** (effective for financial years beginning on or after 1 January 2014)

This amendment clarifies the meaning of “currently has a legally enforceable right to set-off” and also clarifies the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The implementation of this amendment will not have any impact on the financial statements of the Group.

**Amendment to IAS 36 Impairment of Assets** (effective for financial years beginning on or after 1 January 2014)

This amendment adds a few additional disclosure requirements about the fair value measurement when the recoverable amount is based on fair value less costs of disposal and removes an unintended consequence of IFRS 13 to IAS 36 disclosures. The amendment will not have any impact on the financial position or performance of the Group, however may result in additional disclosures.

**Amendment to IAS 39 *Financial Instruments: Recognition and Measurement*** (effective for financial years beginning on or after 1 January 2014)

The amendment provides relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The amendment will not have any impact on the financial position or performance of the Group, since it does not apply hedge accounting.

**IFRS 9 *Financial Instruments*** (effective for financial years beginning on or after 1 January 2015, once endorsed by the EU)

IFRS 9 will eventually replace IAS 39. The IASB has issued the first three parts of the standard, establishing a new classification and measurement framework for financial assets, requirements on the accounting for financial liabilities and hedge accounting. The Group has not yet evaluated the impact of the implementation of this standard as the standard has not yet completed.

**IFRS 10 *Consolidated Financial Statements*** (effective for financial years beginning on or after 1 January 2014)

IFRS 10 establishes a single control model that applies to all entities, including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled and, therefore, are required to be consolidated by a parent. Examples of areas of significant judgment include evaluating de facto control, potential voting rights or whether a decision maker is acting as a principal or agent. IFRS 10 replaces the part of IAS 27 Consolidated and Separate Financial Statements related to consolidated financial statements and replaces SIC 12 Consolidation — Special Purpose Entities. The implementation of this amendment will not have any impact on the financial statements of the Group, however may result in additional disclosures.

**IFRS 11 *Joint Arrangements*** (effective for financial years beginning on or after 1 January 2014)

IFRS 11 eliminates proportionate consolidation of jointly controlled entities. Under IFRS 11, jointly controlled entities, if classified as joint ventures (a newly defined term), must be accounted for using the equity method. Additionally, jointly controlled assets and operations are joint operations under IFRS 11, and the accounting for those arrangements will generally be consistent with today's accounting. That is, the entity will continue to recognize its relative share of assets, liabilities, revenues and expenses. The implementation of this amendment will not have any impact on the financial statements of the Group, since it does not have joint arrangements.

**IFRS 12 *Disclosures of Interests in Other Entities*** (effective for financial years beginning on or after 1 January 2014)

IFRS 12 combines the disclosure requirements for an entity's interests in subsidiaries, joint arrangements, investments in associates and structured entities into one comprehensive disclosure standard. A number of new disclosures also will be required such as disclosing the judgments made to determine control over another entity. The implementation of this amendment will not have any impact on the financial statements of the Group, however may result in additional disclosures.

**Amendments to IFRS 10, IFRS 12 and IAS 27 - *Investment Entities*** (effective for financial years beginning on or after 1 January 2014)

The amendments apply to entities that qualify as investment entities. The amendments provide an exception to the consolidation requirements of IFRS 10 by requiring investment entities to measure their subsidiaries at fair value through profit or loss, rather than consolidate them. The implementation of this amendment will not have any impact on the financial statements of the Group, as the parent of the Group is not an investment entity.

#### **Improvements to IFRSs**

Effective for financial years beginning on or after 1 January 2013:

In May 2012 IASB issued omnibus of necessary, but non-urgent amendments to its five standards:

- IFRS 1 *First-time adoption of IFRS*;
- IAS 1 *Presentation of Financial Statements*;

- IAS 16 *Property, Plant and Equipment*;
- IAS 32 *Financial instruments: Presentation*;
- IAS 34 *Interim Financial Reporting*.

Effective for financial years beginning on or after 1 July 2014, once endorsed by the EU:

In December 2013 IASB issued omnibus of necessary, but non-urgent amendments to the following standards:

- IFRS 1 *First-time adoption of IFRS*;
- IFRS 2 *Share-based Payment*;
- IFRS 3 *Business Combinations*;
- IFRS 8 *Operating Segments*;
- IFRS 13 *Fair value Measurement*;
- IAS 16 *Property, Plant and Equipment*;
- IAS 24 *Related Party Disclosures*;
- IAS 38 *Intangible Assets*;
- IAS 40 *Investment property*.

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

**IFRIC Interpretation 21 Levies** (effective for financial years beginning on or after 1 January 2014, once endorsed by the EU)

This interpretation addresses the accounting for levies imposed by governments. Liability to pay a levy is recognized in the financial statements when the activity that triggers the payment of the levy occurs. The Group has not yet evaluated the impact of the implementation of this interpretation.

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

### ***Basis of preparation***

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union. The financial statements are prepared under the historical cost convention, except for available-for-sale financial assets, trading securities and all derivative contracts, which have been measured at fair value.

The preparation of financial statements in conformity with IFRS 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 Management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

### ***Functional and Presentation Currency***

The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The functional currency of the Company and its Latvian subsidiaries, and the Group's presentation currency, is the national currency of the Republic of Latvia, Latvian lats (LVL). The accompanying financial statements are presented in thousands of Lats (LVL 000's).

### ***Basis of Consolidation***

As at 31 December 2013 and 2012, the Company had a number of investments in subsidiaries, in which the Company held directly and indirectly more than 50% of the shares and voting rights, and accordingly, had the ability to exercise control. The investments in the subsidiaries are presented in the Company's financial statements at acquisition cost less impairment provision if any. More detailed information on the group's subsidiaries is presented in Note 13.

The financial statements of AS Reverta and its subsidiaries are consolidated in the Group's financial statements on a line by line basis by adding together like items of assets and liabilities as well as income and expenses. For the purposes of consolidation, intra-group balances and intra-group transactions, including interest income and expense as well as unrealised profit and loss resulting from intra-group transactions, are eliminated in the Group's financial statements. However, intra-group losses may indicate an impairment that requires recognition in the Group's financial statements. When the Group ceases to have control or significant

influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss.

### ***Use of estimates in the preparation of financial statements***

The preparation of financial statements in conformity with International Financial Reporting Standards as adopted by EU, requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies. The management has applied reasonable estimates and judgments in preparing these financial statements. The significant areas of estimation used in the preparation of the accompanying financial statements relate to evaluation of impairment for financial assets losses, determining fair values of the financial assets and liabilities and estimating future periods' taxable profit.

### ***Critical accounting estimates***

#### *Impairment of loans*

The Group regularly reviews its loans and receivables to assess impairment. The estimation of potential impairment losses is inherently uncertain and dependent upon many factors. On an on-going basis potential issues are identified promptly as a result of individual loans being regularly monitored. Impairment losses are calculated on an individual basis with reference to expected future cash flows including those arising from the realisation of collateral. The Group uses its experienced judgement to estimate the amount of any impairment loss considering matters such as future economic conditions and the resulting trading performance of the borrower and the value of collateral, for which there may not be a readily accessible market. As a result, the impairment losses can be subject to significant variation as time progresses and the circumstances become clearer. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

In addition, the Group estimates collective impairment losses to cover losses inherent in the loan portfolio where there is objective evidence to suggest that it contains impaired loans, although the individual impaired loans cannot yet be identified. The collective impairment losses take account of observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans and receivables with similar credit risk characteristics, although the decrease cannot yet be identified with the individual loans in the portfolio.

Future cash flows in a portfolio of loans and receivables that are collectively evaluated for impairment are estimated on the basis of historical loss experience for loans and receivables with credit risk characteristics similar to those in the portfolio. Historical loss experience is adjusted for current observable market data using the Group's experienced judgement to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

The future credit quality of the loan portfolio for which the collective impairment losses are estimated is subject to uncertainties that could cause actual credit losses to differ materially from reported impairment losses. These uncertainties include factors such as international and local economic conditions, borrower specific factors, industry and market trends, interest rates, unemployment rates and other external factors. 5% increase in collateral realisation values would result in LVL 9 million (2012: LVL 13 million) decrease in the Company's specific impairment level, whereas 5% decrease in the respective values would result in LVL 9 million (2012: LVL 13 million) increase in the Company's specific impairment level.

#### *Investment properties*

The market value of the investment properties that have been acquired by the Group before the reporting period is measured based on the reports prepared by independent valuers with vocational qualification certificates and experience in valuing of properties of similar placement and category, or on the real estate valuation methodology used within the Group. The expenses that arise after the acquisition of the assets are capitalised only if there is a big probability of future economic benefit to the Group and if the expenses can be measured reliably. Maintenance and repair expenses are included in the income statement at the moment they arise.

Assumptions about potential change of the real estate value over years are not used for accounting purposes. The true value of the investment properties is showed in the balance sheet. The assumptions are used when making the NPV calculations, in order to

establish the optimum sales period and the optimum price of the properties. These assumptions/principles for calculation are defined once a year by the Head of Real Estate Management Department and approved by the Management Board of Reverta. Regardless of the NPV figure, the starting sales price of a real estate object is fixed in the amount that is not less than the market value established by the independent valuers.

#### Deferred tax asset

As a result of transfer of undertaking, most of the performing assets have been transferred to AS Citadele banka, and in 2013 the management's forecasts indicate that the Company will not be able to generate taxable profits in foreseeable future and therefore deferred tax asset is not recognised.

#### **Income and Expense Recognition**

Interest income and expense items are recognised on an accruals basis using the effective interest rate, after adjustment for recoverability.

Fees earned by the Group that are not part of EIR are recognised immediately in profit or loss as fee income.

#### **Foreign Currency Translation**

Transactions denominated in foreign currencies are recorded in Lats at actual rates of exchange effective at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency, such as investments in equity instruments, are translated using the exchange rates at the date, when the fair value was determined. Monetary assets and liabilities denominated in foreign currencies are translated into Lats at the official rate of exchange prevailing at the end of the year. Any gain or loss resulting from a change in rates of exchange subsequent to the date of the transaction is included in the statement of income as a profit or loss from revaluation of foreign currency positions.

The results and financial position of all the Group's entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions).

#### **Taxation**

For the year ended 31 December 2013 corporate income tax is applied at the rate of 15% (2012: 15%) on taxable income generated by the Company for the taxation period.

Deferred corporate income tax arising from temporary differences in the timing of the recognition of items in the tax returns and these financial statements is assessed using the balance sheet liability method. The deferred corporate income tax is determined based on the tax rates that are expected to apply when the temporary differences reverse based on tax rates enacted or substantively enacted by the balance sheet date. The principal temporary differences arise from tax losses carried forward, differing rates of accounting and tax depreciation on the fixed assets, revaluation of securities, as well as the treatment of collective impairment allowances and vacation pay reserve.

The deferred corporate income tax asset is recognised only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

#### **Financial instruments**

The Group recognises financial asset on its balance sheet when, and only when, the Group becomes a party to the contractual provisions of the instrument. The Group carries all financial liabilities at amortised cost.

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and



receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. At initial recognition, the financial assets are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable incremental transaction costs. The classification of investments between the categories is determined at acquisition based on the guidelines established by the Management.

#### Available for sale financial assets

Available for sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, loans and receivables or held to maturity financial assets. The Group's available for sale financial assets are intended to be held for an undefined period of time and may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Available for sale financial assets are subsequently re-measured at fair value based on available market prices or quotes of brokers. The result of fair value revaluation of available for sale securities is recognised in other comprehensive income statement. The difference between the initial carrying amount and amortised cost determined by the effective interest rate method is treated as interest income. Dividends on available-for-sale equity instruments are recognised in the income statement. When the securities are disposed of, the related accumulated fair value revaluation is included in the statement of income as profit/ (loss) from sale of securities available for sale.

If an available-for-sale financial asset is determined to be impaired, the cumulative gain or loss previously recognised in the statement of comprehensive income is recognised in the income statement. However, interest is calculated using the effective interest method, and foreign currency gains and losses on monetary assets classified as available for sale are recognised in the income statement.

#### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Loans and receivables are recognised on drawdown. From the date of signing a contractual agreement till drawdown they are accounted for as loan commitments off balance sheet.

When the loans or receivables cannot be recovered, they are written-off and charged against impairment for credit losses. The management of the Group makes the decision on writing-off loans. Recoveries of loans previously written-off are credited to the statement of income.

Included in the category of "loans and receivables" are such financial instruments: a) cash and deposits with central banks, b) balances due from credit institutions and c) loans and receivables from customers.

#### Issued debt, subordinated debt and other borrowed funds

The Group recognises financial liabilities on its balance on drawdown. After initial measurement, being fair value plus directly attributable transaction costs, debt issued, subordinated debt and borrowings are measured at amortised cost and any difference between net proceeds and value at redemption is recognised in the statement of income over the period of borrowings using the effective interest rate.

### ***Derecognition of Financial Assets and Liabilities***

#### Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- the Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

### Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

### ***Impairment of loans and receivables***

The Management of the Group assess at each balance sheet date whether there is objective evidence that a loan or portfolio of loans and receivables to customers is impaired. A loan or portfolio of loans and receivables to customers is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the loan and that loss event (or events) has had an impact such that the estimated present value of future cash flows is less than the current carrying value of the loan or portfolio of loans and receivables to customers, and can be reliably estimated.

Objective evidence that a loan or portfolio of loans and receivables to customers is potentially impaired includes the following observable data that comes to the attention of the Group:

- significant financial difficulty of the borrower;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the granting to the borrower of a concession, for economic or legal reasons relating to the borrower's financial difficulty, that the Group would not otherwise consider;
- it becoming probable that the insolvency process may be initiated against the borrower, or the borrower will enter other financial reorganisation;
- the worsening of economic conditions in the market segment, where the borrower operates; or
- observable data indicating the there is a measurable decrease in the estimated future cash flows from a portfolio of loans and receivables to customers since the initial recognition of those of loans and receivables, although the decrease cannot yet be identified with the individual loans in the portfolio, including:
  - adverse changes in the payment status of borrowers in the portfolio; or
  - national or local economic conditions that correlate with defaults on the loans and receivables in the portfolio.

The Group first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed loan, whether significant or not, it includes that loan in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Collectively assessed impairment losses represent an interim step pending the identification of impairment losses on individual loans in a group of loans and receivables. As soon as information is available that specifically identifies losses on individually impaired loans in a group, those loans are removed from the group. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

For loans and receivables, the amount of impairment loss is measured as the difference between the loan's carrying amount and the present value of estimated future cash flows discounted at the loan's original effective interest rate. If a loan has a variable

interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The calculation of the present value of the estimated future cash flows of a collateralised loan reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. The amount of the loss is recognised in the statement of income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was initially recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of the impairment loss is recognised in the statement of income, to the extent that the carrying value of the loan does not exceed what its amortised cost would have been absent the impairment at the reversal date.

When a borrower fails to make a contractually due payment of interest or principal, but the Group believes that impairment is not appropriate on the basis of the level of security/ collateral available and/ or the stage of collections of amounts owed to the Group, the carrying amount of the loan is classified as past due but not impaired.

When loans and receivables cannot be recovered, they are written off and charged against impairment allowance. They are not written off until the necessary legal procedures have been completed and the amount of the loss is finally determined. Subsequent recoveries of amounts previously written off are reported in the statement of income as other operating income.

### **Intangible Assets**

Intangible assets comprise software and licenses. The cost of intangible assets is their fair value as at the date of acquisition. Subsequent the initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment loss.

Leasehold rights are amortised over the remaining lease contract on a straight-line basis. Annual amortisation rates applied on a straight-line basis to software and other intangible assets range from 7% to 50%. All intangible assets are with definite lives.

### **Fixed Assets**

Fixed assets are recorded at historical cost less accumulated depreciation less any impairment losses. Fixed assets are periodically reviewed for impairment. If the recoverable value of a fixed asset is lower than its carrying amount, the respective asset is written down to its recoverable amount.

Depreciation is calculated using the straight-line method based on the estimated useful life of the asset. The following depreciation rates have been applied:

<u>Category</u>	<u>Annual depreciation rate</u>
Transport vehicles	20%
Other fixed assets	20% - 33%

Certain reconstruction and renovation costs of buildings, which improve their quality and performance, are capitalised and amortised over the estimated useful life on a straight-line basis.

Maintenance and repair costs are charged to the statement of income as incurred.

### **Investment properties**

Investment property is property held by the Group to earn rental income or for capital appreciation, or both and which is not occupied by the Group.

Investment property is initially recognised at cost, including transaction costs, and subsequently remeasured at fair value and are not subject to amortization. The market value of the investment properties is measured based on the reports prepared by independent valuers with vocational qualification certificates and experience in valuing of properties of similar placement and category, or on the real estate valuation methodology used within the Group.

Subsequent expenditure is capitalised only when it is probable that future economic benefits associated with it will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred.

### **Off-balance Sheet Financial Commitments and Contingent Liabilities**

In the ordinary course of business, the Group is involved with off-balance sheet financial commitments and contingent liabilities comprising commitments to extend loans and receivables to customers, commitments for unutilised credit lines or credit card limits, financial guarantees and commercial letters of credit.

Such financial instruments are recorded in the financial statements as follows:

- commitment to extend loans and advances, credit card and overdraft facilities are recognized on drawdown; and
- financial guarantees are recognized when the related fee received as consideration is recognized.

Commitments to extend loans and receivables and commitments for unutilised credit lines or credit card limits represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiration dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

On initial recognition financial guarantee contracts are measured at fair value. Subsequently, they are carried at the higher of the amount initially recognised less cumulative amortisation over the life of the guarantee and the amount determined in accordance with the accounting policy for provisions when enforcement of the guarantee has become probable.

The methodology for provisioning against incurred losses arising from off-balance sheet financial commitments and contingent liabilities is consistent with loans and receivables.

### **Fair Values**

The Group measures financial instruments, such as, derivatives, and non-financial assets such as investment properties, at fair value at each balance sheet date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

### ***Cash and Cash Equivalents***

For the purpose of presentation in the statement of cash flows, cash and cash equivalents are defined as the amounts comprising cash and demand deposits with central banks and other credit institutions with an insignificant risk of changes in value and a remaining maturity of not more 3 months from the date of acquisition, less demand deposits due to credit institutions.

### ***Offsetting***

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a currently enforceable legal right to set off the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

### ***Staff costs and related contributions***

The Group and the Company pays social security contributions to state pension insurance and to the state funded pension scheme in accordance with Latvian and relevant foreign regulations. State funded pension scheme is a defined contribution plan under which the Group and the Company pay fixed contributions determined by law and will have no legal or constructive obligation 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 accrued in the year in which the associated services are rendered by the employees of the group.

### ***Segment reporting***

Operating segments are reported in a manner consistent with the internal reporting 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 Company has determined the Management Board of the Company as its chief operating decision maker.

### ***Events after the balance sheet date***

Post-year-end events that provide additional information about the Company's position at the balance sheet date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes if material.

## NOTE 3. INTEREST INCOME AND EXPENSE

	LVL 000's			
	2013 Group	2012 Group	2013 Company	2012 Company
Interest income:				
- interest on financial assets measured at amortised cost:	5,720	7,231	5,731	7,378
- <i>interest on loans and receivables to customers</i>	5,713	6,991	5,724	7,138
- <i>interest on balances due from credit institutions and central banks</i>	7	48	7	48
- <i>interest on held-to-maturity securities</i>	-	192	-	192
- interest on available-for-sale securities	-	138	-	138
<b>Total interest income</b>	<b>5,720</b>	<b>7,369</b>	<b>5,731</b>	<b>7,516</b>
Interest expense:				
- interest on financial liabilities measured at amortised cost:	(20,363)	(26,344)	(20,363)	(26,344)
- <i>interest on deposits from customers</i>	-	(117)	-	(117)
- <i>interest on issued debt securities</i>	(17,074)	(22,706)	(17,074)	(22,706)
- <i>interest on subordinated liabilities</i>	(3,289)	(3,521)	(3,289)	(3,521)
<b>Total interest expense</b>	<b>(20,363)</b>	<b>(26,344)</b>	<b>(20,363)</b>	<b>(26,344)</b>
<b>Net interest expense</b>	<b>(14,643)</b>	<b>(18,975)</b>	<b>(14,632)</b>	<b>(18,828)</b>

## NOTE 4. GAIN / (LOSS) ON TRANSACTIONS WITH FINANCIAL INSTRUMENTS, NET

	LVL 000's			
	2013 Group	2012 Group	2013 Company	2012 Company
Loss on trading and revaluation of securities held for trading purposes, net	(3)	(21)	(3)	(21)
Loss from disposal of available for sale securities, net	-	(32)	-	(32)
Gain / (loss) from revaluation of open positions and financial instruments at fair value through profit or loss, net	(1,076)	1,867	(1,025)	1,743
<b>Gain / (loss) on transactions with financial instruments, net</b>	<b>(1,079)</b>	<b>1,814</b>	<b>(1,028)</b>	<b>1,690</b>

## NOTE 5. OTHER OPERATING INCOME

	LVL 000's			
	2013 Group	2012 Group	2013 Company	2012 Company
Income from subsidiary management	-	-	937	504
Income from Service Level agreements	131	251	131	251
Other income / (expense)	(59)	110	11	167
<b>Total other operating income</b>	<b>72</b>	<b>361</b>	<b>1,079</b>	<b>922</b>

## NOTE 6. REAL ESTATE SEGMENT INCOME AND EXPENSE

	LVL 000's			
	2013 Group	2012 Group	2013 Company	2012 Company
Real estate segment income:				
- Income from sale	25,420	9,635	1,316	3,005
- Brokerage	(173)	(48)	-	(4)
- Cost write-off	(22,238)	(8,763)	(1,262)	(2,731)
- Rental income	513	488	30	92
<b>Total real estate segment income</b>	<b>3,522</b>	<b>1,312</b>	<b>84</b>	<b>362</b>
Real estate segment expense:				
- Utilities costs	(326)	(256)	(20)	(29)
- Maintenance	(337)	(166)	(16)	(24)
- Repair	(166)	(117)	(10)	(5)
- Insurance	(31)	(26)	(2)	(6)
- Security	(61)	(87)	(4)	(24)
- Real estate tax	(343)	(246)	(38)	(81)
- Other expenses related to investment property	-	(196)	-	(21)
- Valuation services	(47)	(33)	(21)	(8)
<b>Total real estate segment expense</b>	<b>(1,311)</b>	<b>(1,127)</b>	<b>(111)</b>	<b>(198)</b>
<b>Revaluation of real estate, net (see Note 14)</b>	<b>(560)</b>	<b>4,290</b>	<b>279</b>	<b>4,042</b>
<b>Net result of RE segment</b>	<b>1,651</b>	<b>4,475</b>	<b>252</b>	<b>4,206</b>

## NOTE 7. ADMINISTRATIVE EXPENSE

	LVL 000's			
	2013 Group	2012 Group	2013 Company	2012 Company
Personnel expense	4,004	4,541	3,713	4,151
Professional fees	1,607	2,859	1,721	3,002
Rent, utilities, maintenance	534	588	486	528
IT expenses and communications	174	152	168	142
Communication and marketing	167	26	167	26
Travel and transport	119	160	117	152
Insurance	116	110	116	110
Security	24	26	23	26
Other administrative expense	103	284	83	263
Taxes	-	14	-	1
Non-refundable VAT	325	530	325	471
FCCM financing expenses	-	29	-	29
Financial stability fee	-	54	-	54
<b>Total administrative expense</b>	<b>7,173</b>	<b>9,373</b>	<b>6,919</b>	<b>8,955</b>

## NOTE 8. PERSONNEL EXPENSE

Personnel expense has been presented in these financial statements within administrative expense. Personnel expense includes remuneration for work to the personnel and related social security contributions.

	LVL 000's			
	2013 Group	2012 Group	2013 Company	2012 Company
Remuneration				
- management	557	707	557	669
- other personnel	2,690	2,957	2,454	2,692
<b>Total remuneration for work</b>	<b>3,247</b>	<b>3,664</b>	<b>3,011</b>	<b>3,361</b>
Social security contributions:				
- management	134	151	134	146
- other personnel	623	726	568	644
<b>Total social security contributions</b>	<b>757</b>	<b>877</b>	<b>702</b>	<b>790</b>
<b>Total personnel expense</b>	<b>4,004</b>	<b>4,541</b>	<b>3,713</b>	<b>4,151</b>
Average number of personnel during the year	131	151	121	131



## NOTE 9. CHANGES IN IMPAIRMENT ALLOWANCES AND WRITE OFFS

An analysis of the change in allowances for impairment of loans and receivables and provisions for off-balance sheet commitments is presented as follows:

	LVL 000's			
	2013 Group	2012 Group	2013 Company	2012 Company
<b>Total allowance for impairment at the beginning of the year, including:</b>	<b>341,439</b>	<b>276,730</b>	<b>344,241</b>	<b>290,108</b>
- loans - specifically assessed impairment	320,616	250,283	323,418	263,661
- loans - collectively assessed impairment	20,823	26,447	20,823	26,447
<b>Charge:</b>	<b>73,413</b>	<b>92,904</b>	<b>74,795</b>	<b>91,428</b>
- loans - specifically assessed impairment	61,839	92,904	63,221	91,428
- loans - collectively assessed impairment	11,574	-	11,574	-
<b>Release:</b>	<b>(7,584)</b>	<b>(19,747)</b>	<b>(7,584)</b>	<b>(20,939)</b>
- loans - specifically assessed impairment	(7,584)	(17,437)	(7,584)	(18,621)
- loans - collectively assessed impairment	-	(2,310)	-	(2,318)
<b>Provision charged to the statement of income, net, including:</b>	<b>65,829</b>	<b>73,157</b>	<b>67,211</b>	<b>70,489</b>
- loans - specifically assessed impairment	54,255	75,467	55,637	72,807
- loans - collectively assessed impairment	11,574	(2,310)	11,574	(2,318)
<b>Transfer:</b>	-	-	-	-
- Impairment from collectively to specifically assessed impairment	-	3,306	-	3,306
- Impairment from collectively to specifically assessed impairment	-	(3,306)	-	(3,306)
<b>Change of allowance due to write-offs, net</b>	-	<b>(7,554)</b>	-	<b>(15,756)</b>
<b>Effect of changes in currency exchange rates:</b>	<b>(1,313)</b>	<b>(894)</b>	<b>(1,336)</b>	<b>(600)</b>
- loans - specifically assessed impairment	(1,313)	(894)	(1,336)	(600)
<b>Total allowance for impairment at the end of the year, including:</b>	<b>405,955</b>	<b>341,439</b>	<b>410,116</b>	<b>344,241</b>
- loans - specifically assessed impairment	373,558	320,616	377,719	323,418
- loans - collectively assessed impairment	32,397	20,823	32,397	20,823

The following table provides details on changes in the Group's specific loan portfolio impairment by classes:  
LVL 000's

	Regular loans	Utilised credit lines	Other	Total
<b>Outstanding specific impairment as at 31/12/2012</b>	<b>308,426</b>	<b>7,342</b>	<b>4,848</b>	<b>320,616</b>
Impairment charge for the reported period - specific	60,699	1,105	35	61,839
Release of previously established impairment allowance - specific	(7,274)	(209)	(101)	(7,584)
<b>Impairment charged to the statement of income, net</b>	<b>53,425</b>	<b>896</b>	<b>(66)</b>	<b>54,255</b>
Transfer from collectively to specially assessed impairment	-	-	-	-
Increase in impairment allowance due to currency fluctuations	(1,305)	(6)	(2)	(1,313)
<b>Outstanding specific impairment as at 31/12/2013</b>	<b>360,546</b>	<b>8,232</b>	<b>4,780</b>	<b>373,558</b>

The following table provides details on changes in the Company's specific loan portfolio impairment by classes:  
LVL 000's

	Regular loans	Utilised credit lines	Other	Total
<b>Outstanding specific impairment as at 31/12/2012</b>	<b>309,209</b>	<b>9,361</b>	<b>4,848</b>	<b>323,418</b>
Impairment charge for the reported period - specific	61,428	1,758	35	63,221
Release of previously established impairment allowance - specific	(7,274)	(209)	(101)	(7,584)
<b>Impairment charged to the statement of income, net</b>	<b>54,154</b>	<b>1,549</b>	<b>(66)</b>	<b>55,637</b>
Transfer from collectively to specially assessed impairment	-	-	-	-
Increase in impairment allowance due to currency fluctuations	(1,328)	(6)	(2)	(1,336)
<b>Outstanding specific impairment as at 31/12/2013</b>	<b>362,035</b>	<b>10,904</b>	<b>4,780</b>	<b>377,719</b>

An analysis of the change in impairment of other assets is presented as follows:

	LVL 000's			
	2013 Group	2012 Group	2013 Company	2012 Company
<b>Total allowance for impairment at the beginning of the year, including:</b>	<b>4,284</b>	<b>19,222</b>	<b>4,219</b>	<b>3,792</b>
- other financial and non-financial assets	4,284	19,222	4,219	3,792
<b>Charge:</b>	<b>220</b>	<b>2,865</b>	<b>6,090</b>	<b>2,818</b>
- available-for-sale securities	-	1,673	-	1,673
- other financial and non-financial assets	220	1,192	220	1,145
- investments in subsidiaries	-	-	5,870	-
<b>Release:</b>	<b>(683)</b>	<b>(4,994)</b>	<b>(683)</b>	<b>(842)</b>
- available-for-sale securities	-	(196)	-	(196)
- other financial and non-financial assets	(683)	(4,798)	(683)	(646)
<b>Provision charged to the statement of income, net, including:</b>	<b>(463)</b>	<b>(2,129)</b>	<b>5,407</b>	<b>1,976</b>
- available-for-sale securities	-	1,477	-	1,477
- other financial and non-financial assets	(463)	(3,606)	(463)	499
- investments in subsidiaries	-	-	5,870	-
<b>Change of allowance due to write-offs, net:</b>	<b>(482)</b>	<b>(12,809)</b>	<b>(417)</b>	<b>(1,553)</b>
- available-for-sale securities (write-off)	-	(1,477)	-	(1,477)
- other financial and non-financial assets	(482)	(11,332)	(417)	(76)
<b>Transfer:</b>	-	-	-	-
<b>Effect of changes in currency exchange rates:</b>	<b>(6)</b>	<b>-</b>	<b>(6)</b>	<b>4</b>
- other financial and non-financial assets	(6)	-	(6)	4
<b>Total allowance for impairment at the end of the year, including:</b>	<b>3,333</b>	<b>4,284</b>	<b>9,203</b>	<b>4,219</b>
- other financial and non-financial assets	3,333	4,284	3,333	4,219
- investments in subsidiaries	-	-	5,870	-

Summarised impairment of assets as shown in Statement of Comprehensive Income can be specified as follows:

	LVL 000's			
	2013 Group	2012 Group	2013 Company	2012 Company
Provision charged to the statement of income, net (loans):	(65,829)	(73,157)	(67,211)	(70,489)
Provision charged to the statement of income, net (other financial and non-financial assets)	463	2,129	(5,407)	(1,976)
Loss from asset write-offs	(1,630)	(2,594)	(1,630)	(2,545)
<b>Total Impairment of assets, net</b>	<b>(66,996)</b>	<b>(73,622)</b>	<b>(74,248)</b>	<b>(75,010)</b>

## NOTE 10. TAXATION

Corporate income tax expense comprises the following items:

	LVL 000's			
	2013 Group	2012 Group	2013 Company	2012 Company
Tax withheld abroad	176	346	174	315
<b>Total corporate income tax expense</b>	<b>176</b>	<b>346</b>	<b>174</b>	<b>315</b>

The reconciliation of the Company's and the Group's pre-tax loss for the year to the corporate income tax expense for the year may be specified as follows:

	LVL 000's			
	2013 Group	2012 Group	2013 Company	2012 Company
Loss before corporate income tax	(88,403)	(95,777)	(95,722)	(96,478)
<b>Corporate income tax (at standard rate)*</b>	<b>(13,260)</b>	<b>(14,367)</b>	<b>(14,358)</b>	<b>(14,472)</b>
Permanent differences, net	3,671	3,050	4,542	3,012
Unrecognised deferred tax assets	9,765	11,663	9,990	11,775
<b>Total effective corporate income tax</b>	<b>176</b>	<b>346</b>	<b>174</b>	<b>315</b>

\* standard rate for the year ended 31 December 2013 was 15% (2012: 15%).

Deferred corporate income tax assets and liabilities can be specified as follows:

	LVL 000's			
	2013 Group	2012 Group	2013 Company	2012 Company
<i>Deferred tax assets:</i>				
Vacation pay accrual	(28)	(36)	(28)	(36)
Non-taxable impairment allowance	-	(5,692)	-	(5,692)
Unutilised tax losses	(37,180)	(41,245)	(36,916)	(41,206)
<b>Net deferred corporate income tax (asset)</b>	<b>(37,208)</b>	<b>(46,973)</b>	<b>(36,944)</b>	<b>(46,934)</b>
Unrecognised deferred tax asset**	37,208	46,973	36,944	46,934
<b>Recognised deferred corporate income tax (asset)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

\*\* the Group does not recognise deferred tax asset in accordance with the policy described in Note 2. There is no expiry term for tax losses carried forward.

The movements in tax accounts of the Company during 2013 can be specified as follows:

	LVL 000's			
	Balance as at 31/12/2012	Calculated in 2013	Paid in 2013	Balance as at 31/12/2013
Corporate income tax	-	(174)	174	-
<i>including corporate income tax withheld abroad</i>	-	(174)	174	-
Social security contributions	7	(1,050)	1,049	6
Personal income tax	12	(842)	842	12
Value added tax	139	(372)	286	53
Real estate tax	-	(38)	38	-
<b>Total tax (payable)/ receivable</b>	<b>158</b>	<b>(2,476)</b>	<b>(2,389)</b>	<b>71</b>

## NOTE 11. BALANCES DUE FROM CREDIT INSTITUTIONS

	LVL 000's			
	31/12/2013 Group	31/12/2012 Group	31/12/2013 Company	31/12/2012 Company
Due from credit institutions registered in Latvia	14,710	4,339	9,740	3,820
Due from credit institutions registered outside Latvia	390	102	209	88
<b>Total balances due from credit institutions</b>	<b>15,100</b>	<b>4,441</b>	<b>9,949</b>	<b>3,908</b>

As at 31 December 2013 and 2012, none of the amounts due from credit institutions were past due.

## NOTE 12. LOANS AND RECEIVABLES

The following table represents the current classes of the Group's loans:

	Group, LVL 000's					
	31/12/2013			31/12/2012		
	Balance sheet amount	Off-balance sheet credit exposure	Total gross credit exposure	Balance sheet amount	Off-balance sheet credit exposure	Total credit exposure
Regular loans	555,997	-	555,997	596,412	-	596,412
Credit lines	14,160	145	14,305	17,537	-	17,537
Other	5,768	-	5,768	5,997	-	5,997
<b>Total loans and receivables to customers</b>	<b>575,925</b>	<b>145</b>	<b>576,070</b>	<b>619,946</b>	<b>-</b>	<b>619,946</b>
Impairment allowance	(405,955)	-	(405,955)	(341,439)	-	(341,439)
<b>Total net loans and receivables to customers</b>	<b>169,970</b>	<b>145</b>	<b>170,115</b>	<b>278,507</b>	<b>-</b>	<b>278,507</b>

Off-balance sheet credit exposure comprises various committed financing facilities to the borrowers.

The following table represents the current classes of the Company's loans:

	Company, LVL 000's					
	31/12/2013			31/12/2012		
	Balance sheet amount	Off-balance sheet credit exposure	Total gross credit exposure	Balance sheet amount	Off-balance sheet credit exposure	Total credit exposure
Regular loans	557,488	-	557,488	599,280	-	599,280
Credit lines	40,923	27,788	68,711	53,771	16,916	70,687
Other	5,768	-	5,768	5,997	-	5,997
<b>Total loans and receivables to customers</b>	<b>604,179</b>	<b>27,788</b>	<b>631,967</b>	<b>659,048</b>	<b>16,916</b>	<b>675,964</b>
Impairment allowance	(410,116)	-	(410,116)	(344,241)	-	(344,241)
<b>Total net loans and receivables to customers</b>	<b>194,063</b>	<b>27,788</b>	<b>221,851</b>	<b>314,807</b>	<b>16,916</b>	<b>331,723</b>

Loans and advances by customer profile may be specified as follows:

	LVL 000's			
	31/12/2013 Group	31/12/2012 Group	31/12/2013 Company	31/12/2012 Company
Privately held companies	402,973	428,990	431,227	468,092
Private individuals	172,952	190,956	172,952	190,956
<b>Total gross loans and receivables to customers</b>	<b>575,925</b>	<b>619,946</b>	<b>604,179</b>	<b>659,048</b>
Impairment allowance	(405,955)	(341,439)	(410,116)	(344,241)
<b>Total net loans and receivables to customers</b>	<b>169,970</b>	<b>278,507</b>	<b>194,063</b>	<b>314,807</b>

The borrowers' industry analysis of the gross portfolio of loans and receivables to corporate customers before impairment allowance may be specified as follows:

	LVL 000's			
	31/12/2013 Group	31/12/2012 Group	31/12/2013 Company	31/12/2012 Company
Real estate purchase and management	250,061	264,928	276,823	302,494
Electricity, gas and water supply	54,660	55,702	54,660	55,702
Trade	23,706	27,146	23,706	27,146
Manufacturing	28,293	34,305	28,293	34,305
Transport and communications	30,196	32,938	30,196	32,938
Financial intermediation	15,105	15,864	16,597	17,400
Construction	13,309	14,093	13,309	14,093
Hotels, restaurants	10,014	10,325	10,014	10,325
Other industries	150,581	164,645	150,581	164,645
<b>Total gross loans and receivables to corporate customers</b>	<b>575,925</b>	<b>619,946</b>	<b>604,179</b>	<b>659,048</b>

The following table represents geographical profile of the portfolio of loans and receivables to customers analysed by the place of customers' reported residence:

	LVL 000's			
	31/12/2013 Group	31/12/2012 Group	31/12/2013 Company	31/12/2012 Company
Latvian residents	362,185	384,899	386,743	421,211
OECD region residents	32,208	35,365	32,208	35,365
Non-OECD region residents	181,532	199,682	185,228	202,472
<b>Total gross loans and receivables</b>	<b>575,925</b>	<b>619,946</b>	<b>604,179</b>	<b>659,048</b>
Impairment allowance	(405,955)	(341,439)	(410,116)	(344,241)
<b>Total net loans and receivables</b>	<b>169,970</b>	<b>278,507</b>	<b>194,063</b>	<b>314,807</b>

#### NOTE 13. INVESTMENTS IN SUBSIDIARIES

Changes in the Company's investments in subsidiaries may be specified as follows:

	LVL 000's	
	2013	2012
<b>Balance as at 1 January</b>	<b>25,702</b>	<b>62</b>
Equity investments in the existing subsidiaries	3,198	19,107
Establishment of new subsidiaries	-	6,541
Liquidation	-	(8)
Impairment allowance	(5,870)	-
<b>Balance as at 31 December</b>	<b>23,030</b>	<b>25,702</b>

Impairment allowance on investment in subsidiaries was created in order to recognize and account for potentially non-recoverable part of investments in capital of subsidiaries. The impairment calculations take into account the future cash flows to be received from the subsidiaries and are discounted by a relevant discount rate.

As at 31 December 2013 and 2012, the Company held the following investments in subsidiaries and associates:

Company	Country of registration	Business profile	As at 31/12/2013			As at 31/12/2012			Investment carrying value LVL 000's	
			Share capital in LVL 000's	The		Share capital in LVL 000's	The		31/12/2013	31/12/2012
				Company's share (%)	% of total voting rights		Company's share (%)	% of total voting rights		
OOO Ekspress Lizing**	Russia	Leasing	-	-	-	57	100.0	100.0	-	-
OOO Parex Leasing & Factoring	Georgia	Leasing	24	100.0	100.0	24	100.0	100.0	-	-
Regalite Holdings Limited	Cyprus	Finance	6	100.0	100.0	6	100.0	100.0	-	-
OOO Parex Leasing	Russia	Leasing	-	-	-	113	35.0	35.0	-	-
UAB NIF Lietuva	Lithuania	REM*	1,066	100.0	100.0	1,066	100.0	100.0	888	1,113
OU NIF Eesti	Estonia	REM*	2	100.0	100.0	2	100.0	100.0	1	1
SIA NIF	Latvia	REM*	50	100.0	100.0	50	100.0	100.0	50	50
SIA NIF Dzīvojamie Īpašumi	Latvia	REM*	9,345	100.0	100.0	7,260	100.0	100.0	6,998	7,258
SIA NIF Komerģīpašumi	Latvia	REM*	649	100.0	100.0	277	100.0	100.0	-	275
SIA NIF Zemes Īpašumi	Latvia	REM*	2,558	100.0	100.0	1,816	100.0	100.0	920	1,814
SIA NIF Projekts 1	Latvia	REM*	2	100.0	100.0	2	100.0	100.0	-	-
SIA NIF Projekts 2	Latvia	REM*	2	100.0	100.0	2	100.0	100.0	-	-
SIA NIF Projekts 3	Latvia	REM*	2	100.0	100.0	2	100.0	100.0	-	-
SIA NIF Projekts 4	Latvia	REM*	2	100.0	100.0	2	100.0	100.0	-	-
SIA NIF Projekts 5	Latvia	REM*	8,648	100.0	100.0	8,648	100.0	100.0	7,812	8,648
SIA NIF Projekts 6	Latvia	REM*	2	100.0	100.0	2	100.0	100.0	2	2
SIA NIF Projekts 7	Latvia	REM*	1,390	100.0	100.0	1,390	100.0	100.0	1,390	1,390
SIA NIF Projekts 8	Latvia	REM*	2,250	100.0	100.0	2,250	100.0	100.0	2,068	2,250
SIA NIF Projekts 9	Latvia	REM*	2,900	100.0	100.0	2,900	100.0	100.0	2,900	2,900
Carnella Maritime Corp.	British Virgin Islands	Finance	1	100.0	100.0	1	100.0	100.0	1	1
<b>Total investments in subsidiaries</b>									<b>23,030</b>	<b>25,702</b>

\* REM - real estate management

\*\* the company was liquidated and excluded from the Group Structure on 21 January, 2013.

## NOTE 14. INVESTMENT PROPERTY

Changes in investment property may be specified as follows:

	LVL 000's	
	Group	Company
<b>Balance as at 1 January 2012</b>	<b>40,450</b>	<b>18,586</b>
Additions	25,982	10,951
Disposals	(8,763)	(2,731)
Property improvement	64	-
Investment in subsidiaries share capital	-	(25,265)
Revaluation	4,290	4,042
Reclassification from other assets	1,943	-
<b>Balance as at 31 December 2012</b>	<b>63,966</b>	<b>5,583</b>
Additions	9,680	2,791
Disposals	(22,238)	(1,262)
Property improvement	379	-
Investment in subsidiaries share capital	-	(3,531)
Revaluation	(560)	279
<b>Balance as at 31 December 2013</b>	<b>51,227</b>	<b>3,860</b>

Company and Group real estate portfolio currently comprises more than 800 units, including apartments and private houses of various categories, as well as a wide range of commercial premises in the Baltic countries (office and warehouse facilities, buildings and land).

See Note 6 for operating income and expense of investment property.

Investment properties are divided in following segments:

- commercial premises
- private houses
- land
- apartments
- development projects

Quantitative disclosures fair value measurement hierarchy for Group's assets as at 31 December 2013:

	LVL 000's	
	31/12/2013	31/12/2012
Investment properties :		
commercial premises	14,660	17,872
private houses	12,159	13,559
land	11,899	11,911
apartments	11,166	16,562
development projects	1,343	4,062
	<b>51,227</b>	<b>63,966</b>

Quantitative disclosures fair value measurement hierarchy for Company's assets as at 31 December 2013:

	LVL 000's	
	31/12/2013	31/12/2012
Investment properties :		
commercial premises	-	692
private houses	1,976	1,916
land	1,371	1,703
apartments	513	1,099
development projects	-	173
	<b>3,860</b>	<b>5,583</b>



### Fair value measurement

The Company and the Group measures the Investment properties at their fair value after initial recognition. All properties of the Company and the Group are acquired through open auctions organized by Insolvency Administrators or Bailiffs or as a result of restructuring deals for the market value established by independent valuers, therefore the acquisition value of investment properties is considered to be initial fair value which reflects the market situation at the date of the balance.

Under the effective accounting policy, book value of the investment properties recognized on the accounts of the Company and the Group by December 31, 2012 is adjusted in compliance with the valuations carried out.

Revaluation of real estate objects of the Company and its subsidiaries (Fair value Measurement) is based on RE valuation principles and methods under RE Valuation Methodology.

There are two basic methods of valuation:

- Market comparable method;
- Income capitalization method or discounted cash flow (DCF) method (for commercial object or development projects).

All valuations are carried out in compliance with the market value definition – at the best use of the property. All fair values are classified under Level 3.

### Valuation process

RE Management Department of the Company is in charge of the revaluation process. Revaluation is carried out by RE expert of REMD and the results are authorized by Head of REMD.

Key valuation assumptions of investment properties by segments:

Segment	Valuation method	Assumptions	Range per LVL/m <sup>2</sup> or LVL/ha
<b>Residential segment</b>			
Apartments	market comparable method		80-2000
Private houses	market comparable method		35-1200
<b>Land plots</b>			
Residential	market comparable method		0.35-55
Commercial	market comparable method, DCF		0.7-280
Agricultural	market comparable method		500-3200
Forests	market comparable method		300-700
<b>Commercial objects</b>			
Offices	Income capitalization method, DCF	Rent rate 2.1-7.0 LVL/m <sup>2</sup> Occupancy 70%-95% Discount rate 8%-12% Exit yield 9%-11%	
Industrial	Income capitalization method, DCF	Rent rate 0.5-3.5 LVL/m <sup>2</sup> Occupancy 70%-90% Discount rate 10%-15% Exit yield 9%-12%	

Taking into account the diversity of the properties – differences between the segments and within the segments, the range of values is very wide. It depends on the location of the property, technical condition of the constructions, physical, economic and

moral depreciation, land fertility rate, forest site productivity and other factors, as well as RE market activity of respective region. Data on RE markets as to respective segments and regions are obtained from publicly available RE market data bases and the ones the Company has subscribed for, as well as on the basis of information obtained from the Sales Unit of RE Management Department (REMD).

### Reconciliation of Level 3 assets by classes

Changes of the Group's investment properties by segments may be specified as follows (LVL 000's):

	commercial premises	private houses	land	apartments	development projects	Total
<b>Balance as at 31 December 2012</b>	17,872	13,559	11,911	16,562	4,062	63,966
Additions	1,124	2,392	2,308	3,811	45	9,680
Disposals	(4,466)	(3,839)	(1,735)	(9,398)	(2,800)	(22,238)
Property improvement	-	350	-	29	-	379
Revaluation	130	(303)	(585)	162	36	(560)
<b>Balance as at 31 December 2013</b>	<b>14,660</b>	<b>12,159</b>	<b>11,899</b>	<b>11,166</b>	<b>1,343</b>	<b>51,227</b>

Changes of the Company's investment properties by segments may be specified as follows (LVL 000's):

	commercial premises	private houses	land	apartments	development projects	Total
<b>Balance as at 31 December 2012</b>	692	1,916	1,703	1,099	173	5,583
Additions	-	2,126	521	144	-	2,791
Disposals	(674)	(460)	-	(128)	-	(1,262)
Property improvement	-	-	-	-	-	-
Investment in subsidiaries share capital	(213)	(1,579)	(864)	(702)	(173)	(3,531)
Revaluation	195	(27)	11	100	-	279
<b>Balance as at 31 December 2013</b>	<b>-</b>	<b>1,976</b>	<b>1,371</b>	<b>513</b>	<b>-</b>	<b>3,860</b>

### Sensitivity information

Fair value measurement inputs (i.e. rent rates and their growth, occupancy rates, discount rates, yield etc.) used in income method calculations (direct income capitalization method or discounted cash flow method) can significantly influence outcome of calculations. Higher rent rates and occupancy rates gives higher value and vice versa if the rates are lower. Higher discount rates and exit yields gives lower value and vice versa if the rates are lower.

However all those inputs are connected and significant changes in one input trigger changes in other inputs; e.g. if an optimistic rent rates and long term occupancy rates are used then it affects discount rate and it should go up and this understanding is maintained through the whole valuation process.

### Highest and best use

All properties currently are used according to highest and best use.

### NOTE 15. OTHER ASSETS

Other assets comprise accrued income, prepaid expenses, security deposit for litigation against previous shareholders, other assets.

## NOTE 16. ISSUED DEBT SECURITIES

As at 31 December 2013 and 2012, the Group and Company had the following outstanding debt:

	LVL 000's			
	31/12/2013 Group	31/12/2012 Group	31/12/2013 Company	31/12/2012 Company
due within 1 month	-	-	-	-
due within 1-3 months	2,278	2,869	2,278	2,869
due within 3-6 months	-	-	-	-
due within 6-12 months	29,904	69,527	29,904	69,527
due within 1-5 years	332,321	315,321	332,321	315,321
due in more than 5 years	-	-	-	-
<b>Total issued debt securities</b>	<b>364,503</b>	<b>387,717</b>	<b>364,503</b>	<b>387,717</b>

*Financing support from the Ministry of Finance*

As a result of significant decrease in deposit base in October-November 2008, the Company was forced to apply for the State support. Ministry of Finance of Latvia has made a number of deposits on a secured basis, receiving part of Company's loan portfolio as collateral (please refer to Note 20 for details on assets pledged). During 2011 and 2010 part of the Ministry on Finance deposits was repaid by the Company. On 29 December 2011 deposits were converted into debt securities.

In 2013 debt securities were repaid in amount of EUR 57.3m (LVL 40.3m) in total, from which EUR 25.1m (LVL 17.7m) as interest on State Aid, and EUR 32.2m (LVL 22.6m) as the principal amount of the State Aid. Overall, since 1 August 2010, EUR 157.8m (LVL 110.9m) has been repaid to the Treasury.

The interest rates applicable to debt securities are 6 months Euribor rate + 3.50 % + 0.5% per annum for securities denominated in EUR.

## NOTE 17. SUBORDINATED DEBT

The following table represents the details of Group's subordinated capital:

Counterparty	Residence country	Currency	Issue size, 000's	Interest rate	Original agreement date	Original maturity date	Amortised	Amortised
							cost (LVL 000's) 31/12/2013	cost (LVL 000's) 31/12/2012
Notes-private placement	UK	EUR	20,000	4.844%	28/12/2007	28/12/2022	13,362	13,308
Private person	Latvia	LVL	7,500	6M Rigibid + 3%	28/09/2007	26/09/2017	7,501	7,501
Private person	Latvia	LVL	7,500	6M Rigibid + 3%	28/09/2007	26/09/2017	7,501	7,501
Notes – public issue	n/a	EUR	5,050	12%	08/05/2008	08/05/2018	3,826	3,820
Private person	Latvia	EUR	15,000	12%	20/06/2008	14/05/2015	10,595	10,602
Private person	Latvia	LVL	1,500	6M Rigibid + 3%	30/10/2008	30/10/2018	1,500	1,500
Private person	Latvia	LVL	1,500	6M Rigibid + 3%	30/10/2008	30/10/2018	1,500	1,500
Private person	Latvia	LVL	2,284	6M Rigibid + 3%	04/12/2008	18/09/2015	2,284	2,285
Private person	Latvia	LVL	2,284	6M Rigibid + 3%	04/12/2008	18/09/2015	2,284	2,285
Private person	Latvia	LVL	1,416	6M Rigibid + 3%	04/12/2008	29/09/2015	1,416	1,416
Private person	Latvia	LVL	1,416	6M Rigibid + 3%	04/12/2008	29/09/2015	1,416	1,416
<b>Total</b>							<b>53,185</b>	<b>53,134</b>

The Notes of EUR 20 million Subordinated Debt was attracted through private placement of subordinated notes. The notes were issued at discount and net proceeds amounted to EUR 18,672 thousand. The notes are to be redeemed at 100%. The Company has the right to extend the term of the notes until 28 December 2022, in which case the Company also has the right to redeem the notes after the original maturity date giving a notice within 30-60 days.

As at 31 December 2013, included in the subordinated debt are LVL 36 million (2012: LVL 36 million) attributable to the former related parties of the Company. These transactions were entered into by previous executive management of the Company. During 2013, the Company paid LVL 2.1 million (2012: 2.3 million) interest expense on the aforementioned balance.

#### NOTE 18. ISSUED SHARE CAPITAL

As at 31 December 2013, the Company's registered and paid-in share capital was LVL 311,027 thousand. In accordance with the Company's articles of association, the share capital consists of 250,883 thousand ordinary shares with voting rights and 60,144 thousand ordinary shares without voting rights. All shares have a par value of LVL 1 each and, as at 31 December 2013, they all were issued and fully paid. As at 31 December 2013, the Company did not possess any of its own shares. No dividends were proposed and paid during 2013 and 2012.

As at 31 December 2013, the Company had 59 (2012: 61) shareholders. The respective shareholdings as at 31 December 2013 and 2012 may be specified as follows:

	31/12/2013			31/12/2012		
	Paid-in share capital (LVL 000's)	% of total paid-in capital	% of total voting rights	Paid-in share capital (LVL 000's)	% of total paid-in capital	% of total voting rights
Privatisation Agency	261,733	84.15	82.02	261,733	84.15	82.02
EBRD	39,632	12.74	15.80	39,632	12.74	15.80
Other	9,662	3.11	2.18	9,662	3.11	2.18
<b>Total</b>	<b>311,027</b>	<b>100.00</b>	<b>100.00</b>	<b>311,027</b>	<b>100.00</b>	<b>100.00</b>

#### NOTE 19. MEMORANDUM ITEMS

Memorandum items comprise contingent liabilities and financial commitments. The following table provides a specification of contingent liabilities (showing maximum amount payable) and financial commitments outstanding as at 31 December 2013 and 2012.

	LVL 000's			
	31/12/2013 Group	31/12/2012 Group	31/12/2013 Company	31/12/2012 Company
Contingent liabilities:				
Outstanding guarantees	886	886	886	886
<b>Total contingent liabilities</b>	<b>886</b>	<b>886</b>	<b>886</b>	<b>886</b>
Financial commitments:				
Loans granted, not fully drawn down	-	-	-	-
Credit lines and overdraft facilities	145	-	27,788	16,916
Credit card commitments	-	-	-	-
<b>Total financial commitments</b>	<b>145</b>	<b>-</b>	<b>27,788</b>	<b>16,916</b>

## NOTE 20. ASSETS PLEDGED

	LVL 000's			
	31/12/2013 Group	31/12/2012 Group	31/12/2013 Company	31/12/2012 Company
Due from credit institutions	15,100	4,441	9,949	3,908
Available-for-sale securities	-	78	-	78
Loans to customers	169,970	278,507	194,063	314,807
Investments in subsidiaries	-	-	23,030	25,702
<b>Total assets pledged</b>	<b>185,070</b>	<b>283,026</b>	<b>227,042</b>	<b>344,495</b>
Debt securities	364,503	387,717	364,503	387,717
<b>Total liabilities secured by pledged assets</b>	<b>364,503</b>	<b>387,717</b>	<b>364,503</b>	<b>387,717</b>

According to pledge agreements, concluded between the Company and Ministry of Finance (represented by State Treasury) loan portfolio, subsidiaries, funds and securities are pledged in favour of Ministry of Finance to secure financing received in the form of state aid from Ministry of Finance. The respective commercial pledge is registered with Commercial Register. Please refer to Note 16 for more detailed information on financing received from Ministry of Finance.

## NOTE 21. LITIGATION AND CLAIMS

In July 2009, the State Revenue Service (hereinafter - SRS) had completed a tax audit of AS "Reverta" (hereinafter - Company) which covered the years 2007 and 2008. The tax audit report assessed claims for additional taxes to be paid by the Company. The Company did not agree with the SRS audit team's assessment and appealed the assessment to the General Director of the SRS. Subsequently, the decision for a part of additional taxes payable was withdrawn. In respect to the residual part of the decision, which remain unchanged (to constitute Corporate Income Tax (hereinafter - CIT) 1.5m lats (EUR 2.1m) and to constitute CIT for 2007 251.4k lats (EUR 357.8k) to be paid in budget additionally), the Company appealed to the Administrative district court on 29 December 2009. In accordance with Administrative district court's judgment, dated 20 November 2011, the Company's application on the annulment of the SRS decision was granted in part. However, in respect to the not granted part, the Company has submitted appeal. By judgment of Administrative Regional court, dated 17 April 2014, the Company's application on the annulment of the SRS decision in the part, by which an additional CIT in the amount of 1.6m lats (EUR 2.3m) was calculated for the Company, was granted in part; the remainder of Company's application was dismissed. The outcome of the above mentioned case will not result in additional expenses.

On 16 July 2012 N.Konratjeva submitted a claim to Riga regional court requesting to terminate the Agreement on term deposit acceptance and service concluded in 2008, and disbursement of assets related to these agreements. N.Kondrjateva asked to recover from the Company the principal amount of 3.7m lats (EUR 5.3m), state fee expenses in the amount of 4k lats (EUR 5.8k) and the expenses for the help of an attorney at law. Riga regional court rejected this claim in full by the decision dated 8 March 2013. N.Konratjeva filed an appeal. The case is pending in appellate instance court, the hearing is scheduled on 30 September 2014.

On 21 November 2012 R.Kargins submitted a claim to Riga Regional Court requesting to terminate the Agreement on term deposit acceptance and service concluded in year 2008 and to pay out deposited funds. R.Kargins asks to recover from the Company the principal amount of 10.5m lats (EUR 15m), state fee expenses in the amount of 7.5k lats (EUR 10.7k) and the expenses for the help of an attorney at law. Riga regional court granted this claim. The Company filed an appeal. The case is pending in appellate instance court, the hearing is not scheduled. The outcome of the two above cases will not result in material expenses to the Company and the Group as is related to already recognized liabilities, which are disclosed in note 17.

In its everyday activities the Company as a plaintiff is involved in many litigations related to transfer of pledges or loan recovery, as well as respective interest recovery and recovery of costs from clients. The Company and its affiliates are involved in several litigations related to recovery of debts and losses from tenants, as well as related to contradictions of the lease agreements. Also, the Company has a few litigations with its former employees. The Group is involved in several litigations in relation to clients in Latvia or abroad. Taking into account the nature of the claims and the amounts the Company believes that litigations in which The Company and its subsidiaries are involved as a plaintiff or as a defendant in the 2013 will not result in substantial losses for the Company or the Group.

## NOTE 22. RELATED PARTIES

Related parties are defined as shareholders who have significant influence over the Group, state and municipal institutions, members of the Council and Management Board, key Management personnel, their close relatives and companies in which they have a controlling interest as well as associated companies of the Group. Transactions with management personnel is disclosed in Note 8.

The Bank of Latvia is not considered as related party as it is operating as an independent institution according to special law.

The following table presents the outstanding balances and terms of the Group's transactions with counterparties, which were other related parties as at 31 December 2013.

	Amount in LVL 000's 31/12/2013	Income/ expense 01/01/2013 - 31/12/2013	Amount in LVL 000's 31/12/2012	Income/ expense 01/01/2012 - 31/12/2012
Due from credit institutions:	15,107	157	3,969	386
<i>Credit Institutions</i>	15,107	157	3,969	386
<b>Total credit exposure to related parties</b>	<b>15,107</b>	<b>157</b>	<b>3,969</b>	<b>386</b>
Due to related parties:	365,214	17,160	388,318	22,746
<i>Issued Debt Securities</i>	364,503	17,074	387,717	22,706
<i>Credit institutions</i>	711	86	601	40
<b>Total amounts due to related parties</b>	<b>365,214</b>	<b>17,160</b>	<b>388,318</b>	<b>22,746</b>

The following table presents the outstanding balances and terms of the Company's transactions with counterparties, which were other related parties as at 31 December 2013.

	Amount in LVL 000's 31/12/2013	Income/ expense 01/01/2013 - 31/12/2013	Amount in LVL 000's 31/12/2012	Income/ expense 01/01/2012 - 31/12/2012
Credit exposure to related parties				
Due from related parties:	10,072	1,094	4,072	895
<i>Credit Institutions</i>	9,957	157	3,969	386
<i>Subsidiaries</i>	115	937	103	509
Loans and receivables:	29,418	1,173	39,102	1,626
<i>Subsidiaries</i>	29,418	1,173	39,102	1,626
<b>Total credit exposure to related parties</b>	<b>39,490</b>	<b>2,267</b>	<b>43,174</b>	<b>2,521</b>
Due to related parties:	365,285	17,465	388,671	23,013
<i>Issued Debt Securities</i>	364,503	17,074	387,717	22,706
<i>Credit institutions</i>	711	86	601	40
<i>Subsidiaries - other</i>	71	305	353	267
<b>Total amounts due to related parties</b>	<b>365,285</b>	<b>17,465</b>	<b>388,671</b>	<b>23,013</b>

## NOTE 23. SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting 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 Company has determined the Management board of the Company as its chief operating decision maker. The Board reviews financial information prepared based on International Financial Reporting Standards.

The following table reconciles the management information with these financial statements as at 31 December 2013  
LVL 000's:

	Baltic loans	CIS loans	Real Estate	Other	Total
<b>Gross external revenue</b>	<b>4,524</b>	<b>1,196</b>	<b>2,218</b>	-	<b>7,938</b>
<b>External assets</b>					
Loans	452,450	123,475	-	-	575,925
Investment properties	-	-	51,227	-	51,227
Other assets	-	-	-	28,579	28,579
Impairment	(307,600)	(98,355)	-	(3,333)	(409,288)
<b>Total assets</b>	<b>144,850</b>	<b>25,120</b>	<b>51,227</b>	<b>25,246</b>	<b>246,443</b>
External liabilities	-	-	-	420,236	420,236
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>420,236</b>	<b>420,236</b>

The following table reconciles the management information with these financial statements as at 31 December 2012  
LVL 000's:

	Baltic loans	CIS loans	Real Estate	Other	Total
<b>Gross external revenue</b>	<b>5,704</b>	<b>1,434</b>	<b>184</b>	<b>231</b>	<b>7,553</b>
<b>External assets</b>					
Loans	491,198	128,748	-	-	619,946
Investment properties	-	-	63,967	-	63,967
Other assets	-	-	-	20,749	20,749
Impairment	(265,485)	(75,954)	(1)	(4,283)	(345,723)
<b>Total assets</b>	<b>225,713</b>	<b>52,794</b>	<b>63,966</b>	<b>16,466</b>	<b>358,939</b>
External liabilities	-	-	-	444,154	444,154
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>444,154</b>	<b>444,154</b>

**NOTE 24. RISK MANAGEMENT**

Since the transfer of undertaking on 1 August 2010 the Company has limited possibility to manage certain risks, in particular, interest rate risk, country risk, to some extent credit risk and risk limits. Nevertheless the Company is putting all the efforts to limit risks and has the following risk management policies.

**Risk management policies**

The Group's risk is managed according to principles set out in Group's Risk Management Policy. The Group adheres to the following key risk management principles:

- Undertaking an acceptable risk level is one of the Group's main functions in all areas of operation. Risks are always assessed in relation to the expected return. Risk exposures that are not acceptable for the Group are, where possible, avoided, limited or hedged;
- The Group does not assume new high or uncontrollable risks irrespective of the return they provide. Risks should be diversified and those risks that are quantifiable should be limited or hedged;
- Risk management is based on awareness of each and every Group's employee about the nature of transactions he/she carries out and related risks;
- The Group aims to ensure as low as possible risk exposure and low level of operational risk.

Risk management is an essential element of the Group's management process. Risk management within the Group is controlled by an independent unit unrelated to customer servicing - Risk Management Division.

The Group is exposed to the following main risks: credit risk, liquidity risk and operational risk. The Group has approved risk management policies for each of these risks, which are briefly summarised below.

**a) Credit risk**

Credit risk is the risk that the Group will incur losses from debtor's non-performance or default. The group is exposed to credit risk in to its lending and loan restructuring activities.

Credit risk management is based on adequate risk assessment and decision-making. For material risks, risk analysis is conducted by independent Risk Management Division. The analysis of credit risk comprises evaluation of customer's creditworthiness and collateral and its liquidity. The analysis of creditworthiness of a legal entity includes analysis of the industry, the company, and its current and forecasted financial position. The analysis of creditworthiness of an individual includes the analysis of the customer's credit history, income and debt-to-income ratio analysis, as well as the analysis of social and demographic factors. All decisions about loan restructuring or changes in loan agreements are made by the Credit Committee and further reviewed by the Company's Management Board.

The Group reviews its loan portfolio on a regular basis to assess its quality and concentrations, as well as to evaluate the portfolio trends.

Credit risk identification, monitoring and reporting is the responsibility of Risk Management Division.



The tables below provide details of the Group's loan portfolio delinquencies:

	Group, LVL 000's			
	31/12/2013			
	Regular loans	Utilised credit lines	Other	Total
Not delayed - not impaired	7,372	1,812	-	9,184
Not delayed - impaired	42,578	-	-	42,578
<b>Total not delayed loans</b>	<b>49,950</b>	<b>1,812</b>	<b>-</b>	<b>51,762</b>
<b>Past due loans - not impaired</b>				
Delayed days:				
=< 29	895	-	-	895
30-59	1,337	-	-	1,337
60-89	473	-	-	473
90 and more	56,444	1,142	223	57,809
<b>Total past due loans - not impaired</b>	<b>59,149</b>	<b>1,142</b>	<b>223</b>	<b>60,514</b>
<b>Total past due loans - impaired</b>	<b>446,898</b>	<b>11,206</b>	<b>5,545</b>	<b>463,649</b>
<b>Total gross loans and receivables to customers</b>	<b>555,997</b>	<b>14,160</b>	<b>5,768</b>	<b>575,925</b>
Impairment allowance	(390,725)	(10,435)	(4,795)	(405,955)
<b>Total net loans and receivables to customers</b>	<b>165,272</b>	<b>3,725</b>	<b>973</b>	<b>169,970</b>

Mostly, not-delayed loans falling into categories "regular loans" and "utilised credit lines" are secured by collateral. More than 88% are secured by real estate collateral.

	Group, LVL 000's			
	31/12/2012			
	Regular loans	Utilised credit lines	Other	Total
Not delayed - not impaired	6,031	3,320	161	9,512
Not delayed - impaired	78,995	-	-	78,995
<b>Total not delayed loans</b>	<b>85,026</b>	<b>3,320</b>	<b>161</b>	<b>88,507</b>
<b>Past due loans - not impaired</b>				
Delayed days:				
=< 29	944	-	-	944
30-59	1,109	-	-	1,109
60-89	1,847	-	-	1,847
90 and more	140,357	3,158	169	143,684
<b>Total past due loans - not impaired</b>	<b>144,257</b>	<b>3,158</b>	<b>169</b>	<b>147,584</b>
<b>Total past due loans - impaired</b>	<b>367,129</b>	<b>11,059</b>	<b>5,667</b>	<b>383,855</b>
<b>Total gross loans and receivables to customers</b>	<b>596,412</b>	<b>17,537</b>	<b>5,997</b>	<b>619,946</b>
Impairment allowance	(328,324)	(8,246)	(4,869)	(341,439)
<b>Total net loans and receivables to customers</b>	<b>268,088</b>	<b>9,291</b>	<b>1,128</b>	<b>278,507</b>

The tables below provide details of the Company's loan portfolio delinquencies:

	Company, LVL 000's			
	31/12/2013			
	Regular loans	Utilised credit lines	Other	Total
Not delayed - not impaired	7,372	1,812	-	9,184
Not delayed - impaired	42,578	26,763	-	69,341
<b>Total not delayed loans</b>	<b>49,950</b>	<b>28,575</b>	<b>-</b>	<b>78,525</b>
<b>Past due loans - not impaired</b>				
Delayed days:				
=< 29	895	-	-	895
30-59	1,337	-	-	1,337
60-89	473	-	-	473
90 and more	56,444	1,142	223	57,809
<b>Total past due loans - not impaired</b>	<b>59,149</b>	<b>1,142</b>	<b>223</b>	<b>60,514</b>
<b>Total past due loans - impaired</b>	<b>448,389</b>	<b>11,206</b>	<b>5,545</b>	<b>465,140</b>
<b>Total gross loans and receivables to customers</b>	<b>557,488</b>	<b>40,923</b>	<b>5,768</b>	<b>604,179</b>
Impairment allowance	(392,216)	(13,105)	(4,795)	(410,116)
<b>Total net loans and receivables to customers</b>	<b>165,272</b>	<b>27,818</b>	<b>973</b>	<b>194,063</b>

	Company, LVL 000's			
	31/12/2012			
	Regular loans	Utilised credit lines	Other	Total
Not delayed - not impaired	7,362	39,554	161	47,077
Not delayed - impaired	78,995	-	-	78,995
<b>Total not delayed loans</b>	<b>86,357</b>	<b>39,554</b>	<b>161</b>	<b>126,072</b>
<b>Past due loans - not impaired</b>				
Delayed days:				
=< 29	944	-	-	944
30-59	1,109	-	-	1,109
60-89	1,847	-	-	1,847
90 and more	140,357	3,158	169	143,684
<b>Total past due loans - not impaired</b>	<b>144,257</b>	<b>3,158</b>	<b>169</b>	<b>147,584</b>
<b>Total past due loans - impaired</b>	<b>368,666</b>	<b>11,059</b>	<b>5,667</b>	<b>385,392</b>
<b>Total gross loans and receivables to customers</b>	<b>599,280</b>	<b>53,771</b>	<b>5,997</b>	<b>659,048</b>
Impairment allowance	(329,141)	(10,231)	(4,869)	(344,241)
<b>Total net loans and receivables to customers</b>	<b>270,139</b>	<b>43,540</b>	<b>1,128</b>	<b>314,807</b>

## GEOGRAPHICAL PROFILE

The following table provides an analysis of the Group's and Company's assets and liabilities, as well as memorandum items outstanding as at 31 December 2013 and 2012 by geographical profile. The grouping is done based on information about the residence of the respective counterparties.

	Group as at 31/12/2013, LVL 000's					Total
	Latvia	Lithuania	Other EU countries	CIS countries	Other countries	
<u>Assets</u>						
Balances due from credit institutions	14,711	381	5	3	-	15,100
Shares and other non-fixed income securities	7	-	-	-	-	7
Bonds and other fixed income securities	-	-	-	-	-	-
Loans	111,925	25,052	7,873	24,218	902	169,970
Investment properties	48,218	3,009	-	-	-	51,227
Other assets	8,558	89	1,489	-	3	10,139
<b>Total assets</b>	<b>183,419</b>	<b>28,531</b>	<b>9,367</b>	<b>24,221</b>	<b>905</b>	<b>246,443</b>
<u>Liabilities</u>						
Financial liabilities measured at amortised cost	417,688	-	-	-	-	417,688
Other liabilities	2,335	137	17	-	59	2,548
<b>Total liabilities</b>	<b>420,023</b>	<b>137</b>	<b>17</b>	<b>-</b>	<b>59</b>	<b>420,233</b>
Equity	(173,793)	-	-	-	-	(173,793)
<b>Total liabilities and equity</b>	<b>246,230</b>	<b>137</b>	<b>17</b>	<b>-</b>	<b>59</b>	<b>246,443</b>
<u>Memorandum items</u>						
Contingent liabilities	-	-	886	-	-	886
Financial commitments	145	-	-	-	-	145

	Group as at 31/12/2012, LVL 000's					Total
	Latvia	Lithuania	Other EU countries	CIS countries	Other countries	
<u>Assets</u>						
Balances due from credit institutions	4,344	89	4	4	-	4,441
Shares and other non-fixed income securities	10	-	-	-	-	10
Bonds and other fixed income securities	-	-	-	78	-	78
Loans	155,367	49,544	21,077	48,848	3,671	278,507
Investment properties	61,672	2,294	-	-	-	63,966
Other assets	10,254	62	1,533	69	19	11,937
<b>Total assets</b>	<b>231,647</b>	<b>51,989</b>	<b>22,614</b>	<b>48,999</b>	<b>3,690</b>	<b>358,939</b>
<u>Liabilities</u>						
Financial liabilities measured at amortised cost	440,851	-	-	-	-	440,851
Other liabilities	3,188	98	17	-	-	3,303
<b>Total liabilities</b>	<b>444,039</b>	<b>98</b>	<b>17</b>	<b>-</b>	<b>-</b>	<b>444,154</b>
Equity	(85,215)	-	-	-	-	(85,215)
<b>Total liabilities and equity</b>	<b>358,824</b>	<b>98</b>	<b>17</b>	<b>-</b>	<b>-</b>	<b>358,939</b>
<u>Memorandum items</u>						
Contingent liabilities	-	-	886	-	-	886
Financial commitments	-	-	-	-	-	-

Company as at 31/12/2013, LVL 000's						
	Latvia	Lithuania	Other EU countries	CIS countries	Other countries	Total
<b>Assets</b>						
Balances due from credit institutions	9,741	205	-	3	-	9,949
Shares and other non-fixed income securities	7	-	-	-	-	7
Bonds and other fixed income securities	-	-	-	-	-	-
Loans	133,883	27,183	7,877	24,218	902	194,063
Investments in subsidiaries	22,139	889	2	-	-	23,030
Investment properties	3,860	-	-	-	-	3,860
Other assets	7,699	-	-	-	-	7,699
<b>Total assets</b>	<b>177,329</b>	<b>28,277</b>	<b>7,879</b>	<b>24,221</b>	<b>902</b>	<b>238,608</b>
<b>Liabilities</b>						
Financial liabilities measured at amortised cost	417,688	-	-	-	-	417,688
Other liabilities	2,147	20	-	-	32	2,199
<b>Total liabilities</b>	<b>419,835</b>	<b>20</b>	<b>-</b>	<b>-</b>	<b>32</b>	<b>419,887</b>
Equity	(181,279)	-	-	-	-	(181,279)
<b>Total liabilities and equity</b>	<b>238,556</b>	<b>20</b>	<b>-</b>	<b>-</b>	<b>32</b>	<b>238,608</b>
<b>Memorandum items</b>						
Contingent liabilities	-	-	886	-	-	886
Financial commitments	27,164	624	-	-	-	27,788

Company as at 31/12/2012, LVL 000's						
	Latvia	Lithuania	Other EU countries	CIS countries	Other countries	Total
<b>Assets</b>						
Balances due from credit institutions	3,820	84	-	4	-	3,908
Shares and other non-fixed income securities	10	-	-	-	-	10
Bonds and other fixed income securities	-	-	-	78	-	78
Loans	189,711	50,746	21,831	48,848	3,671	314,807
Investments in subsidiaries	24,587	1,113	2	-	-	25,702
Investment properties	5,583	-	-	-	-	5,583
Other assets	8,113	25	1	-	19	8,158
<b>Total assets</b>	<b>231,824</b>	<b>51,968</b>	<b>21,834</b>	<b>48,930</b>	<b>3,690</b>	<b>358,246</b>
<b>Liabilities</b>						
Financial liabilities measured at amortised cost	440,851	-	-	-	-	440,851
Other liabilities	2,756	17	5	-	-	2,778
<b>Total liabilities</b>	<b>443,607</b>	<b>17</b>	<b>5</b>	<b>-</b>	<b>-</b>	<b>443,629</b>
Equity	(85,383)	-	-	-	-	(85,383)
<b>Total liabilities and equity</b>	<b>358,224</b>	<b>17</b>	<b>5</b>	<b>-</b>	<b>-</b>	<b>358,246</b>
<b>Memorandum items</b>						
Contingent liabilities	-	-	886	-	-	886
Financial commitments	16,045	871	-	-	-	16,916

## FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The concept of fair value assumes realisation of financial instruments by way of a sale. However, in many cases, particularly in respect of loans and receivables to customers, the Group intends to realise assets through collection over time. Users of these financial statements are therefore advised to use caution when using this data to evaluate the Group's financial position.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's length transaction. The fair value of liquid financial assets has been determined using bid prices, while offer prices have been used to determine the fair value of financial liabilities.

### Fair value hierarchy

For illiquid financial assets and liabilities, including loans and advances to customers, there are, by definition, no active markets. Accordingly, fair value has been estimated using appropriate valuation techniques. The methods used to determine the fair value of balance sheet items not carried at fair value (based on quoted market prices) are as follows:

#### *Balances due from credit institutions/ Balances due to credit institutions*

The fair value of on-demand balances with credit institutions is their carrying amount as these balances may be withdrawn without notice. The fair value of overnight placements is their carrying amount. The fair value of other amounts due from banks is calculated by discounting expected cash flows using current market rates. The carrying value is a close representation of fair value due to short-term maturity profiles.

#### *Loans and receivables to customers*

The fair value of loans and advances to customers is calculated by discounting expected future cash flows. The discount rates consist of money market rates as at the end of year and credit margins, which are adjusted for current market conditions. Since the portfolio consists mostly of non-performing or restructured loans, the carrying amount is considered to be a close representation of the fair value.

#### *Issued debt and Subordinated liabilities*

Fair value of the issued bonds and subordinate liabilities is expected to be significantly smaller than their balance sheet value due to the accrued losses of the Company. Fair value of the issued bonds and subordinate liabilities cannot be determined with significant precision at the current moment.

## **b) Currency risk**

Currency risk is related to mismatch in foreign currency asset and liability positions that impact the Group's cash flow and financial results via fluctuations in currency exchange rates.

Day-to-day currency risk monitoring, management and reporting is the responsibility of Risk Management Division and Finance Planning and Control Division.

In the event of exchange rates for all currencies in which the Group and the Company has open positions adversely change by 1%, the potential total decrease in the Group's and Company's pre-tax profit would amount to approximately LVL 43 thousand and LVL 35 thousand as at 31 December 2013 and LVL 454 thousand and LVL 454 thousand as at 31 December 2012, respectively.

The following table provides an analysis of the Group's and Company's assets and liabilities and shareholders' equity as well as memorandum items outstanding as at 31 December 2013 and 2012 by currency profile:

	Group as at 31/12/2013, LVL 000's					Total
	LVL	USD	EUR	LTL	Other	
<b>Assets</b>						
Balances due from credit institutions	9,466	1,297	3,953	380	4	15,100
Shares and other non-fixed income securities	-	7	-	-	-	7
Bonds and other fixed income securities	-	-	-	-	-	-
Loans	4,406	5,452	154,196	5,698	218	169,970
Investment properties	48,218	-	-	3,009	-	51,227
Other assets	8,150	1,488	211	197	93	10,139
<b>Total assets</b>	<b>70,240</b>	<b>8,244</b>	<b>158,360</b>	<b>9,284</b>	<b>315</b>	<b>246,443</b>
<b>Liabilities</b>						
Financial liabilities measured at amortised cost	25,403	-	392,285	-	-	417,688
Other liabilities	2,244	32	45	199	28	2,548
<b>Total liabilities</b>	<b>27,647</b>	<b>32</b>	<b>392,330</b>	<b>199</b>	<b>28</b>	<b>420,236</b>
Equity	(173,793)	-	-	-	-	(173,793)
<b>Total liabilities and equity</b>	<b>(146,146)</b>	<b>32</b>	<b>392,330</b>	<b>199</b>	<b>28</b>	<b>246,443</b>
<b>Net long/ (short) position as at 31 December 2013</b>	<b>216,386</b>	<b>8,212</b>	<b>(233,970)</b>	<b>9,085</b>	<b>287</b>	<b>-</b>
Exchange rates applied as at 31 December 2013 (LVL for 1 foreign currency unit)	-	0.515	0.702804	0.204	-	-

	Group as at 31/12/2012, LVL 000's					
	LVL	USD	EUR	LTL	Other	Total
<b>Assets</b>						
Balances due from credit institutions	2,803	140	1,420	71	7	4,441
Shares and other non-fixed income securities	-	10	-	-	-	10
Bonds and other fixed income securities	-	45	33	-	-	78
Loans	903	27,923	233,306	15,013	1,362	278,507
Investment properties	61,672	-	-	2,294	-	63,966
Other assets	9,379	1,419	810	142	187	11,937
<b>Total assets</b>	<b>74,757</b>	<b>29,537</b>	<b>235,569</b>	<b>17,520</b>	<b>1,556</b>	<b>358,939</b>
<b>Liabilities</b>						
Financial liabilities measured at amortised cost	25,404	-	415,447	-	-	440,851
Other liabilities	3,026	30	132	115	-	3,303
<b>Total liabilities</b>	<b>28,430</b>	<b>30</b>	<b>415,579</b>	<b>115</b>	<b>-</b>	<b>444,154</b>
Equity	(85,215)	-	-	-	-	(85,215)
<b>Total liabilities and equity</b>	<b>(56,785)</b>	<b>30</b>	<b>415,579</b>	<b>115</b>	<b>-</b>	<b>358,939</b>
<b>Net long/ (short) position as at 31 December 2012</b>	<b>131,542</b>	<b>29,507</b>	<b>(180,010)</b>	<b>17,405</b>	<b>1,556</b>	<b>-</b>
Exchange rates applied as at 31 December 2012 (LVL for 1 foreign currency unit)	-	0.531	0.702804	0.204	-	-

	Company as at 31/12/2013, LVL 000's					
	LVL	USD	EUR	LTL	Other	Total
<b>Assets</b>						
Balances due from credit institutions	4,497	1,297	3,948	204	3	9,949
Shares and other non-fixed income securities	-	7	-	-	-	7
Bonds and other fixed income securities	-	-	-	-	-	-
Loans	26,333	5,452	155,640	6,416	222	194,063
Investments in subsidiaries	22,139	1	1	889	-	23,030
Investment properties	3,860	-	-	-	-	3,860
Other assets	7,293	-	210	108	88	7,699
<b>Total assets</b>	<b>64,122</b>	<b>6,757</b>	<b>159,799</b>	<b>7,617</b>	<b>313</b>	<b>238,608</b>
<b>Liabilities</b>						
Financial liabilities measured at amortised cost	25,403	-	392,285	-	-	417,688
Other liabilities	2,051	31	27	90	-	2,199
<b>Total liabilities</b>	<b>27,454</b>	<b>31</b>	<b>392,312</b>	<b>90</b>	<b>-</b>	<b>419,887</b>
Equity	(181,279)	-	-	-	-	(181,279)
<b>Total liabilities and equity</b>	<b>(153,825)</b>	<b>31</b>	<b>392,312</b>	<b>90</b>	<b>-</b>	<b>238,608</b>
<b>Net long/ (short) position as at 31 December 2013</b>	<b>217,947</b>	<b>6,726</b>	<b>(232,513)</b>	<b>7,527</b>	<b>313</b>	<b>-</b>
Exchange rates applied as at 31 December 2013 (LVL for 1 foreign currency unit)	-	0.515	0.702804	0.204	-	-



	Company as at 31/12/2012, LVL 000's					
	LVL	USD	EUR	LTL	Other	Total
<b>Assets</b>						
Balances due from credit institutions	2,279	140	1,416	66	7	3,908
Shares and other non-fixed income securities	-	10	-	-	-	10
Bonds and other fixed income securities	-	45	33	-	-	78
Loans	35,247	28,617	234,568	15,013	1,362	314,807
Investments in subsidiaries	25,700	1	1	-	-	25,702
Investment properties	5,583	-	-	-	-	5,583
Other assets	7,287	10	684	105	72	8,158
<b>Total assets</b>	<b>76,096</b>	<b>28,823</b>	<b>236,702</b>	<b>15,184</b>	<b>1,441</b>	<b>358,246</b>
<b>Liabilities</b>						
Financial liabilities measured at amortised cost	25,404	-	415,447	-	-	440,851
Other liabilities	2,643	-	117	18	-	2,778
<b>Total liabilities</b>	<b>28,047</b>	<b>-</b>	<b>415,564</b>	<b>18</b>	<b>-</b>	<b>443,629</b>
Equity	(85,383)	-	-	-	-	(85,383)
<b>Total liabilities and equity</b>	<b>(57,336)</b>	<b>-</b>	<b>415,564</b>	<b>18</b>	<b>-</b>	<b>358,246</b>
<b>Net long/ (short) position as at 31 December 2012</b>	<b>133,432</b>	<b>28,823</b>	<b>(178,862)</b>	<b>15,166</b>	<b>1,441</b>	<b>-</b>
Exchange rates applied as at 31 December 2012 (LVL for 1 foreign currency unit)	-	0.531	0.702804	0.204	-	-

**d) Liquidity risk**

Liquidity risk is the risk that the Group will be unable to meet its legal payment obligations. The purpose of liquidity risk management is to ensure the availability of liquid assets sufficient to meet potential obligations.

Under ordinary circumstances the Group manages its liquidity risk in accordance with the Group's Liquidity Risk Management Policy. Liquidity risk is assessed and related decisions are made by the Company's Management Board. Daily liquidity management, as well as liquidity risk measurement, monitoring and reporting is ensured by the Risk Management Division and Finance Planning and Control Division. Liquidity risk management in the Group is coordinated by the Risk Management Division and Finance Planning and Control Division. The main source of liquidity are debt securities issued by the Company.

*Group's assets, liabilities and memorandum items by contractual maturity structure as at 31 December 2013*

	Group as at 31/12/2013, LVL 000's			
	Within 1 year	1-5 years	Over 5 years	Total
<b>Assets</b>				
Balances due from credit institutions	15,100	-	-	15,100
Shares and other non-fixed income securities	-	7	-	7
Bonds and other fixed income securities	-	-	-	-
Loans	64,666	73,626	31,678	169,970
Investment properties	-	51,227	-	51,227
Other assets	1,070	8,950	119	10,139
<b>Total assets</b>	<b>80,836</b>	<b>138,810</b>	<b>31,797</b>	<b>246,443</b>
<b>Liabilities</b>				
Financial liabilities measured at amortised cost	32,307	332,321	53,060	417,688
Other liabilities	2,523	25	-	2,548
<b>Total liabilities</b>	<b>34,830</b>	<b>332,346</b>	<b>53,060</b>	<b>420,236</b>
Equity	-	-	(173,793)	(173,793)
<b>Total liabilities and equity</b>	<b>34,830</b>	<b>332,346</b>	<b>(120,733)</b>	<b>246,443</b>
Net balance sheet position – long/ (short)	46,006	(198,536)	152,530	-
<b>Memorandum items</b>				
Contingent liabilities	886	-	-	886
Financial commitments	145	-	-	145

*Group's contractual undiscounted cash flows of the financial liabilities as at 31 December 2013*

The following table represents the analysis of the estimated contractual cash flows arising from Group's financial liabilities as at 31 December 2013:

	LVL 000's			
	Within 1 year	1-5 years	Over 5 years	Total contractual cash flows
Financial liabilities measured at amortised cost	57,248	384,076	53,060	494,384
<b>Memorandum items</b>				
Contingent liabilities	886	-	-	886
Financial commitments	145	-	-	145

*Group's assets, liabilities and memorandum items by contractual maturity structure as at 31 December 2012*

	Group as at 31/12/2012, LVL 000's			
	Within 1 year	1-5 years	Over 5 years	Total
<b>Assets</b>				
Balances due from credit institutions	4,441	-	-	4,441
Shares and other non-fixed income securities	-	10	-	10
Bonds and other fixed income securities	78	-	-	78
Loans	131,075	103,199	44,233	278,507
Investment properties	-	63,966	-	63,966
Other assets	2,402	9,325	210	11,937
<b>Total assets</b>	<b>137,996</b>	<b>176,500</b>	<b>44,443</b>	<b>358,939</b>
<b>Liabilities</b>				
Financial liabilities measured at amortised cost	72,527	315,321	53,003	440,851
Other liabilities	3,273	30	-	3,303
<b>Total liabilities</b>	<b>75,800</b>	<b>315,351</b>	<b>53,003</b>	<b>444,154</b>
Equity	-	-	(85,215)	(85,215)
<b>Total liabilities and equity</b>	<b>75,800</b>	<b>315,351</b>	<b>(32,212)</b>	<b>358,939</b>
Net balance sheet position – long/ (short)	62,196	(138,851)	76,655	-
<b>Memorandum items</b>				
Contingent liabilities	886	-	-	886
Financial commitments	-	-	-	-

*Group's contractual undiscounted cash flows of the financial liabilities as at 31 December 2012*

The following table represents the analysis of the estimated contractual cash flows arising from Group's financial liabilities as at 31 December 2012:

	LVL 000's			Total contractual cash flows
	Within 1 year	1-5 years	Over 5 years	
Financial liabilities measured at amortised cost	38,876	368,288	53,003	460,167
<b>Memorandum items</b>				
Contingent liabilities	886	-	-	886
Financial commitments	-	-	-	-

## Company's assets, liabilities and memorandum items by contractual maturity structure as at 31 December 2013

	Company as at 31/12/2013, LVL 000's			
	Within 1 year	1-5 years	Over 5 years	Total
<b>Assets</b>				
Balances due from credit institutions	9,949	-	-	9,949
Shares and other non-fixed income securities	-	7	-	7
Bonds and other fixed income securities	-	-	-	-
Loans	83,950	78,435	31,678	194,063
Investments in subsidiaries	-	23,030	-	23,030
Investment properties	-	3,860	-	3,860
Other assets	125	7,466	108	7,699
<b>Total assets</b>	<b>94,024</b>	<b>112,798</b>	<b>31,786</b>	<b>238,608</b>
<b>Liabilities</b>				
Financial liabilities measured at amortised cost	32,307	332,321	53,060	417,688
Other liabilities	2,199	-	-	2,199
<b>Total liabilities</b>	<b>34,506</b>	<b>332,321</b>	<b>53,060</b>	<b>419,887</b>
Equity	-	-	(181,279)	(181,279)
<b>Total liabilities and equity</b>	<b>34,506</b>	<b>332,321</b>	<b>(128,219)</b>	<b>238,608</b>
Net balance sheet position – long/ (short)	59,518	(219,523)	160,005	-
<b>Memorandum items</b>				
Contingent liabilities	886	-	-	886
Financial commitments	27,788	-	-	27,788

## Company's contractual undiscounted cash flows of the financial liabilities as at 31 December 2013

	LVL 000's			
	Within 1 year	1-5 years	Over 5 years	Total contractual cash flows
Financial liabilities measured at amortised cost	57,248	384,076	53,060	494,384
<b>Memorandum items</b>				
Contingent liabilities	886	-	-	886
Financial commitments	27,788	-	-	27,788

*Company's assets, liabilities and memorandum items by contractual maturity structure as at 31 December 2012*

	Company as at 31/12/2012, LVL 000's			
	Within 1 year	1-5 years	Over 5 years	Total
<b>Assets</b>				
Balances due from credit institutions	3,908	-	-	3,908
Shares and other non-fixed income securities	-	10	-	10
Bonds and other fixed income securities	78	-	-	78
Loans	131,829	138,745	44,233	314,807
Investments in subsidiaries	-	25,702	-	25,702
Investment properties	-	5,583	-	5,583
Other assets	231	7,728	199	8,158
<b>Total assets</b>	<b>136,046</b>	<b>177,768</b>	<b>44,432</b>	<b>358,246</b>
<b>Liabilities</b>				
Financial liabilities measured at amortised cost	72,527	315,321	53,003	440,851
Other liabilities	2,778	-	-	2,778
<b>Total liabilities</b>	<b>75,305</b>	<b>315,321</b>	<b>53,003</b>	<b>443,629</b>
Equity	-	-	(85,383)	(85,383)
<b>Total liabilities and equity</b>	<b>75,305</b>	<b>315,321</b>	<b>(32,380)</b>	<b>358,246</b>
Net balance sheet position – long/ (short)	60,741	(137,553)	76,812	-
<b>Memorandum items</b>				
Contingent liabilities	866	-	-	886
Financial commitments	16,916	-	-	16,916

*Company's contractual undiscounted cash flows of the financial liabilities as at 31 December 2012*

	LVL 000's			Total contractual cash flows
	Within 1 year	1-5 years	Over 5 years	
Financial liabilities measured at amortised cost	38,351	368,288	53,003	459,642
<b>Memorandum items</b>				
Contingent liabilities	886	-	-	886
Financial commitments	16,916	-	-	16,916

**e) Operational risk**

Operational risk is the risk of suffering losses resulting from processes that are deficient or non-compliant with requirements of external and internal regulations, losses resulting from actions of employees and system malfunctioning, as well as losses resulting from actions of third parties or from other external conditions, including legal risk (risk of penalty fees, sanctions applied by external institutions, losses resulting from litigation and other similar events), but excluding strategic risk and reputation risk. The Group further divides operational risk into the following categories: personnel risk, process risk, IT and systems risk, external risk.

The Group applies following approaches for operational risk management:

- defining operational risk indicators – use of statistical, financial and other indicators that reflect the level of various operational risk types and its changes within the Group;
- operational risk measurement by recording and analysing operational risk events, the extent of the respective damage incurred, causes and other related information (data base of operational risk losses and incidents);
- "Four-eye-principle" and segregation of duties;
- business continuity planning;
- insurance;
- investments in appropriate data processing and information protection technologies.

**NOTE 25. EVENTS AFTER THE BALANCE SHEET DATE**

On 1 January 2014, Latvia has joined the Euro zone, converting the Latvian Lats (LVL) into the Euros at fixed exchange rate EUR 1 = LVL 0.702804. As of this date, the Group balance account values were converted into the Euro currency and financial reports for 2014 and the following years will be prepared in Euro currency.

Reverta's Chairman of the Management Board Christopher Gwilliam has resigned on 31 December 2013. Solvita Deglava became Chairperson of the Management Board as of 01 January 2014.

Edgars Miļūns has been appointed as the third member of the Management Board as of 01 February 2014.

In February 2014 Reverta paid to State Treasury interest on debt in amount of 5.7 mln EUR in accordance with the Restructuring Plan.

In February 2014 for more effective management of subsidiaries Reverta started reorganization process by merging LLC „NIF”, LLC „NIF Projekts 2”, LLC „NIF Projekts 3” and LLC „NIF Projekts 9” with the LLC „NIF Dzīvojamie īpašumi”.

On 04 April 2014 Reverta has transferred EUR 12.6m to the State Treasury in repayment of the principal amount of State debt.



Building a better  
working world

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## INDEPENDENT AUDITORS' REPORT

To the shareholders of AS Reverta

### Report on the financial statements

We have audited the accompanying consolidated financial statements of AS Reverta and its subsidiaries (hereinafter – the Group) and the accompanying financial statements of AS Reverta (hereinafter - the Company), which are set out on pages 7 through 54 of the accompanying 2013 Annual Report, which comprise the financial position as at 31 December 2013, the statement of comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

#### Management's responsibility for the financial statements

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

#### Auditors' responsibility

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

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

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

#### Basis for Qualified Opinion

During the year the Group and Company has updated methodology for calculation of loan loss impairment. Part of the significant increase in impairment loss recognized during 2013 has resulted due to changes in the methodology. In our opinion the previously used methodology did not incorporate all available information, as a result we believe that significant part of the impairment loss recognized during 2013 should had been recognized during the previous years. During the audit we have not been able to calculate the effect on the necessary adjustments to the financial position as at 31 December 2012, the income statement for the year ended 31 December 2013 or any comparative period, and the necessary adjustment to the statement of changes in shareholder equity.


#### Qualified opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements give a true and fair view of the financial position of Group and Company of 31 December 2013, 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.

### Report on other legal and regulatory requirements

Furthermore, we have read the management report for the year ended 31 December 2013 (set out on pages 3 through page 4 of the accompanying 2013 Annual Report) and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2013.

SIA Ernst & Young Baltic  
Licence No. 17



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

Rīga, 29 April 2014