ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2016

TOGETHER WITH INDEPENDENT AUDITORS' REPORT

REVERTA

Table of Contents

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Management Report

For Reverta, the year 2016 (hereinafter – the Reporting Period) was characterised by large projects in Latvia, Lithuania, Estonia and Russia, completion of which has required many years of sustained efforts. As a result of this, at the end of the Reporting Period, the recovered funds amounted to EUR 74.1 m, as compared to EUR 61.3 m in 2015.

During the Reporting Period, Reverta has repaid the State Treasury EUR 60 m, of which EUR 40 m was used to repay the principal, and EUR 20 m was used to repay the interest on State aid granted to Parex Bank.

Since 1 August 2010 till 31 December 2016, Reverta has recovered EUR 740.3 m from the restructuring of distressed loans, sales of bonds and disposal of real estate properties, which is 66 per cent of all assets received from Parex Bank, thus exceeding initial estimates of Reverta’s management. If compared to the situation in 2007/2008, the average market value of real estate properties has decreased by approximately 50 per cent. In view of the fact that real estate properties in Reverta’s portfolio serving as collaterals often have lost even up to 90 per cent of their initial market value, the recovered 66 per cent is a positive result.

Payments to the State Treasury made from 1 August 2010 till 31 December 2016 have amounted to EUR 426.4 m, though this is only a portion of obligations fulfilled and payments made by Reverta in due time and in full amount. In addition the Syndicated Loan of Parex banka (which was State guaranteed) of EUR 245m was repaid in term and in full. Overall, the State has received from Reverta more than EUR 670.6 m in the form of various payments, including more than EUR 16 m paid in tax, Reverta has also repaid term deposits in the amount of EUR 19.2 m and also has paid subordinated loans in the amount of EUR 18.6 m (mostly to the former shareholders of Parex Bank, and to associated persons).

The results of the Reporting Period were significantly improved through the completion of several large and complex projects in Latvia and abroad. The largest projects of 2016 were the Lithuanian loan project (EUR 10.6 m), Meridiane – a unique and valuable land plot in Tallinn (EUR 9 m), the reconstruction, lease and subsequent sales of the central office building of airBaltic (EUR 6.19 m), and the sales of a commercial property at Frunzenskaya Naberezhnaya in Moscow (EUR 2.3 m).

Successful sales of real estate properties also significantly contributed to the recovery of funds. By the end of the Reporting Period Reverta had received EUR 27.9 m from the sales of real estate properties, which is by EUR 5.4 m more than in 2015. This positive result reflects sustained sales efforts, regular price revisions to match the market situation, and various marketing activities aimed at appropriate target audiences. At the end of 2016 Reverta’s real estate portfolio had significantly decreased and mainly consisted of land plots, a few private houses, and some flats.

Reverta’s loss during the Reporting Period was EUR 45.9 m. As in previous years, the loss comprises of provisions for the impairment in distressed assets value and by the excess of interest expense over interest income. Taking into consideration that after the split of Parex Bank only low quality assets with a long history of repayment problems were allocated to Reverta, the Restructuring Plan did not anticipate any profit during Reverta’s operation.

At the end of the Reporting Period Reverta’s total asset portfolio was EUR 57.2 m: during the Reporting Period the assets have decreased by EUR 87.4 m or 60 per cent, as compared to the situation at 31 December 2015.

In order to implement the EC approved Restructuring Plan which envisages completion of the workout of Reverta’s portfolio and closing of all operations by the end of 2017, Reverta has signed an agreement with KMPG Baltics for receiving expert’s advice on the sales process of Reverta’s loan and real estate portfolios. Of 65 contacted potential investors 15 signed confidentiality agreements and in November 2016 received access to the virtual data room. Already in December 2016 seven potential investors made non-binding bids. In line with the recommendation of the consultant KMPG Baltics, four best tenderers were invited to participate in a more thorough examination of Reverta’s loan portfolio.

After the end of the reporting period

- At the end of January 2017, four potential investors commenced an in-depth analysis of Reverta’s loan portfolios. In March 2017 investors submitted their binding offers and currently the management are evaluating them.
- In February 2017 Reverta made another regular interest payment to the State Treasury in the amount of EUR 3.7 m. Since 1 August 2010 till 28 February 2017 Reverta has repaid the State Treasury EUR 430.2 m, and overall the State has received from Reverta EUR 691 m in the form of various payments, including EUR 16 m paid in tax;
- To ensure compliance with Restructuring plan approved by the European Commission (decision On the State Aid C 26/2009 (ex N 289/2009)) and revised Restructuring Plan (decision SA.36612 - 2014/C (ex 2013/NN) and amendments to Law on Control of Aid for Commercial activity which came into force on 3 March 2017 the Management Board plans to propose to shareholders meeting to approve initiation of Reverta liquidation as of 1 July 2017.

The Company has prepared Report on Corporate Governance for the financial year 2016 which is available at the Company’s webpage http://www.reverta.lv/.

Solvita Deglava Chairperson of the Management Board	Ruta Amtmane Member of the Management Board

Riga,
28 April 2017

The Supervisory Board and the Management Board

The Supervisory Board

Name	***Position***
Michael Joseph Bourke	Chairman of the Supervisory Board
Mary Ellen Collins	Member of the Supervisory Board
Līga Kļaviņa	Deputy Chairperson of the Supervisory Board
Artūrs Neimanis	Member of the Supervisory Board

The Management Board

Name	***Position***
Solvita Deglava	Chairperson of the Management Board
Ruta Amtmane	Member of the Management Board
Edgars Miļūns	Member of the Management Board (till 31.05.2016)

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 50 are prepared in accordance with the source documents and present fairly the financial position of the Company and the Group as at 31 December 2016 and the results of their operations, changes in shareholders' equity and cash flows for the twelve month period ended 31 December 2016. 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 the assumption that neither the Company nor the Group are considered to be going concerns. 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.

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.

Solvita Deglava
Chairperson of the Management Board

Ruta Amtmane
Member of the Management Board

Riga,
28 April 2017

Statements of Comprehensive Income

	Notes	EUR 000's			
		2016	2015	2016	2015
		Group	Group	Company	Company
Interest income	3	219	2,294	698	2,793
Interest expense	3	(19,469)	(22,174)	(19,502)	(22,174)
Net interest expense		**(19,250)**	**(19,880)**	**(18,804)**	**(19,381)**
Commission and fee income		26	26	26	26
Commission and fee expense		(9)	(19)	(6)	(17)
Net commission and fee income		**17**	**7**	**20**	**9**
Net foreign exchange gain	4	564	560	487	307
Other operating income	5	868	195	1,536	1,375
Net result of the financial segment		**(17,801)**	**(19,118)**	**(16,761)**	**(17,690)**
Real estate segment income		(293)	(866)	(425)	(825)
Real estate segment expense		(790)	(1,170)	(155)	(260)
Revaluation result, net		(3,318)	(2,503)	(120)	(312)
Net result of RE segment	6	**(4,401)**	**(4,539)**	**(700)**	**(1,397)**
Collaterals and assets under repossession expense		(22)	(35)	(22)	(35)
Administrative expense	7,8	(6,453)	(7,008)	(6,037)	(6,862)
Amortisation and depreciation charge		(40)	(66)	(39)	(64)
Impairment of assets and write offs, net	9	(16,361)	(23,468)	(22,371)	(19,479)
Loss before taxation		**(45,078)**	**(54,234)**	**(45,930)**	**(45,527)**
Corporate income tax	10	-	(18)	-	(17)
Loss for the year		**(45,078)**	**(54,252)**	**(45,930)**	**(45,544)**

The notes on pages 11 to 50 are an integral part of these financial statements.

Statements of Financial Position

	Notes	EUR 000's			
		2016	2015	2016	2015
		Group	Group	Company	Company
Assets					
Balances due from credit institutions	11	8,249	5,217	5,251	2,063
Loans	12	25,422	89,544	31,756	104,852
Fixed assets		22	50	22	44
Intangible assets		36	53	36	53
Investments in subsidiaries	13	-	-	6,663	22,201
Investment property	14	13,894	36,322	2,780	5,107
Other non-financial assets	15	11,318	13,182	10,715	10,286
Total assets		**58,941**	**144,368**	**57,223**	**144,606**
Liabilities					
Issued debt securities	16,20	386,701	427,214	386,701	427,214
Other liabilities		3,202	3,136	1,361	2,399
Subordinated liabilities	17	76,040	75,942	76,040	75,942
Total liabilities		**465,943**	**506,292**	**464,102**	**505,555**
Equity					
Paid-in share capital	18	442,552	442,552	442,552	442,552
Share premium		18,063	18,063	18,063	18,063
Accumulated losses		(867,617)	(822,539)	(867,494)	(821,564)
Total shareholders' equity attributable to the shareholders of the Company/ Group		**(407,002)**	**(361,924)**	**(406,879)**	**(360,949)**
Total liabilities and equity		**58,941**	**144,368**	**57,223**	**144,606**

The notes on pages 11 to 50 are an integral part of these financial statements.

Statements of Changes in Equity

Group	EUR 000's			
	Issued share capital	Share premium	Accumulated losses	Total equity
Balance as at 31 December 2014	**442,552**	**18,063**	**(768,287)**	**(307,672)**
Loss for the year	-	-	(54,252)	(54,252)
Other comprehensive income	-	-	-	-
Total comprehensive loss for the year	**-**	**-**	**(54,252)**	**(54,252)**
Balance as at 31 December 2015	**442,552**	**18,063**	**(822,539)**	**(361,924)**
Loss for the year	-	-	(45,078)	(45,078)
Other comprehensive income	-	-	-	-
Total comprehensive loss for the year	**-**	**-**	**(45,078)**	**(45,078)**
Balance as at 31 December 2016	**442,552**	**18,063**	**(867,617)**	**(407,002)**

Company	EUR 000's			
	Issued share capital	Share premium	Accumulated losses	Total equity
Balance as at 31 December 2014	**442,552**	**18,063**	**(776,020)**	**(315,405)**
Loss for the year	-	-	(45,544)	(45,544)
Other comprehensive income	-	-	-	-
Total comprehensive loss for the year	**-**	**-**	**(45,544)**	**(45,544)**
Balance as at 31 December 2015	**442,552**	**18,063**	**(821,564)**	**(360,949)**
Loss for the year	-	-	(45,930)	(45,930)
Other comprehensive income	-	-	-	-
Total comprehensive loss for the year	**-**	**-**	**(45,930)**	**(45,930)**
Balance as at 31 December 2016	**442,552**	**18,063**	**(867,494)**	**(406,879)**

The notes on pages 11 to 50 are an integral part of these financial statements.

Statements of Cash Flows

	EUR 000's			
	2016	2015	2016	2015
	Group	Group	Company	Company
Cash flows from operating activities				
Loss before tax	(45,078)	(54,234)	(45,930)	(45,527)
Amortisation and depreciation	40	66	39	64
Change in impairment allowances and other accruals	19,679	23,468	22,490	19,479
Interest income	(219)	(2,294)	(698)	(2,793)
Interest expense	19,469	22,174	19,502	22,174
Other non-cash items	(563)	1,946	(487)	9
Cash generated before changes in assets and liabilities	**(6,672)**	**(8,874)**	**(5,084)**	**(6,594)**
Proceeds from loans and receivables	45,261	42,324	56,601	40,247
Proceeds from investment property	27,927	17,560	4,625	14,916
Decrease/(increase) in other assets	(3,666)	909	224	645
Increase/(decrease) in other liabilities	67	679	(1,037)	771
Decrease of share capital of subsidiaries	-	-	7,744	-
Cash generated from operating activities before corporate income tax	**62,917**	**52,598**	**63,073**	**49,985**
Corporate income tax paid	-	(18)	-	(17)
Net cash flows from operating activities	**62,917**	**52,580**	**63,073**	**49,968**
Cash flows from investing activities				
Purchase of intangible and fixed assets	-	(22)	-	(22)
Net cash flow from investing activities	**-**	**(22)**	**-**	**(22)**
Cash flows from financing activities				
Redemption of issued debt securities (principal)	(40,015)	(30,708)	(40,015)	(30,708)
Interest paid for issued debt securities	(19,870)	(22,346)	(19,870)	(22,346)
Net cash flow used in financing activities	**(59,885)**	**(53,054)**	**(59,885)**	**(53,054)**
Net cash flow for the reporting period	**3,032**	**(496)**	**3,188**	**(3,108)**
Cash and cash equivalents at the beginning of the reporting period	**5,217**	**5,713**	**2,063**	**5,171**
Cash and cash equivalents at the end of the reporting period	**8,249**	**5,217**	**5,251**	**2,063**

The notes on pages 11 to 50 are an integral part of these financial statements.

Notes

Figures in parenthesis represent amounts as at 31 December 2015 or for year ended 31 December 2015, 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 28 April 2017. 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 10 May 2012.

The legal address of the Company is Brivibas street 148a-1, Riga, LV-1012. The Company is parent company of the Group.

The activities of *AS Reverta* are focused in three main directions: loan restructuring, legal recovery, and real estate management.

The main security 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.

As at 31 December 2016, the Company had 49 (77) employees and the Group had 53 (86) employees.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following new and amended IFRS and interpretations became effective in 2016, but have no significant impact on the operations of the Group and the Company and these financial statements:

Amendments to IFRS 11 “Joint Arrangements” – Accounting for Acquisitions of Interests in Joint Operations (effective for annual periods beginning on or after 1 January 2016).

Amendments to IAS 16 “Property, Plant and Equipment” and IAS 38 “Intangible Assets” - Clarification of Acceptable Methods of Depreciation and Amortisation (effective for annual periods beginning on or after 1 January 2016).

Amendments to IAS 16 “Property, Plant and Equipment” and IAS 41 “Agriculture” – regarding bearer plants (effective for annual periods beginning on or after 1 January 2016).

Amendments to IAS 27 “Separate Financial Statements” - Equity Method in Separate Financial Statements (effective for annual periods beginning on or after 1 January 2016).

Amendments to IAS 1 “Presentation of financial statements” regarding disclosure initiative (effective for annual periods beginning on or after 1 January 2016).

Amendments to IFRS 10 “Consolidated financial statements”, IFRS 12 “Disclosure of Interests in Other Entities” and IAS 28 “Investments in associates and joint ventures” – Investment Entities: Applying the Consolidation Exception (effective for annual periods beginning on or after 1 January 2016).

Annual improvements to IFRS’s 2014 (effective for annual periods beginning on or after 1 January 2016). The amendments include changes that affect 4 standards:

- IFRS 5 “Non-current assets held for sale and discontinued operations”,
- IFRS 7 “Financial instruments: Disclosures” with consequential amendments to IFRS 1,
- IAS 19 “Employee benefits”, and
- IAS 34 “Interim financial reporting”.

Amendments to IAS 19 "Employee benefits plans" regarding defined benefit plans (effective for annual periods beginning on or after 1 February 2015).

Annual improvements to IFRS's 2012 (effective for annual periods beginning on or after 1 February 2015). These amendments include changes that affect 6 standards:

- IFRS 2 "Share-based payment",
- IFRS 3 "Business Combinations",
- IFRS 8 "Operating segments",
- IAS 16 "Property, plant and equipment" and IAS 38 "Intangible assets", and
- IAS 24 "Related party disclosures".

Certain new standards and interpretations have been published that become effective for the accounting periods beginning on 1 January 2017 or later periods or are not yet endorsed by the EU:

IFRS 9 "Financial instruments" (effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

IFRS 15 "Revenue from Contracts with Customers" (effective for annual periods beginning on or after 1 January 2018);

Amendments to IFRS 10 "Consolidated financial statements", IAS 28 "Investments in associates and joint ventures" – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective date to be determined by the IASB, not yet endorsed in the EU);

IFRS 16 "Leases" (effective for annual periods beginning on or after 1 January 2019, not yet endorsed in the EU);

Amendments to IAS 12 "Income taxes" - recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017, not yet endorsed in the EU);

Amendments to IAS 7 "Statement of Cash Flows" – Disclosure initiative (effective for annual periods beginning on or after 1 January 2017, not yet endorsed in the EU);

Amendments to IFRS 15 "Revenue from Contracts with Customers" (effective for annual periods beginning on or after 1 January 2018, not yet endorsed in the EU);

Amendments to IFRS 2 "Share-based Payment" (effective for annual periods beginning on or after 1 January 2018, not yet endorsed in the EU);

Amendments to IFRS 4 "Insurance Contracts" – Applying IFRS 9 "Financial statements" with IFRS 4 "Insurance contracts" (effective for annual periods beginning on or after 1 January 2018, not yet endorsed in the EU);

Annual improvements to IFRS's 2016. The amendments include changes that affect 3 standards:

- IFRS 12 "Disclosure of Interests in Other Entities" (effective for annual periods beginning on or after 1 January 2017, not yet endorsed in the EU),
- IFRS 1 "First-time Adoption of International Financial Reporting Standards" (effective for annual periods beginning on or after 1 January 2018, not yet endorsed in the EU), and
- IAS 28 "Investments in Associates and Joint Ventures" (effective for annual periods beginning on or after 1 January 2018, not yet endorsed in the EU).

IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (effective for annual periods beginning on or after 1 January 2018, not yet endorsed in the EU);

Amendments to IAS 40 "Investment Property" - Transfers (effective for annual periods beginning on or after 1 January 2018, not yet endorsed in the EU).

The Group and the Company has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The Group and the Company anticipates that the adoption of all other standards, revisions and interpretations will have no material impact on the financial statements of the Group and the Company in the period of initial application.

Basis of preparation

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union.

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)) and revised Restructuring Plan (decision SA.36612 - 2014/C (ex 2013/NN). The primary objective of the Company is to manage and recover from the residual problematic assets portfolio by maximising its returns to achieve the objectives outlined in the Restructuring plan within the approved time frame until the end of 2017. The financial statements clearly indicate that the Company will not be in a position to fully repay its main liability which is debt securities due to State taking into account the current value of the remaining assets in the balance sheet as at 31 December 2016. Under the Amendments to the Law on Control of Aid for Commercial activity that have become effective on 1 July 2014, the Company is allowed to repay subordinated debts – the principal amount and interest, only after full repayment of the State Aid.

On 3 March 2017 the amendments to Law on Control of Aid for Commercial activity came into force stating that the company who has get into financial difficulties and receives the aid in accordance with regulations on aid for commercial activity ceases its activities and initiates liquidation process not later than six months prior to time frame approved by European Commission decision.

To ensure compliance with decisions by the European Commission and amendments to Law on Control of Aid for Commercial activity the Management Board plans to propose to shareholders meeting to approve initiation of Reverta liquidation as of 1 July 2017.

The consolidated and company financial statements have been prepared on the historical cost basis, except where stated, modified to reflect the estimated recoverable value of assets expected to be sold under estimated normal market conditions, assuming an open, transparent and multi-party sales process. The accounts have not been prepared under a liquidation basis, which would assume a "quick fire sale" market value basis. The financial statements are prepared under the historical cost convention, except for investment properties, which have been measured at fair value.

The consolidated financial statements also include the subsidiaries of the Company (the Group).

The accounting policies used in the preparation of these financial statements have been consistently applied in all periods disclosed in these financial statements. The actual value realized for assets to be liquidated or worked out, which will be undertaken in an open market situation, is likely to vary from the estimated values reported in these financial statements.

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 consolidated financial statements are presented in EUR which is the functional and presentation currency. The accompanying financial statements are prepared in thousands of EUR (EUR'000).

Basis of Consolidation

As at 31 December 2016 and 2015, 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

A key judgment made by the Management is not to report all assets of the Company and the Group as held for sale under IFRS 5, as the Management has concluded that reclassification to Non-Current Assets held for Sale under IFRS 5 is appropriate only at the date all necessary approvals on sale of the respective assets is received. In the opinion of the Management and taking into consideration the reasons described above, an IFRS 5 presentation would not be the most representative to readers of the financial statements. Therefore outstanding loans and properties taken over as collaterals for defaulted loans have been classified in the balance sheet as Loans and Investment properties, respectively. Accordingly, cash flows from recovery of loans and sales of investment properties have been classified as operating cash flows. The valuation principles applied to the assets of the Company are not affected by this judgment as the Management has made the best estimate to report all assets at either fair value or the lower of cost or amortized cost and expected recoverable value.

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. 3% increase in collateral realisation values would result in EUR 1.4 million (2015: EUR 4 million) decrease in the Company’s specific impairment level, whereas 3% decrease in the respective values would result in EUR 1.4 million (2015: EUR 4 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 valuators 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 when it is probable that future economic benefit will flow 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 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 valuators.

Deferred tax asset

As a result of transfer of undertaking, most of the performing assets have been transferred to AS Citadele banka, and in 2016 the management’s forecasts indicate that the Group will not be able to generate taxable profits in foreseeable future and therefore deferred tax asset is not recognised.

Subordinated debt

Subordinated debt is classified as liabilities as contractual obligation to repay it still exists.

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 effective interest rate are recognised immediately in the income statement as fee income. Revenue from services is recognised in the accounting period in which the services are rendered.

Foreign Currency Translation

Transactions denominated in foreign currencies are recorded in EUR 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 EUR at the official rate of exchange set and published by the European Central Bank . 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.

Taxation

For the year ended 31 December 2016 corporate income tax is applied at the rate of 15% (2015: 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) 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 from 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 that 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 10% to 33%. 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:

Category	Annual depreciation rate
Transport vehicles	20%
Other fixed assets	20% - 33%

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 is not subject to amortization. The market value of the investment properties is measured based on the reports prepared by independent valuators 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 for unutilised credit lines or credit card limits, financial guarantees.

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 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 non-financial assets (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 credit institutions with an insignificant risk of changes in value and original maturity of not more than 3 months from the date of acquisition, less demand deposits due to credit institutions. Cash and cash equivalents are measured at amortised cost.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy.

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. In accordance with the Rules of the Cabinet of Ministers of Latvia Republic 69.99% (2015: 71.55%) of the social insurance contributions are used to fund the state defined contribution pension system. 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

	EUR 000’s			
	2016 Group	2015 Group	2016 Company	2015 Company
Interest income:				
- interest on financial assets measured at amortised cost:	219	2,294	698	2,793
- interest on loans and receivables to customers	219	2,289	698	2,788
- interest on balances due from credit institutions	-	5	-	5
Total interest income	**219**	**2,294**	**698**	**2,793**
Interest expense:				
- interest on financial liabilities measured at amortised cost:	(19,469)	(22,174)	(19,502)	(22,174)
- interest on issued debt securities	(19,371)	(22,082)	(19,371)	(22,082)
- interest on subordinated liabilities	(98)	(92)	(98)	(92)
- other (due to subsidiaries)	-	-	(33)	-
Total interest expense	**(19,469)**	**(22,174)**	**(19,502)**	**(22,174)**
Net interest expense	**(19,250)**	**(19,880)**	**(18,804)**	**(19,381)**

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

	EUR 000’s			
	2016 Group	2015 Group	2016 Company	2015 Company
Net foreign exchange gain	564	560	487	307
Net foregn exchange gain	**564**	**560**	**487**	**307**

NOTE 5. OTHER OPERATING INCOME

	EUR 000’s			
	2016 Group	2015 Group	2016 Company	2015 Company
Income from subsidiary management	-	-	844	1,214
Income from Service Level agreements	2	144	2	144
Other income	866	51	690	17
Total other operating income	**868**	**195**	**1,536**	**1,375**

Other income in 2016 include 510k EUR from State revenue authorities being delay penalty on wrongly calculated and collected tax surcharge in 2009.

NOTE 6. REAL ESTATE SEGMENT INCOME AND EXPENSE

	EUR 000's			
	2016 Group	2015 Group	2016 Company	2015 Company
Real estate segment income:				
- Income from sale	*26,368*	*21,935*	*4,715*	*15,234*
- Brokerage	*(116)*	*(111)*	*(13)*	*(52)*
- Cost write-off	*(26,879)*	*(23,087)*	*(5,166)*	*(16,008)*
- Rental income	*334*	*397*	*39*	*1*
Total real estate segment income	**(293)**	**(866)**	**(425)**	**(825)**
Real estate segment expense:				
- Utilities costs	*(100)*	*(189)*	*(26)*	*(20)*
- Maintenance	*(123)*	*(287)*	*(20)*	*(31)*
- Repair	*(64)*	*(92)*	*(6)*	*(31)*
- Insurance	*(11)*	*(22)*	*(7)*	*(8)*
- Security	*(52)*	*(64)*	*(3)*	*(29)*
- Real estate tax	*(422)*	*(486)*	*(86)*	*(130)*
- Valuation services	*(18)*	*(30)*	*(7)*	*(11)*
Total real estate segment expense	**(790)**	**(1,170)**	**(155)**	**(260)**
Revaluation of real estate, net (see Note 14)	(3,318)	(2,503)	(120)	(312)
Net result of RE segment	**(4,401)**	**(4,539)**	**(700)**	**(1,397)**

NOTE 7. ADMINISTRATIVE EXPENSE

	EUR 000's			
	2016 Group	2015 Group	2016 Company	2015 Company
Personnel expense	4,115	4,687	3,720	4,335
Professional fees	1,143	872	1,184	1,019
Rent, utilities, maintenance	283	288	255	379
IT expenses and communications	123	136	116	128
Communication and marketing	169	198	163	187
Travel and transport	55	127	53	125
Insurance	178	153	178	153
Security	18	9	18	22
Other administrative expense	87	230	68	206
Non-refundable VAT	282	308	282	308
Total administrative expense	**6,453**	**7,008**	**6,037**	**6,862**

Fees paid to external auditors:

	EUR 000's			
	2016 Group	2015 Group	2016 Company	2015 Company
Audit of the financial statements	20	23	12	15

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.

	EUR 000's			
	2016 Group	2015 Group	2016 Company	2015 Company
Remuneration				
- key management personnel	536	577	536	577
- other personnel	2,819	3,372	2,501	3,095
Total remuneration for work	**3,355**	**3,949**	**3,037**	**3,672**
Social security contributions:				
- management	121	48	121	48
- other personnel	639	690	562	615
Total social security contributions	**760**	**738**	**683**	**663**
Total personnel expense	**4,115**	**4,687**	**3,720**	**4,335**
Average number of personnel during the year	70	98	63	89

NOTE 9. CHANGES IN IMPAIRMENT ALLOWANCES AND WRITE OFFS

An analysis of the change in allowances for impairment of loans and receivables is presented as follows:

	EUR 000's			
	2016 Group	2015 Group	2016 Company	2015 Company
Total allowance for impairment at the beginning of the year, including:	**603,618**	**635,173**	**610,760**	**642,909**
- loans - specifically assessed impairment	567,033	600,508	574,175	608,244
- loans - collectively assessed impairment	36,585	34,665	36,585	34,665
Charge:	**14,937**	**37,198**	**17,811**	**37,198**
- loans - specifically assessed impairment	13,702	35,278	16,576	35,278
- loans - collectively assessed impairment	1,235	1,920	1,235	1,920
Release::	**(1,480)**	**(23,592)**	**(1,480)**	**(24,437)**
- loans - specifically assessed impairment	(1,480)	(23,592)	(1,480)	(24,437)
Provision charged to the statement of income, including:	**13,457**	**13,606**	**16,331**	**12,761**
- loans - specifically assessed impairment	12,222	11,686	15,096	10,841
- loans - collectively assessed impairment	1,235	1,920	1,235	1,920
Change of allowance due to write-offs	**(119,643)**	**(60,662)**	**(122,293)**	**(60,662)**

Effect of changes in currency exchange rates:	**4,227**	**15,501**	**4,307**	**15,752**
- loans - specifically assessed impairment	4,227	15,501	4,307	15,752
Total allowance for impairment at the end of the year, including:	**501,659**	**603,618**	**509,105**	**610,760**
- loans - specifically assessed impairment	463,839	567,033	471,285	574,175
- loans - collectively assessed impairment	37,820	36,585	37,820	36,585

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

	Regular loans	Utilised credit lines	Other	Total
Outstanding specific impairment as at 31/12/2015	**546,817**	**12,823**	**7,393**	**567,033**
Impairment charge for the reported period - specific	13,702	-	-	13,702
Release of previously established impairment allowance - specific	(1,337)	(143)	-	(1,480)
Impairment charged to the statement of income, net	**12,365**	**(143)**	**-**	**12,222**
Change of allowance due to write-offs, net	(116,616)	(1,954)	(1,073)	(119,643)
Increase in impairment allowance due to currency fluctuations	4,216	10	1	4,227
Outstanding specific impairment as at 31/12/2016	**446,782**	**10,736**	**6,321**	**463,839**

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

	Regular loans	Utilised credit lines	Other	Total
Outstanding specific impairment as at 31/12/2015	**549,430**	**17,350**	**7,393**	**574,173**
Impairment charge for the reported period - specific	13,702	2,874	-	16,576
Release of previously established impairment allowance - specific	(1,337)	(143)	-	(1,480)
Impairment charged to the statement of income, net	**12,365**	**2,731**	**-**	**15,096**
Change of allowance due to write-offs, net	(116,616)	(4,604)	(1,073)	(122,293)
Increase in impairment allowance due to currency fluctuations	4,296	12	1	4,309
Outstanding specific impairment as at 31/12/2016	**449,475**	**15,489**	**6,321**	**471,285**

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

	EUR 000’s			
	2016 Group	2015 Group	2016 Company	2015 Company
Total allowance for impairment at the beginning of the year, including:	**5,974**	**5,613**	**9,990**	**12,775**
- other non-financial assets	5,974	5,613	3,374	5,613
- investments in subsidiaries	-	-	6,616	7,162
Charge:	**4,562**	**2,600**	**7,795**	**-**
- other non-financial assets	4,562	2,600	-	-
- investments in subsidiaries	-	-	7,795	-
Release:	**(655)**	**(986)**	**(655)**	**(1,532)**
- other non-financial assets	(655)	(986)	(655)	(986)
- investments in subsidiaries	-	-	-	(546)
Provision charged to the statement of income, net, including:	**3,907**	**1,614**	**7,140**	**(1,532)**
- other non-financial assets	3,907	1,614	(655)	(986)
- investments in subsidiaries	-	-	7,795	(546)
Change of allowance due to write-offs, net:	**(7,162)**	**(1,253)**	**(4,950)**	**(1,253)**
- other non-financial assets	(7,162)	(1,253)	-	(1,253)
- investments in subsidiaries	-	-	(4,950)	**-**
Total allowance for impairment at the end of the year, including:	**2,719**	**5,974**	**12,180**	**9,990**
- other non-financial assets	2,719	5,974	2,719	3,374
- investments in subsidiaries	-	-	9,461	6,616

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

	EUR 000’s			
	2016 Group	2015 Group	2016 Company	2015 Company
Impairment allowance charged to the statement of income (loans and receivables):	(13,457)	(13,606)	(16,331)	(12,761)
Impairment allowance charged / (credited) to the statement of income, (other non-financial assets)	(3,907)	(1,614)	(7,140)	1,532
Asset write-offs, net	1,003	(8,248)	1,100	(8,250)
Total Impairment of assets	**(16,361)**	**(23,468)**	**(22,371)**	**(19,479)**

NOTE 10. TAXATION

Corporate income tax expense comprises the following items:

	EUR 000's			
	2016 Group	2015 Group	2016 Company	2015 Company
Tax withheld abroad	-	18	-	17
Total corporate income tax expense	**-**	**18**	**-**	**17**

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:

	EUR 000's			
	2016 Group	2015 Group	2016 Company	2015 Company
Loss before corporate income tax	(45,078)	(54,234)	(45,930)	(45,527)
Corporate income tax (at standard rate)*	**(6,762)**	**(8,135)**	**(6,889)**	**(6,829)**
Expenses non-deductible for tax purpose	19,133	15,933	19,036	15,517
Unrecognised deferred tax assets	(12,371)	(7,780)	(12,147)	(8,671)
Total effective corporate income tax	**-**	**18**	**-**	**17**

* standard rate for the year ended 31 December 2016 was 15% (2015: 15%).

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

	EUR 000's			
	2016 Group	2015 Group	2016 Company	2015 Company
Deferred tax assets:				
Vacation pay accrual	-	(23)	-	(23)
Unutilised tax losses	(32,412)	(43,580)	(31,153)	(42,689)
Net deferred corporate income tax (asset)	**(32,412)**	**(43,603)**	**(31,153)**	**(42,712)**
Unrecognised deferred tax asset**	32,412	43,603	31,153	42,712
Recognised deferred corporate income tax (asset)	**-**	**-**	**-**	**-**

** 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 2016 can be specified as follows:

	EUR 000's			
	Balance as at 31/12/2015	Calculated in 2016	Paid in 2016	Balance as at 31/12/2016
Social security contributions	7	(1,041)	1,051	17
Personal income tax	16	(621)	605	-
Value added tax	55	(307)	301	49
Real estate tax	-	(86)	86	-
Total tax (payable)/ receivable	**78**			**66**

NOTE 11. BALANCES DUE FROM CREDIT INSTITUTIONS

	EUR 000's			
	31/12/2016 Group	31/12/2015 Group	31/12/2016 Company	31/12/2015 Company
Due from credit institutions registered in Latvia	8,001	4,212	5,038	1,245
Due from credit institutions registered outside Latvia	248	1,005	213	818
Total balances due from credit institutions	**8,249**	**5,217**	**5,251**	**2,063**

As at 31 December 2016 and 2015, none of the amounts due from credit institutions were past due.

NOTE 12. LOANS AND RECEIVABLES

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

	Group, EUR 000's					
	31/12/2016			31/12/2015		
	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	508,178	-	508,178	670,582	-	670,582
Credit lines	12,245	-	12,245	14,852	-	14,852
Other	6,658	-	6,658	7,728	-	7,728
Total loans and receivables to customers	**527,081**	-	**527,081**	**693,162**	-	**693,162**
Impairment allowance	(501,659)	-	(501,659)	(603,618)	-	(603,618)
Total net loans and receivables to customers	**25,422**	-	**25,422**	**89,544**	-	**89,544**

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

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

	Company, EUR 000's					
	31/12/2016			31/12/2015		
	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	510,875	-	510,875	673,198	-	673,198
Credit lines	23,328	63,401	86,729	34,684	65,654	100,338
Other	6,658	-	6,658	7,728	-	7,728
Total loans and receivables to customers	**540,861**	**63,401**	**604,262**	**715,610**	**65,654**	**781,264**
Impairment allowance	(509,105)	-	(509,105)	(610,758)	-	(610,758)
Total net loans and receivables to customers	**31,756**	**63,401**	**95,157**	**104,852**	**65,654**	**170,506**

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

	EUR 000's			
	31/12/2016 Group	31/12/2015 Group	31/12/2016 Company	31/12/2015 Company
Privately held companies	346,990	486,845	360,770	509,293
Private individuals	180,091	206,317	180,091	206,317
Total gross loans and receivables to customers	**527,081**	**693,162**	**540,861**	**715,610**
Impairment allowance	(501,659)	(603,618)	(509,105)	(610,758)
Total net loans and receivables to customers	**25,422**	**89,544**	**31,756**	**104,852**

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

	EUR 000's			
	31/12/2016 Group	31/12/2015 Group	31/12/2016 Company	31/12/2015 Company
Real estate purchase and management	121,186	218,199	132,269	238,031
Electricity, gas and water supply	100,648	97,454	100,648	97,454
Trade	30,230	32,661	30,230	32,661
Manufacturing	26,551	29,023	26,551	29,023
Transport and communications	16,234	37,999	16,234	37,999
Financial intermediation	15,604	18,668	18,301	21,284
Construction	13,715	16,869	13,715	16,869
Hotels, restaurants	10,246	13,718	10,246	13,718
Other industries	12,576	22,254	12,576	22,254
Total gross loans and receivables to corporate customers	**346,990**	**486,845**	**360,770**	**509,293**

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

	EUR 000's			
	31/12/2016 Group	31/12/2015 Group	31/12/2016 Company	31/12/2015 Company
Latvian residents	335,318	431,492	346,401	450,562
OECD region residents	11,552	39,981	11,552	39,981
Non-OECD region residents	180,211	221,689	182,908	225,067
Total gross loans and receivables	**527,081**	**693,162**	**540,861**	**715,610**
Impairment allowance	(501,659)	(603,618)	(509,105)	(610,758)
Total net loans and receivables	**25,422**	**89,544**	**31,756**	**104,852**

NOTE 13. INVESTMENTS IN SUBSIDIARIES

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

	EUR 000's	
	2016	2015
Balance as at 1 January	**22,201**	**21,655**
Decrease of share capital of subsidiaries	(9,492)	-
Liquidation	(3,201)	-
Impairment allowance on investment	(7,795)	-
Impairment reversal	4,950	546
Balance as at 31 December	**6,663**	**22,201**

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 2016 and 2015, the Company held the following investments in subsidiaries and associates:

			As at 31/12/2016			As at 31/12/2015			Investment carrying value EUR 000’s	
Company	Country of registration	Business profile	Share capital in EUR 000’s	The Company’s share (%)	% of total voting rights	Share capital in EUR 000’s	The Company’s share (%)	% of total voting rights	31/12/2016	31/12/2015
OOO Parex Leasing & Factoring	Georgia	Leasing	31	100.0	100.0	31	100.0	100.0	-	-
Regalite Holdings Limited	Cyprus	Finance	12	100.0	100.0	12	100.0	100.0	-	-
UAB NIF Lietuva	Lithuania	REM*	1,514	100.0	100.0	1,514	100.0	100.0	435	1,265
OU NIF Eesti	Estonia	REM*	3	100.0	100.0	3	100.0	100.0	1	1
SIA NIF Dzīvojamie Īpašumi	Latvia	REM*	8,000	100.0	100.0	17,500	100.0	100.0	4,986	14,701
SIA NIF Komercīpašumi	Latvia	REM*	923	100.0	100.0	923	100.0	100.0	-	-
SIA NIF Zemes Īpašumi	Latvia	REM*	3,640	100.0	100.0	3,640	100.0	100.0	178	1,308
SIA NIF Projekts 1	Latvia	REM*	3	100.0	100.0	3	100.0	100.0	-	-
SIA NIF Projekts 6	Latvia	REM*	4	100.0	100.0	4	100.0	100.0	4	4
SIA NIF Projekts 7	Latvia	REM*	1,978	100.0	100.0	1,978	100.0	100.0	1,058	1,978
SIA NIF Projekts 8**	Latvia	REM*	3,201	100.0	100.0	3,201	100.0	100.0	-	2,943
SIA NIF Projekts 10***	Latvia	REM*	3	100.0	100.0	3	100.0	100.0	-	-
Carnella Maritime Corp.	British Virgin Islands	Finance	1	100.0	100.0	1	100.0	100.0	1	1
Total investments in subsidiaries									**6,663**	**22,201**

* REM - real estate management
** – the company was liquidated and excluded from the Group Structure on 10 January, 2017. *** – the company’s shares have been sold on 20 January, 2017.

NOTE 14. INVESTMENT PROPERTY

Changes in investment property may be specified as follows:

	EUR 000's	
	Group	Company
Balance as at 31 December 2014	**46,466**	**9,703**
Additions	15,089	11,748
Disposals	(23,129)	(16,032)
Property improvement	399	-
Revaluation	(2,503)	(312)
Balance as at 31 December 2015	**36,322**	**5,107**
Additions	6,019	2,990
Disposals	(26,911)	(5,198)
Property improvement	3,662	-
Revaluation	(3,318)	(119)
Consolidation adjustments	(1,880)	-
Balance as at 31 December 2016	**13,894**	**2,780**

Group real estate portfolio comprises 69 units as at 31 December 2016 (2015 – 252), 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 of fair value measurement hierarchy for Group's assets:

	EUR 000's	
	31/12/2016	31/12/2015
Investment properties :		
commercial premises	3,707	7,937
private houses	2,205	10,024
land	1,779	6,575
apartments	691	3,810
development projects	5,512	7,976
	13,894	**36,322**

Quantitative disclosures of fair value measurement hierarchy for Company's assets:

	EUR 000's	
	31/12/2016	31/12/2015
Investment properties :		
commercial premises	1,973	539
private houses	497	1,059
land	298	2,221
apartments	12	704
development projects	-	584
	2,780	**5,107**

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 valuators, 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 in the accounts of the Company and the Group before 31 December , 2015 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 Real Estate valuation principles and methods under Real Estate 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

Real Estate Management Department (REMD) of the Company is in charge of the revaluation process. Revaluation is carried out by Real Estate 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 EUR/m2 or EUR/ha
Residential segment				
Apartments	market comparable method			100-3000
Private houses	market comparable method			50-2000
Land plots				
Residential	market comparable method			0.35-75
Commercial	market comparable method, DCF			0.75-500
Agricultural	market comparable method			600-5000
Forests	market comparable method			500-800
Commercial objects				
Offices	Income capitalization method, DCF	Rent rate	2.5-10 EUR/m^2	
		Occupancy	70%-95%	
		Discount rate	8%-13%	
		Exit yield	9%-12%	
Industrial	Income capitalization method, DCF	Rent rate	0.5-5 EUR/m^2	
		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 Real Estate market activity of respective region. Data on Real Estate markets as to respective segments and regions are obtained from publicly available Real Estate 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 REMD.

Reconciliation of Level 3 assets by classes

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

	commercial premises	private houses	land	apartments	development projects	Total
Balance as at 31 December 2015	**7,937**	**10,024**	**6,575**	**3,810**	**7,976**	**36,322**
Additions	4,816	311	695	197	-	6,019
Disposals	(11,705)	(6,919)	(4,484)	(3,219)	(584)	(26,911)
Property improvement	3,662	-	-	-	-	3,662
Revaluation	(1,003)	(1,211)	(1,007)	(97)	(1,880)	(5,198)
Balance as at 31 December 2016	**3,707**	**2,205**	**1,779**	**691**	**5,512**	**13,894**

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

	commercial premises	private houses	land	apartments	development projects	Total
Balance as at 31 December 2015	**539**	**1,059**	**2,221**	**704**	**584**	**5,107**
Additions	2,640	310	11	29	-	2,990
Disposals	(1,206)	(796)	(1,919)	(693)	(584)	(5,198)
Revaluation	-	(76)	(15)	(28)	-	(119)
Balance as at 31 December 2016	**1,973**	**497**	**298**	**12**	**-**	**2,780**

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 as at 31 December 2015 and 31 December 2016 are valued 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 2016 and 2015, the Group and the Company had the following outstanding debt:

	EUR 000's			
	31/12/2016 Group	31/12/2015 Group	31/12/2016 Company	31/12/2015 Company
due within 1 month	-	-	-	-
due within 1-3 months	2,070	2,568	2,070	2,568
due within 3-6 months	-	-	-	-
due within 6-12 months	384,631	75,587	384,631	75,587
due within 1-5 years	-	349,059	-	349,059
due in more than 5 years	-	-	-	-
Total issued debt securities	**386,701**	**427,214**	**386,701**	**427,214**

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 Aid. Ministry of Finance of Latvia has made a number of deposits on a secured basis, receiving Company's assets as collateral (please refer to Note 20 for details on assets pledged). During 2010 and 2011 part of the Ministry of Finance deposits was repaid by the Company. On 29 December 2011 deposits were converted into debt securities.

In 2016 debt securities were repaid in amount of EUR 59,885k in total, from which EUR 19,870kas interest on State Aid, and EUR 40,015k as the principal amount of the State Aid. Overall, since 1 August 2010, EUR 426.4m has been repaid to the Treasury.

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

NOTE 17. SUBORDINATED DEBT

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

Counterparty	Residence country	Issue size, (EUR 000's)	Interest rate	Original agreement date	Original maturity date	Amortised cost (EUR 000's) 31/12/2016	Amortised cost (EUR 000's) 31/12/2015
Notes-private placement	UK	20,000	4.759%	28/12/2007	28/12/2022	19,285	19,187
Private person	Latvia	10,672	6M Rigibid + 3%	28/09/2007	26/09/2017	10,699	10,699
Private person	Latvia	10,672	6M Rigibid + 3%	28/09/2007	26/09/2017	10,699	10,699
Notes – public issue	n/a	5,350	12%	08/05/2008	08/05/2018	5,444	5,444
Private person	Latvia	15,000	12%	20/06/2008	14/05/2015	15,075	15,075
Private person	Latvia	2,134	6M Rigibid + 3%	30/10/2008	30/10/2018	2,140	2,140
Private person	Latvia	2,134	6M Rigibid + 3%	30/10/2008	30/10/2018	2,140	2,140
Private person	Latvia	3,250	6M Rigibid + 3%	04/12/2008	17/09/2015	3,259	3,259
Private person	Latvia	3,250	6M Rigibid + 3%	04/12/2008	17/09/2015	3,259	3,259
Private person	Latvia	2,015	6M Rigibid + 3%	04/12/2008	29/09/2015	2,020	2,020
Private person	Latvia	2,015	6M Rigibid + 3%	04/12/2008	29/09/2015	2,020	2,020
					Total	**76,040**	**75,942**

The Notes of EUR 20 million Subordinated Debt were attracted through private placement of subordinated notes. The notes were issued at discount and net proceeds amounted to EUR 19,285 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 2016, included in the subordinated debt are EUR 51 million (2015: EUR 51 million) attributable to the former related parties of the Company. These transactions were entered into by previous executive management of the Company. During 2016 no interest on the aforementioned subordinated debt was paid.

Following the Amendments to the Law on Control of Aid for Commercial activity that have become effective on 1 July 2014, Reverta is allowed to repay subordinated debts – the principal amount and interest, only after full repayment of the State Aid. Therefore, starting from 1 July, 2014 Reverta has suspended calculation and repayment of interest, as well as principal.

NOTE 18. ISSUED SHARE CAPITAL

As at 31 December 2016, the Company's registered and paid-in share capital was EUR 442,552 thousand. In accordance with the Company's articles of association, the share capital consists of 3,569,750 thousand ordinary shares with voting rights and 855,770 thousand ordinary shares without voting rights. All shares have a par value of EUR 0.1 each and, as at 31 December 2016, they all were issued and fully paid. As at 31 December 2016, the Company did not possess any of its own shares. No dividends were calculated or paid during 2016 and 2015.

As at 31 December 2016, the Company had 59 (2015: 59) shareholders. The respective shareholdings as at 31 December 2016 and 2015 are specified as follows:

	31/12/2016			31/12/2015		
	Paid-in share capital (EUR 000's)	% of total paid-in capital	% of total voting rights	Paid-in share capital (EUR 000's)	% of total paid-in capital	% of total voting rights
Privatisation Agency	372,413	84.15	82.02	372,413	84.15	82.02
EBRD*	56,391	12.74	15.80	56,391	12.74	15.80
Other	13,748	3.11	2.18	13,748	3.11	2.18
Total	**442,552**	**100.00**	**100.00**	**442,552**	**100.00**	**100.00**

* in accordance with the Restructuring Plan set up for Parex banka and the decision of the Cabinet of Ministers of 15 December 2014 on the restructuring of liabilities towards the European Bank for Reconstruction and Development, the latter has ended its participation in Reverta on 7 March 2017. Henceforth, the Latvian privatisation agency will have a 96.89 % shareholding in Reverta and other shareholders will have 3.11 % of shares.

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 2016 and 2015.

	EUR 000's			
	31/12/2016 Group	31/12/2015 Group	31/12/2016 Company	31/12/2015 Company
Contingent liabilities:				
Outstanding guarantees	1,260	1,260	1,260	1,260
Total contingent liabilities	**1,260**	**1,260**	**1,260**	**1,260**
Financial commitments:				
Credit lines and overdraft facilities	-	-	63,401	65,654
Total financial commitments	**-**	**-**	**63,401**	**65,654**

NOTE 20. ASSETS PLEDGED

	EUR 000's			
	31/12/2016 Group	31/12/2015 Group	31/12/2016 Company	31/12/2015 Company
Due from credit institutions	8,249	5,217	5,251	2,063
Loans to customers	25,422	89,544	31,756	104,852
Investments in subsidiaries	-	-	6,663	22,201
Total assets pledged	**33,671**	**94,761**	**43,670**	**129,116**
Debt securities	386,701	427,214	386,701	427,214
Total liabilities secured by pledged assets	**386,701**	**427,214**	**386,701**	**427,214**

According to pledge agreements, concluded between the Company and Ministry of Finance (represented by State Treasury) loan portfolio, investments in subsidiaries, funds and securities are pledged in favour of Ministry of Finance to secure financing received in the form of state aid from the Ministry of Finance. The respective commercial pledge is registered with Commercial Register, as well as in February-March 2017 mortgages in favour of the Ministry of Finance were registered on 27 real estates owned by the Company. Please refer to Note 16 for more detailed information on financing received from Ministry of Finance.

NOTE 21. LITIGATION AND CLAIMS

On 16 July 2012 N.Kondratjeva submitted a claim to Riga regional court requesting to terminate the Agreement on term deposit acceptance and service concluded in 2008, and repayment of funds invested under this agreement. N.Kondrjateva asked to recover from the Company the principal amount of EUR 5.3 million, paid state duty in the amount of EUR 5.8 thousand and the litigation expenses. Riga regional court rejected this claim in full on 8 March 2013. N.Kontratjeva filed an appeal. On 23 December 2015 the Supreme Court rejected N.Kondratjeva's claim on the termination of the agreement and repayment of funds invested, it terminated the proceeding on the deposit interest recovery and recovered in favor of the Company the litigation costs from N.Kondratjeva. N.Kondratjeva has submitted cassation complaint on the court decision. Cassation complaint has not been accepted for review in the cassation instance court.

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 2008. R.Kargins asks to recover from the Company the principal amount of EUR 15 million, paid state duty in the amount of EUR 10.7 thousand. Riga regional court granted this claim. The Company filed an appeal. On 13 June 2016 the Supreme Court rejected the Company's claim, granted R.Kargins' claim to recover deposited funds, terminated proceedings regarding termination of the Agreement on term deposit acceptance and service, as well as recovered from the Company litigation expenses. The Company submitted cassation complaint on this judgment. On 23 December 2016 Supreme Court judge satisfied R.Kargin's application to secure fulfilment of the appellate instance court judgement by putting pledge marks real estates owned by the Company and restriction marks on shares of several Company's subsidiaries. The Company submitted the application to remove the security, however by 29 March 2017 decision the court satisfied the application only regard shares of 1 subsidiary. By 16 December 2016 decision the Supreme Court action meeting the Company's cassation complaint has been accepted for reviewing in cassation instance. The Supreme Court has invited European Commission to submit its written observations on the case, which at the moment have been submitted and fully support position of the Company in this case – the R.Kargins' claim is ungrounded. Reviewing of the cassation complaint has not been scheduled yet. 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.

On 30 July 2010 the Company filed an application to the Riga Regional Court against V.Kargins and V.Krasovickis as former members of the Board of the Company for suffered losses. Simultaneously the company asked to secure a claim. By a court decision the Company's claim was secured by seizing the defendants' funds. On 21 December 2012 the Riga Regional Court adopted the judgement granting the Company's claim for recovery of 4.9 million euro but rejecting the claim for recovery loses in amount of 80.7 million euro. The Company and the defendants appealed this judgement. By 13 October 2016 decision of the Supreme Court claim in amount of EUR 4.3 million was granted, while recovery of losses in amount of EUR 81.2 million was rejected. By the same decision the court discharged *Reverta* from security payment in amount of EUR 10.1 million paid into court bailiff's account to cover possible losses caused to the defendants, as well as rejected defendants' claim to cover from the Company losses in amount of EUR 6.5 million caused by securing *Reverta's* claim, therefore it will not result in substantial losses for the Company or the Group.

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 litigation costs from clients. The Company and its affiliates are involved in several litigations related to debt recovery of debts and losses from tenants, as well as litigations related to contradictions of the fictitious lease agreements. The Group companies are involved in similar litigations with clients in Latvia or abroad. Taking into account the nature and the amounts of the claims, the Company believes that litigations in which the Company and its subsidiaries are involved as a plaintiff or as a defendant in the 2016 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 Supervisory Board 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 key management is disclosed in Note 8.

The following table presents the outstanding balances and volumes of the Group’s transactions with related parties as at 31 December 2016.

	EUR 000’s 31/12/2016	Income/ expense 01/01/2016 - 31/12/2016	EUR 000’s 31/12/2015	Income/ expense 01/01/2015 - 31/12/2015
Due from credit institutions:	-	-	-	53
Credit Institutions	-	-	-	*53*
Total credit exposure to related parties	**-**	**-**	**-**	**53**
Due to related parties:	386,701	19,371	427,214	22,091
Issued Debt Securities	*386,701*	*19,371*	*427,214*	*22,082*
Credit institutions	-	-	-	*9*
Total amounts due to related parties	**386,701**	**19,371**	**427,214**	**22,091**

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 2016.

	Balance at 31/12/2016	Income/ expense 01/01/2016 - 31/12/2016	Balance at 31/12/2015	Income/ expense 01/01/2015 - 31/12/2015
Credit exposure to related parties				
Due from related parties:	-	843	-	1,267
Credit Institutions	-	-	-	*53*
Subsidiaries	-	*843*	-	*1,214*
Loans and receivables:	13,780	480	22,448	499
Subsidiaries	*13,780*	*480*	*22,448*	*499*
Total credit exposure to related parties	**13,780**	**1,323**	**22,448**	**1,766**
Due to related parties:	386,701	19,701	427,214	22,475
Issued Debt Securities	*386,701*	*19,371*	*427,214*	*22,082*
Credit institutions	-	-	-	*9*
Subsidiaries	-	*330*	-	*384*
Total amounts due to related parties	**386,701**	**19,701**	**427,214**	**22,475**

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 Management 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 2016
EUR 000's:

	Baltic loans	CIS loans	Real Estate	Other	Total
External revenue	**219**	**-**	**(293)**	**-**	**(74)**
External assets					
Loans	381,113	145,968	-	-	527,081
Investment properties	-	-	13,894	-	13,894
Other assets	-	-	-	22,344	22,344
Impairment	(361,279)	(140,380)	-	(2,719)	(504,378)
Total assets	**19,834**	**5,588**	**13,894**	**19,625**	**58,941**
External liabilities	-	-	-	465,943	465,943
Total liabilities	**-**	**-**	**-**	**465,943**	**465,943**

The following table reconciles the management information with these financial statements as at 31 December 2015
EUR 000's:

	Baltic loans	CIS loans	Real Estate	Other	Total
External revenue	**2,025**	**264**	**(2,036)**	**-**	**253**
External assets					
Loans	548,757	144,405	-	-	693,162
Investment properties	-	-	36,322	-	36,322
Other assets	-	-	-	24,474	24,474
Impairment	(472,450)	(131,168)	-	(5,972)	(609,590)
Total assets	**76,307**	**13,237**	**36,322**	**18,502**	**144,368**
External liabilities	-	-	-	506,292	506,292
Total liabilities	**-**	**-**	**-**	**506,292**	**506,292**

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 polices

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 - Finance, Risk Management & Operational Department.

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 into its loan restructuring and loan recovery activities.

Credit risk management is based on risk assessment and decision-making. For material risks, risk analysis is conducted by independent Finance, Risk Management & Operational Department. 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 Finance, Risk Management & Operational Department.

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

	Group, EUR 000's			
	31/12/2016			
	Regular loans	Utilised credit lines	Other	Total
Not delayed - not impaired	5,466	-	-	5,466
Not delayed - impaired	12,862	-	-	12,862
Total not delayed loans	**18,328**	**-**	**-**	**18,328**
Past due loans - not impaired				
Delayed days:				
=< 29	261	-	-	261
30-59	396	-	-	396
60-89	260	-	-	260
90 and more	3,806	355	274	4,435
Total past due loans - not impaired	**4,723**	**355**	**274**	**5,352**
Total past due loans - impaired	**485,127**	**11,890**	**6,384**	**503,401**
Total gross loans and receivables to customers	**508,178**	**12,245**	**6,658**	**527,081**
Impairment allowance	(484,602)	(10,736)	(6,321)	(501,659)
Total net loans and receivables to customers	**23,576**	**1,509**	**337**	**25,422**

Mostly, not-delayed loans falling into categories "regular loans" are secured by collateral. More than 40% of the not delayed loans and more than 15% of total loans are secured by real estate collateral.

	Group, EUR 000's			
	31/12/2015			
	Regular loans	Utilised credit lines	Other	Total
Not delayed - not impaired	7,703	45	-	7,748
Not delayed - impaired	55,160	107	-	55,267
Total not delayed loans	**62,863**	**152**	**-**	**63,015**
Past due loans - not impaired				
Delayed days:				
=< 29	1,106	-	-	1,106
30-59	790	-	-	790
60-89	103	-	-	103
90 and more	10,302	402	273	10,977
Total past due loans - not impaired	**12,301**	**402**	**273**	**12,976**
Total past due loans - impaired	**595,418**	**14,298**	**7,455**	**617,171**
Total gross loans and receivables to customers	**670,582**	**14,852**	**7,728**	**693,162**
Impairment allowance	(581,537)	(14,668)	(7,413)	(603,618)
Total net loans and receivables to customers	**89,045**	**184**	**315**	**89,544**

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

	Company, EUR 000's			
	31/12/2016			
	Regular loans	Utilised credit lines	Other	Total
Not delayed - not impaired	5,466	-	-	5,466
Not delayed - impaired	12,862	11,083	-	23,945
Total not delayed loans	**18,328**	**11,083**	**-**	**29,411**
Past due loans - not impaired				
Delayed days:				
=< 29	261	-	-	261
30-59	396	-	-	396
60-89	260	-	-	260
90 and more	3,806	355	274	4,435
Total past due loans - not impaired	**4,723**	**355**	**274**	**5,352**
Total past due loans - impaired	**487,824**	**11,890**	**6,384**	**506,098**
Total gross loans and receivables to customers	**510,875**	**23,328**	**6,658**	**540,861**
Impairment allowance	(487,295)	(15,489)	(6,321)	(509,105)
Total net loans and receivables to customers	**23,580**	**7,839**	**337**	**31,756**

	Company, EUR 000's			
	31/12/2015			
	Regular loans	Utilised credit lines	Other	Total
Not delayed - not impaired	7,703	19,877	-	27,580
Not delayed - impaired	55,160	107	-	55,267
Total not delayed loans	**62,863**	**19,984**	**-**	**82,847**
Past due loans - not impaired				
Delayed days:				
=< 29	1,106	-	-	1,106
30-59	790	-	-	790
60-89	103	-	-	103
90 and more	10,302	402	273	10,977
Total past due loans - not impaired	**12,301**	**402**	**273**	**12,976**
Total past due loans - impaired	**598,034**	**14,298**	**7,455**	**619,787**
Total gross loans and receivables to customers	**673,198**	**34,684**	**7,728**	**715,610**
Impairment allowance	(584,150)	(19,195)	(7,413)	(610,758)
Total net loans and receivables to customers	**89,048**	**15,489**	**315**	**104,852**

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 2016 and 2015 by geographical profile. The grouping is done based on information about the residence of the respective counterparties.

	Group as at 31/12/2016, EUR 000's					
	Latvia	Lithuania	Other EU countries	CIS countries	Other countries	Total
Assets						
Balances due from credit institutions	8,003	229	12	5	-	8,249
Loans	13,228	4,366	2,215	5,587	26	25,422
Investment properties	13,756	138	-	-	-	13,894
Other assets	11,030	342	4	-	-	11,376
Total assets	**46,017**	**5,075**	**2,231**	**5,592**	**26**	**58,941**
Liabilities						
Financial liabilities measured at amortised cost	462,741	-	-	-	-	462,741
Other liabilities	2,989	149	50	3	11	3,202
Total liabilities	**465,730**	**149**	**50**	**3**	**11**	**465,943**
Equity	(407,002)	-	-	-	-	(407,002)
Total liabilities and equity	**58,728**	**149**	**50**	**3**	**11**	**58,941**
Memorandum items						
Contingent liabilities	-	-	1,260	-	-	1,260

	Group as at 31/12/2015, EUR 000's					
	Latvia	Lithuania	Other EU countries	CIS countries	Other countries	Total
Assets						
Balances due from credit institutions	4,213	986	13	-	5	5,217
Loans	42,430	19,467	14,094	13,237	316	89,544
Investment properties	34,984	1,338	-	-	-	36,322
Other assets	13,039	221	23	-	2	13,285
Total assets	**94,666**	**22,012**	**14,130**	**13,237**	**323**	**144,368**
Liabilities						
Financial liabilities measured at amortised cost	503,156	-	-	-	-	503,156
Other liabilities	2,914	162	47	2	11	3,136
Total liabilities	**506,070**	**162**	**47**	**2**	**11**	**506,292**
Equity	(361,924)	-	-	-	-	(361,924)
Total liabilities and equity	**144,146**	**162**	**47**	**2**	**11**	**144,368**
Memorandum items						
Contingent liabilities	-	-	1,260	-	-	1,260

	Company as at 31/12/2016, EUR 000's					
	Latvia	Lithuania	Other EU countries	CIS countries	Other countries	Total
Assets						
Balances due from credit institutions	5,039	207	-	5	-	5,251
Loans	19,557	4,367	2,219	5,587	26	31,756
Investments in subsidiaries	6,226	435	2	-	-	6,663
Investment properties	2,780	-	-	-	-	2,780
Other assets	10,773	-	-	-	-	10,773
Total assets	**44,375**	**5,009**	**2,221**	**5,592**	**26**	**57,223**
Liabilities						
Financial liabilities measured at amortised cost	462,741	-	-	-	-	462,741
Other liabilities	1,328	-	19	3	11	1,361
Total liabilities	**464,069**	**-**	**19**	**3**	**11**	**464,102**
Equity	(406,879)	-	-	-	-	(406,879)
Total liabilities and equity	**57,190**	**-**	**19**	**3**	**11**	**57,223**
Memorandum items						
Contingent liabilities	-	-	1,260	-	-	1,260
Financial commitments	63,401	-	-	-	-	63,401

	Company as at 31/12/2015, EUR 000's					
	Latvia	Lithuania	Other EU countries	CIS countries	Other countries	Total
Assets						
Balances due from credit institutions	1,245	813	-	5	-	2,063
Loans	57,146	20,056	14,097	13,237	316	104,852
Investments in subsidiaries	20,934	1,265	2	-		22,201
Investment properties	5,107	-	-	-	-	5,107
Other assets	10,383	-	-	-	-	10,383
Total assets	**94,815**	**22,134**	**14,099**	**13,242**	**316**	**144,606**
Liabilities						
Financial liabilities measured at amortised cost	503,156	-	-	-	-	503,156
Other liabilities	2,386	-	-	2	11	2,399
Total liabilities	**505,542**	**-**	**-**	**2**	**11**	**505,555**
Equity	(360,949)	-	-	-	-	(360,949)
Total liabilities and equity	**144,593**	**-**	**-**	**2**	**11**	**144,606**
Memorandum items						
Contingent liabilities	-	-	1,260	-	-	1,260
Financial commitments	62,402	3,252	-	-	-	65,654

FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The concept of fair value assumes realisation of financial instruments by a way of sale. 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. However, in many cases, particularly in respect of loans and receivables to/from 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 hierarchy

For illiquid financial assets and liabilities, including loans and receivables from customers, there are, by definition, no active markets. Accordingly, all fair values are classified under Level 3, 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

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 credit institutions 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 from customers

The estimated fair values of loans and receivables are calculated using discounted cash flow techniques based on estimated future cash flows, including estimated recoveries of collateral and estimated discount rates. For collateral-dependent impaired loans, fair value is measured based on the estimated value of the underlying collateral and estimated time to recover and input into the model may include data from third party valuation experts and information obtained from public sources.

Issued debt

Fair value of the issued bonds is expected to be significantly smaller than their balance sheet value due to accrued losses of the Company. Fair value of the issued bonds 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 Finance, Risk Management & Operational Department.

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 increase in the Group's and Company's pre-tax loss would amount to approximately EUR 60 thousand and EUR 60 thousand as at 31 December 2016 and EUR 56 thousand and EUR 58 thousand as at 31 December 2015, 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 2016 and 2015 by currency profile:

	Group as at 31/12/2016, EUR 000's			
	EUR	USD	Other	Total
Assets				
Balances due from credit institutions	7,687	444	118	8,249
Loans	19,990	5,426	6	25,422
Investment properties	13,894	-	-	13,894
Other assets	11,305	-	71	11,376
Total assets	**52,876**	**5,870**	**195**	**58,941**
Liabilities				
Financial liabilities measured at amortised cost	462,741	-	-	462,741
Other liabilities	3,202	-	-	3,202
Total liabilities	**465,943**	**-**	**-**	**465,943**
Equity	(407,002)	-	-	(407,002)
Total liabilities and equity	**58,941**	**-**	**-**	**58,941**
Net long/ (short) position as at 31 December 2016	(6,065)	5,870	195	-
Memorandum items				
Contingent liabilities	1,260	-	-	1,260

	Group as at 31/12/2015, EUR 000's			
	EUR	USD	Other	Total
Assets				
Balances due from credit institutions	4,743	316	158	5,217
Loans	84,506	4,990	48	89,544
Investment properties	36,322	-	-	36,322
Other assets	13,178	-	107	13,285
Total assets	**138,749**	**5,306**	**313**	**144,368**
Liabilities				
Financial liabilities measured at amortised cost	503,156	-	-	503,156
Other liabilities	3,136	-	-	3,136
Total liabilities	**506,292**	**-**	**-**	**506,292**
Equity	(361,924)	-	-	(361,924)
Total liabilities and equity	**144,368**	**-**	**-**	**144,368**
Net long/ (short) position as at 31 December 2015	(5,619)	5,306	313	-
Memorandum items				
Contingent liabilities	1,260	-	-	1,260

	Company as at 31/12/2016, EUR 000's			
	EUR	USD	Other	Total
Assets				
Balances due from credit institutions	4,689	444	118	5,251
Loans	26,321	5,426	9	31,756
Investments in subsidiaries	6,662	1	-	6,663
Investment properties	2,780	-	-	2,780
Other assets	10,702	-	71	10,773
Total assets	**51,154**	**5,871**	**198**	**57,223**
Liabilities				
Financial liabilities measured at amortised cost	462,741	-	-	462,741
Other liabilities	1,361	-	-	1,361
Total liabilities	**464,102**	**-**	**-**	**464,102**
Equity	(406,879)	-	-	(406,879)
Total liabilities and equity	**57,223**	**-**	**-**	**57,223**
Net long/ (short) position as at 31 December 2016	(6,069)	5,871	198	-
Memorandum items				
Contingent liabilities	1,260	-	-	1,260
Financial commitments	63,401	-	-	63,401

	Company as at 31/12/2015, EUR 000's			
	EUR	USD	Other	Total
Assets				
Balances due from credit institutions	1,589	316	158	2,063
Loans	99,812	4,989	51	104,852
Investments in subsidiaries	22,200	1	-	22,201
Investment properties	5,107	-	-	5,107
Other assets	10,281	-	102	10,383
Total assets	**138,989**	**5,306**	**311**	**144,606**
Liabilities				
Financial liabilities measured at amortised cost	503,156	-	-	503,156
Other liabilities	2,399	-	-	2,399
Total liabilities	**505,555**	**-**	**-**	**505,555**
Equity	(360,949)	-	-	(360,949)
Total liabilities and equity	**144,606**	**-**	**-**	**144,606**
Net long/ (short) position as at 31 December 2015	(5,617)	5,306	311	-
Memorandum items				
Contingent liabilities	1,260	-	-	1,260
Financial commitments	65,654	-	-	65,654

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 are ensured by the Finance, Risk Management & Operational Department. The main source of liquidity is debt securities issued by the Company.

Group's assets, liabilities and memorandum items by contractual maturity structure as at 31 December 2016

	Group as at 31/12/2016, EUR 000's			
	Within 1 year	1-5 years	Over 5 years	Total
Assets				
Balances due from credit institutions	8,249	-	-	8,249
Loans	7,992	6,226	11,204	25,422
Investment properties	13,894	-	-	13,894
Other assets	11,376	-	-	11,376
Total assets	**41,511**	**6,226**	**11,204**	**58,941**
Liabilities				
Financial liabilities measured at amortised cost	462,741	-	-	462,741
Other liabilities	3,202	-	-	3,202
Total liabilities	**465,943**	**-**	**-**	**465,943**
Equity	(407,002)	-	-	(407,002)
Total liabilities and equity	**58,941**	**-**	**-**	**58,941**
Net balance sheet position – long/ (short)	(17,430)	6,226	11,204	-
Memorandum items				
Contingent liabilities (outstanding guarantees)	1,260	-	-	1,260

Group's contractual undiscounted cash flows of the financial liabilities as at 31 December 2016

The following table represents the analysis of the estimated contractual cash flows arising from Group's financial liabilities as at 31 December 2016:

	EUR 000's			
	Within 1 year	1-5 years	Over 5 years	Total contractual cash flows
Financial liabilities measured at amortised cost	469,602	-	-	469,602
Memorandum items				
Contingent liabilities (outstanding guarantees)	1,260	-	-	1,260

Group's assets, liabilities and memorandum items by contractual maturity structure as at 31 December 2015

	Group as at 31/12/2015, EUR 000's			
	Within 1 year	1-5 years	Over 5 years	Total
Assets				
Balances due from credit institutions	5,217	-	-	5,217
Loans	39,234	29,289	21,021	89,544
Investment properties	-	36,322	-	36,322
Other assets	-	13,285	-	13,285
Total assets	**44,451**	**78,896**	**21,021**	**144,368**
Liabilities				
Financial liabilities measured at amortised cost*	78,510	424,646	-	503,156
Other liabilities	3,136	-	-	3,136
Total liabilities	**81,646**	**424,646**	**-**	**506,292**
Equity	-	-	(361,924)	(361,924)
Total liabilities and equity	**81,646**	**424,646**	**(361,924)**	**144,368**
Net balance sheet position – long/ (short)	(37,195)	(345,750)	382,945	-
Memorandum items				
Contingent liabilities (outstanding guarantees)	1,260	-	-	1,260

* In March 2015, the new State Aid repayment schedule has been agreed with Ministry of Finance (for details see note 16).

Group's contractual undiscounted cash flows of the financial liabilities as at 31 December 2015

The following table represents the analysis of the estimated contractual cash flows arising from Group's financial liabilities as at 31 December 2015:

	EUR 000's			
	Within 1 year	1-5 years	Over 5 years	Total contractual cash flows
Financial liabilities measured at amortised cost	96,891	424,646	-	521,537
Memorandum items				
Contingent liabilities (outstanding guarantees)	1,260	-	-	1,260

Company’s assets, liabilities and memorandum items by contractual maturity structure as at 31 December 2016

	Company as at 31/12/2016, EUR 000’s			
	Within 1 year	1-5 years	Over 5 years	Total
Assets				
Balances due from credit institutions	5,251	-	-	5,251
Loans	14,326	6,226	11,204	31,756
Investments in subsidiaries	6,663	-	-	6,663
Investment properties	2,780	-	-	2,780
Other assets	10,773	-	-	10,773
Total assets	**39,793**	**6,226**	**11,204**	**57,223**
Liabilities				
Financial liabilities measured at amortised cost	462,741	-	-	462,741
Other liabilities	1,361	-	-	1,361
Total liabilities	**464,102**	**-**	**-**	**464,102**
Equity	(406,879)	-	-	(406,879)
Total liabilities and equity	**57,223**	**-**	**-**	**57,223**
Net balance sheet position – long/ (short)	(17,430)	6,226	11,204	-
Memorandum items				
Contingent liabilities (outstanding guarantees)	1,260	-	-	1,260
Financial commitments	63,401	-	-	63,401

Company’s contractual undiscounted cash flows of the financial liabilities as at 31 December 2016

	EUR 000’s			
	Within 1 year	1-5 years	Over 5 years	Total contractual cash flows
Financial liabilities measured at amortised cost	469,602	-	-	469,602
Memorandum items				
Contingent liabilities (outstanding guarantees)	1,260	-	-	1,260
Financial commitments	63,401	-	-	63,401

Company's assets, liabilities and memorandum items by contractual maturity structure as at 31 December 2015

	Company as at 31/12/2015, EUR 000's			
	Within 1 year	1-5 years	Over 5 years	Total
Assets				
Balances due from credit institutions	2,063	-	-	2,063
Loans	54,542	29,289	21,021	104,852
Investments in subsidiaries	-	22,201	-	22,201
Investment properties	-	5,107	-	5,107
Other assets	-	10,383	-	10,383
Total assets	**56,605**	**66,980**	**21,021**	**144,606**
Liabilities				
Financial liabilities measured at amortised cost	78,510	424,646	-	503,156
Other liabilities	2,399	-	-	2,399
Total liabilities	**80,909**	**424,646**	**-**	**505,555**
Equity	-	-	(360,949)	(360,949)
Total liabilities and equity	**80,909**	**424,646**	**(360,949)**	**144,606**
Net balance sheet position – long/ (short)	(24,304)	(357,666)	381,970	-
Memorandum items				
Contingent liabilities (outstanding guarantees)	1,260	-	-	1,260
Financial commitments	65,654	-	-	65,654

Company's contractual undiscounted cash flows of the financial liabilities as at 31 December 2015

	EUR 000's			
	Within 1 year	1-5 years	Over 5 years	Total contractual cash flows
Financial liabilities measured at amortised cost	96,891	424,646	-	521,537
Memorandum items				
Contingent liabilities (outstanding guarantees)	1,260	-	-	1,260
Financial commitments	65,654	-	-	65,654

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

At the end of January 2017, four potential investors commenced an in-depth analysis of Reverta's loan portfolios. In March 2017 investors submitted their binding offers and currently the management are evaluating them.

In February 2017 Reverta made another regular interest payment to the State Treasury in the amount of EUR 3.7 m.

On 7 March 2017 in accordance with the Restructuring Plan set up for Parex banka and the decision of the Cabinet of Ministers of 15 December 2014 on the restructuring of liabilities towards the European Bank for Reconstruction and Development, the latter has ended its participation in Reverta.

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INDEPENDENT AUDITOR'S REPORT
(Translation of the Latvian original)*

To the Shareholders of AS "Reverta"

Report on the audit of the consolidated and separate financial statements

Our opinion

In our opinion, the consolidated and separate financial statements set out on pages 7 to 50 of the accompanying annual report, give a true and fair view of the consolidated financial position of AS Reverta (the "Company") and its subsidiaries (the "Group") as at 31 December 2016, of the financial position of the Company standing alone as at 31 December 2016, and of their consolidated and separate financial performance and their consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS).

What we have audited

The consolidated and separate financial statements (together the "financial statements") comprise:

- the consolidated and separate statements of financial position as at 31 December 2016;
- the consolidated and separate statements of comprehensive income for the year then ended;
- the consolidated and separate statements of changes in equity for the year ended;
- the consolidated and separate statements of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

We are independent of the Group and the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements and auditor's independence rules that are relevant to our audit of the financial statements in the Republic of Latvia. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Emphasis of matter

We draw attention to Note 2 "Basis of preparation", which refers to the fact that the Management Board of the Group and the Company, in order to ensure compliance with the decisions of the European Commission and the amendments to Law on Control of Aid for Commercial Activity, plans to propose to the shareholders' meeting to approve the initiation of liquidation of the Company as of 1 July 2017. These financial statements have therefore been prepared using an alternative basis of accounting as described in Note 2 "Basis of preparation". Our opinion is not modified in respect of this matter.

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Our audit approach

Overview

Materiality

- Overall Company and Group materiality is 429 thousand EUR, which represents approximately 0.75% of total separate and consolidated assets.

Audit scope

- We conducted full scope audit of the Company and 3 subsidiaries in Latvia.
- Our full scope audit addressed substantially all of the Group's revenues and 99% of total assets.

Key audit matters

- Allowance for impairment of loans.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall Company materiality	Overall materiality is EUR 429 thousand.
Overall Group materiality	Overall materiality is EUR 429 thousand.
How we determined it	Overall materiality is approximately 0.75% of separate and consolidated total assets.
Rationale for the materiality benchmark applied	We chose total assets as the benchmark because, in our view, it is an appropriate measure of the size of the entity, and changes in it indicate the performance of the Company. Therefore, total assets and changes in it are commonly utilised by stakeholders of investment companies, and they are generally accepted benchmarks.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above EUR 21 thousand, as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

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

Key audit matter	*How our audit addressed the key audit matter*
Impairment of loans *Refer to pages 14-15 (Note 2 section 'Critical accounting estimates'), pages 16-18 (Note 2 section 'Financial instruments'), pages 23-25 (Note 9 'Changes in impairment allowances and write offs') and pages 38-42 (Note 24 section 'Credit risk').* We focused on this area because management makes complex and subjective judgements over both timing of recognition of impairment and the estimation of the size of any such impairment. Impairment loss on loans for the year ended 31 December 2016 amounted to EUR 16.3 million in the Company and EUR 13.5 million in the Group. The amount of impairment provision for Company's and Group's loan portfolio is mainly based on the individual assessment of loans exceeding EUR 100,000 and collateralised loans not exceeding EUR 100,000 by taking into consideration the internal credit rating of the customer and other known heightened risk factors. Individual impairment is calculated based on the exposure and taking into account estimated future cash flows from the customer and market value of the collateral as at the balance sheet date. In addition to individual assessment, impairment for small loans (making up approximately 9 per cent of total loan portfolio of the Company and the Group, respectively) is calculated on a collective basis, taking into account historical performance of customers, the probability of default, loss given default and other factors. The most significant judgments made by Management in respect of impairment of loans, relate to:	We assessed whether the Company's and the Group's accounting policies in relation to the impairment of loans to customers are in compliance with IFRS. We assessed the design and operating effectiveness of the controls over impairment calculation for individually assessed loans, and collectively assessed loans, by analysing the controls and testing them on a sample basis. These controls included those over the credit file periodic review, credit rating assessment, and monitoring of collateral values and the calculation of the collective impairment provisions. We determined that we could rely on these controls for the purposes of our audit. We selected a sample of individually assessed loans and analysed customer financial information, collateral data and other available information to assess if appropriate credit rating is applied to a customer; whether loss event is timely identified; and whether the estimated future cash flow from customer and from realisation of collaterals is properly estimated for customers with identified loss event. We also checked if the impairment amount is correctly calculated in applying these estimates and assumptions. We also performed detailed testing over: the completeness and accuracy of data in impairment model for collective impairment assessment; the completeness of individual impairment assessment and calculations. We read the disclosures in respect of impairment and credit risk. Based on the evidence obtained, we found

Monitoring over the timely identification of loss events. Estimates of future cash flows from customers, including collaterals. Input data used for determining the parameters used in the collective assessment for impairment.	management's assumptions to be reasonable and the disclosures to be appropriate.

How we tailored our audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which the Group and the Company operate. We performed full scope audit of the Company and 3 subsidiaries, and performed audit procedures over material account balances and classes of transactions of those subsidiaries included in consolidation which we did not audit.

Other information

Management is responsible for the other information. The other information comprises:

- the *Management Report*, as set out on pages 3 to 4 of the accompanying Annual Report,
- the *Statement of Responsibility of the Management*, as set out on page 6 of the accompanying Annual Report, and
- Information on the composition of the Council and the Board, as set out on page 5 of the accompanying Annual Report.

but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information included in the Annual Report and we do not express any form of assurance conclusion thereon, except as described in the Other Reporting Responsibilities in Accordance with the Legislation of the Republic of Latvia section of our report.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed and in light of the knowledge and understanding of the entity and its environment obtained in the course of our audit, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Reporting Responsibilities in Accordance with the Legislation of the Republic of Latvia

In addition, in accordance with the Law on Audit Services with respect to the Management Report, our responsibility is to consider whether the Management Report is prepared in accordance with the requirements of the Law on Annual Reports and Consolidated Annual Reports.

Based solely on the work required to be undertaken in the course of our audit, in our opinion, in all material respects:

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

In accordance with the Law on Audit Services of the Republic of Latvia with respect to the Statement of Corporate Governance, our responsibility is to consider whether the Statement of Corporate Governance includes the information required in clause 56.², section 3 point 1 of the Financial Instruments Market Law of the Republic of Latvia.
Based solely on the work required to be undertaken in the course of our audit, in our opinion, in all material respects, the Statement of Corporate Governance available at the Company's webpage http://www.reverta.lv/ as at the date of this audit report, includes the information required in clause 56.², section 3 point 1 of the Financial Instruments Market Law of the Republic of Latvia.

PricewaterhouseCoopers SIA
Certified audit company
Licence No. 5

Ilandra Lejiņa
Certified auditor in charge
Certificate No. 168
Member of the Board

Riga, Latvia
28 April 2017