ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2012

TOGETHER WITH INDEPENDENT AUDITORS’ REPORT

REVERTA

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Management Report

Dear shareholders and partners!

Reverta's performance during 2012 has been in line with the approved strategic guidelines and the Company has met the key target of the year repaying to the Treasury EUR 89.7m. Of that, EUR 28.5m was paid as interest on State Aid, and EUR 61.2m was used to repay the principal amount of the State Aid. Overall, since 1st August 2010, EUR 100.5m has been repaid to the Treasury. In addition to that, in 2011, Reverta also repaid State guaranteed syndicated loan in the amount of EUR 234m.

In summary, in 2012 Reverta operated in accordance with the approved Restructuring Plan, but was ahead of the Plan with respect to recovering funds for the State Treasury and still kept its Operating Costs well within its Budget.

The funds used to repay State Aid came through loan restructuring, from the sales of separate claim rights, and from sales of real estate which started in the last quarter of 2012.

Reverta has already pointed out several times to the external factors considerably influencing the performance of the Company. The general macroeconomic situation, difficulties in the real estate market, the inability of Reverta's clients to meet their obligations, deficiencies of certain laws and the heavy work schedule of the courts are the main challenges. Reverta's work is challenged by the inconsistencies that exist in current laws that cover the Company's activities with regards to repossession and management of real estates, exercising the rights of the creditor within insolvency processes and others. Therefore, Reverta has several times addressed State agencies, law enforcement institutions and the public to point out the importance and urgency of resolving these issues in the interests of the State and the taxpayers.

Taking into account the usually complicated and lengthy litigations going on in Baltics and the CIS countries, as well as the active counteractions of some borrowers, including black PR campaigns, in many cases it is impossible to sell pledged property in a reasonable timeframe. As a result, the value of assets significantly decreases, and this adds to the Company's losses. Reverta ended the year with a EUR137.7m loss, of which, 77%, was related to losses in values of loans. Issues with certain documents also makes recovery of loans difficult and shows that the former shareholders of Parex banka did not pass the company to the State in the order that would be expected from diligent owners. There is also a marked difference between the valuations given to the pledge objects serving as securities for the loans issued by Parex banka and their current market value. Quite often, value of the repossessed objects, mostly real estates, has decreased even by 70%. Although there are some signs of the recovery of the economy of Latvia, it is unlikely that real estate prices could increase up to those of the pre-crisis. In view of the specifics of the Company's assets, no profit can be expected in future.

Notwithstanding the many negative factors, overall Reverta has recovered EUR107m from its distressed assets portfolio by the end of the reporting period, and more than EUR419m since August 2010. The results achieved clearly show the suitability of the chosen strategy and the ability of Reverta to achieve optimum results in complex and even extreme situations.

Repossession and sales of real estates are taking up a more and more important part of Reverta’s business – at the end of 2012 the repossessed real estate portfolio had increased up to more than 1000 items. As the real estate management strategy envisages increase of the value of the assets in the most optimum amount and a gradual realisation of the real estates, most of the objects are offered for sale immediately after their repossession and after carrying out any necessary maintenance works. In October and November 2012, Reverta broke another record in regard to the total real estate sales amount by reaching EUR5.3m. The previous record was broken in September 2012 with 23 repossessed objects sold for the total of EUR1.1m.

Most significant events after the end of the reporting period

In February 2013, Reverta made a EUR7.1m interest payment to the Treasury in accordance with the Restructuring Plan.

In February 2013, with the numbers of repossessed real estate rapidly increasing, Reverta has started an active real estate sales campaign. The primary objective of the campaign is to present Reverta as a seller of real estate. This is to promote sales of immovable properties whilst we continue to repossess other distressed real estate properties.

Christopher John Gwilliam
Chairman of the Management Board

Solvita Deglava
Member of the Management Board

Ruta Amtmane
Member of the Management Board

Riga,
28 March 2013

The Council and the Management Board

The Council

Name	***Position***
Michael Joseph Bourke	Chairman of the Council
Sarmīte Jumīte	Deputy chairwoman of the Council
Vladimirs Loginovs	Member of the Council
Mary Ellen Collins	Member of the Council

The Management Board

Name	***Position***
Christopher John Gwilliam	Chairman of the Management Board, p.p.
Solvita Deglava	Member of the Management Board, p.p.
Jurijs Adamovičs	Member of the Management Board (till 20.07.2012)
Ruta Amtmane	Member of the Management Board (from 21.07.2012)

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 57 are prepared in accordance with the source documents and present fairly the financial position of the Company and the Group as at 31 December 2012 and the results of their operations, changes in shareholders' equity and cash flows for the twelve month period ended 31 December 2012. The management report set out on pages 3 to 4 presents fairly the financial results of the reporting period and future prospects of the Company and the Group.

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

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

Christopher John Gwilliam
Chairman of the Management Board

Solvita Deglava
Member of the Management Board

Ruta Amtmane
Member of the Management Board

Riga,
28 March 2013

Statements of Comprehensive Income

	Notes	LVL 000's			
		2012	2011	2012	2011
		Group	Group	Company	Company
Interest income	3	7,369	11,412	7,516	10,821
Interest expense	3	(26,344)	(33,080)	(26,344)	(32,996)
Net interest expense		**(18,975)**	**(21,668)**	**(18,828)**	**(22,175)**
Commission and fee income		135	322	83	4
Commission and fee expense		(21)	(140)	(17)	(58)
Net commission and fee income / (expense)		**114**	**182**	**66**	**(54)**
Net realised loss on available-for-sale financial assets	4	(32)	(3,662)	(32)	(3,662)
Result of revaluation of financial instruments and foreign currency, net	4	1,846	(455)	1,722	(582)
Other income	5	361	2,138	922	1,415
Net financial result of the segment		**(16,686)**	**(23,465)**	**(16,150)**	**(25,058)**
Real estate segment income		1,312	522	362	419
Real estate segment expense		(1,127)	(447)	(198)	(271)
Revaluation result, net		4,290	(1,186)	4,042	(1,437)
Net result of RE segment	**6**	**4,475**	**(1,111)**	**4,206**	**(1,289)**
Collaterals and assets under repossession expense		(278)	(116)	(278)	(116)
Administrative expense	7,8	(9,373)	(11,169)	(8,955)	(7,801)
Amortisation and depreciation charge	15,16	(293)	(373)	(291)	(272)
Impairment charges and reversals, net	9	(71,028)	(32,101)	(72,465)	(33,928)
Loss from asset write-offs		(2,452)	(1,540)	(2,452)	(1,540)
(Loss)/profit on disposal of assets held for sale		(142)	17	(93)	(178)
Loss before taxation		**(95,777)**	**(69,858)**	**(96,478)**	**(70,182)**
Corporate income tax	10	(346)	(632)	(315)	(192)
Loss for the year		**(96,123)**	**(70,490)**	**(96,793)**	**(70,374)**
Attributable to:					
Shareholders of the parent company		(96,123)	(70,490)	(96,793)	(70,374)
Non-controlling interest		-	-	-	-
Other comprehensive income:					
Change in fair value of available-for-sale securities		487	4,198	487	4,198
Total comprehensive loss for the year		**(95,636)**	**(66,292)**	**(96,306)**	**(66,176)**
Attributable to:					
Shareholders of the parent company		(95,636)	(66,292)	(96,306)	(66,176)
Non-controlling interest		-	-	-	-

The notes on pages 11 to 57 are an integral part of these financial statements.

Statements of Financial Position

	Notes	LVL 000's			
		2012	2011	2012	2011
		Group	Group	Company	Company
Assets					
Cash and deposits with central banks		-	5	-	5
Balances due from credit institutions	11	4,441	25,623	3,908	25,475
Shares and other non-fixed income securities		10	31	10	31
Bonds and other fixed income securities	13	78	4,436	78	4,436
Loans	12	278,507	425,250	314,807	452,676
Held-to-maturity securities		-	24,318	-	24,318
Fixed assets	16	108	283	97	279
Intangible assets	15	102	139	102	139
Investments in subsidiaries	14	-	-	25,702	62
Investment property	17	63,966	40,450	5,583	18,586
Other assets	18	11,727	15,642	7,959	9,511
Total assets		**358,939**	**536,177**	**358,246**	**535,518**
Liabilities					
Derivative financial instruments		-	1,688	-	1,688
Financial liabilities measured at amortised cost:					
- balances due to credit institutions and central banks		-	13,295	-	13,295
- deposits		-	26,714	-	26,714
- issued debt securities	20,24	387,717	428,028	387,717	428,028
Other liabilities		3,303	2,949	2,778	1,788
Subordinated liabilities	21	53,134	53,082	53,134	53,082
Total liabilities		**444,154**	**525,756**	**443,629**	**524,595**
Equity					
Paid-in share capital	22	311,027	311,027	311,027	311,027
Share premium		12,694	12,694	12,694	12,694
Fair value revaluation reserve – available-for-sale securities		-	(487)	-	(487)
Accumulated losses		(408,936)	(312,813)	(409,104)	(312,311)
Total shareholders' equity attributable to the shareholders of the Company		**(85,215)**	**10,421**	**(85,383)**	**10,923**
Non-controlling interest		-	-	-	-
Total equity		(85,215)	10,421	(85,383)	10,923
Total liabilities and equity		**358,939**	**536,177**	**358,246**	**535,518**

The notes on pages 11 to 57 are an integral part of these financial statements.

Statements of Changes in Equity

Group	LVL 000's				
	Issued share capital	Share premium	Fair value revaluation reserve	Retained earnings	Total equity
Balance as at 31 December 2010	**271,227**	**12,694**	**(4,685)**	**(242,323)**	**36,913**
Issue of new shares	39,800	-	-	-	39,800
Loss for the year	-	-	-	(70,490)	(70,490)
Other comprehensive income for the period	-	-	4,198	-	4,198
Balance as at 31 December 2011	**311,027**	**12,694**	**(487)**	**(312,813)**	**10,421**
Loss for the period	-	-	-	(96,123)	(96,123)
Other comprehensive income for the year	-	-	487	-	487
Balance as at 31 December 2012	**311,027**	**12,694**	**-**	**(408,936)**	**(85,215)**

Company	LVL 000's				
	Issued share capital	Share premium	Fair value revaluation reserve	Retained earnings	Total equity
Balance as at 31 December 2010	**271,227**	**12,694**	**(4,685)**	**(241,937)**	**37,299**
Issue of new shares	39,800	-	-	-	39,800
Loss for the period	-	-	-	(70,374)	(70,374)
Other comprehensive income for the year	-	-	4,198	-	4,198
Balance as at 31 December 2011	**311,027**	**12,694**	**(487)**	**(312,311)**	**10,923**
Loss for the period	-	-	-	(96,793)	(96,793)
Other comprehensive income for the year	-	-	487	-	487
Balance as at 31 December 2012	**311,027**	**12,694**	**-**	**(409,104)**	**(85,383)**

The notes on pages 11 to 57 are an integral part of these financial statements.

Statements of Cash Flows

	Notes	LVL 000's 2012 Group	2011 Group	2012 Company	2011 Company
Cash flows from operating activities*					
Loss before tax		(95,777)	(69,858)	(96,478)	(70,182)
Amortisation and depreciation		293	373	291	272
Change in impairment allowances and other accruals		78,266	39,934	81,009	33,362
Interest expense		26,229	28,126	26,229	28,126
Other non-cash items		(4,043)	(309)	(3,793)	(184)
Foreign currency transactions		(1,688)	(192)	(1,688)	(192)
Cash generated before changes in assets and liabilities		**3,280**	**(1,926)**	**5,570**	**(8,798)**
Decrease in loans and receivables		67,115	75,088	58,336	77,566
Decrease in deposits		(10,151)	(17,380)	(10,151)	(17,380)
(Increase)/decrease in other assets**		(17,122)	9,410	(11,694)	10,248
(Decrease)/ increase in other liabilities		585	(15,583)	1,221	(13,545)
Cash generated from operating activities before corporate income tax		**43,707**	**49,609**	**43,282**	**48,091**
Corporate income tax paid		(346)	(632)	(315)	(192)
Net cash flows from operating activities		**43,361**	**48,977**	**42,967**	**47,899**
Cash flows from investing activities					
Purchase of intangible and fixed assets		(74)	(91)	(65)	(89)
Sale of subsidiaries		1,943	8,870	1,943	8,868
Sale of available-for-sale securities		128	61,138	128	63,918
Net cash flow from investing activities		**1,997**	**69,917**	**2,006**	**72,697**
Cash flows from financing activities					
Paid in share capital		-	39,800	-	39,800
Repayment of syndicated loan		-	(169,044)	-	(169,044)
Redemption of issued debt securities (principal)		(42,974)	(18,500)	(42,974)	(18,500)
Interest for issued debt securities		(20,044)	(28,916)	(20,044)	(28,916)
Interest for subordinated debt		(3,487)	(3,317)	(3,487)	(3,317)
Net cash flow used in financing activities		**(66,505)**	**(179,977)**	**(66,505)**	**(179,977)**
Net cash flow for the reporting period		**(21,147)**	**(61,083)**	**(21,532)**	**(59,381)**
Cash and cash equivalents at the beginning of the reporting period	**25**	**25,588**	**86,671**	**25,440**	**84,821**
Cash and cash equivalents at the end of the reporting period	**25**	**4,441**	**25,588**	**3,908**	**25,440**
*Operating activities include actual interest received of:		7,014	8,844	7,040	8,152
**Change in other assets include cashflows from sale of investment property		9,420	1,703	2,978	1,159

The notes on pages 11 to 57 are an integral part of these financial statements.

Notes

Figures in parenthesis represent amounts as at 31 December 2011 or for year ended 31 December 2011, 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 March 2013. In accordance with the Commercial Law of the Republic of Latvia, the shareholders’ meeting has the right to make decision on approval of the financial statements.

NOTE 1. GENERAL INFORMATION

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

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

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

AS Reverta with a gross loan portfolio exceeding LVL 500 million is the largest manager of distressed assets in the Baltic countries and an important player in Eastern Europe. The activities of *AS Reverta* are focused in three main directions: loan restructuring, legal recovery, and real estate management.

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

As at 31 December 2012, the Company had 127 (130) employees and the Group had 139 (159) employees.

The Company’s activities are carried out in accordance with the Restructuring plan approved by the European Commission (decision On the State Aid C 26/2009 (ex N 289/2009)). The primary objective of the Company is to manage the residual assets portfolio by maximising its returns to achieve the objectives outlined in the Restructuring plan within the approved time frame till the end of 2017.
The Company had negative equity of LVL 83,383 thousand as at 31 December 2012 and in view of the specifics of the Company’s assets, there can be no certainty of profits in the future. In August 2010 the Company’s liabilities have been restructured to match its assets maturities structure and ensure the Company’s ability to continue as going concern. The Company does not have any overdue liabilities as at 31 December 2012 and expects to meet its obligations on time over the next 12-24 months and as such has prepared these financial statements on a going concern basis. However, ultimately if the Company does not make profits in the future or raises additional capital there will be insufficient funds to fully repay certain of the long term liabilities of the Company in the future.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following new and amended IFRSs and interpretations became effective in 2012, but are not relevant for the Company’s operations and did not have an impact on these financial statements.

Amendments to IFRS 7 “Financial instruments: Disclosures” on transfers of assets (effective for annual periods beginning on or after 1 July 2011).

Amendments to IFRS 1 “First time adoption” on fixed dates and hyperinflation (effective for annual periods beginning on or after 1 July 2011).
Amendments to IAS 12 “Income taxes” on deferred tax (effective for annual periods beginning on or after 1 January 2012).

Certain new standards and interpretations have been published that become effective for the accounting periods beginning on or after 1 January 2013 or later periods and which are not relevant to the Company or are not yet endorsed by the EU.

Amendments to IAS 19 “Employee benefits” (effective for annual periods beginning on or after 1 January 2013).

Amendments to IAS 1 “Financial statement presentation” regarding other comprehensive income (effective for annual periods beginning on or after 1 January 2012, endorsed by the EU on June 2012).

IFRS 9 “Financial Instruments Part 1: Classification and Measurement” (effective for annual periods beginning on or after 1 January 2015; not yet endorsed by the EU).

IFRS 10 “Consolidated financial statements” (effective for annual periods beginning on or after 1 January 2013, endorsed by the EU in December 2012 for annual periods starting on or after 1 January 2014).

IFRS 11 “Joint arrangements” (effective for annual periods beginning on or after 1 January 2013, endorsed by the EU in December 2012 for annual periods starting on or after 1 January 2014).

IFRS 12 “Disclosures of interests in other entities” (effective for annual periods beginning on or after 1 January 2013, endorsed by the EU in December 2012 for annual periods starting on or after 1 January 2014).

Amendments to IFRS 10, 11 and 12 on transition guidance (effective for annual periods beginning on or after 1 January 2013, endorsed by the EU in December 2012 for annual periods starting on or after 1 January 2013).

IFRS 13 “Fair value measurement” (effective for annual periods beginning on or after 1 January 2013, endorsed by the EU in December 2012).

IAS 27 (revised 2011) “Separate financial statements” (effective for annual periods beginning on or after 1 January 2013, endorsed by the EU in December 2012 for annual periods starting on or after 1 January 2014).

IAS 28 (revised 2011) “Associates and joint ventures” (effective for annual periods beginning on or after 1 January 2013, endorsed by the EU in December 2012 for annual periods starting on or after 1 January 2014).

Amendments to IFRS 7 “Financial instruments: Disclosures” on offsetting financial assets and financial liabilities (effective for annual periods beginning on or after 1 January 2013, endorsed by the EU on December 2012).

Amendments to IAS 32 “Financial instruments: Presentation” on offsetting financial assets and financial liabilities (effective for annual periods beginning on or after 1 January 2014, endorsed by the EU on December 2012).

Amendments to IFRS 1 “First time adoption” on government loans (effective for annual periods beginning on or after 1 January 2013, not yet endorsed by the EU).

Improvements to IFRS (issued in May 2012; most of the amendments are effective for annual periods beginning on or after 1 January 2013, not yet endorsed by the EU):

- IFRS 1 “First time adoption”;
- IAS 1 “Financial statement presentation”;
- IAS 16 “Property, plant and equipment”;
- IAS 32 “Financial instruments: Presentation”;
- IAS 34 “Interim financial reporting”.

Amendments to IFRS 10, IFRS 12 and IAS 27 on investment entities (effective for annual periods beginning on or after 1 January 2014, not yet endorsed by the EU).

IFRIC 20, `Stripping costs in the production phase of a surface mine` (effective for annual periods beginning on or after 1 January 2013, endorsed by the EU on December 2012).

The Group and the Company is currently assessing the impact of the new standards and interpretations.

Basis of preparation

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

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on Management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

Functional and Presentation Currency

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

Basis of Consolidation

As at 31 December 2012 and 2011, 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 14.

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.

Associates are entities over which the Group has significant influence (directly or indirectly), but not control, accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting, and are initially recognised at cost. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Income and Expense Recognition

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

Commissions in respect of the acquisition of financial assets or the issue of financial liabilities that are not at fair value through profit or loss are deferred and recognised as an adjustment to the effective yield on the respective asset or liability. Other commissions and fees are credited and/ or charged to the statement of income as services are provided or on the execution of a significant act, as applicable, under the line "commission and fee income" or "commission and fee expense", as appropriate.

Foreign Currency Translation

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

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

Taxation

For the year ended 31 December 2012 corporate income tax is applied at the rate of 15% (2011: 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.

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.

All “regular way” purchases and sales of investments are recognised using settlement date accounting. The settlement date is the date when an asset is delivered to or by the Group. Settlement date accounting refers to the recognition of an asset on the day it is transferred to the Group and to the derecognition of an asset, on the day that it is transferred by the Group. All other purchases or sales are recognised as derivative instruments until settlement occurs.

Held to maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity if the Group has both the positive intent and ability to hold these investments to maturity. Held-to-maturity financial assets are carried at amortised cost using the effective interest rate method, less any allowance for impairment.

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. The amount of the impairment loss for assets carried at amortised cost is calculated as the difference between the asset’s carrying amount and the present value of expected future cash flows discounted at the financial instrument’s original effective interest rate.

When available-for-sale assets are reclassified to held-to-maturity category, the fair value of the reclassified available-for-sale asset as at the date of reclassification further becomes the amortised cost. The fair value as of the date of reclassification is the deemed cost of the reclassified assets. The fair value revaluation reserve attributable to reclassified assets are amortised until the asset’s maturity using effective interest rate method. If there is objective evidence that the value of reclassified assets has been impaired, the unamortised negative fair value revaluation reserve that has been recognised directly in equity is charged to the statement of income.
Upon transfer of undertaking the Company reclassified certain securities from held to maturity category to available for sale category. The reclassification of held to maturity securities was done in accordance with the IAS 39 paragraph 9, which specifies the exceptional circumstances where reclassification from the held to maturity portfolio is allowed without tainting the portfolio. Restructuring of the Company is an isolated event that is beyond entity’s control, is non-recurring and could not have been reasonably anticipated by the entity.

Available for sale financial assets

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

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

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

Loans and receivables

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

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

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

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

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

Derecognition of Financial Assets and Liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:
- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a ‘pass-through’ arrangement; and
- the Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

Financial liabilities

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

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

Leases

Finance leases – Group as lessor

Finance leases, which transfer substantially all the risks and rewards incidental to ownership of the assets, are recognised as assets at amounts equal at the inception of the lease to the net investment in the lease. The finance income is allocated to periods during the lease term to produce a constant periodic return on the net investments outstanding in respect of the finance leases.

For the purposes of these financial statements, finance lease receivables are included in loans and receivables to customers.

Operating leases – Group as lessee

Leases of assets under which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognized as expenses on a straight-line basis over the lease term and included in administrative expenses.

Impairment of loans and receivables to customers

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

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

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

- adverse changes in the payment status of borrowers in the portfolio; or
- national or local economic conditions that correlate with defaults on the loans and receivables in the portfolio.

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

For loans and receivables, the amount of impairment loss is measured as the difference between the loan's carrying amount and the present value of estimated future cash flows discounted at the loan's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The calculation of the present value of the estimated future cash flows of a collateralised loan reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. The amount of the loss is recognised in the statement of income.

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

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

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

Impairment of available-for-sale and held-to-maturity securities

Evidence of impairment is assessed by reference to the most up to date market valuations, market depth of the respective security, past trading performance and all other available information. The determination of whether or not objective evidence of impairment is present requires the exercise of management judgement. If the Group does not have market valuations, the evidence of impairment is assessed based on credit risk triggers (event of insolvency, any delay of payments, restructuring of debt) and individual credit risk analysis of the issuer.

Intangible Assets

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

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

Fixed Assets

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

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

Category	Annual depreciation rate
Buildings	2%
Transport vehicles	20%
Other fixed assets	20% - 33%

Leasehold improvements are capitalised and depreciated over the remaining lease contract period on a straight-line basis. Assets under construction are not depreciated.

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

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

Investment properties

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

Investment property is initially recognised at cost, including transaction costs, and subsequently remeasured at fair value and are not subject to amortization. Market value of the Group's investment property is determined based on reports of independent appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of property of similar location and category. 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.

Assets and liabilities held for sale

The Group from time to time repossesses from its customers certain assets serving as collateral, when the customer cannot otherwise meet his payment obligations and other loan work-out measures have been unsuccessful. Such assets are classified as held for sale, because they are acquired primarily for the purpose of selling them in the near term. Assets classified as held for sale are stated at the lower of their carrying amount and fair value less costs to sell. At least at each reporting date, the Group assesses, whether the value of the repossessed assets is impaired. The impairment loss reduces carrying amount of the asset and is included in the income statement's line "Impairment charges and reversals, net".

Disposal group, which is a group of assets (current or non-current) to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction, are classified in the balance sheet as 'other assets' and 'other liabilities'. Held for sale disposal groups as a whole are measured at the lower of their carrying amount and fair value less costs to sell.

Off-balance Sheet Financial Commitments and Contingent Liabilities

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

limits, financial guarantees and commercial letters of credit.
Such financial instruments are recorded in the financial statements as follows:

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

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

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

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

Fair Values of Financial Assets and Liabilities

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's length transaction. Where available and reasonably reliable, fair values are determined by reference to observable market prices. Where representative market prices are not available or are unreliable, fair values are determined by using valuation techniques which refer to observable market data. These include prices obtained from independent market surveys, comparisons with similar financial instruments, discounted cash flow analyses and other valuation techniques commonly accepted and used by market participants.

Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements, when determinable. Further, changes and movement in market conditions may affect accuracy of the fair value calculations so that the actual outcome of the transactions is different from the one reported in the financial statements. Also, when changed, management estimates used in preparing these financial statements could impact the reported result of the Group.

Cash and Cash Equivalents

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

Offsetting

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

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 and prudent estimates and judgments in preparing these financial statements. The significant areas of estimation used in the preparation of the accompanying financial statements relate to evaluation of impairment for financial assets losses, determining fair values of the financial assets and liabilities and estimating future periods' taxable profit.

Critical accounting estimates

Impairment of loans

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

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

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

The future credit quality of the loan portfolio for which the collective impairment losses are estimated is subject to uncertainties that could cause actual credit losses to differ materially from reported impairment losses. These uncertainties include factors such as international and local economic conditions, borrower specific factors, industry and market trends, interest rates, unemployment rates and other external factors. Changes in the Company’s LGD ratio by 500 basis points would result in increase/ decrease in collectively assessed impairment by ca. LVL 6.9 million (2011: LVL 8.1 million). 5% increase in collateral realisation values would result in LVL 13 million (2011: LVL 8 million) decrease in the Company’s specific impairment level, whereas 5% decrease in the respective values would result in LVL 13 million (2011: LVL 9 million) increase in the Company’s specific impairment level.

Impairment of securities

The Group makes various estimates to determine the value of securities assessed for impairment. When the value of securities, for which loss event have occurred, is assessed for impairment, an estimate is made involving factors such as liquidity (quoted prices and volumes from several reliable providers as well as judgemental evaluation), spreads (estimation of securities’ spreads and spreads on securities rated Caa1 and below), ratings (subordination) and loss-given-default (LGD) rates.

The future credit quality of the securities for which the 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, regional and local economic conditions, issuer specific factors, market activity and depth, interest rates and other external factors.

Deferred tax asset

As a result of transfer of undertaking, most of the performing assets have been transferred to AS Citadele banka, and in 2012 the management’s forecasts indicate that the Company will not be able to generate taxable profits in foreseeable future and therefore deferred tax asset is not recognised.

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 76% (2011: 73%) 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

	LVL 000's			
	2012 Group	2011 Group	2012 Company	2011 Company
Interest income:				
- interest on financial assets measured at amortised cost:	7,231	10,535	7,378	8,706
- interest on loans and receivables to customers	*6,991*	*9,151*	*7,138*	*7,334*
- interest on balances due from credit institutions and central banks	*48*	*224*	*48*	*212*
- interest on held-to-maturity securities	*192*	*1,160*	*192*	*1,160*
- interest on available-for-sale securities	138	877	138	2,115
Total interest income	**7,369**	**11,412**	**7,516**	**10,821**
Interest expense:				
- interest on financial liabilities measured at amortised cost:	(26,344)	(33,080)	(26,344)	(32,996)
- interest on deposits from customers	(117)	(25,804)	(117)	(25,804)
- interest on balances due to credit institutions and central banks	-	(3,490)	-	(3,490)
- interest on issued debt securities	(22,706)	(207)	(22,706)	(207)
- interest on subordinated liabilities	(3,521)	(3,579)	(3,521)	(3,495)
Total interest expense	**(26,344)**	**(33,080)**	**(26,344)**	**(32,996)**
Net interest expense	**(18,975)**	**(21,668)**	**(18,828)**	**(22,175)**

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

	LVL 000's			
	2012 Group	2011 Group	2012 Company	2011 Company
Loss on trading and revaluation of securities held for trading purposes, net	(21)	(209)	(21)	(209)
Loss from disposal of available for sale securities, net	(32)	(3,662)	(32)	(3,662)
Gain / (loss) from foreign exchange trading and revaluation of financial instruments at fair value through profit or loss, net	1,867	(246)	1,743	(373)
Gain / (loss) on transactions with financial instruments, net	**1,814**	**(4,117)**	**1,690**	**(4,244)**

	LVL 000's			
	2012 Group	2011 Group	2012 Company	2011 Company
Loss on financial instruments not at fair value through profit or loss	(32)	(3,662)	(32)	(3,662)
Net gain/ (loss) on financial instruments at fair value through profit or loss	1,846	(455)	1,722	(582)
Total gain/ (loss) on financial instruments, net	**1,814**	**(4,117)**	**1,690**	**(4,244)**

NOTE 5. OTHER OPERATING INCOME

	LVL 000's			
	2012 Group	2011 Group	2012 Company	2011 Company
Penalties received	68	592	1	6
Other income	293	1,546	921	1,409
Total other operating income	**361**	**2,138**	**922**	**1,415**

NOTE 6. REAL ESTATE SEGMENT INCOME AND EXPENSE

	LVL 000's			
	2012 Group	2011 Group	2012 Company	2011 Company
Real estate segment income:				
- Income from sale	*9,635*	*1,969*	*3,005*	*1,182*
- Brokerage	*(48)*	*(11)*	*(4)*	*-*
- Cost write-off	*(8,763)*	*(1,779)*	*(2,731)*	*(1,068)*
- Rental income	*488*	*343*	*92*	*305*
Total real estate segment income	**1,312**	**522**	**362**	**419**
Real estate segment expense:				
- Revenue from utilities	*136*	*110*	*40*	*103*
- Utilities costs	*(392)*	*(195)*	*(69)*	*(143)*
- Maintenance	*(166)*	*(104)*	*(24)*	*(82)*
- Repair	*(117)*	*(61)*	*(5)*	*(26)*
- Insurance	*(26)*	*(14)*	*(6)*	*(7)*
- Security	*(87)*	*(37)*	*(24)*	*(16)*
- Real estate tax	*(246)*	*(62)*	*(81)*	*(62)*
- Other expenses related to investment property	*(196)*	*(84)*	*(21)*	*(38)*
- Valuation services	*(33)*	*-*	*(8)*	*-*
Total real estate segment expense	**(1,127)**	**(447)**	**(198)**	**(271)**
Revaluation of real estate, net	4,290	(1,186)	4,042	(1,437)
Net result of RE segment	**4,475**	**(1,111)**	**4,206**	**(1.289)**

NOTE 7. ADMINISTRATIVE EXPENSE

	LVL 000's			
	2012 Group	2011 Group	2012 Company	2011 Company
Personnel expense	4,541	6,526	4,151	4,063
Consulting and professional fees	2,859	1,525	3,002	1,597
Rent, utilities, maintenance	588	993	528	733
IT expenses	125	279	124	244
Communication and marketing	26	36	26	31
Communications (telephone, telex)	27	88	18	19
Transport expenses	116	175	112	109
Travel	44	117	40	42
Office administration expenses	40	89	38	36
Insurance	110	71	110	50
Security	26	83	26	25
FCMC financing expenses	29	123	29	123
Financial stability fee	54	247	54	247
Other administrative expense	244	210	225	156
Taxes (real estate tax and other except value added tax and corporate income tax)	14	61	1	-
Non-refundable VAT	530	546	471	326
Total administrative expense	**9,373**	**11,169**	**8,955**	**7,801**

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 and bonuses and other short-term benefits costs.

	LVL 000's			
	2012 Group	2011 Group	2012 Company	2011 Company
Remuneration (incl. bonuses):				
- management	707	695	669	464
- other personnel	2,957	4,688	2,692	2,898
Total remuneration for work	**3,664**	**5,383**	**3,361**	**3,362**
Social security contributions:				
- management	151	134	146	112
- other personnel	726	1,009	644	589
Total social security contributions	**877**	**1,143**	**790**	**701**
Total personnel expense	**4,541**	**6,526**	**4,151**	**4,063**
Average number of personnel during the year	151	236	131	115

NOTE 9. IMPAIRMENT OF ASSETS AND CHANGES IN IMPAIRMENT ALLOWANCES

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

	LVL 000's			
	2012 Group	2011 Group	2012 Company	2011 Company
Total allowance for impairment at the beginning of the year, including:	**276,730**	**246,476**	**290,108**	**261,263**
- loans - specifically assessed impairment	250,283	214,738	263,661	229,525
- loans - collectively assessed impairment	26,447	31,738	26,447	31,738
Charge:	**111,719**	**61,292**	**110,108**	**64,255**
- loans - specifically assessed impairment	92,904	59,921	91,428	63,112
- loans - collectively assessed impairment	18,815	1,371	18,680	1,143
Release:	**(38,562)**	**(38,770)**	**(39,619)**	**(35,381)**
- loans - specifically assessed impairment	(17,437)	(32,183)	(18,621)	(29,015)
- loans - collectively assessed impairment	(21,125)	(6,587)	(20,998)	(6,366)
Provision charged to the statement of income, net, including:	**73,157**	**22,522**	**70,489**	**28,874**
- loans - specifically assessed impairment	75,467	27,738	72,807	34,097
- loans - collectively assessed impairment	(2,310)	(5,216)	(2,318)	(5,223)
Transfer:	**-**	**6,129**	**-**	**4,278**
- Impairment from collectively to specifically assessed impairment	3,306	3,918	3,306	4,278
- Impairment (specially assessed) (to)/from other financial and non-financial assets	-	2,211	-	-
- Impairment from collectively to specifically assessed impairment	(3,306)	-	(3,306)	-
Change of allowance due to write-offs, net	**(7,554)**	**-**	**(15,756)**	**(5,640)**
Effect of changes in currency exchange rates:	**(894)**	**1,603**	**(600)**	**1,333**
- loans - specifically assessed impairment	(894)	1,671	(600)	1,401
- loans - collectively assessed impairment	-	(68)	-	(68)
Total allowance for impairment at the end of the year, including:	**341,439**	**276,730**	**344,241**	**290,108**
- loans - specifically assessed impairment	320,616	250,283	323,418	263,661
- loans - collectively assessed impairment	20,823	26,447	20,823	26,447

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

	LVL 000's			
	2012 Group	2011 Group	2012 Company	2011 Company
Total allowance for impairment at the beginning of the year, including:	**19,222**	**36,102**	**3,792**	**7,100**
- *other financial and non-financial assets*	19,222	36,102	3,792	7,100
Charge:	**2,865**	**16,412**	**2,818**	**9,247**
- *available-for-sale securities*	1,673	-	1,673	-
- *held-to-maturity securities*	-	3,646	-	7,213
- *other financial and non-financial assets*	1,192	12,766	1,145	2,034
Release:	**(4,994)**	**(5,293)**	**(842)**	**(2,653)**
- *available-for-sale securities*	(196)	(2,148)	(196)	(2,148)
- *held-to-maturity securities*	-	(132)	-	(303)
- *other financial and non-financial assets*	(4,798)	(3,013)	(646)	(202)
Provision charged to the statement of income, net, including:	**(2,129)**	**11,119**	**1,976**	**6,594**
- *available-for-sale securities*	1,477	(2,148)	1,477	(2,148)
- *held-to-maturity securities*	-	3,514	-	6,910
- *other financial and non-financial assets*	(3,606)	9,753	499	1,832
Change of allowance due to write-offs, net:	**(12,809)**	**(25,914)**	**(1,553)**	**(9,746)**
- *available-for-sale securities (write-off)*	(1,477)	2,148	(1,477)	2,148
- *held-to-maturity securities*	-	(3,509)	-	(6,623)
- *other financial and non-financial assets*	(11,332)	(24,553)	(76)	(5,271)
Transfer:	-	**(2,211)**	-	**-**
- *loans – specifically assessed impairment to /(from) other financial and non – financial assets*	-	(2,211)	-	-
Effect of changes in currency exchange rates:	**-**	**126**	**4**	**(156)**
- *available-for-sale securities*	-	-	-	(287)
- *held-to-maturity securities*	-	(5)	-	-
- *other financial and non-financial assets*	-	131	4	131
Total allowance for impairment at the end of the year, including:	**4,284**	**19,222**	**4,219**	**3,792**
- *other financial and non-financial assets*	4,284	19,222	4,219	3,792

NOTE 10. TAXATION

Corporate income tax expense comprises the following items:

	LVL 000's			
	2012 Group	2011 Group	2012 Company	2011 Company
Tax withheld abroad	346	632	315	192
Total corporate income tax expense	**346**	**632**	**315**	**192**

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

	LVL 000's			
	2012 Group	2011 Group	2012 Company	2011 Company
Loss before corporate income tax	(95,777)	(69,858)	(96,478)	(70,182)
Corporate income tax (at standard rate)*	**(14,367)**	**(10,479)**	**(14,472)**	**(10,527)**
Permanent differences, net	3,050	13,169	3,012	9,912
Unrecognised deferred tax assets	11,663	(2,058)	11,775	807
Total effective corporate income tax	**346**	**632**	**315**	**192**

* standard rate for the year ended 31 December 2012 was 15% (2011: 15%).

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

	LVL 000's			
	2012 Group	2011 Group	2012 Company	2011 Company
Deferred tax assets:				
Vacation pay accrual	(36)	(27)	(36)	(27)
Non-taxable impairment allowance	(5,692)	(3,967)	(5,692)	(3,967)
Unutilised tax losses	(41,245)	(31,313)	(41,206)	(31,162)
Other deferred tax assets	-	(3)	-	(3)
Net deferred corporate income tax (asset)	(46,973)	(35,310)	(46,934)	(35,159)
Unrecognised deferred tax asset**	46,973	35,310	46,934	35,159
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 2012 can be specified as follows:

	LVL 000's			
	Balance as at 31/12/2011.	Calculated in 2012	Paid in 2012	Balance as at 31/12/2012.
Corporate income tax	-	(315)	315	-
including corporate income tax withheld abroad	-	*(315)*	*315*	-
Social security contributions	3	(976)	980	7
Personal income tax	(99)	(755)	866	12
Value added tax	135	(204)	208	139
Real estate tax	-	(62)	62	-
Total tax (payable)/ receivable	**39**			**158**

NOTE 11. BALANCES DUE FROM CREDIT INSTITUTIONS

	LVL 000's			
	31/12/2012 Group	31/12/2011 Group	31/12/2012 Company	31/12/2011 Company
Due from credit institutions registered in OECD countries	4	1,432	-	1,431
Due from credit institutions registered in Latvia	4,339	22,525	3,820	22,385
Due from credit institutions registered in other non-OECD countries	98	1,666	88	1,659
Total balances due from credit institutions	**4,441**	**25,623**	**3,908**	**25,475**

As at 31 December 2012 and 2011, none of the amounts due from credit institutions were past due.

NOTE 12. LOANS AND RECEIVABLES FROM CUSTOMERS

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

	Group, LVL 000's					
	31/12/2012			31/12/2011		
	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	596,412	-	596,412	676,839	23	676,862
Credit lines	17,537	-	17,537	19,121	124	19,245
Other	5,997	-	5,997	6,020	13	6,033
Total loans and receivables to customers	**619,946**	**-**	**619,946**	**701,980**	**160**	**702,140**
Impairment allowance	(341,439)	-	(341,439)	(276,730)	-	(276,730)
Total net loans and receivables to customers	**278,507**	**-**	**278,507**	**425,250**	**160**	**425,410**

Off-balance sheet credit exposure comprises various committed financing facilities to the borrowers.
The following table represents the current classes of the Company's loans:

	Company, LVL 000's					
	31/12/2012			31/12/2011		
	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	599,280	-	599,280	678,974	23	690,963
Credit lines	53,771	16,916	70,687	57,790	16,019	73,809
Other	5,997	-	5,997	6,020	13	6,033
Total loans and receivables to customers	**659,048**	**16,916**	**675,964**	**742,784**	**16,055**	**758,839**
Impairment allowance	(344,241)	-	(344,241)	(290,108)	-	(290,108)
Total net loans and receivables to customers	**314,807**	**16,916**	**331,723**	**452,676**	**16,055**	**468,731**

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

	LVL 000's			
	31/12/2012 Group	31/12/2011 Group	31/12/2012 Company	31/12/2011 Company
Privately held companies	428,990	497,720	468,092	538,524
Private individuals	190,956	204,260	190,956	204,260
Total gross loans and receivables to customers	**619,946**	**701,980**	**659,048**	**742,784**
Impairment allowance	(341,439)	(276,730)	(344,241)	(290,108)
Total net loans and receivables to customers	**278,507**	**425,250**	**314,807**	**452,676**

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

	LVL 000's			
	31/12/2012 Group	31/12/2011 Group	31/12/2012 Company	31/12/2011 Company
Real estate purchase and management	264,928	306,235	302,494	332,535
Electricity, gas and water supply	55,702	54,315	55,702	54,315
Trade	27,146	45,456	27,146	45,456
Manufacturing	34,305	35,837	34,305	35,837
Transport and communications	32,938	33,373	32,938	33,373
Financial intermediation	15,864	18,049	17,400	32,906
Construction	14,093	15,481	14,093	15,481
Hotels, restaurants	10,325	12,295	10,325	12,295
Other industries	164,645	180,939	164,645	180,586
Total gross loans and receivables to corporate customers	**619,946**	**701,980**	**659,048**	**742,784**

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

	LVL 000's			
	31/12/2012 Group	31/12/2011 Group	31/12/2012 Company	31/12/2011 Company
Latvian residents	384,899	414,077	421,211	439,551
OECD region residents	35,365	41,320	35,365	41,320
Non-OECD region residents	199,683	246,583	202,473	261,913
Total gross loans and receivables	**619,946**	**701,980**	**659,048**	**742,784**
Impairment allowance	(341,439)	(276,730)	(344,241)	(290,108)
Total net loans and receivables	**278,507**	**425,250**	**314,807**	**452,676**

NOTE 13. FIXED INCOME SECURITIES

The Group's fixed income securities are further split as follows:

	LVL 000's							
	31/12/2012				31/12/2011			
	Held to maturity	Available for sale	Held for trading	Total	Held to maturity	Available for sale	Held for trading	Total
Municipality bonds	-	-	-	-	24,318	2,482	-	26,800
Corporate bonds	-	78	-	78	-	148	-	148
Other financial institution bonds	-	-	-	-	-	1,806	-	1,806
Total fixed income securities	**-**	**78**	**-**	**78**	**24,318**	**4,436**	**-**	**28,754**

The above table represents a maximum credit risk exposure to the Group and the Company respectively.

The Company's fixed income securities are further split as follows:

	LVL 000's							
	31/12/2012				31/12/2011			
	Held to maturity	Available for sale	Held for trading	Total	Held to maturity	Available for sale	Held for trading	Total
Municipality bonds	-	-	-	-	24,318	2,482	-	26,800
Corporate bonds	-	78	-	78	-	148	-	148
Other financial institution bonds	-	-	-	-	-	1,806	-	1,806
Total fixed income securities	**-**	**78**	**-**	**78**	**24,318**	**4,436**	**-**	**28,754**

	Group, LVL 000's					
	31/12/2012			31/12/2011		
	Listed	Unlisted	Total	Listed	Unlisted	Total
Municipality bonds:						
Non-OECD	-	-	-	26,800	-	26,800
Total municipality bonds	**-**	**-**	**-**	**26,800**	**-**	**26,800**
Corporate bonds	78	-	78	148	-	148
Other financial institution bonds	-	-	-	-	1,806	1,806
Total fixed income securities	**78**	**-**	**78**	**26,948**	**1,806**	**28,754**

	Company, LVL 000’s					
	31/12/2012			31/12/2011		
	Listed	Unlisted	Total	Listed	Unlisted	Total
Municipality bonds:						
Non-OECD	-	-	-	26,800	-	26,800
Total municipality bonds	**-**	**-**	**-**	**26,800**	**-**	**26,800**
Corporate bonds	78	-	78	148	-	148
Other financial institution bonds	-	-	-	-	1,806	1,806
Total fixed income securities	**78**	**-**	**78**	**26,948**	**1,806**	**28,754**

NOTE 14. INVESTMENTS IN SUBSIDIARIES AND BUSINESS COMBINATIONS

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

	LVL 000’s	
	2012	2011
Balance as at 1 January	**62**	**60**
Equity investments in the existing subsidiaries	19,107	4
Establishment of new subsidiaries	6,541	-
Liquidation	(8)	(2)
Balance as at 31 December	**25,702**	**62**

In 2012 the Company sold its subsidiary in Ukraine – OOO Laska Lizing as part of the strategy to exit leasing business in CIS countries.
One more subsidiary – SIA Parex Private Banking was liquidated in January, 2012.

In 2012 four more subsidiaries were established - SIA NIF Projekts 7, SIA NIF Projekts 8, SIA NIF Projekts 9, Carnella Maritime Corporation.

Analysis of the result of the sales transaction is as follows:

	LVL 000’s	
	2012 Group	2012 Company
Consideration received - cash	1,618	1,618
Fair value of net assets sold	(1,760)	(1,711)
Loss on disposal of assets held for sale	**(142)**	**(93)**

The assets and liabilities of disposed subsidiaries consisted mainly of leasing portfolio and financing from the parent.

As at 31 December 2012 and 2011, the Company held the following investments in subsidiaries and associates:

Company	Country of registration	Business profile	As at 31/12/2012 Share capital in LVL 000's	As at 31/12/2012 The Company's share (%)	As at 31/12/2012 % of total voting rights	As at 31/12/2011 Share capital in LVL 000's	As at 31/12/2011 The Company's share (%)	As at 31/12/2011 % of total voting rights	Investment carrying value LVL 000's 31/12/2012	Investment carrying value LVL 000's 31/12/2011
SIA Parex Private Banking	Latvia	REM*	-	-	-	180	100.0	100.0	-	8
OOO Laska Lizing	Ukraine	Leasing	-	-	-	65	100.0	100.0	-	-
OOO Ekspress Lizing**	Russia	Leasing	57	100.0	100.0	57	100.0	100.0	-	-
OOO Parex Leasing & Factoring	Georgia	Leasing	24	100.0	100.0	24	100.0	100.0	-	-
Regalite Holdings Limited	Cyprus	Finance	6	100.0	100.0	6	100.0	100.0	-	-
OOO Parex Leasing	Russia	Leasing	113	35.0	35.0	113	35.0	35.0	-	-
UAB NIF Lietuva	Lithuania	REM*	1,066	100.0	100.0	2	100.0	100.0	1,113	-
OU NIF Eesti	Estonia	REM*	2	100.0	100.0	2	100.0	100.0	1	-
SIA NIF	Latvia	REM*	50	100.0	100.0	50	100.0	100.0	50	50
SIA NIF Dzīvojamie Īpašumi	Latvia	REM*	7,260	100.0	100.0	2	100.0	100.0	7,258	-
SIA NIF Komercīpašumi	Latvia	REM*	277	100.0	100.0	2	100.0	100.0	275	-
SIA NIF Zemes Īpašumi	Latvia	REM*	1,816	100.0	100.0	2	100.0	100.0	1,814	-
SIA NIF Projekts 1	Latvia	REM*	2	100.0	100.0	2	100.0	100.0	-	-
SIA NIF Projekts 2	Latvia	REM*	2	100.0	100.0	2	100.0	100.0	-	-
SIA NIF Projekts 3	Latvia	REM*	2	100.0	100.0	2	100.0	100.0	-	-
SIA NIF Projekts 4	Latvia	REM*	2	100.0	100.0	2	100.0	100.0	-	-
SIA NIF Projekts 5	Latvia	REM*	8,648	100.0	100.0	2	100.0	100.0	8,648	2
SIA NIF Projekts 6	Latvia	REM*	2	100.0	100.0	2	100.0	100.0	2	2
SIA NIF Projekts 7	Latvia	REM*	1,390	100.0	100.0	-	-	-	1,390	-
SIA NIF Projekts 8	Latvia	REM*	2,250	100.0	100.0	-	-	-	2,250	-
SIA NIF Projekts 9	Latvia	REM*	2,900	100.0	100.0	-	-	-	2,900	-
Carnella Maritime Corp.	British Virgin Islands	Finance	1	100.0	100.0	-	-	-	1	-
Total investments in subsidiaries									**25,702**	**62**

* REM - real estate management ** the company was liquidated and excluded from the Group Structure on 21 January, 2013.

NOTE 15. INTANGIBLE ASSETS

Reverta’s intangible assets consist mainly of computer software. Movements in the Group’s intangible assets excluding advances for the year ended 31 December 2012 can be specified as follows:

	LVL 000’s		
	Historical cost	*Accumulated amortisation*	*Net book value*
As at 31 December 2010	**208**	**49**	**159**
Movements	51	71	-
As at 31 December 2011	**259**	**120**	**139**
Movements	44	81	-
As at 31 December 2012	**303**	**201**	**102**

NOTE 16. FIXED ASSETS

	LVL 000’s			
	31/12/2012 Group	31/12/2011 Group	31/12/2012 Company	31/12/2011 Company
Leasehold improvements	75	96	64	96
Other fixed assets	19	172	19	168
Total fixed assets excluding advances	94	268	83	264
Advances for fixed assets	14	15	14	15
Total net book value of fixed assets	**108**	**283**	**97**	**279**

The following changes in the Group’s fixed assets excluding advances for fixed assets took place during the years ended 31 December 2012 and 31 December 2011:

	LVL 000’s			
	Leasehold improve- ments	Land and buildings	Other fixed assets	Total fixed assets excluding advances
Historical cost				
As at 31 December 2010	**187**	**1,661**	**2,340**	**4,188**
Additions	-	-	57	57
Disposals	-	(1,661)	(486)	(2,147)
As at 31 December 2011	**187**	**-**	**1,911**	**2,098**
Additions	18	-	23	41
Disposals	-	-	(244)	(244)
Transferred to Citadele banka	(185)	-	(186)	(371)
As at 31 December 2012	**20**	**-**	**1,504**	**1,524**
Accumulated depreciation				
As at 31 December 2010	**27**	**368**	**2,051**	**2,446**
Charge for the year	64	-	130	194
Reversal due to disposals	-	(368)	(442)	(810)
As at 31 December 2011	**91**	**-**	**1,739**	**1,830**
Charge for the year	1	-	66	67
Reversal due to disposals	-	-	(243)	(243)
Transferred to Citadele banka	(91)	-	(133)	(224)
As at 31 December 2012	**1**	**-**	**1,429**	**1,430**
Net book value				
As at 31 December 2010	**160**	**1,293**	**289**	**1,742**
As at 31 December 2011	**96**	**-**	**172**	**268**
As at 31 December 2012	**19**	**-**	**75**	**94**

The following changes in the Company's fixed assets excluding advances for fixed assets took place during the years ended 31 December 2012 and 31 December 2011:

	LVL 000's			
	Leasehold improve- ments	Land and buildings	Other fixed assets	Total fixed assets excluding advances
Historical cost				
As at 31 December 2010	**187**	**1,490**	**1,762**	**3,439**
Additions	-	-	37	37
Disposals	-	(1,490)	(196)	(1,686)
As at 31 December 2011	**187**	**-**	**1,603**	**1,790**
Additions	18	-	15	33
Disposals	-	-	(244)	(244)
Transferred to Citadele banka	(185)	-	(186)	(371)
As at 31 December 2012	**20**	**-**	**1,188**	**1,208**
Accumulated depreciation				
As at 31 December 2010	**27**	**197**	**1,457**	**1,681**
Charge for the year	64	-	130	194
Reversal due to disposals	-	(197)	(152)	(349)
As at 31 December 2011	**91**	**-**	**1,435**	**1,526**
Charge for the year	1	-	65	66
Reversal due to disposals	-	-	(243)	(243)
Transferred to Citadele banka	(91)	-	(133)	(224)
As at 31 December 2012	**1**	**-**	**1,124**	**1,125**
Impairment allowance				
As at 31 December 2010	**160**	**1,293**	**305**	**1,758**
As at 31 December 2011	**96**	**-**	**168**	**264**
As at 31 December 2012	**19**	**-**	**64**	**83**

NOTE 17. INVESTMENT PROPERTY

Changes in investment property may be specified as follows:

	LVL 000's	
	Group	Company
Balance as at 1 January 2012	**40,450**	**18,586**
Additions	24,922	10,968
Disposals	(7,703)	(2,748)
Property improvement	64	-
Investment in subsidiaries share capital	-	(25,265)
Revaluation	4,290	4,042
Reclassification from other assets	1,943	-
Balance as at 31 December 2012	**63,966**	**5,583**

Real estate portfolio currently comprises more than 1,000 units, including apartments and private houses of various categories, as well as a wide range of commercial premises in the Baltic countries (office and warehouse facilities, buildings and land). Reverta expects its property portfolio to increase significantly over the coming years.

Investment property is stated at 31 December 2012 and 2011 at fair value based on the valuations of independent valuers with extensive experience in the valuation of real estate properties in a similar location and category, and appropriate certification of professional qualifications in real estate valuations. The valuations were performed using the cost, comparable transaction, and income approaches as determined by each valuer. See Note 6 for operating income and expense of investment property.

NOTE 18. OTHER ASSETS

Other assets comprise accrued income, prepaid expenses, non-current assets and disposal groups held for sale, money in transit, other assets.

NOTE 19. DEPOSITS FROM CUSTOMERS

After lifting of the restrictions on 2 January 2012 the Company repaid deposits to its customers in amount of LVL 9,9 million. On 29 February 2012 the Company transferred its customers deposits held in German branch in amount of LVL 16,7 million to Citadele banka. As a result, as of 29 February 2012 the Company does not have any deposits from customers.

NOTE 20. ISSUED DEBT SECURITIES

As at 31 December 2012 and 2011, the Group and Company had the following outstanding debt:

	LVL 000's			
	31/12/2012 Group	31/12/2011 Group	31/12/2012 Company	31/12/2011 Company
due within 1 month	-	-	-	-
due within 1-3 months	2,869	35,017	2,869	35,017
due within 3-6 months	-	-	-	-
due within 6-12 months	69,527	43,520	69,527	43,520
due within 1-5 years	315,321	169,084	315,321	169,084
due in more than 5 years	-	180,407	-	180,407
Total issued debt securities	**387,717**	**428,028**	**387,717**	**428,028**

Financing support from the Ministry of Finance

As a result of significant decrease in deposit base in October-November 2008, the Company was forced to apply for the State support. Ministry of Finance of Latvia has made a number of deposits on a secured basis, receiving part of Company's loan portfolio as collateral (please refer to Note 24 for details on assets pledged). During 2011 and 2010 part of the Ministry on Finance deposits was repaid by the Company. On 29 December 2011 deposits were converted into debt securities.

In 2012 debt securities were repaid in amount of EUR 89.7m (LVL 62.9m) in total, from which EUR 28.5m (LVL 20m) as interest on State Aid, and EUR 61.2m (LVL 42.9m) as the principal amount of the State Aid. Overall, since 01st August 2010, EUR 100.5m (LVL 70.6m) has been repaid to the Treasury.

The interest rates applicable to debt securities are 6 months Euribor rate + 3.871 % per annum for securities denominated in EUR .

NOTE 21. SUBORDINATED DEBT

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

Counterparty	Residence country	Currency	Issue size, 000’s	Interest rate	Original agreement date	Original maturity date	Amortised cost (LVL 000’s) 31/12/2012.	Amortised cost (LVL 000’s) 31/12/2011.
Notes-private placement	UK	EUR	20,000	4.736%	28/12/2007	28/12/2022	13,308	13,247
Private person	Latvia	LVL	7,500	6M Rigibid + 3%	28/09/2007	26/09/2017	7,501	7,501
Private person	Latvia	LVL	7,500	6M Rigibid + 3%	28/09/2007	26/09/2017	7,501	7,501
Notes – public issue	n/a	EUR	5,050	11%	08/05/2008	08/05/2018	3,820	3,829
Private person	Latvia	EUR	15,000	12%	20/06/2008	14/05/2015	10,602	10,602
Private person	Latvia	LVL	1,500	6M Rigibid + 3%	30/10/2008	30/10/2018	1,500	1,500
Private person	Latvia	LVL	1,500	6M Rigibid + 3%	30/10/2008	30/10/2018	1,500	1,500
Private person	Latvia	LVL	2,284	6M Rigibid + 3%	04/12/2008	18/09/2015	2,285	2,285
Private person	Latvia	LVL	2,284	6M Rigibid + 3%	04/12/2008	18/09/2015	2,285	2,285
Private person	Latvia	LVL	1,416	6M Rigibid + 3%	04/12/2008	29/09/2015	1,416	1,416
Private person	Latvia	LVL	1,416	6M Rigibid + 3%	04/12/2008	29/09/2015	1,416	1,416
Total							**53,134**	**53,082**

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

As at 31 December 2012, included in the subordinated debt are LVL 36 million (2011: LVL 36 million) attributable to the former related parties of the Company. These transactions were entered into by previous executive management of the Company. During 2012, the Company recognised LVL 3.2 million (2011: LVL 3.1 million) interest expense on the aforementioned balance.

NOTE 22. ISSUED SHARE CAPITAL

As at 31 December 2012, the Company’s registered and paid-in share capital was LVL 311,027 thousand. In accordance with the Company’s statutes, the share capital consists of 250,883 thousand ordinary shares with voting rights and 60,144 thousand ordinary shares without voting rights. All shares have a par value of LVL 1 each and, as at 31 December 2012, they all were issued and fully paid. As at 31 December 2012, the Company did not possess any of its own shares. No dividends were proposed and paid during 2012 and 2011.

As at 31 December 2012, the Company had 61 (2011: 61) shareholders. The respective shareholdings as at 31 December 2012 and 2011 may be specified as follows:

	31/12/2012			31/12/2011		
	Paid-in share capital (LVL 000’s)	% of total paid-in capital	% of total voting rights	Paid-in share capital (LVL 000’s)	% of total paid-in capital	% of total voting rights
Privatisation Agency	261,733	84.15	82.02	261,733	84.15	82.02
European Bank for Reconstruction and Development	39,632	12.74	15.80	39,632	12.74	15.80
Other	9,662	3.11	2.18	9,662	3.11	2.18
Total	**311,027**	**100.00**	**100.00**	**311,027**	**100.00**	**100.00**

NOTE 23. MEMORANDUM ITEMS

Memorandum items comprise contingent liabilities, financial commitments, foreign exchange contracts and derivative financial instruments. The following table provides a specification of contingent liabilities (showing maximum amount payable) and financial commitments outstanding as at 31 December 2012 and 2011.

	LVL 000's			
	31/12/2012 Group	31/12/2011 Group	31/12/2012 Company	31/12/2011 Company
Contingent liabilities:				
Outstanding guarantees	886	885	886	2,399
Total contingent liabilities	**886**	**885**	**886**	**2,399**
Financial commitments:				
Loans granted, not fully drawn down	-	23	-	23
Credit lines and overdraft facilities	-	124	16,916	16,019
Credit card commitments	-	13	-	13
Total financial commitments	**-**	**160**	**16,916**	**16,055**

NOTE 24. ASSETS PLEDGED

	LVL 000's			
	31/12/2012 Group	31/12/2011 Group	31/12/2012 Company	31/12/2011 Company
Due from credit institutions	4,441	25,623	3,908	25,475
Available-for-sale securities	78	4,436	78	4,436
Loans to customers	278,507	425,250	314,807	452,676
Total assets pledged	**283,026**	**455,309**	**318,793**	**482,587**
Debt securities	387,717	428,028	387,717	428,028
Total liabilities secured by pledged assets	**387,717**	**428,028**	**387,717**	**428,028**

According to pledge agreements, concluded between the Company and Ministry of Finance (represented by State Treasury) loan portfolio, funds and securities are pledged in favour of Ministry of Finance to secure financing received in the form of state aid from Ministry of Finance. The respective commercial pledge is registered with Commercial Register. Please refer to Note 20 for more detailed information on financing received from Ministry of Finance.

NOTE 25. CASH AND CASH EQUIVALENTS

The table below provides a breakdown of cash and cash equivalents as at 31 December 2012 and 2011:

	LVL 000's			
	31/12/2012 Group	31/12/2011 Group	31/12/2012 Company	31/12/2011 Company
Cash and demand deposits with central banks	-	5	-	5
Deposits with other credit institutions*	4,441	25,599	3,908	25,451
Demand deposits due to other credit institutions	-	(16)	-	(16)
Total cash and cash equivalents	**4,441**	**25,588**	**3,908**	**25,440**

* Deposits include term facilities with initial agreement term of 3 months or less.

NOTE 26. LITIGATION AND CLAIMS

In its everyday activities JSC Reverta is involved in several litigations related to transfer of pledges or loan recovery, as well as respective interest recovery and recovery of costs from clients. The Group is involved in several litigations in relation to clients in Latvia or abroad.

In July 2009, the State Revenue Service (SRS) has completed a tax audit of the Company which covered the years of 2007 and 2008. The tax audit report assessed claims for additional taxes to be paid by the Company. The Company did not agree with the SRS audit team’s assessment and has appealed to the General Director of the SRS. Subsequently, the decision for a part of additional taxes payable was withdrawn. In respect to the residual part of the decision, which remained unchanged and constitutes ca LVL 0.8 million in additional tax and ca LVL 0.8 million in penalties, the Company appealed to the Administrative district court. In accordance with Administrative district court’s judgment, dated 20 November 2011, the Company’s application on the annulment of the SRS decision was granted in part. However, the SRS, the Company and third persons – previous shareholders of the Company – V.Kargins and V.Krasovickis – have submitted appeals. Appealate instance court hearing in the Administrative Regional court is scheduled for 21 May 2013. In court proceedings the Company’s interests are represented by law office “EVERSHEDS BITĀNS”

On 16 July 2012 N.Kontratjeva submitted a claim in Riga regional court by asking to terminate the Agreement on term deposit acceptance and service concluded in year 2008, and disbursement of assets related to these agreements. N.Kondrjateva asked to recover from the Company the principal amount of LVL 3 700 291.20, state tax expenses in the amount of LVL 4 090.15 and the expenses for the help of an attorney at law. Riga regional court rejected this claim in full by the decision dated 8 March 2013. In court proceedings the Company’s interests are represented by law office “EVERSHEDS BITĀNS”.

On 21 November 2012 R.Kargins submitted a claim in Riga Regional Court by asking to terminate the Agreement on term deposit acceptance and service concluded in year 2008 and to pay out deposited funds. R.Kargins asks to recover from the Company the principal amount of LVL 10 542 060.00, state tax expenses in the amount of LVL 7 511.03 and the expenses for the help of an attorney at law. In court proceedings the Company interests represents law office “EVERSHEDS BITĀNS”.

The management of the Company believes that any legal proceedings pending as at 31 December 2012 will not result in material losses for the Group.

NOTE 27. RELATED PARTIES

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

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

The following table presents the outstanding balances and terms of the Group's transactions with counterparties, which were other related parties as at 31 December 2012.

	Amount in LVL 000's 31/12/2012	Income/ expense 01/01/2012 - 31/12/2012	Amount in LVL 000's 31/12/2011	Income/ expense 01/01/2011 - 31/12/2011
Due from credit institutions:	3,969	386	26,204	669
Credit Institutions	*3,969*	*386*	*26,204*	*669*
Total credit exposure to related parties	**3,969**	**386**	**26,204**	**669**
Due to related parties:	388,318	22,746	441,652	25,637
Deposits from Ministry of Finance	-	-	-	*24,809*
Issued Debt Securities	*387,717*	*22,706*	*428,028*	*207*
Credit institutions	*601*	*40*	*13,624*	*621*
Derivatives – liabilities:	-	-	1,688	-
Credit institutions	-	-	*1,688*	-
Total amounts due to related parties	**388,318**	**22,746**	**443,340**	**25,637**

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 2012.

	Amount in LVL 000's 31/12/2012	Income/ expense 01/01/2012 - 31/12/2012	Amount in LVL 000's 31/12/2011	Income/ expense 01/01/2011 - 31/12/2011
Credit exposure to related parties				
Due from related parties:	4,072	895	26,204	669
Credit Institutions	*3,969*	*386*	*26,204*	*669*
Subsidiaries	103	509	-	-
Securities:	-	-	-	1,238
Subsidiaries	-	-	-	*1,238*
Loans and receivables:	39,102	1,626	41,157	1,415
Subsidiaries	*39,102*	*1,626*	*41,157*	*1,415*
Total credit exposure to related parties	**43,174**	**2,521**	**67,361**	**3,322**
Due to related parties:	388,671	23,013	441,670	25,914
Deposits from Ministry of Finance	-	-	-	*24,809*
Issued Debt Securities	*387,717*	*22,706*	*428,028*	*207*
Credit institutions	*601*	*40*	*13,624*	*621*
Subsidiaries - other	*353*	*267*	*18*	*277*
Derivatives – liabilities:	-	-	1,688	-
Credit institutions	-	-	*1,688*	-
Total amounts due to related parties	**388,671**	**23,013**	**443,358**	**25,914**

NOTE 28. SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Company has determined the Management board of the Company as its chief operating decision maker. The Board reviews financial information prepared based on International Financial Reporting Standards.

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

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

The following table reconciles the management information with these financial statements as at 31 December 2011
LVL 000's:

	Baltic loans	CIS loans	Real Estate	Other	Total
Gross external revenue	**5,905**	**3,513**	**41**	**1,994**	**11,453**
External assets					
Loans	548,448	153,532	-	-	701,980
Investment properties	-	-	40,451	-	40,451
Other assets	-	-	-	89,698	89,638
Impairment	(237,179)	(39,551)	(1)	(19,221)	(295,952)
Total assets	**311,269**	**113,981**	**40,450**	**70,477**	**536,177**
External liabilities	-	-	-	525,756	525,756
Total liabilities	**-**	**-**	**-**	**525,756**	**525,756**

NOTE 29. 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 - Risk Management Division.

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

a) Credit risk

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

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

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

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

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

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

Mostly, not-delayed loans falling into categories "regular loans" and "utilised credit lines" are secured by collateral. More than 88% are secured by real estate collateral. In general, settlement card loans are granted to clients on a basis of their cash flows' assessment and no collateral is required in most cases. Finance leases are secured by the respective property leased out.

	Group, LVL 000's			
	31/12/2011			
	Regular loans	Utilised credit lines	Other	Total
Not delayed - not impaired	8,813	716	-	9,529
Not delayed - impaired	45,166	2,715	-	47,881
Total not delayed loans	**53,979**	**3,431**	**-**	**57,410**
Past due loans - not impaired				
Delayed days:				
=< 29	1,773	-	-	1,773
30-59	930	-	-	930
60-89	916	-	-	916
90 and more	149,978	5,251	280	155,509
Total past due loans - not impaired	**153,597**	**5,251**	**280**	**159,128**
Total past due loans - impaired	**469,263**	**10,439**	**5,740**	**485,442**
Total gross loans and receivables to customers	**676,839**	**19,121**	**6,020**	**701,980**
Impairment allowance	(262,302)	(9,434)	(4,994)	(276,730)
Total net loans and receivables to customers	**414,537**	**9,687**	**1,026**	**425,250**

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

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

	Company, LVL 000's			
	31/12/2011			
	Regular loans	Utilised credit lines	Other	Total
Not delayed - not impaired	8,864	27,017	-	35,881
Not delayed - impaired	47,219	15,085	-	62,304
Total not delayed loans	**56,083**	**42,102**	**-**	**98,185**
Past due loans - not impaired				
Delayed days:				
=< 29	1,773	-	-	1,773
30-59	930	-	-	930
60-89	916	-	-	916
90 and more	149,978	5,251	280	155,509
Total past due loans - not impaired	**153,597**	**5,251**	**280**	**159,128**
Total past due loans - impaired	**469,294**	**10,437**	**5,740**	**485,471**
Total gross loans and receivables to customers	**678,974**	**57,790**	**6,020**	**742,784**
Impairment allowance	(263,625)	(21,490)	(4,993)	(290,108)
Total net loans and receivables to customers	**415,349**	**36,300**	**1,027**	**452,676**

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

	Regular loans	Utilised credit lines	Other	Total
Outstanding specific impairment as at 31/12/2011	**237,900**	**7,401**	**4,982**	**250,283**
Impairment charge for the reported period - specific	92,717	131	56	92,904
Release of previously established impairment allowance - specific	(17,431)	(1)	(5)	(17,437)
Impairment charged to the statement of income, net	**75,286**	**130**	**51**	**75,467**
Change of impairment allowance due to write-offs, net	(7,546)	-	-	(7,546)
Transfer from collectively to specially assessed impairment	3,306	-	-	3,306
Increase in impairment allowance due to currency fluctuations	(520)	(189)	(185)	(894)
Outstanding specific impairment as at 31/12/2012	**308,426**	**7,342**	**4,848**	**320,616**

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

	Regular loans	Utilised credit lines	Other	Total
Outstanding specific impairment as at 31/12/2011	**239,223**	**19,457**	**4,981**	**263,661**
Impairment charge for the reported period - specific	91,241	131	56	91,428
Release of previously established impairment allowance - specific	(17,229)	(1,387)	(5)	(18,621)
Impairment charged to the statement of income, net	**74,012**	**(1,256)**	**51**	**72,807**
Change of impairment allowance due to write-offs, net	(5,085)	(10,671)	-	(15,756)
Transfer from collectively to specially assessed impairment	3,306	-	-	3,306
Increase in impairment allowance due to currency fluctuations	(228)	(188)	(184)	(600)
Outstanding specific impairment as at 31/12/2012	**311,228**	**7,342**	**4,848**	**323,418**

The tables below provide details of the Group's and Company's securities portfolio quality:

	Group, LVL 000's							
	31/12/2012				31/12/2011			
	Held to maturity	Available for sale	Held for trading	Total	Held to maturity	Available for sale	Held for trading	Total
Not rated	-	78	-	78	24,318	4,436	-	28,754
Total fixed income securities	**-**	**78**	**-**	**78**	**24,318**	**4,436**	**-**	**28,754**

	Company, LVL 000's							
	31/12/2012				31/12/2011			
	Held to maturity	Available for sale	Held for trading	Total	Held to maturity	Available for sale	Held for trading	Total
Not rated	-	78	-	78	24,318	4,436	-	28,754
Total fixed income securities	**-**	**78**	**-**	**78**	**24,318**	**4,436**	**-**	**28,754**

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 2012 and 2011 by geographical profile. The grouping is done based on information about the residence of the respective counterparties.

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

	Group as at 31/12/2011, LVL 000's					
	Latvia	Lithuania	Other EU countries	CIS countries	Other countries	Total
Assets						
Cash and deposits with central banks	5	-	-	-	-	5
Balances due from credit institutions	22,525	1,661	1,432	5	-	25,623
Shares and other non-fixed income securities	31	-	-	-	-	31
Bonds and other fixed income securities	2,543	-	-	1,893	-	4,436
Loans	215,676	62,981	32,613	97,025	16,955	425,250
Held-to-maturity securities	24,318	-	-	-	-	24,318
Investment properties	39,963	487	-	-	-	40,450
Other assets	6,066	36	528	7,833	1,601	16,064
Total assets	**311,127**	**65,165**	**34,573**	**106,756**	**18,556**	**536,177**
Liabilities						
Financial liabilities measured at amortised cost	494,410	-	12,108	1,716	12,885	521,119
Derivative financial instruments	1,688	-	-	-	-	1,688
Other liabilities	2,736	31	176	-	6	2,949
Total liabilities	**498,834**	**31**	**12,284**	**1,716**	**12,891**	**525,756**
Equity	10,421	-	-	-	-	10,421
Total liabilities and equity	**509,255**	**31**	**12,284**	**1,716**	**12,891**	**536,177**
Memorandum items						
Contingent liabilities	-	-	885	-	-	885
Financial commitments	159	-	-	-	1	160

	Company as at 31/12/2012, LVL 000's					
	Latvia	Lithuania	Other EU countries	CIS countries	Other countries	Total
Assets						
Balances due from credit institutions	3,820	84	-	4	-	3,908
Shares and other non-fixed income securities	10	-	-	-	-	10
Bonds and other fixed income securities	-	-	-	78	-	78
Loans	189,711	50,746	21,831	48,848	3,671	314,807
Investments in subsidiaries	24,587	1,113	2	-	-	25,702
Investment properties	5,583	-	-	-	-	5,583
Other assets	8,113	25	1	-	19	8,158
Total assets	**231,824**	**51,968**	**21,833**	**48,930**	**3,690**	**358,246**
Liabilities						
Financial liabilities measured at amortised cost	440,851	-	-	-	-	440,851
Other liabilities	2,756	17	5	-	-	2,778
Total liabilities	**443,607**	**17**	**5**	**-**	**-**	**443,629**
Equity	(85,383)	-	-	-	-	(85,383)
Total liabilities and equity	**358,224**	**17**	**5**	**-**	**-**	**358,246**
Memorandum items						
Contingent liabilities	-	-	886	-	-	886
Financial commitments	16,045	871	-	-	-	16,916

	Company as at 31/12/2011, LVL 000's					
	Latvia	Lithuania	Other EU countries	CIS countries	Other countries	Total
Assets						
Cash and deposits with central banks	5	-	-	-	-	5
Balances due from credit institutions	22,385	1,654	1,431	5	-	25,475
Shares and other non-fixed income securities	31	-	-	-	-	31
Bonds and other fixed income securities	2,543	-	-	1,893	-	4,436
Loans	241,517	63,440	33,372	97,392	16,955	452,676
Held-to-maturity securities	24,318	-	-	-	-	24,318
Investments in subsidiaries	62	-	-	-	-	62
Investment properties	18,586	-	-	-	-	18,586
Other assets	9,332	29	528	-	40	9,929
Total assets	**318,779**	**65,123**	**35,331**	**99,290**	**16,995**	**535,518**
Liabilities						
Financial liabilities measured at amortised cost	494,410	-	12,108	1,716	12,885	521,119
Derivative financial instruments	1,688	-	-	-	-	1,688
Other liabilities	1,614	-	172	-	2	1,788
Total liabilities	**497,712**	**-**	**12,280**	**1,716**	**12,887**	**524,595**
Equity	10,923	-	-	-	-	10,923
Total liabilities and equity	**508,635**	**-**	**12,280**	**1,716**	**12,887**	**535,518**
Memorandum items						
Contingent liabilities	1,514	-	885	-	-	2,399
Financial commitments	15,115	939	-	-	1	16,055

FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

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

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

Fair value hierarchy

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

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

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

Issued debt
The issued debt represents Ministry of Finance funds with variable interest rates. Fair value of the issued bonds is smaller than their balance sheet value due to the accrued losses of the Company. Fair value of the issued bonds cannot be determined with significant precision at the current moment.

Subordinated liabilities
For the subordinated liabilities it is estimated that the carrying value is a close representation of the fair value.

b) Currency risk

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

Day-to-day currency risk monitoring, management and reporting is the responsibility of Risk Management Division and Finance Planning and Control Division. In the event of exchange rates for all currencies in which the Group and the Company has open positions adversely change by 1%, the potential total decrease in the Group’s and Company’s pre-tax profit would amount to approximately LVL 454 thousand and LVL 454 thousand as at 31 December 2012 and LVL 51 thousand and LVL 15 thousand as at 31 December 2011, 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 2012 and 2011 by currency profile:

	Group as at 31/12/2012, LVL 000’s						
	LVL	USD	EUR	LTL	RUB	Other	Total
Assets							
Balances due from credit institutions	2,803	140	1,420	71	-	7	4,441
Shares and other non-fixed income securities	-	10	-	-	-	-	10
Bonds and other fixed income securities	-	45	33	-	-	-	78
Loans	903	27,923	233,306	15,013	-	1,362	278,507
Investment properties	61,672	-	-	2,294	-	-	63,966
Other assets	9,379	1,419	810	142	112	75	11,937
Total assets	**74,757**	**29,537**	**235,569**	**17,520**	**112**	**1,444**	**358,939**
Liabilities							
Financial liabilities measured at amortised cost	25,404	-	415,447	-	-	-	440,851
Other liabilities	3,026	30	132	115	-	-	3,303
Total liabilities	**28,430**	**30**	**415,579**	**115**	**-**	**-**	**444,154**
Equity	(85,215)	-	-	-	-	-	(85,215)
Total liabilities and equity	**(56,785)**	**30**	**415,579**	**115**	**-**	**-**	**358,939**
Net long/ (short) position as at 31 December 2012	131,542	29,507	(180,010)	17,405	112	1,444	-
Exchange rates applied as at 31 December 2012 (LVL for 1 foreign currency unit)	-	0.531	0.702804	0.204	0.0174	-	-

	Group as at 31/12/2011, LVL 000's							
	LVL	USD	EUR	UAH	LTL	RUB	Other	Total
Assets								
Cash and deposits with central banks	5	-	-	-	-	-	-	5
Balances due from credit institutions	6,937	4,345	12,704	-	1,531	84	22	25,623
Shares and other non-fixed income securities	-	31		-	-	-	-	31
Bonds and other fixed income securities	-	1,217	3,056	-	-	163	-	4,436
Loans	4,910	70,167	325,229	-	20,112	3	4,829	425,250
Held-to-maturity securities	-	-	24,318	-	-	-	-	24,318
Investment properties	39,963	-	-	-	487	-	-	40,450
Other assets	5,966	3,164	1,791	4,715	89	249	90	16,064
Total assets	**57,781**	**78,924**	**367,098**	**4,715**	**22,219**	**499**	**4,941**	**536,177**
Liabilities								
Financial liabilities measured at amortised cost	33,919	3,296	483,850	-	-	44	10	521,119
Derivative financial instruments	1,688	-	-	-	-	-	-	1,688
Other liabilities	2,699	1	225	-	14	9	1	2,949
Total liabilities	**38,306**	**3,297**	**484,075**	**-**	**14**	**53**	**11**	**525,756**
Equity	10,421	-	-	-	-	-	-	10,421
Total liabilities and equity	**48,727**	**3,297**	**484,075**	**-**	**14**	**53**	**11**	**536,177**
Net long/ (short) position for balance sheet items	9,054	75,627	(116,977)	4,715	22,205	446	4,930	-
Off-balance sheet claims arising from foreign exchange								
Swap exchange contracts	69,246	(86,133)	44,939	(1)	(23,385)	-	(6,322)	(1,656)
Net long/ (short) positions on foreign exchange	69,246	(86,133)	44,939	(1)	(23,385)	-	(6,322)	(1,656)
Net long/ (short) position as at 31 December 2011	**78,300**	**(10,506)**	**(72,038)**	**4,714**	**(1,180)**	**446**	**(1,392)**	**(1,656)**
Exchange rates applied as at 31 December 2011 (LVL for 1 foreign currency unit)	-	0.544	0.702804	0.0677	0.204	0.017	-	-

	Company as at 31/12/2012, LVL 000's						
	LVL	USD	EUR	LTL	RUB	Other	Total
Assets							
Balances due from credit institutions	2,279	140	1,416	66	-	7	3,908
Shares and other non-fixed income securities	-	10	-	-	-	-	10
Bonds and other fixed income securities	-	45	33	-	-	-	78
Loans	35,247	28,617	234,568	15,013	-	1,362	314,807
Investments in subsidiaries	25,700	1	1	-	-	-	25,702
Investment properties	5,583	-	-	-	-	-	5,583
Other assets	7,287	10	684	105	1	71	8,158
Total assets	**76,096**	**28,823**	**236,702**	**15,184**	**1**	**1,440**	**358,246**
Liabilities							
Financial liabilities measured at amortised cost	25,404	-	415,447	-	-	-	440,851
Other liabilities	2,643		117	18	-	-	2,778
Total liabilities	**28,047**	**-**	**415,564**	**18**	**-**	**-**	**443,629**
Equity	(85,383)	-	-	-	-	-	(85,383)
Total liabilities and equity	**(57,336)**	**-**	**415,564**	**18**	**-**	**-**	**358,246**
Net long/ (short) position as at 31 December 2012	133,432	28,823	(178,862)	15,166	1	1,440	-
Exchange rates applied as at 31 December 2012 (LVL for 1 foreign currency unit)	-	0.531	0.702804	0.204	0.0174	-	-

Company as at 31/12/2011, LVL 000’s

	LVL	USD	EUR	UAH	LTL	RUB	Other	Total
Assets								
Cash and deposits with central banks	5	-	-	-	-	-	-	5
Balances due from credit institutions	6,797	4,345	12,703	-	1,524	84	22	25,475
Shares and other non-fixed income securities	-	31	-	-	-	-	-	31
Bonds and other fixed income securities	-	1,217	3,056	-	-	163	-	4,436
Loans	30,751	70,941	325,989	-	20,112	54	4,829	452,676
Held-to-maturity securities	-	-	24,318	-	-	-	-	24,318
Investments in subsidiaries	62	-	-	-	-	-	-	62
Investment properties	18,586	-	-	-	-	-	-	18,586
Other assets	9,233	10	517	-	82	-	87	9,929
Total assets	**65,434**	**76,544**	**366,583**	**-**	**21,718**	**301**	**4,938**	**535,518**
Liabilities								
Financial liabilities measured at amortised cost	33,919	3,296	483,850	-	-	44	10	521,119
Derivative financial instruments	1,688	-	-	-	-	-	-	1,688
Other liabilities	1,561	1	225	-	-	-	1	1,788
Total liabilities	**37,168**	**3,297**	**484,075**	**-**	**-**	**44**	**11**	**524,595**
Equity	10,923	-	-	-	-	-	-	10,923
Total liabilities and equity	**48,091**	**3,297**	**484,075**	**-**	**-**	**44**	**11**	**535,518**
Net long/ (short) position for balance sheet items	17,343	73,247	(117,492)	-	21,718	257	4,927	-
Off-balance sheet claims arising from foreign exchange								
Swap exchange contracts	69,246	(86,133)	44,939	(1)	(23,385)	-	(6,322)	(1,656)
Net long/ (short) positions on foreign exchange	69,246	(86,133)	44,939	(1)	(23,385)	-	(6,322)	(1,656)
Net long/ (short) position as at 31 December 2011	**86,589**	**(12,886)**	**(72,553)**	**(1)**	**(1,667)**	**257**	**(1,395)**	**(1,656)**
Exchange rates applied as at 31 December 2011 (LVL for 1 foreign currency unit)	-	0.544	0.702804	0.0677	0.204	0.017	-	-

d) Liquidity risk

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

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

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

	Group as at 31/12/2012, LVL 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years and undated	Total
Assets							
Balances due from credit institutions	4,441	-	-	-	-	-	4,441
Shares and other non-fixed income securities	-	-	-	-	10	-	10
Bonds and other fixed income securities	-	-	-	78	-	-	78
Loans	84,065	6,429	11,492	29,089	103,199	44,233	278,507
Investment properties	-	-	-	-	63,966	-	63,966
Other assets	-	2,402	-	-	9,325	210	11,937
Total assets	**88,506**	**8,831**	**11,492**	**29,167**	**176,500**	**44,443**	**358,939**
Liabilities							
Financial liabilities measured at amortised cost	-	3,000	-	69,527	315,321	53,003	440,851
Other liabilities	1,017	2,256	-	-	30	-	3,303
Total liabilities	**1,017**	**5,256**	**-**	**69,527**	**315,351**	**53,003**	**444,154**
Equity	-	-	-	-	-	(85,215)	(85,215)
Total liabilities and equity	**1,017**	**5,256**	**-**	**69,527**	**315,351**	**(32,212)**	**358,939**
Net balance sheet position – long/ (short)	87,489	3,575	11,492	(40,360)	(138,851)	76,655	-
Memorandum items							
Contingent liabilities	886	-	-	-	-	-	886
Financial commitments	-	-	-	-	-	-	-

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

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

	LVL 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total contractual cash flows
Financial liabilities measured at amortised cost	3,498	5,595	5,995	23,788	421,291	-	460,167
Memorandum items							
Contingent liabilities	886	-	-	-	-	-	886
Financial commitments	-	-	-	-	-	-	-

Group's assets, liabilities and memorandum items by contractual maturity structure as at 31 December 2011

	Group as at 31/12/2011, LVL 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years and undated	Total
Assets							
Cash and deposits with central banks	5	-	-	-	-	-	5
Balances due from credit institutions	25,623	-	-	-	-	-	25,623
Shares and other non-fixed income securities	-	-	-	-	31	-	31
Bonds and other fixed income securities	-	-	-	-	1,955	2,481	4,436
Loans	112,575	25,883	5,021	22,793	145,006	113,972	425,250
Held-to-maturity securities	-	-	-	-	-	24,318	24,318
Investment properties	-	-	-	-	40,450	-	40,450
Other assets	2,433	1,575	1	2,313	9,320	422	16,064
Total assets	**140,636**	**27,458**	**5,022**	**25,106**	**196,762**	**141,193**	**536,177**
Liabilities							
Financial liabilities measured at amortised cost	25,874	35,258	179	44,481	199,711	215,616	521,119
Other liabilities	2,889	1,729	19	-	-	-	4,637
Total liabilities	**28,763**	**36,987**	**198**	**44,481**	**199,711**	**215,616**	**525,756**
Equity	-	-	-	-	-	10,421	10,421
Total liabilities and equity	**28,763**	**36,987**	**198**	**44,481**	**199,711**	**226,037**	**536,177**
Net balance sheet position – long/ (short)	111,873	(9,529)	4,824	(19,375)	(2,949)	(84,844)	-
Memorandum items							
Contingent liabilities	885	-	-	-	-	-	885
Financial commitments	160	-	-	-	-	-	160

Group's contractual undiscounted cash flows of the financial liabilities as at 31 December 2011

The following table represents the analysis of the estimated contractual cash flows arising from Group's financial liabilities as at 31 December 2011:

	LVL 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total contractual cash flows
Financial liabilities measured at amortised cost	26,057	38,501	1,402	62,535	278,888	226,263	633,646
Memorandum items							
Contingent liabilities	885	-	-	-	-	-	885
Financial commitments	160	-	-	-	-	-	160

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

	Company as at 31/12/2012, LVL 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years and undated	Total
Assets							
Balances due from credit institutions	3,908	-	-	-	-	-	3,908
Shares and other non-fixed income securities	-	-	-	-	10	-	10
Bonds and other fixed income securities	-	-	-	78	-	-	78
Loans	84,819	6,429	11,492	29,089	138,745	44,233	314,807
Investments in subsidiaries	-	-	-	-	25,702	-	25,702
Investment properties	-	-	-	-	5,583	-	5,583
Other assets	-	231	-	-	7,728	199	8,158
Total assets	**88,727**	**6,660**	**11,492**	**29,167**	**177,768**	**44,432**	**358,246**
Liabilities							
Financial liabilities measured at amortised cost	-	3,000	-	69,527	315,321	53,003	440,851
Other liabilities	1,017	1,761	-	-	-	-	2,778
Total liabilities	**1,017**	**4,761**	**-**	**69,527**	**315,321**	**53,003**	**443,629**
Equity	-	-	-	-	-	(85,383)	(85,383)
Total liabilities and equity	**1,017**	**4,761**	**-**	**69,527**	**315,321**	**(32,380)**	**358,246**
Net balance sheet position – long/ (short)	87,710	1,899	11,492	(40,360)	(137,553)	76,812	-
Memorandum items							
Contingent liabilities	866	-	-	-	-	-	886
Financial commitments	-	16,916	-	-	-	-	16,916

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

	LVL 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total contractual cash flows
Financial liabilities measured at amortised cost	2,973	5,595	5,995	23,788	421,291	-	459,642
Memorandum items							
Contingent liabilities	886	-	-	-	-	-	886
Financial commitments	-	16,916	-	-	-	-	16,916

Company’s assets, liabilities and memorandum items by contractual maturity structure as at 31 December 2011

	Company as at 31/12/2011, LVL 000’s						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years and undated	Total
Assets							
Cash and deposits with central banks	5	-	-	-	-	-	5
Balances due from credit institutions	25,475	-	-	-	-	-	25,475
Shares and other non-fixed income securities	-	-	-	-	31	-	31
Bonds and other fixed income securities	-	-	-	-	1,955	2,481	4,436
Loans	112,575	25,883	5,388	23,552	171,306	113,972	452,676
Held-to-maturity securities	-	-	-	-	-	24,318	24,318
Investment properties	-	-	-	-	18,586	-	18,586
Other assets	-	-	-	-	9,573	418	9,991
Total assets	**138,055**	**25,883**	**5,388**	**23,552**	**201,451**	**141,189**	**535,518**
Liabilities							
Financial liabilities measured at amortised cost	25,874	35,258	179	44,481	199,711	215,616	521,119
Other liabilities	3,476	-	-	-	-	-	3,476
Total liabilities	**29,350**	**35,258**	**179**	**44,481**	**199,711**	**215,616**	**524,595**
Equity	-	-	-	-	-	10,923	10,923
Total liabilities and equity	**29,350**	**35,258**	**179**	**44,481**	**199,711**	**226,539**	**535,518**
Net balance sheet position – long/ (short)	108,705	(9,375)	5,209	(20,929)	1,740	(85,350)	-
Memorandum items							
Contingent liabilities	2,399	-	-	-	-	-	2,399
Financial commitments	160	15,895	-	-	-	-	16,055

Company’s contractual undiscounted cash flows of the financial liabilities as at 31 December 2011

	LVL 000’s						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total contractual cash flows
Financial liabilities measured at amortised cost	26,057	38,501	1,402	62,535	278,888	226,263	633,646
Memorandum items							
Contingent liabilities	2,399	-	-	-	-	-	2,399
Financial commitments	160	15,895	-	-	-	-	16,055

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 does not undertake / accept operational risks with unquantifiable impact that are concurrently unmanageable (it is impossible to prevent such risks or provide for their consequences – e.g. non-compliance with legal regulations etc.), irrespective of the financial gains this could bring (i.e., the Group does not perform business activities incurring such operational risks).

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 30. EVENTS AFTER THE BALANCE SHEET DATE

In January 2013, one of the Reverta’s subsidiaries – Express leasing (Russia) was liquidated and excluded from Russian State Register of Legal Entities and Group structure.

In February 2013, Reverta made a EUR7.1m (LVL 5m) interest payment to the Treasury in accordance with the Restructuring Plan.

In February 2013, with the numbers of repossessed real estates rapidly increasing, Reverta has started an active real estate sales campaign. The primary objective of the campaign is to market Reverta as a seller of real estate. This is to promote sales of immovable properties whilst we continue to repossess other distressed real estate properties.

Translation from Latvian original*

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of AS Reverta

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of AS Reverta and its subsidiaries (the Group) and the financial statements of AS Reverta (the Company) on pages 7 to 57 which comprise the balance sheets as of 31 December 2012, the income statements and the statements of comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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Opinion

In our opinion, the financial statements give true and fair views of the financial positions of the Group and the Company as of 31 December 2012, and of their financial performance and their cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Report on Other Legal and Regulatory Requirements

We have read the Management Report set out on pages 3 to 4 and did not identify material inconsistencies between the financial information contained in the Management Report and that contained in the financial statements for 2012.

PricewaterhouseCoopers SIA
Certified audit company
Licence No. 5

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

Riga, Latvia
28 March 2013