ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2017

TOGETHER WITH INDEPENDENT AUDITORS’ REPORT

REVERTA

Table of Contents

AS Reverta, under liquidation
Kr.Valdemara street 31, Riga,
LV-1010, Latvia

Phone: (371) 6 777 9100

Registration number 40003074590

Management Report

In 2017 (hereinafter – the Reporting Period), activities of joint stock company Reverta (hereinafter – Reverta) were focused on several areas: workout of distressed assets and recovery of funds, sales of loan portfolio and transfer of credit files to the investor, commencement of the liquidation of the company, and transfer of valuable assets to the newly founded subsidiary of the Latvian Privatisation Agency – limited liability company REAP (hereinafter – REAP) which, according to the Cabinet decision, at the end of the Reporting Period became the manager of Reverta's remaining claims and assets.

Financial information:

During 2017, Reverta made interest payments on the use of State aid in the amount of EUR 19.8 m. The last interest payment in the amount of EUR 1.9 m was made at the end of the Reporting Period: EUR 540 k was paid to the Treasury (in total, in 2017 EUR 18.4 m were paid to State Treasury), whereas EUR 1.4 m was paid to REAP.

Reverta's loss during the Reporting Period was EUR 25 m and it mainly comprised of interest payments on the use of State aid. Taking into account the specific nature of distressed assets recovery, loss had been planned from the very outset for the overall operation time of Reverta.

Since 1 August 2010, Reverta has paid the State Treasury EUR 446.2 m, of which EUR 250.4 m was used to repay the principal and EUR 195.8 m was used to pay the interest. Overall, in the form of various payments the State has received from Reverta more than EUR 700 m.

During its operation, Reverta has recovered EUR 765 m or per cent of all distressed assets received from Parex Bank. This result significantly exceeds initial estimates and proves that the operational strategies chosen by the management of the company and their decisions have been justified. It should be noted that the amount of recovered funds was established as the true measure of Reverta's efficiency.

At the end of the Reporting Period the total amount of Reverta's assets was EUR 9.7 m, as compared to EUR 1.1 b at the start of operation. During a seven year period, all other assets have been already worked out and disposed of and the recovered funds have been repaid to the State.

Other significant events:

In accordance with the Restructuring Plan set up for Parex Bank and the decision of the Cabinet of Ministers of 15 December 2014 on the restructuring of liabilities towards the European Bank for Reconstruction and Development (hereinafter – EBRD), on 7 March 2017 EBRD has ended its participation in Reverta. Henceforth, the Latvian Privatisation Agency has a 96.89 % shareholding in Reverta and other shareholders have 3.11 % of shares.

In view of the fact that the EC approved Restructuring Plan envisages closing of Reverta's operations by the end of 2017 and Reverta's objective – recovery of the State aid in the most optimum amount – has been achieved, on 29 May 2017 a decision was made at the Annual General Meeting of Reverta's shareholders to commence the liquidation of Reverta on 1 July 2017.

In order to discontinue Reverta's operations within the given time, on 22 June 2017 Reverta signed a loan portfolio sale agreement with limited liability company Gelvora.

On 30 June 2017, Solvita Deglava, Chairperson of the Management Board of Reverta, left her appointment. In line with the decision adopted at the Annual General Meeting of shareholders, Reverta continued with a one-member Management Board. On 1 July 2017, Reverta's liquidation was commenced and its former and only Management Board Member Ruta Amtmane became Reverta's Liquidator. Liquidator has all rights and obligations of a management board and supervisory board. In November 2017, Reverta successfully completed the transfer of the loan portfolio to limited liability company Gelvora. Overall, approximately 4.5 thousand credit files were transferred to the investor.

On 14 November 2017, the Cabinet of Ministers supported a plan for a complete liquidation of Reverta after solving of several litigations and administrative issues. Actual closure of the company's operations took place by the deadline established in the Restructuring Plan, i.e. at the end of the Reporting Period.

At the end of the Reporting Period, joint stock company Reverta, in liquidation, handed over to REAP remaining valuable assets – litigations against former majority shareholders and Management Board members, as well as some unencumbered real estate properties, thus decreasing its total debt to the State by EUR 19.3 m.

Ruta Amtmane
Liquidator

Riga,
27 April 2018

The Supervisory Board and the Management Board

The Supervisory Board

Name	***Position***
Michael Joseph Bourke	Chairman of the Supervisory Board (till 30.06.2017)
Mary Ellen Collins	Member of the Supervisory Board (till 30.06.2017)
Līga Kļaviņa	Deputy Chairperson of the Supervisory Board (till 30.06.2017)
Artūrs Neimanis	Member of the Supervisory Board (till 30.06.2017)

The Management Board/ Liquidator

Name	***Position***
Solvita Deglava	Chairperson of the Management Board (till 29.06.2017)
Ruta Amtmane	Member of the Management Board (till 30.06.2017) Liquidator (from 01.07.2017)

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 49 are prepared in accordance with the source documents and present fairly the financial position of the Company and the Group as at 31 December 2017 and the results of their operations, changes in shareholders' equity and cash flows for the twelve month period ended 31 December 2017. The management report set out on pages 3 to 4 presents fairly the financial results of the reporting period of the Company and the Group.

The financial statements are prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board as adopted by the European Union on the assumption that neither the Company nor the Group are considered to be going concerns. Appropriate accounting policies have been applied on a consistent basis. Prudent and reasonable judgments and estimates have been made by the Management in the preparation of the financial statements.

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

Ruta Amtmane
Liquidator

Riga,
27 April 2018

Statements of Comprehensive Income

	Notes	EUR 000’s			
		2017 Group	2016 Group	2017 Company	2016 Company
Interest income	3	25	219	89	698
Interest expense	3	(17,839)	(19,469)	(17,839)	(19,502)
Net interest expense		**(17,814)**	**(19,250)**	**(17,750)**	**(18,804)**
Commission and fee income		5	26	5	26
Commission and fee expense		(25)	(9)	(23)	(6)
Net commission and fee income		**(20)**	**17**	**(18)**	**20**
Net foreign exchange gain	4	(713)	564	(766)	487
Other operating income	5	409	868	473	1,536
Net result of the financial segment		**(18,138)**	**(17,801)**	**(18,061)**	**(16,761)**
Real estate segment income		(409)	(293)	467	(425)
Real estate segment expense		(157)	(790)	(52)	(155)
Revaluation result, net		-	(3,318)	-	(120)
Net result of RE segment	6	**(566)**	**(4,401)**	**415**	**(700)**
Collaterals and assets under repossession expense		(27)	(22)	(27)	(22)
Administrative expense	7,8	(4,446)	(6,453)	(4,375)	(6,037)
Amortisation and depreciation charge		(20)	(40)	(20)	(39)
Impairment of assets and write offs, net	9	(1,663)	(16,361)	(2,862)	(22,371)
Loss before taxation		**(24,860)**	**(45,078)**	**(24,930)**	**(45,930)**
Corporate income tax	10	(121)	-	(21)	-
Loss for the year		**(24,981)**	**(45,078)**	**(24,951)**	**(45,930)**

The notes on pages 11 to 49 are an integral part of these financial statements.

Statements of Financial Position

	Notes	EUR 000’s			
		2017	2016	2017	2016
		Group	Group	Company	Company
Assets					
Balances due from credit institutions	11	9,290	8,249	4,729	5,251
Loans	12	-	25,422	7	31,756
Fixed assets		10	22	10	22
Intangible assets		28	36	28	36
Investments in subsidiaries	13	-	-	4,742	6,663
Investment property	14	218	13,894	113	2,780
Other non-financial assets	15	263	11,318	52	10,715
Total assets		**9,809**	**58,941**	**9,681**	**57,223**
Liabilities					
Issued debt securities	16,20	365,310	386,701	365,310	386,701
Other liabilities		339	3,202	58	1,361
Subordinated liabilities	17	76,143	76,040	76,143	76,040
Total liabilities		**441,792**	**465,943**	**441,511**	**464,102**
Equity					
Paid-in share capital	18	442,552	442,552	442,552	442,552
Share premium		18,063	18,063	18,063	18,063
Accumulated losses		(892,598)	(867,617)	(892,445)	(867,494)
Total shareholders' equity attributable to the shareholders of the Company/ Group		**(431,983)**	**(407,002)**	**(431,830)**	**(406,879)**
Total liabilities and equity		**9,809**	**58,941**	**9,681**	**57,223**

The notes on pages 11 to 49 are an integral part of these financial statements.

Statements of Changes in Equity

Group	EUR 000's			
	Issued share capital	Share premium	Accumulated losses	Total equity
Balance as at 31 December 2015	**442,552**	**18,063**	**(822,539)**	**(361,924)**
Loss for the year	-	-	(45,078)	(45,078)
Other comprehensive income	-	-	-	-
Total comprehensive loss for the year	**-**	**-**	**(45,078)**	**(45,078)**
Balance as at 31 December 2016	**442,552**	**18,063**	**(867,617)**	**(407,002)**
Loss for the year	-	-	(24,981)	(24,981)
Other comprehensive income	-	-	-	-
Total comprehensive loss for the year	**-**	**-**	**(24,981)**	**(24,981)**
Balance as at 31 December 2017	**442,552**	**18,063**	**(892,598)**	**(431,983)**

Company	EUR 000's			
	Issued share capital	Share premium	Accumulated losses	Total equity
Balance as at 31 December 2015	**442,552**	**18,063**	**(821,564)**	**(360,949)**
Loss for the year	-	-	(45,930)	(45,930)
Other comprehensive income	-	-	**-**	**-**
Total comprehensive loss for the year	**-**	**-**	**(45,930)**	**(45,930)**
Balance as at 31 December 2016	**442,552**	**18,063**	**(867,494)**	**(406,879)**
Loss for the year	-	-	(24,951)	(24,951)
Other comprehensive income	-	-	-	-
Total comprehensive loss for the year	**-**	**-**	**(24,951)**	**(24,951)**
Balance as at 31 December 2017	**442,552**	**18,063**	**(892,445)**	**(431,830)**

The notes on pages 11 to 49 are an integral part of these financial statements.

Statements of Cash Flows

	EUR 000's			
	2017	2016	2017	2016
	Group	Group	Company	Company
Cash flows from operating activities				
Loss before tax	(24,860)	(45,078)	(24,930)	(45,930)
Amortisation and depreciation	20	40	20	39
Change in impairment allowances and other accruals	1,663	19,679	2,862	22,490
Interest income	(25)	(219)	(89)	(698)
Interest expense	17,839	19,469	17,839	19,502
Other non-cash items	(364)	(563)	(484)	(487)
Cash generated before changes in assets and liabilities	**(5,727)**	**(6,672)**	**(4,782)**	**(5,084)**
Proceeds from loans and receivables	19,942	45,261	20,559	56,601
Proceeds from investment property	6,886	27,927	3,353	4,625
Decrease/(increase) in other assets	997	(3,666)	605	224
Increase/(decrease) in other liabilities	(1,223)	67	(1,304)	(1,037)
Decrease of share capital of subsidiaries	3	-	874	7,744
Cash generated from operating activities before corporate income tax	**20,878**	**62,917**	**19,305**	**63,073**
Corporate income tax paid	(31)	-	(21)	-
Net cash flows from operating activities	**20,847**	**62,917**	**19,284**	**63,073**
Cash flows from financing activities				
Redemption of issued debt securities (principal)	-	(40,015)	-	(40,015)
Interest paid for issued debt securities	(19,806)	(19,870)	(19,806)	(19,870)
Net cash flow used in financing activities	**(19,806)**	**(59,885)**	**(19,806)**	**(59,885)**
Net cash flow for the reporting period	**1,041**	**3,032**	**(522)**	**3,188**
Cash and cash equivalents at the beginning of the reporting period	**8,249**	**5,217**	**5,251**	**2,063**
Cash and cash equivalents at the end of the reporting period	**9,290**	**8,249**	**4,729**	**5,251**

The notes on pages 11 to 49 are an integral part of these financial statements.

Notes

Figures in parenthesis represent amounts as at 31 December 2016 or for year ended 31 December 2016, 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 26 April 2018. 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

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

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

The legal address of the Company is Kr.Valdemara street 31, Riga, LV-1887. The Company is parent company of the Group.

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

The main security of *AS Reverta* loan portfolio in the Baltic countries was 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* dealt with clients representing such industries as oil/ gas production and refinement, agriculture, retail business, manufacturing.

on 29 May 2017 shareholders' meeting of JSC Reverta (the Company) has decided on the commencement of liquidation of the Company. The actual activities of the company were completed within the deadline set in the Restructuring Plan - at the end of the reporting period.

As at 31 December 2017, the Company had 20 (49) employees and the Group had 20 (53) employees.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following new and amended IFRS and interpretations became effective in 2017, but have no significant impact on the operations of the Bank and these financial statements:

Amendments to IAS 12 "Income taxes" – recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017).

Amendments to IAS 7 "Statement of Cash Flows" – Disclosure initiative (effective for annual periods beginning on or after 1 January 2017).

Certain new standards and interpretations have been published that become effective for the accounting periods beginning on 1 January 2018 or later periods or are not yet endorsed by the EU:

IFRS 9 "Financial instruments" (effective for annual periods beginning on or after 1 January 2018).

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

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

IFRS 16 "Leases" (effective for annual periods beginning on or after 1 January 2019).

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

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

Amendments to IFRS 4 “Insurance Contracts” – Applying IFRS 9 “Financial statements” with IFRS 4 “Insurance contracts” (effective for annual periods beginning on or after 1 January 2018);

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

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

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

IFRS 17 “Insurance contracts” (effective for annual periods beginning on or after 1 January 2021, not yet endorsed in the EU).

IFRIC 23 “Uncertainty over Income Tax Treatments” (effective for annual periods beginning on or after 1 January 2019, not yet endorsed in the EU).

Amendments to IAS 40 “Investment Property” – Transfers of investment property (effective for annual periods beginning on or after 1 January 2018, not yet endorsed in the EU).

Amendments to IFRS 9 “Financial instruments” – Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019, not yet endorsed in the EU).

Amendments to IAS 28 “Investments in Associates and Joint Ventures” – Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019, not yet endorsed in the EU).

Annual improvements to IFRS’s 2017 (effective for annual periods beginning on or after 1 January 2019, not yet endorsed in the EU). The amendments include changes that affect 4 standards:

- IFRS 3 - “Business Combinations”,
- IFRS 11 - “Joint Arrangements”
- IAS 12 - “Income taxes”
- IAS 23 - “Borrowing costs”.

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

Basis of preparation

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

The Company’s activities were carried out in accordance with the Restructuring plan approved by the European Commission (decision On the State Aid C 26/2009 (ex N 289/2009)) and revised Restructuring Plan (decision SA.36612 - 2014/C (ex 2013/NN). The primary objective of the Company is to manage and recover from the residual problematic assets portfolio by maximising its returns to achieve the objectives outlined in the Restructuring plan within the approved time frame until the end of 2017.

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

To ensure compliance with decisions by the European Commission and amendments to Law on Control of Aid for Commercial activity the Shareholders Meeting approved initiation of Reverta liquidation as of 1 July 2017, and therefore neither the Company nor the Group are considered to be going concerns.

The consolidated and separate financial statements for the year ended 31 December 2016 have been prepared on the historical cost basis, except where stated, modified to reflect the estimated recoverable value of assets expected to be sold under estimated normal market conditions, assuming an open, transparent and multi-party sales process, and for investment properties, which have been measured at fair value.

The consolidated and separate financial statements for the year ended 31 December 2017 have been prepared under a liquidation basis. Assets are recognised at value which is expected to be received from realisation of the assets. Liabilities are stated at amounts that the Group and the Company are expected to settle.

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

Accounting policies used in the preparation of the consolidated and separate statements for the year ending 31 December 2016:

Functional and Presentation Currency

The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The consolidated financial statements are presented in EUR which is the functional and presentation currency. The accompanying financial statements are prepared in thousands of EUR (EUR'000).

Basis of Consolidation

As at 31 December 2017 and 2016, the Company had a number of investments in subsidiaries, in which the Company held directly and indirectly more than 50% of the shares and voting rights, and accordingly, had the ability to exercise control. The investments in the subsidiaries are presented in the Company's financial statements at acquisition cost less impairment provision if any. More detailed information on the group's subsidiaries is presented in Note 13.

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

Use of estimates in the preparation of financial statements

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

Critical accounting estimates

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

Impairment of loans

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

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

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

Investment properties

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

Assumptions about potential change of the real estate value over years are not used for accounting purposes. The assumptions are used when making the NPV calculations, in order to establish the optimum sales period and the optimum price of the properties. These assumptions/principles for calculation are defined once a year by the Head of Real Estate Management Department and approved by the Management Board of Reverta. Regardless of the NPV figure, the starting sales price of a real estate object is fixed in the amount that is not less than the market value established by the independent valuators.

Deferred tax asset

As a result of transfer of undertaking, most of the performing assets have been transferred to AS Citadele banka, and in 2017 the initiation of the Company's liquidation indicate that the Group will not be able to generate taxable profits in foreseeable future and therefore deferred tax asset is not recognised.

Subordinated debt

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

Income and Expense Recognition

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

Fees earned by the Group that are not part of effective interest rate are recognised immediately in the income statement as fee income. Revenue from services is recognised in the accounting period in which the services are rendered.

Foreign Currency Translation

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

Taxation

For the year ended 31 December 2017 corporate income tax is applied at the rate of 15% (2016: 15%) on taxable income generated by the Company for the taxation period.

Financial instruments

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

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. At initial recognition, the financial assets are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable incremental transaction costs. The classification of investments between the categories is determined at acquisition based on the guidelines established by the Management.

Available for sale financial assets

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

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

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

Loans and receivables

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

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

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

Issued debt, subordinated debt and other borrowed funds

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

Derecognition of Financial Assets and Liabilities

Financial assets

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

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and

- the Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

Financial liabilities

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

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

Impairment of loans and receivables

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

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

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

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

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

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

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

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

Intangible Assets

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

Leasehold rights are amortised over the remaining lease contract on a straight-line basis. Annual amortisation rates applied on a straight-line basis to software and other intangible assets range from 10% to 33%. All intangible assets are with definite lives.

Fixed Assets

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

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

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

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

Investment properties

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

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

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

Off-balance Sheet Financial Commitments and Contingent Liabilities

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

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

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

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

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

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

Fair Values

The Group measures non-financial assets (investment properties), at fair value at each balance sheet date.

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

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

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

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

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

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

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

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

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

Cash and Cash Equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents are defined as the amounts comprising cash and demand deposits with credit institutions with an insignificant risk of changes in value and original maturity of not more than 3 months from the date of acquisition, less demand deposits due to credit institutions. Cash and cash equivalents are measured at amortised cost.

Offsetting

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

Staff costs and related contributions

The Group and the Company pays social security contributions to state pension insurance and to the state funded pension scheme in accordance with Latvian and relevant foreign regulations. In accordance with the Rules of the Cabinet of Ministers of Latvia Republic 72% (2016: 69.995%) of the social insurance contributions are used to fund the state defined contribution pension system. State funded pension scheme is a defined contribution plan under which the Group and the Company pay fixed contributions determined by law and will have no legal or constructive obligation to pay further contributions if the state pension insurance system or state funded pension scheme are not able to settle their liabilities to employees. The social security contributions are accrued in the year in which the associated services are rendered by the employees of the group.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Company has determined the Management Board of the Company as its chief operating decision maker.

Events after the balance sheet date

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

NOTE 3. INTEREST INCOME AND EXPENSE

	EUR 000's			
	2017 Group	2016 Group	2017 Company	2016 Company
Interest income:				
- interest on financial assets measured at amortised cost:	25	219	89	698
- interest on loans and receivables to customers	25	219	89	698
Total interest income	**25**	**219**	**89**	**698**
Interest expense:				
- interest on financial liabilities measured at amortised cost:	(17,839)	(19,469)	(17,839)	(19,502)
- interest on issued debt securities	(17,736)	(19,371)	(17,736)	(19,371)
- interest on subordinated liabilities	(103)	(98)	(103)	(98)
- other (due to subsidiaries)	-	-	-	(33)
Total interest expense	**(17,839)**	**(19,469)**	**(17,839)**	**(19,502)**
Net interest expense	**(17,814)**	**(19,250)**	**(17,750)**	**(18,804)**

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

	EUR 000's			
	2017 Group	2016 Group	2017 Company	2016 Company
Net foreign exchange gain	(713)	564	(766)	487
Net foregn exchange gain	**(713)**	**564**	**(766)**	**487**

NOTE 5. OTHER OPERATING INCOME

	EUR 000's			
	2017 Group	2016 Group	2017 Company	2016 Company
Income from subsidiary management	-	-	123	844
Income from Service Level agreements	229	2	229	2
Other income	180	866	121	690
Total other operating income	**409**	**868**	**473**	**1,536**

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

Other income in 2017 includes 90 thousand EUR – loss compensation received from AS Latvijas Gāze.

NOTE 6. REAL ESTATE SEGMENT INCOME AND EXPENSE

	EUR 000's			
	2017 Group	2016 Group	2017 Company	2016 Company
Real estate segment income:				
- Income from sale	*10,062*	*26,368*	*5,443*	*4,715*
- Brokerage	*(4)*	*(116)*	*-*	*(13)*
- Cost write-off	*(10,476)*	*(26,879)*	*(4,979)*	*(5,166)*
- Rental income	*9*	*334*	*3*	*39*
Total real estate segment income	**(409)**	**(293)**	**467**	**(425)**
Real estate segment expense:				
- Utilities costs	*17*	*(100)*	*(3)*	*(26)*
- Maintenance	*(35)*	*(123)*	*(8)*	*(20)*
- Repair	*(9)*	*(64)*	*(2)*	*(6)*
- Insurance	*(7)*	*(11)*	*(2)*	*(7)*
- Security	*(3)*	*(52)*	*(2)*	*(3)*
- Real estate tax	*(117)*	*(422)*	*(33)*	*(86)*
- Valuation services	*(3)*	*(18)*	*(2)*	*(7)*
Total real estate segment expense	**(157)**	**(790)**	**(52)**	**(155)**
Revaluation of real estate, net (see Note 14)	-	(3,318)	-	(120)
Net result of RE segment	**(566)**	**(4,401)**	**415**	**(700)**

NOTE 7. ADMINISTRATIVE EXPENSE

	EUR 000's			
	2017 Group	2016 Group	2017 Company	2016 Company
Personnel expense	2,172	4,115	2,034	3,720
Professional fees	443	1,143	546	1,184
Rent, utilities, maintenance	211	283	202	255
IT expenses and communications	104	123	99	116
Communication and marketing	22	169	21	163
Travel and transport	21	55	19	53
Insurance	336	178	336	178
Security	2	18	2	18
Other administrative expense*	809	87	790	68
Non-refundable VAT	326	282	326	282
Total administrative expense	**4,446**	**6,453**	**4,375**	**6,037**

*Other administrative expenses in 2017 include 748 thousand EUR – state fee paid for a submission of cassation complaint in the litigation with the former shareholders.

Fees paid to external auditors:

	EUR 000's			
	2017 Group	2016 Group	2017 Company	2016 Company
Audit of the financial statements	7	20	7	12

NOTE 8. PERSONNEL EXPENSE

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

	EUR 000's			
	2017 Group	2016 Group	2017 Company	2016 Company
Remuneration				
- key management personnel	473	536	473	536
- other personnel	1,260	2,819	1,181	2,501
Total remuneration for work	**1,733**	**3,355**	**1,654**	**3,037**
Social security contributions:				
- management	110	121	110	121
- other personnel	329	639	270	562
Total social security contributions	**439**	**760**	**380**	**683**
Total personnel expense	**2,172**	**4,115**	**2,034**	**3,720**
Average number of personnel during the year	36	70	34	63

NOTE 9. CHANGES IN IMPAIRMENT ALLOWANCES AND WRITE OFFS

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

	EUR 000's			
	2017 Group	2016 Group	2017 Company	2016 Company
Total allowance for impairment at the beginning of the year, including:	**501,659**	**603,618**	**509,105**	**610,760**
- loans - specifically assessed impairment	463,839	567,033	471,285	574,175
- loans - collectively assessed impairment	37,820	36,585	37,820	36,585
Charge:	**6**	**14,937**	**6**	**17,811**
- loans - specifically assessed impairment	6	13,702	6	16,576
- loans - collectively assessed impairment	-	1,235	-	1,235
Provision charged to the statement of income, including:	**(485,487)**	**(121,123)**	**(492,647)**	**(123,773)**
- loans - specifically assessed impairment	(447,667)	(121,123)	(454,827)	(123,773)
- loans - collectively assessed impairment	(37,820)	-	(37,820)	-
Effect of changes in currency exchange rates:	**(16,177)**	**4,227**	**(16,463)**	**4,307**
- loans - specifically assessed impairment	(16,177)	4,227	(16,463)	4,307
Total allowance for impairment at the end of the year, including:	**1**	**501,659**	**1**	**509,105**

- loans - specifically assessed impairment	1	463,839	1	471,285
- loans - collectively assessed impairment	-	37,820	-	37,820

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

	Regular loans	Utilised credit lines	Other	Total
Outstanding specific impairment as at 31/12/2016	**446,782**	**10,736**	**6,321**	**463,839**
Impairment charge for the reported period - specific	1	-	5	6
Release of previously established impairment allowance - specific	(430,644)	(10,701)	(6,322)	(447,667)
Increase in impairment allowance due to currency fluctuations	(16,138)	(35)	(4)	(16,177)
Outstanding specific impairment as at 31/12/2017	**1**	**-**	**-**	**1**

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

	Regular loans	Utilised credit lines	Other	Total
Outstanding specific impairment as at 31/12/2016	**449,475**	**15,489**	**6,321**	**471,285**
Impairment charge for the reported period - specific	1	-	5	6
Release of previously established impairment allowance - specific	(433,051)	(15,454)	(6,322)	(454,827)
Increase in impairment allowance due to currency fluctuations	(16,424)	(35)	(4)	(16,463)
Outstanding specific impairment as at 31/12/2017	**1**	**-**	**-**	**1**

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

	EUR 000's			
	2017 Group	2016 Group	2017 Company	2016 Company
Total allowance for impairment at the beginning of the year, including:	**2,719**	**5,974**	**12,180**	**9,990**
- other non-financial assets	2,719	5,974	2,719	3,374
- investments in subsidiaries	-	-	9,461	6,616
Provision charged to the statement of income, net, including:	**115**	**3,907**	**975**	**7,140**
- other non-financial assets	115	3,907	115	-
- investments in subsidiaries	-	-	860	7,140
Change of allowance due to write-offs, net:	**(2,732)**	**(7,162)**	**(4,572)**	**(4,950)**
- other non-financial assets	(2,732)	(7,162)	(2,732)	(4,950)
- investments in subsidiaries	-	-	(1,840)	-
Total allowance for impairment at the end of the year, including:	**102**	**2,719**	**8,583**	**12,180**
- other non-financial assets	102	2,719	102	2,719
- investments in subsidiaries	-	-	8,481	9,461

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

	EUR 000's			
	2017 Group	2016 Group	2017 Company	2016 Company
Impairment allowance charged to the statement of income (loans and receivables):	485,481	(13,457)	492,521	(16,331)
Impairment allowance charged / (credited) to the statement of income, (other non-financial assets)	2,617	(3,907)	3,597	(7,140)
Asset write-offs, net	(489,761)	1,003	(498,980)	1,100
Total Impairment of assets	**(1,663)**	**(16,361)**	**(2,862)**	**(22,371)**

NOTE 10. TAXATION

Corporate income tax expense comprises the following items:

	EUR 000's			
	2017 Group	2016 Group	2017 Company	2016 Company
Tax withheld abroad	121	-	21	-
Total corporate income tax expense	**121**	**-**	**21**	**-**

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

	EUR 000's			
	2017 Group	2016 Group	2017 Company	2016 Company
Loss before corporate income tax	(24,860)	(45,078)	(24,930)	(45,930)
Corporate income tax (at standard rate)*	**(3,744)**	**(6,762)**	**(3,747)**	**(6,889)**
Expenses non-deductible for tax purpose	2,047	19,133	2,047	19,036
Unrecognised deferred tax assets	1,697	(12,371)	1,697	(12,147)
Total effective corporate income tax	**-**	**-**	**-**	**-**

* standard rate for the year ended 31 December 2017 was 15% (2016: 15%).

On July 28, 2017, a new Corporate Income Tax Law was adopted, which stipulates that from January 1, 2018, the corporate income tax is levied on profit that arose after 2017 if it is distributed. Transitional provisions of the law provide that taxpayers will be able to utilise the unused tax losses accumulated by 31 December 2017 during next 5 taxation years for reducing the tax payable on distributed profits by no more than 50% each year.

The movements in tax accounts of the Company during 2017 can be specified as follows:

	EUR 000's			
	Balance as at 31/12/2016	Calculated in 2017	Paid in 2017	Balance as at 31/12/2017
Social security contributions	17	(718)	705	4
Personal income tax	-	(422)	424	2
Value added tax	49	(249)	226	26
Real estate tax	-	(28)	28	-
Total tax (payable)/ receivable	**66**			**32**

NOTE 11. BALANCES DUE FROM CREDIT INSTITUTIONS

	EUR 000's			
	31/12/2017 Group	31/12/2016 Group	31/12/2017 Company	31/12/2016 Company
Due from credit institutions registered in Latvia	9,037	8,001	4,729	5,038
Due from credit institutions registered outside Latvia	253	248	-	213
Total balances due from credit institutions	**9,290**	**8,249**	**4,729**	**5,251**

As at 31 December 2017 and 2016, none of the amounts due from credit institutions were past due.

NOTE 12. LOANS AND RECEIVABLES

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

	Group, EUR 000's					
	31/12/2017			31/12/2016		
	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	1	-	1	508,178	-	508,178
Credit lines	-	-	-	12,245	-	12,245
Other	-	-	-	6,658	-	6,658
Total loans and receivables to customers	**1**	-	**1**	**527,081**	-	**527,081**
Impairment allowance	(1)	-	(1)	(501,659)	-	(501,659)
Total net loans and receivables to customers	-	-	-	**25,422**	-	**25,422**

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

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

	Company, EUR 000's					
	31/12/2017			31/12/2016		
	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	8	-	8	510,875	-	510,875
Credit lines	-	460	460	23,328	63,401	86,729
Other	-	-	-	6,658	-	6,658
Total loans and receivables to customers	**8**	460	**468**	**540,861**	**63,401**	**604,262**
Impairment allowance	(1)	-	(1)	(509,105)	-	(509,105)
Total net loans and receivables to customers	**7**	**460**	**467**	**31,756**	**63,401**	**95,157**

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

	EUR 000's			
	31/12/2017 Group	31/12/2016 Group	31/12/2017 Company	31/12/2016 Company
Privately held companies	-	346,990	7	360,770
Private individuals	1	180,091	1	180,091
Total gross loans and receivables to customers	**1**	**527,081**	**8**	**540,861**
Impairment allowance	(1)	(501,659)	(1)	(509,105)
Total net loans and receivables to customers	-	**25,422**	**7**	**31,756**

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

	EUR 000’s			
	31/12/2017 Group	31/12/2016 Group	31/12/2017 Company	31/12/2016 Company
Real estate purchase and management	-	121,186	7	132,269
Electricity, gas and water supply	-	100,648	-	100,648
Trade	-	30,230	-	30,230
Manufacturing	-	26,551	-	26,551
Transport and communications	-	16,234	-	16,234
Financial intermediation	-	15,604	-	18,301
Construction	-	13,715	-	13,715
Hotels, restaurants	-	10,246	-	10,246
Other industries	-	12,576	-	12,576
Total gross loans and receivables to corporate customers	**-**	**346,990**	**7**	**360,770**

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

	EUR 000’s			
	31/12/2017 Group	31/12/2016 Group	31/12/2017 Company	31/12/2016 Company
Latvian residents	1	335,318	8	346,401
OECD region residents	-	11,552	-	11,552
Non-OECD region residents	-	180,211	-	182,908
Total gross loans and receivables	**1**	**527,081**	**8**	**540,861**
Impairment allowance	(1)	(501,659)	(1)	(509,105)
Total net loans and receivables	**-**	**25,422**	**7**	**31,756**

NOTE 13. INVESTMENTS IN SUBSIDIARIES

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

	EUR 000’s	
	2017	2016
Balance as at 1 January	**6,663**	**22,201**
Decrease of share capital of subsidiaries	-	(9,492)
Liquidation	(2,902)	(3,201)
Impairment allowance on investment	(859)	(7,795)
Impairment reversal	1,840	4,950
Balance as at 31 December	**4,742**	**6,663**

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

As at 31 December 2017 and 2016, the Company held the following investments in subsidiaries and associates:

			As at 31/12/2017			As at 31/12/2016			Investment carrying value EUR 000's	
Company	Country of registration	Business profile	Share capital in EUR 000's	The Company's share (%)	% of total voting rights	Share capital in EUR 000's	The Company's share (%)	% of total voting rights	31/12/2017	31/12/2016
OOO Parex Leasing & Factoring****	Georgia	Leasing	31	100.0	100.0	31	100.0	100.0	-	-
Regalite Holdings Limited**	Cyprus	Finance	12	100.0	100.0	12	100.0	100.0	-	-
UAB NIF Lietuva**	Lithuania	REM*	1,514	100.0	100.0	1,514	100.0	100.0	215	435
OU NIF Eesti****	Estonia	REM*	3	100.0	100.0	3	100.0	100.0	1	1
SIA NIF Dzīvojamie Īpašumi*****	Latvia	REM*	8,000	100.0	100.0	8,000	100.0	100.0	4,526	4,986
SIA NIF Komercīpašumi***	Latvia	REM*	-	-	-	923	100.0	100.0	-	-
SIA NIF Zemes Īpašumi****	Latvia	REM*	3,640	100.0	100.0	3,640	100.0	100.0	-	178
SIA NIF Projekts 1**	Latvia	REM*	3	100.0	100.0	3	100.0	100.0	-	-
SIA NIF Projekts 6***	Latvia	REM*	-	-	-	4	100.0	100.0	-	4
SIA NIF Projekts 7***	Latvia	REM*	-	-	-	1,978	100.0	100.0	-	1,058
SIA NIF Projekts 8***	Latvia	REM*	-	-	-	3,201	100.0	100.0	-	-
SIA NIF Projekts 10***	Latvia	REM*	-	-	-	3	100.0	100.0	-	-
Carnella Maritime Corp.****	British Virgin Islands	Finance	1	100.0	100.0	1	100.0	100.0	-	1
Total investments in subsidiaries									**4,742**	**6,663**

* REM - real estate management
**– started liquidation in 2017
*** – the company was liquidated and excluded from the Group Structure in 2017.
*** *– the company was liquidated and excluded from the Group Structure in 2018.
***** - started liquidation in 2018.

NOTE 14. INVESTMENT PROPERTY

Changes in investment property may be specified as follows:

	EUR 000’s	
	Group	Company
Balance as at 31 December 2015	**36,322**	**5,107**
Additions	6,019	2,990
Disposals	(26,911)	(5,198)
Property improvement	3,662	-
Revaluation	(3,318)	(119)
Consolidation adjustments	(1,880)	-
Balance as at 31 December 2016	**13,894**	**2,780**
Additions	2,304	2,304
Disposals	(15,980)	(4,971)
Balance as at 31 December 2017	**218**	**113**

Group real estate portfolio comprises 4 units as at 31 December 2017 (2016 – 69).

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

Investment properties are divided in following segments:
- -commercial premises
- -private houses
- -land
- -apartments
- -development projects

Quantitative disclosures of fair value measurement hierarchy for Group’s assets:

	EUR 000’s	
	31/12/2017	31/12/2016
Investment properties :		
commercial premises	-	3,707
private houses	87	2,205
land	14	1,779
apartments	117	691
development projects	-	5,512
	218	**13,894**

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

	EUR 000’s	
	31/12/2017	31/12/2016
Investment properties :		
commercial premises	-	1,973
private houses	87	497
land	14	298
apartments	12	12
	113	**2,780**

Fair value measurement

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

Under the effective accounting policy, book value of the investment properties is adjusted in compliance with the valuations carried out.

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

There are two basic methods of valuation:
- Market comparable method;
- Income capitalization method or discounted cash flow (DCF) method (for commercial object or development projects).
All valuations are carried out in compliance with the market value definition – at the best use of the property. All fair values are classified under Level 3.

Valuation process

Real Estate Management Department (REMD) of the Company is in charge of the revaluation process.

Key valuation assumptions of investment properties by segments:

Segment	Valuation method	Assumptions		Range per EUR/m2 or EUR/ha
Residential segment				
Apartments	market comparable method			100-3000
Private houses	market comparable method			50-2000
Land plots				
Residential	market comparable method			0.35-75
Commercial	market comparable method, DCF			0.75-500
Agricultural	market comparable method			600-5000
Forests	market comparable method			500-800
Commercial objects				
Offices	Income capitalization method, DCF	Rent rate	2.5-10 EUR/m^2	
		Occupancy	70%-95%	
		Discount rate	8%-13%	
		Exit yield	9%-12%	
Industrial	Income capitalization method, DCF	Rent rate	0.5-5 EUR/m^2	
		Occupancy	70%-90%	
		Discount rate	10%-15%	
		Exit yield	9%-12%	

Taking into account the diversity of the properties – differences between the segments and within the segments, the range of values is very wide. It depends on the location of the property, technical condition of the constructions, physical, economic and moral depreciation, land fertility rate, forest site productivity and other factors, as well as Real Estate market activity of respective region. Data on Real Estate markets as to respective segments and regions are obtained from publicly available Real Estate market data bases and the ones the Company has subscribed for, as well as on the basis of information obtained from the Sales Unit of REMD.

Reconciliation of Level 3 assets by classes

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

	commercial premises	private houses	land	apartments	development projects	Total
Balance as at 31 December 2016	**3,707**	**2,205**	**1,779**	**691**	**5,512**	**13,894**
Additions	-	2,304	-	-	-	2,304
Disposals	(3,707)	(4,422)	(1,765)	(574)	(5,512)	(15,980)
Balance as at 31 December 2017	**-**	**87**	**14**	**117**	**-**	**218**

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

	commercial premises	private houses	land	apartments	development projects	Total
Balance as at 31 December 2016	**1,973**	**497**	**298**	**12**	**-**	**2,780**
Additions	-	2,304	-	-	-	2,304
Disposals	(1,973)	(2,714)	(284)	-	-	(4,971)
Balance as at 31 December 2017	**-**	**87**	**14**	**12**	**-**	**113**

Sensitivity information

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

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

Highest and best use

All properties as at 31 December 2017 are valued according to highest and best use.

NOTE 15. OTHER ASSETS

Other assets comprise accrued income, prepaid expenses, other assets.

NOTE 16. ISSUED DEBT SECURITIES

As at 31 December 2017 and 2016, the Group and the Company had the following outstanding debt:

	EUR 000’s			
	31/12/2017 Group	31/12/2016 Group	31/12/2017 Company	31/12/2016 Company
due within 1-3 months	-	2,070	-	2,070
due within 6-12 months	-	384,631	-	384,631
past due	365,310	-	365,310	-
Total issued debt securities	**365,310**	**386,701**	**365,310**	**386,701**

Financing support from the Ministry of Finance

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

In 2017 debt securities were repaid in amount of EUR 19,806 being interest on State Aid. All interest on issued debt securities till 29.12.2017 was paid in full. On 14 November 2017 the Cabinet of Ministers made a decision that interest for delayed payments after 29 December,2017 will not be calculated.

On 22 November 2017 the Ministry of Finance partly ceded its claim rights against LAS ‘’Reverta’’ to SIA „REAP”.

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

NOTE 17. SUBORDINATED DEBT

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

Counterparty	Residence country	Issue size, (EUR 000’s)	Interest rate	Original agreement date	Original maturity date	Amortised cost (EUR 000’s) 31/12/2017	Amortised cost (EUR 000’s) 31/12/2016
Notes-private placement	UK	20,000	4.759%	28/12/2007	28/12/2022	19,388	19,285
Private person	Latvia	10,672	6M Rigibid + 3%	28/09/2007	26/09/2017	10,699	10,699
Private person	Latvia	10,672	6M Rigibid + 3%	28/09/2007	26/09/2017	10,699	10,699
Notes – public issue	n/a	5,350	12%	08/05/2008	08/05/2018	5,444	5,444
Private person	Latvia	15,000	12%	20/06/2008	14/05/2015	15,075	15,075
Private person	Latvia	2,134	6M Rigibid + 3%	30/10/2008	30/10/2018	2,140	2,140
Private person	Latvia	2,134	6M Rigibid + 3%	30/10/2008	30/10/2018	2,140	2,140
Private person	Latvia	3,250	6M Rigibid + 3%	04/12/2008	17/09/2015	3,259	3,259
Private person	Latvia	3,250	6M Rigibid + 3%	04/12/2008	17/09/2015	3,259	3,259
Private person	Latvia	2,015	6M Rigibid + 3%	04/12/2008	29/09/2015	2,020	2,020
Private person	Latvia	2,015	6M Rigibid + 3%	04/12/2008	29/09/2015	2,020	2,020
					Total	**76,143**	**76,040**

The Notes of EUR 20 million Subordinated Debt were attracted through private placement of subordinated notes. The notes were issued at discount and net proceeds amounted to EUR 19,385 thousand. The notes are to be redeemed at 100%.

As at 31 December 2017, included in the subordinated debt are EUR 51 million (2016: EUR 51 million) attributable to the former related parties of the Company. These transactions were entered into by previous executive management of the Company. During 2017 no interest on the aforementioned subordinated debt was paid.

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

NOTE 18. ISSUED SHARE CAPITAL

As at 31 December 2017, the Company's registered and paid-in share capital was EUR 442,552 thousand. In accordance with the Company's articles of association, the share capital consists of 3,569,750 thousand ordinary shares with voting rights and 855,770 thousand ordinary shares without voting rights. All shares have a par value of EUR 0.1 each and, as at 31 December 2017, they all were issued and fully paid. As at 31 December 2017, the Company did not possess any of its own shares. No dividends were calculated or paid during 2017 and 2016.

As at 31 December 2017, the Company had 58 (2016: 59) shareholders. The respective shareholdings as at 31 December 2017 and 2016 are specified as follows:

	31/12/2017			31/12/2016		
	Paid-in share capital (EUR 000's)	% of total paid-in capital	% of total voting rights	Paid-in share capital (EUR 000's)	% of total paid-in capital	% of total voting rights
Privatisation Agency	428,804	96.89	97.82	372,413	84.15	82.02
EBRD*	-	-	-	56,391	12.74	15.80
Other	13,748	3.11	2.18	13,748	3.11	2.18
Total	**442,552**	**100.00**	**100.00**	**442,552**	**100.00**	**100.00**

* in accordance with the Restructuring Plan set up for Parex banka and the decision of the Cabinet of Ministers of 15 December 2014 on the restructuring of liabilities towards the European Bank for Reconstruction and Development, the latter has ended its participation in Reverta on 7 March 2017 by disposing all its shares to VAS ''Privatizācijas aģentūra".

NOTE 19. MEMORANDUM ITEMS

Memorandum items comprise contingent liabilities and financial commitments. The following table provides a specification of contingent liabilities (showing maximum amount payable) and financial commitments outstanding as at 31 December 2017 and 2016.

	EUR 000's			
	31/12/2017 Group	31/12/2016 Group	31/12/2017 Company	31/12/2016 Company
Contingent liabilities:				
Outstanding guarantees	1,260	1,260	1,260	1,260
Total contingent liabilities	**1,260**	**1,260**	**1,260**	**1,260**
Financial commitments:				
Credit lines and overdraft facilities	-	-	460	63,401
Total financial commitments	**-**	**-**	**460**	**63,401**

NOTE 20. ASSETS PLEDGED

	EUR 000’s			
	31/12/2017 Group	31/12/2016 Group	31/12/2017 Company	31/12/2016 Company
Due from credit institutions	9,290	8,249	4,729	5,251
Loans to customers	-	25,422	7	31,756
Investments in subsidiaries	-	-	4,742	6,663
Total assets pledged	**9,290**	**33,671**	**9,478**	**43,670**
Debt securities	365,310	386,701	365,310	386,701
Total liabilities secured by pledged assets	**365,310**	**386,701**	**365,310**	**386,701**

In order to ensure the financing received in the form of state aid in accordance with the Commercial Pledge Agreement between the Company and the REAP, the Company's loan portfolio, investments in subsidiaries and securities are pledged in favor of the REAP and, in accordance with the financial collateral agreement concluded between the Company and the Ministry of Finance, represented by the Treasury, the Company’s funds are pledged in favor of the Ministry of Finance.

NOTE 21. LITIGATION AND CLAIMS

On 21 November 2012 R.Kargins submitted a claim to Riga Regional Court requesting to terminate the Agreement on term deposit acceptance and service concluded in 2008. R.Kargins asks to recover from the Company the principal amount of EUR 15 million, paid state duty in the amount of EUR 10.7 thousand. Riga regional court granted this claim. The Company filed an appeal. On 13 June 2016 the Supreme Court rejected the Company’s claim, granted R.Kargins’ claim to recover deposited funds, terminated proceedings regarding termination of the Agreement on term deposit acceptance and service, as well as recovered from the Company litigation expenses. The Company submitted cassation complaint on this judgment. On 23 December 2016 Supreme Court judge satisfied R.Kargin’s application to secure fulfilment of the appellate instance court judgement by putting pledge marks real estates owned by the Company and restriction marks on shares of several Company’s subsidiaries. The Company submitted the application to remove the security, however by 29 March 2017 decision the court satisfied the application only regard shares of 1 subsidiary. By 16 December 2016 decision the Supreme Court action meeting the Company’s cassation complaint has been accepted for reviewing in cassation instance. The Supreme Court has invited European Commission to submit its written observations on the case, which at the moment have been submitted and fully support position of the Company in this case – the R.Kargins’ claim is ungrounded. Reviewing of the cassation complaint has not been scheduled yet. The outcome of the two above cases will not result in material expenses to the Company and the Group as is related to already recognized liabilities, which are disclosed in note 17.

On 30 July 2010 the Company filed an application to the Riga Regional Court against V.Kargins and V.Krasovickis as former members of the Board of the Company for suffered losses. Simultaneously the company asked to secure a claim. By a court decision the Company’s claim was secured by seizing the defendants’ funds. On 21 December 2012 the Riga Regional Court adopted the judgement granting the Company's claim for recovery of 4.9 million euro but rejecting the claim for recovery loses in amount of 80.7 million euro. The Company and the defendants appealed this judgement. By 13 October 2016 decision of the Supreme Court claim in amount of EUR 4.3 million was granted, while recovery of losses in amount of EUR 81.2 million was rejected. By the same decision the court discharged *Reverta* from security payment in amount of EUR 10.1 million paid into court bailiff’s account to cover possible losses caused to the defendants, as well as rejected defendants’ claim to cover from the Company losses in amount of EUR 6.5 million caused by securing *Reverta’s* claim, therefore it will not result in substantial losses for the Company or the Group. Both the Company and the defendants lodged a cassation appeal. By decision of the Supreme Court session of August 21, 2017, it was decided to refer the cassation appeal to the court of cassation in an expanded composition. Cassation appeal time has not yet been determined.

The Company and its affiliates are involved in several litigations related to debt recovery of debts and losses from tenants, as well as litigations related to contradictions of the fictitious lease agreements. The Group companies are involved in similar litigations with clients in Latvia or abroad. Taking into account the nature and the amounts of the claims, the Company believes that litigations in which the Company and its subsidiaries are involved as a plaintiff or as a defendant in the 2017 will not result in substantial losses for the Company or the Group.

NOTE 22. RELATED PARTIES

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

The following table presents the outstanding balances and volumes of the Group’s transactions with related parties as at 31 December 2017.

	EUR 000’s 31/12/2017	Income/ expense 01/01/2017 - 31/12/2017	EUR 000’s 31/12/2016	Income/ expense 01/01/2016 - 31/12/2016
Due to related parties:	365,310	17,736	386,701	19,371
Issued Debt Securities	*365,310*	*17,736*	*386,701*	*19,371*
Total amounts due to related parties	**365,310**	**17,736**	**386,701**	**19,371**

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 2017.

	Balance at 31/12/2017	Income/ expense 01/01/2017 - 31/12/2017	Balance at 31/12/2016	Income/ expense 01/01/2016 - 31/12/2016
Credit exposure to related parties				
Due from related parties:	-	123	-	843
Subsidiaries	-	*123*	-	*843*
Loans and receivables:	7	64	13,780	480
Subsidiaries	*7*	*64*	*13,780*	*480*
Total credit exposure to related parties	**7**	**187**	**13,780**	**1,323**
Due to related parties:	365,310	17,874	386,701	19,701
Issued Debt Securities	*365,310*	*17,736*	*386,701*	*19,371*
Subsidiaries	-	*138*	-	*330*
Total amounts due to related parties	**365,310**	**17,874**	**386,701**	**19,701**

NOTE 23. SEGMENT REPORTING

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

The following table reconciles the management information with these financial statements as at 31 December 2017
EUR 000’s:

	Baltic loans	CIS loans	Real Estate	Other	Total
External revenue	**25**	**-**	**(409)**	**-**	**(384)**
External assets					
Loans	1	-	-	-	1
Investment properties	-	-	218	-	218
Other assets	-	-	-	263	263
Impairment	(1)	-	-	-	(1)
Total assets	**-**	**-**	**218**	**263**	**481**
External liabilities	-	-	-	441,792	441,792
Total liabilities	**-**	**-**	**-**	**441,792**	**441,792**

The following table reconciles the management information with these financial statements as at 31 December 2016
EUR 000’s:

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

NOTE 24. RISK MANAGEMENT

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

Risk management polices

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

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

Risk management is an essential element of the Group’s management process. Risk management within the Group is controlled by an independent unit unrelated to customer servicing - Finance, Risk Management & Operational Department.

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

a) Credit risk

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

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

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

Credit risk identification, monitoring and reporting is the responsibility of Finance, Risk Management & Operational Department.

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

	Group, EUR 000's			
	31/12/2017			
	Regular loans	Utilised credit lines	Other	Total
Not delayed - not impaired	-	-	-	-
Not delayed - impaired	-	-	-	-
Total not delayed loans	**-**	**-**	**-**	**-**
Past due loans - not impaired				
Delayed days:				
=< 29	-	-	-	-
30-59	-	-	-	-
60-89	-	-	-	-
90 and more	-	-	-	-
Total past due loans - not impaired	**-**	**-**	**-**	**-**
Total past due loans - impaired	**1**	**-**	**-**	**1**
Total gross loans and receivables to customers	**1**	**-**	**-**	**1**
Impairment allowance	(1)	-	-	(1)
Total net loans and receivables to customers	**-**	**-**	**-**	**-**

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

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

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

	Company, EUR 000's			
	31/12/2017			
	Regular loans	Utilised credit lines	Other	Total
Not delayed - not impaired	-	-	-	-
Not delayed - impaired	-	7	-	7
Total not delayed loans	**-**	**-**	**-**	**-**
Past due loans - not impaired				
Delayed days:				
=< 29	-	-	-	-
30-59	-	-	-	-
60-89	-	-	-	-
90 and more	-	-	-	-
Total past due loans - not impaired	**-**	**-**	**-**	**-**
Total past due loans - impaired	**1**	**-**	**-**	**1**
Total gross loans and receivables to customers	**1**	**7**	**-**	**8**
Impairment allowance	(1)	-	-	(1)
Total net loans and receivables to customers	**-**	**7**	**-**	**7**

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

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 2017 and 2016 by geographical profile. The grouping is done based on information about the residence of the respective counterparties.

	Group as at 31/12/2017, EUR 000’s					
	Latvia	Lithuania	Other EU countries	CIS countries	Other countries	Total
Assets						
Balances due from credit institutions	9,037	251	2	-	-	9,290
Loans	-	-	-	-	-	-
Investment properties	218	-	-	-	-	218
Other assets	286	4	11	-	-	301
Total assets	**9,541**	**255**	**13**	**-**	**-**	**9,809**
Liabilities						
Financial liabilities measured at amortised cost	441,453	-	-	-	-	441,453
Other liabilities	280	38	21	-	-	339
Total liabilities	**441,733**	**38**	**21**	**-**	**-**	**441,792**
Equity	(431,983)	-	-	-	-	(431,983)
Total liabilities and equity	**9,750**	**38**	**21**	**-**	**-**	**9,809**
Memorandum items						
Contingent liabilities	-	-	1,260	-	-	1,260

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

	Company as at 31/12/2017, EUR 000's					
	Latvia	Lithuania	Other EU countries	CIS countries	Other countries	Total
Assets						
Balances due from credit institutions	4,729	-	-	-	-	4,729
Loans	7	-	-	-	-	7
Investments in subsidiaries	4,526	215	1	-	-	4,742
Investment properties	113	-	-	-	-	113
Other assets	90	-	-	-	-	90
Total assets	**9,465**	**215**	**1**	**-**	**-**	**9,681**
Liabilities						
Financial liabilities measured at amortised cost	441,453	-	-	-	-	441,453
Other liabilities	58	-	-	-	-	58
Total liabilities	**441,511**	**-**	**-**	**-**	**-**	**441,511**
Equity	(431,830)	-	-	-	-	(431,830)
Total liabilities and equity	**9,681**	**-**	**-**	**-**	**-**	**9,681**
Memorandum items						
Contingent liabilities	-	-	1,260	-	-	1,260
Financial commitments	460	-	-	-	-	460

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

FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The concept of fair value assumes realisation of financial instruments by a way of sale. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. However, in many cases, particularly in respect of loans and receivables to/from customers, the Group intends to realise assets through collection over time. Users of these financial statements are therefore advised to use caution when using this data to evaluate the Group’s financial position.

Fair value hierarchy

For illiquid financial assets and liabilities, including loans and receivables from customers, there are, by definition, no active markets. Accordingly, all fair values are classified under Level 3, fair value has been estimated using appropriate valuation techniques. The methods used to determine the fair value of balance sheet items not carried at fair value (based on quoted market prices) are as follows:

Balances due from credit institutions

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

Loans and receivables from customers

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

Issued debt

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

b) Currency risk

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

Day-to-day currency risk monitoring, management and reporting is the responsibility of Finance, Risk Management & Operational Department.

In the event of exchange rates for all currencies in which the Group and the Company has open positions adversely change by 1%, the potential total increase in the Group’s and Company’s pre-tax loss would amount to approximately EUR 2 thousand as at 31 December 2017 and EUR 61 thousand as at 31 December 2016, 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 2017 and 2016 by currency profile:

	Group as at 31/12/2017, EUR 000's			
	EUR	USD	Other	Total
Assets				
Balances due from credit institutions	9,178	13	99	9,290
Loans	-	-	-	-
Investment properties	218	-	-	218
Other assets	233	-	68	301
Total assets	**9,629**	**13**	**167**	**9,809**
Liabilities				
Financial liabilities measured at amortised cost	441,453	-	-	441,453
Other liabilities	339	-	-	339
Total liabilities	441,792	-	-	441,792
Equity	(431,983)	-	-	(431,983)
Total liabilities and equity	**9,809**	**-**	**-**	**9,809**
Net long/ (short) position as at 31 December 2017	**(180)**	**13**	**167**	**-**
Memorandum items				
Contingent liabilities	1,260	-	-	1,260

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

	Company as at 31/12/2017, EUR 000's			
	EUR	USD	Other	Total
Assets				
Balances due from credit institutions	4,617	13	99	4,729
Loans	7	-	-	7
Investments in subsidiaries	4,742	-	-	4,742
Investment properties	113	-	-	113
Other assets	22	-	68	90
Total assets	**9,501**	**13**	**167**	**9,681**
Liabilities				
Financial liabilities measured at amortised cost	441,453	-	-	441,453
Other liabilities	58	-	-	58
Total liabilities	441,511	**-**	**-**	441,511
Equity	(431,830)	-	-	(431,830)
Total liabilities and equity	**9,681**	-	-	**9,681**
Net long/ (short) position as at 31 December 2017	**(180)**	**13**	**167**	**-**
Memorandum items				
Contingent liabilities	1,260	-	-	1,260
Financial commitments	460	-	-	460

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

d) Liquidity risk

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

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

Group’s assets, liabilities and memorandum items by contractual maturity structure as at 31 December 2017

	Group as at 31/12/2017, EUR 000’s			
	Within 1 year	1-5 years	Over 5 years	Total
Assets				
Balances due from credit institutions	9,290	-	-	9,290
Loans	-	-	-	-
Investment properties	218	-	-	218
Other assets	301	-	-	301
Total assets	**9,809**	**-**	**-**	**9,809**
Liabilities				
Financial liabilities measured at amortised cost	441,453	-	-	441,453
Other liabilities	339	-	-	339
Total liabilities	**441,792**	**-**	**-**	**441,792**
Equity	(431,983)	-	-	(431,983)
Total liabilities and equity	**9,809**	**-**	**-**	**9,809**
Memorandum items				
Contingent liabilities (outstanding guarantees)	1,260	-	-	1,260

Group’s contractual undiscounted cash flows of the financial liabilities as at 31 December 2017

The following table represents the analysis of the estimated contractual cash flows arising from Group’s financial liabilities as at 31 December 2017:

	EUR 000’s			
	Within 1 year	1-5 years	Over 5 years	Total contractual cash flows
Financial liabilities measured at amortised cost	441,453	-	-	441,453
Memorandum items				
Contingent liabilities (outstanding guarantees)	1,260	-	-	1,260

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

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

* In March 2016, the new State Aid repayment schedule has been agreed with Ministry of Finance (for details see note 16).

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

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

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

Company’s assets, liabilities and memorandum items by contractual maturity structure as at 31 December 2017

	Company as at 31/12/2017, EUR 000’s			
	Within 1 year	1-5 years	Over 5 years	Total
Assets				
Balances due from credit institutions	4,729	-	-	4,729
Loans	7	-	-	7
Investments in subsidiaries	4,742	-	-	4,742
Investment properties	113	-	-	113
Other assets	90	-	-	90
Total assets	**9,681**	**-**	**-**	**9,681**
Liabilities				
Financial liabilities measured at amortised cost	441,453	-	-	441,453
Other liabilities	58	-	-	58
Total liabilities	**441,511**		**-**	**441,511**
Equity	(431,830)	-	-	(431,830)
Total liabilities and equity	**9,681**	**-**	**-**	**9,681**
Net balance sheet position – long/ (short)				
Memorandum items				
Contingent liabilities (outstanding guarantees)	1,260	-	-	1,260
Financial commitments	460	-	-	460

Company’s contractual undiscounted cash flows of the financial liabilities as at 31 December 2017

	EUR 000’s			
	Within 1 year	1-5 years	Over 5 years	Total contractual cash flows
Financial liabilities measured at amortised cost	441,453	-	-	441,453
Memorandum items				
Contingent liabilities (outstanding guarantees)	1,260	-	-	1,260
Financial commitments	460	-	-	460

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

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

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

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

e) Operational risk

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

The Group applies following approaches for operational risk management:

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

NOTE 25. EVENTS AFTER THE BALANCE SHEET DATE

From 01 March 2018 LAS "Reverta" has changed its registered office to: Riga, Kr. Valdemara iela 31, LV-1010. Company’s phone numbers and e-mails have not been changed.

pwc

Translation from Latvian original*

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of LAS "Reverta"

Our Opinion

In our opinion, the consolidated and separate financial statements set out on pages 7 to 49 of the accompanying annual report give a true and fair view of the consolidated financial position of LAS "Reverta"(the "Company") and its subsidiaries (the "Group") as at December 31, 2017, of the financial position of the Company standing alone as at December 31, 2017, and of their consolidated and separate financial performance and their consolidated and separate cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

What we have audited

The consolidated and separate financial statements comprise:

- the consolidated and separate statements of financial position as at December 31, 2017,
- the consolidated and separate statements of comprehensive income for the year then ended,
- the consolidated and separate statements of changes in equity for the year then ended,
- the consolidated and separate statements of cash flows for the year then ended, and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Basis for Opinion

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

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

Independence

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

Emphasis of matter

We draw attention to Note 2 paragraph "Basis of preparation" in the consolidated and separate financial statements, which refers to the fact that the shareholders' meeting approved initiation of the Company's liquidation as of 1 July 2017. As a result, the financial statements have not been prepared on a going concern basis. Our opinion is not modified in respect of this matter.

Reporting on Other Information Including the Management Report

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

- the Management Report, as set out on pages 3 to 4 of the accompanying Annual Report,
- the Supervisory Board and the Management Board, as set out on page 5 of the accompanying Annual Report,
- the Statement on Management Responsibility, as set out on page 6 of the accompanying Annual Report,

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

Our opinion on the consolidated and separate financial statements does not cover the other information, including the Management Report.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

With respect to the Management Report, we also performed the procedures required by Law on Audit Services. Those procedures include considering whether the Management Report is prepared in accordance with the requirements of the Law on Annual Reports and Consolidated Annual Reports.

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

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

In addition, in light of the knowledge and understanding of the entity and its environment obtained in the course of our audit, we are required to report if we have identified material misstatements in the Management Report and other information. We have nothing to report in this respect.

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

Management is responsible for the preparation of the consolidated and separate financial statements that give a true and fair view in accordance with 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 consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern.

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion

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

PricewaterhouseCoopers SIA
Certified audit company
Licence No. 5

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

Riga, Latvia
27 April 2018

* This version of our report is a translation from the original, which was prepared in Latvian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.