



Unaudited Condensed  
Financial Report

for the 1st half of  
2017

**REVERTA**

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## Management Report

### Dear shareholders and partners!

In the first six months of 2017 (hereinafter also referred to as the Reporting Period), Joint Stock Company Reverta continued its efforts to work out distressed assets and to recover funds, at the same time commencing sale of loan portfolios and getting ready for the planned liquidation of the company.

#### *Financial information:*

During the Reporting Period, Reverta made regular interest payments to the State Treasury in the amount of EUR 7.3 M. Since 1 August 2010 till the end of Reporting Period (30 June 2017), Reverta has recovered for the State EUR 698 M in the form of various payments, EUR 434 M of which were paid to the State Treasury and more than EUR 20 M were tax payments.

During the Reporting Period, Reverta recovered EUR 14.2 M from the workout and sales of distressed assets, but the total amount of recovered funds since 1 August 2010 has reached EUR 754.5 M which is more than 67 per cent of distressed assets left to Reverta after the takeover and split of Parex Bank. This result significantly exceeds initial estimates and the average figures of the distressed assets sector. Reverta has stated on several occasions that the amount of recovered funds is the primary measure of Reverta's performance.

During the Reporting Period, Reverta succeeded to sell real estate properties for the total amount of EUR 4.8 M, and by the end of the period the real estate portfolio decreased to 37 objects. Reverta expects to sell the remaining real estate properties – some flats, private houses, and land plots – by the termination of the company's activities.

During the Reporting Period, Reverta's losses were in the amount of EUR 12 M and they consisted mainly of interest expense on the State aid. In view of the low quality of assets left to Reverta, losses were incorporated already in the Restructuring Plan.

As a result of intensive work, Reverta's total assets at the end of the Reporting Period had decreased to EUR 46.2 M, as compared to EUR 1.1 B at the start of operation. During a seven year period, Reverta has already worked out and disposed of all other assets, 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, the latter ended its participation in Reverta on 7 March 2017. Henceforth, the Latvian Privatisation Agency has a 96.89 % shareholding in Reverta and other shareholders have 3.11 % of shares.
- On 29 May 2017, annual general meeting of Reverta's shareholders took place, during which the shareholders approved Reverta's Annual Report for the year ended 31 December 2016, selected external auditors for the year 2017, elected Audit Committee, approved amendments to Reverta's Articles of Association, and made a decision to commence the liquidation of Reverta on 1 July 2017.

- Mid-June 2017, Reverta completed evaluation of binding offers and approved a portfolio buyer as recommended by the financial advisor KPMG Baltics. In line with usual procedures, Reverta submitted the offer of the potential investor to the Cabinet of Ministers. The decisions of the Management Board and Supervisory Board of Reverta regarding the selection of the potential investor were made based on such criteria as industry standards and a transparent sales process organised in line with the accepted practice in the world, as well as evaluation of the received best binding bids to identify risks related to financial issues and the structure of the transaction, as well as legal risks arising from the agreements. Reverta also evaluated good reputation and trustworthiness of the potential investor.
- On 22 June 2017, Reverta signed a loan portfolio sale agreement with Gelvora. Reverta will gradually hand over to the investor 4.5 thousand credit files. The investor Gelvora is an international company which is part of a Swedish financial holding Marginalen AB.
- On 30 June 2017, Chairperson of Reverta's Management Board Solvita Deglava left her appointment. In line with the decision adopted by the Shareholders at the Annual General Meeting, Reverta continued with a one-member Management Board and Ruta Amtmane was appointed to assume the duties of the only Management Board member.

*Significant events after the end of the Reporting Period:*

- On 1 July 2017, Reverta's liquidation process was commenced and its sole Management Board member Ruta Amtmane became Reverta's Liquidator. Liquidator has all rights and responsibilities of management and supervisory boards, which do not conflict the objective of the liquidation, including the responsibility to carry out all necessary actions to ensure termination of the operation of the company, as set out in legislation.
- In August 2017, Reverta made another regular interest payment to the State Treasury in the amount of EUR 3.7 M.

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Ruta Amtmane  
Liquidator

Riga,  
31 August 2017

## The Supervisory Board and the Management Board

### The Supervisory Board

| <b><i>Name</i></b>    | <b><i>Position</i></b>   |
|-----------------------|--|
| 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<br>(till 30.06.2017) |
| Artūrs Neimanis       | Member of the Supervisory Board (till 30.06.2017)                |

### The Management Board

| <b><i>Name</i></b> | <b><i>Position</i></b>   |
|--------------------|--|
| Solvita Deglava    | Chairperson of the Management Board (till 29.06.2017)                            |
| Ruta Amtmane       | Member of the Management Board (till 30.06.2017)<br>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 14 are prepared in accordance with the source documents and present fairly the financial position of the Company and the Group as at 30 June 2017 and the results of their operations, changes in shareholders' equity and cash flows for the six month period ended 30 June 2017. The management report set out on pages 3 to 4 presents fairly the financial results of the reporting period and future prospects of the Company and the Group.

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

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

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Ruta Amtmane  
Liquidator

Riga,  
31 August 2017

## Statements of Comprehensive Income

|  | EUR 000's       |                 |                 |                 |
|--|-----------------|-----------------|-----------------|-----------------|
|  | 30/06/2017      | 30/06/2016      | 30/06/2017      | 30/06/2016      |
|  | Group           | Group           | Company         | Company         |
| Interest income  | 41              | 432             | 69              | 699             |
| Interest expense   | (8,979)         | (10,000)        | (8,952)         | (10,010)        |
| <b>Net interest expense</b>  | <b>(8,938)</b>  | <b>(9,568)</b>  | <b>(8,883)</b>  | <b>(9,311)</b>  |
| Commission and fee income  | 3               | 13              | 4               | 13              |
| Commission and fee expense   | (18)            | (5)             | (17)            | (3)             |
| <b>Net commission and fee income</b>                                     | <b>(15)</b>     | <b>8</b>        | <b>(13)</b>     | <b>10</b>       |
| Result of revaluation of financial instruments and foreign currency, net | (409)           | (1)             | (409)           | (1)             |
| Other income   | 307             | 546             | 120             | 1,084           |
| <b>Net financial result of the segment</b>                               | <b>(9,055)</b>  | <b>(9,015)</b>  | <b>(9,185)</b>  | <b>(8,218)</b>  |
| Real estate segment income, net  | (181)           | 851             | 72              | 81              |
| Real estate segment expense  | (120)           | (401)           | (37)            | (87)            |
| <b>Net result of RE segment</b>  | <b>(301)</b>    | <b>450</b>      | <b>35</b>       | <b>(6)</b>      |
| Collaterals and assets under repossession expense                        | (14)            | (7)             | (14)            | (7)             |
| Administrative expense   | (2,521)         | (2,908)         | (2,474)         | (2,831)         |
| Amortisation and depreciation charge                                     | (15)            | (22)            | (15)            | (22)            |
|  | (595)           | (10,525)        | (343)           | (9,953)         |
| <b>Loss before taxation</b>  | <b>(12,501)</b> | <b>(22,027)</b> | <b>(11,996)</b> | <b>(21,037)</b> |
| Corporate income tax   | (11)            | -               | (1)             | -               |
| <b>Loss for the period</b>   | <b>(12,512)</b> | <b>(22,027)</b> | <b>(11,997)</b> | <b>(21,037)</b> |

## Statements of Financial Position

|   | EUR 000's        |                  |                  |                  |
|---|------------------|------------------|------------------|------------------|
|   | 30/06/2017       | 31/12/2016*      | 30/06/2017       | 31/12/2016*      |
|   | Group            | Group            | Company          | Company          |
| <b>Assets</b>   |                  |                  |                  |                  |
| Balances due from credit institutions   | 12,159           | 8,249            | 7,343            | 5,251            |
| Loans   | 18,803           | 25,422           | 19,403           | 31,756           |
| Fixed assets  | 15               | 22               | 15               | 22               |
| Intangible assets   | 28               | 36               | 28               | 36               |
| Investments in subsidiaries   | -                | -                | 6,663            | 6,663            |
| Investment property   | 2,612            | 13,894           | 902              | 2,780            |
| Other assets  | 12,165           | 11,318           | 11,889           | 10,715           |
| <b>Total assets</b>   | <b>45,782</b>    | <b>58,941</b>    | <b>46,243</b>    | <b>57,223</b>    |
| <b>Liabilities</b>  |                  |                  |                  |                  |
| Issued debt securities  | 388,281          | 386,701          | 388,281          | 386,701          |
| Other liabilities   | 924              | 3,202            | 748              | 1,361            |
| Subordinated liabilities  | 76,090           | 76,040           | 76,090           | 76,040           |
| <b>Total liabilities</b>  | <b>465,295</b>   | <b>465,943</b>   | <b>465,119</b>   | <b>464,102</b>   |
| <b>Equity</b>   |                  |                  |                  |                  |
| Paid-in share capital   | 442,552          | 442,552          | 442,552          | 442,552          |
| Share premium   | 18,063           | 18,063           | 18,063           | 18,063           |
| Accumulated losses  | (880,128)        | (867,617)        | (879,491)        | (867,494)        |
| <b>Total shareholders' equity attributable to the shareholders of the Company</b> | <b>(419,513)</b> | <b>(407,002)</b> | <b>(418,876)</b> | <b>(406,879)</b> |
| <b>Total liabilities and equity</b>   | <b>45,782</b>    | <b>58,941</b>    | <b>46,243</b>    | <b>57,223</b>    |

\* Auditor: SIA "PricewaterhouseCoopers"



## Statements of Changes in Equity

| Group                                 | EUR 000's            |               |                   |                  |
|---------------------------------------|----------------------|---------------|-------------------|------------------|
|                                       | Issued share capital | Share premium | Retained earnings | Total equity     |
| <b>Balance as at 31 December 2015</b> | <b>442,552</b>       | <b>18,063</b> | <b>(822,539)</b>  | <b>(361,924)</b> |
| Loss for the period                   | -                    | -             | (22,027)          | (22,027)         |
| <b>Balance as at 30 June 2016</b>     | <b>442,552</b>       | <b>18,063</b> | <b>(844,566)</b>  | <b>(383,951)</b> |
| Loss for the period                   | -                    | -             | (23,051)          | (23,051)         |
| <b>Balance as at 31 December 2016</b> | <b>442,552</b>       | <b>18,063</b> | <b>(867,617)</b>  | <b>(407,002)</b> |
| Loss for the period                   | -                    | -             | (12,512)          | (12,512)         |
| <b>Balance as at 30 June 2017</b>     | <b>442,552</b>       | <b>18,063</b> | <b>(880,128)</b>  | <b>(419,513)</b> |

| Company                               | EUR 000's            |               |                   |                  |
|---------------------------------------|----------------------|---------------|-------------------|------------------|
|                                       | Issued share capital | Share premium | Retained earnings | Total equity     |
| <b>Balance as at 31 December 2015</b> | <b>442,552</b>       | <b>18,063</b> | <b>(821,564)</b>  | <b>(360,949)</b> |
| Loss for the period                   | -                    | -             | (21,037)          | (21,037)         |
| <b>Balance as at 30 June 2016</b>     | <b>442,552</b>       | <b>18,063</b> | <b>(842,601)</b>  | <b>(381,986)</b> |
| Loss for the period                   | -                    | -             | (24,893)          | (24,893)         |
| <b>Balance as at 31 December 2016</b> | <b>442,552</b>       | <b>18,063</b> | <b>(867,494)</b>  | <b>(406,879)</b> |
| Loss for the period                   | -                    | -             | (11,997)          | (11,997)         |
| <b>Balance as at 30 June 2017</b>     | <b>442,552</b>       | <b>18,063</b> | <b>(879,491)</b>  | <b>(418,876)</b> |

## Statements of Cash Flows

|   | EUR 000's      |                 |                |                 |
|---|----------------|-----------------|----------------|-----------------|
|   | 30/06/2017     | 30/06/2016      | 30/06/2017     | 30/06/2016      |
|   | Group          | Group           | Company        | Company         |
| <b>Cash flows from operating activities</b>                                 |                |                 |                |                 |
| Loss before tax   | (12,501)       | (22,027)        | (11,996)       | (21,037)        |
| Amortisation and depreciation   | 15             | 22              | 15             | 22              |
| Change in impairment allowances and other accruals                          | 595            | 10,525          | 343            | 9,953           |
| Interest income   | (41)           | (432)           | (69)           | (699)           |
| Interest expense  | 8,979          | 10,000          | 8,952          | 10,010          |
| Other non-cash items  | (192)          | 1               | (192)          | 1               |
| <b>Cash generated before changes in assets and liabilities</b>              | <b>(3,145)</b> | <b>(1,911)</b>  | <b>(2,947)</b> | <b>(1,750)</b>  |
| Proceeds from loans and receivables   | 11,622         | 23,399          | 11,829         | 25,543          |
| Proceeds from investment property   | 4,812          | 12,885          | 2,305          | 1,302           |
| (Increase)/decrease in other assets   | 220            | (2,362)         | (1,164)        | 6,531           |
| (Decrease)/ increase in other liabilities                                   | (2,278)        | (1,852)         | (613)          | (1,123)         |
| Decrease of share capital of subsidiaries                                   | -              | -               | 3              | -               |
| <b>Cash generated from operating activities before corporate income tax</b> | <b>11,231</b>  | <b>30,159</b>   | <b>9,413</b>   | <b>30,503</b>   |
| <b>Net cash flows from operating activities</b>                             | <b>11,231</b>  | <b>30,159</b>   | <b>9,413</b>   | <b>30,503</b>   |
| <b>Cash flows from financing activities</b>                                 |                |                 |                |                 |
| Redemption of issued debt securities (principal)                            | -              | (21,503)        | -              | (21,503)        |
| Interest for issued debt securities   | (7,321)        | (8,651)         | (7,321)        | (8,651)         |
| <b>Net cash flow from financing activities</b>                              | <b>(7,321)</b> | <b>(30,154)</b> | <b>(7,321)</b> | <b>(30,154)</b> |
| <b>Net cash flow for the reporting period</b>                               | <b>3,910</b>   | <b>5</b>        | <b>2,092</b>   | <b>349</b>      |
| <b>Cash and cash equivalents at the beginning of the reporting period</b>   | <b>8,249</b>   | <b>5,217</b>    | <b>5,251</b>   | <b>2,063</b>    |
| <b>Cash and cash equivalents at the end of the reporting period</b>         | <b>12,159</b>  | <b>5,222</b>    | <b>7,343</b>   | <b>2,412</b>    |

## Consolidation Group Structure as at 30 June 2017

| No. | Name of company                   | Registration number | Registration address  | Country of domicile | Company type* | % of total paid-in share capital | % of total voting rights | Basis for inclusion in the group** |
|-----|-----------------------------------|---------------------|---|---------------------|---------------|----------------------------------|--------------------------|------------------------------------|
| 1   | AS "Reverta"                      | LV-40003074590      | Latvia, Riga LV-1012, Brivibas 148A-1   | LV                  | KS            | 100                              | 100                      | MAS                                |
| 2   | Regalite Holdings Limited         | CY-HE93438          | Cyprus, Nicosia 1075, 58 Arch. Makarios 3 Avenue, Iris Tower, 6th floor, office 602 | CY                  | PLS           | 100                              | 100                      | MS                                 |
| 3   | OOO "Parex Leasing and Factoring" | GE-205224461        | Georgia, Tbilisi, Kazbegi avenue 44   | GE                  | LIZ           | 100                              | 100                      | MS                                 |
| 4   | SIA "NIF Dzīvojamie īpašumi"      | LV-40103253915      | Latvia, Riga LV-1012, Brivibas 148A-1   | LV                  | PLS           | 100                              | 100                      | MS                                 |
| 5   | SIA "NIF Zemes īpašumi"           | LV-40103255348      | Latvia, Riga LV-1012, Brivibas 148A-1   | LV                  | PLS           | 100                              | 100                      | MS                                 |
| 6   | UAB "NIF Lietuva"                 | LT-302462108        | Lithuania, Vilnius LT03107, K.Kalinausko 13   | LT                  | PLS           | 100                              | 100                      | MS                                 |
| 7   | OÜ "NIF Eesti"                    | EE-11788043         | Estonia, Tallinn 10119, Roosikrantsi 2  | EE                  | PLS           | 100                              | 100                      | MS                                 |
| 8   | SIA "NIF Projekts 1"              | LV-50103300111      | Latvia, Riga LV-1012, Brivibas 148A-1   | LV                  | PLS           | 100                              | 100                      | MS                                 |
| 9   | SIA "NIF Projekts 6"              | LV-40103398865      | Latvia, Riga LV-1012, Brivibas 148A-1   | LV                  | PLS           | 100                              | 100                      | MS                                 |
| 10  | SIA "NIF Projekts 7"              | LV-40103512479      | Latvia, Riga LV-1012, Brivibas 148A-1   | LV                  | PLS           | 100                              | 100                      | MS                                 |
| 11  | Carnella Maritime Corp.           | BVI-1701483         | British Virgin Islands, Mill Mall Tower, 2 nd Floor, Wickhams Cay 1, Tortola.       | BVI                 | PLS           | 100                              | 100                      | MS                                 |

\*KS – commercial company, LIZ – leasing company, PLS – company providing various support services.

\*\* MS – subsidiary company, MAS – parent company, MMS – subsidiary of the subsidiary company.

## Notes

### Issued share capital as at 30 June 2017

| Shareholders                   | Nominal value, (EUR) | Number of shares     | Paid-in share capital, (EUR) | Voting rights        | Paid-in share capital, (%) |
|--------------------------------|----------------------|----------------------|------------------------------|----------------------|----------------------------|
| SJSC "Privatizācijas Aģentūra" | 0.10                 | 4 288 037 289        | 428,803,728.9                | 3 491 940 511        | 96.89%                     |
| Other                          | 0.10                 | 138 482 377          | 13,748,237.7                 | 77 809 197           | 3.11%                      |
| <b>Total</b>                   |                      | <b>4 425 519 666</b> | <b>442,551,966.6</b>         | <b>3 569 749 708</b> | <b>100%</b>                |

### Information on certain parties that were related to the Company at the moment it received state aid

The following table represents summary of material transactions with certain parties that were related to the Company at the moment it received the State Aid:

|  | EUR 000's          |                            |                    |                            |
|--|--------------------|----------------------------|--------------------|----------------------------|
|  | 30/06/2017         |                            | 30/06/2016         |                            |
|  | Period-end balance | Interest income/ (expense) | Period-end balance | Interest income/ (expense) |
| Loans issued by the Company                    | 2,787              | -                          | 2,807              | -                          |
| Subordinated financing provided to the Company | 51,311             | -                          | 51,311             | -                          |

### Information on the Company's subordinated capital:

| Counterparty            | Residence country | Issue size, (EUR 000's) | Interest rate   | Original agreement date | Original maturity date | Amortised cost (EUR 000's) 30/06/2017 | Amortised cost (EUR 000's) 30/06/2016 |
|-------------------------|-------------------|-------------------------|-----------------|-------------------------|------------------------|---------------------------------------|---------------------------------------|
| Notes-private placement | UK                | 20,000                  | 4.759%          | 28/12/2007              | 28/12/2022             | 19,335                                | 19,235                                |
| Private person          | Latvia            | 10,672                  | 6M Rigibid + 3% | 04/12/2008              | 26/09/2017             | 10,699                                | 10,699                                |
| Private person          | Latvia            | 10,672                  | 6M Rigibid + 3% | 04/12/2008              | 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              | 31/12/2017             | 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              | 31/12/2017             | 3,259                                 | 3,259                                 |
| Private person          | Latvia            | 3,250                   | 6M Rigibid + 3% | 04/12/2008              | 31/12/2017             | 3,259                                 | 3,259                                 |
| Private person          | Latvia            | 2,015                   | 6M Rigibid + 3% | 04/12/2008              | 31/12/2017             | 2,020                                 | 2,020                                 |
| Private person          | Latvia            | 2,015                   | 6M Rigibid + 3% | 04/12/2008              | 31/12/2017             | 2,020                                 | 2,020                                 |
|                         |                   |                         |                 | <b>Total</b>            |                        | <b>76,090</b>                         | <b>75,990</b>                         |

According to Amendments to the Law on Control of Aid for Commercial Activity, which became effective from 1 July 2014, fulfillment of Reverta's subordinated liabilities, i.e. principal and interest payments on subordinated loans will be allowed only after a full repayment of the State aid. Therefore, starting from 1 July 2014, Reverta has suspended calculation and payment of the interest on subordinated loans and the principal.

## Risk management

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

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

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

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

### Credit risk

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

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

### Liquidity risk

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

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

## Operational risk

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

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

The Group applies following approaches for operational risk management:

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

## 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.

Currency risk management in the Group is carried out in accordance with the Group options. Day-to-day currency risk monitoring, management and reporting is the responsibility of Finance, Risk Management & Operational Department.