



FUND OF PROBLEM LOANS
ACQUISITION. MANAGEMENT. SALE.



EXPERIENCE OF LATVIA IN NPL RESOLUTION REVERTE's Activities



I Financial Crisis in Latvia

Measures for the Rehabilitation of Parex Banka

The global financial crisis of 2008, which started in the United States, led to unprecedented challenges for the financial sector worldwide. Among the transition economies, Latvia was one of the hardest-hit countries, with its GDP sharply falling by 19% in the third quarter of 2009. At the same time, the unemployment rate increased to 16% by the end of 2009. Furthermore, the crisis led to a weakening of the financial sector, a loss of public trust in the banking system, and, as a result, a decline in asset quality.

The global crisis also affected Latvia's largest national bank, Parex banka. The reduction of credit operating limits by Western financial institutions for Eastern European banks, including Parex banka, as well as the outflow of deposits from the population, triggered a liquidity crisis in the bank.

Given that Parex banka was a key participant in Latvia's banking system, serving as the main holder of deposits from state and municipal enterprises and also being an important player in the foreign exchange market, the government decided to support the bank's liquidity. On November 10, 2008, the government, through the state-owned joint-stock company Latvijas Hipotēku un zemes banka (Latvian Mortgage and Land Bank), signed an agreement with the bank's shareholders, Valery Kargins and Viktor Krasovitsky, to sell 51% of Parex banka's shares for a symbolic price of 2 lats (about 4 USD) to the Latvian Mortgage and Land Bank.

I Financial Crisis in Latvia

Measures for the Rehabilitation of Parex Banka

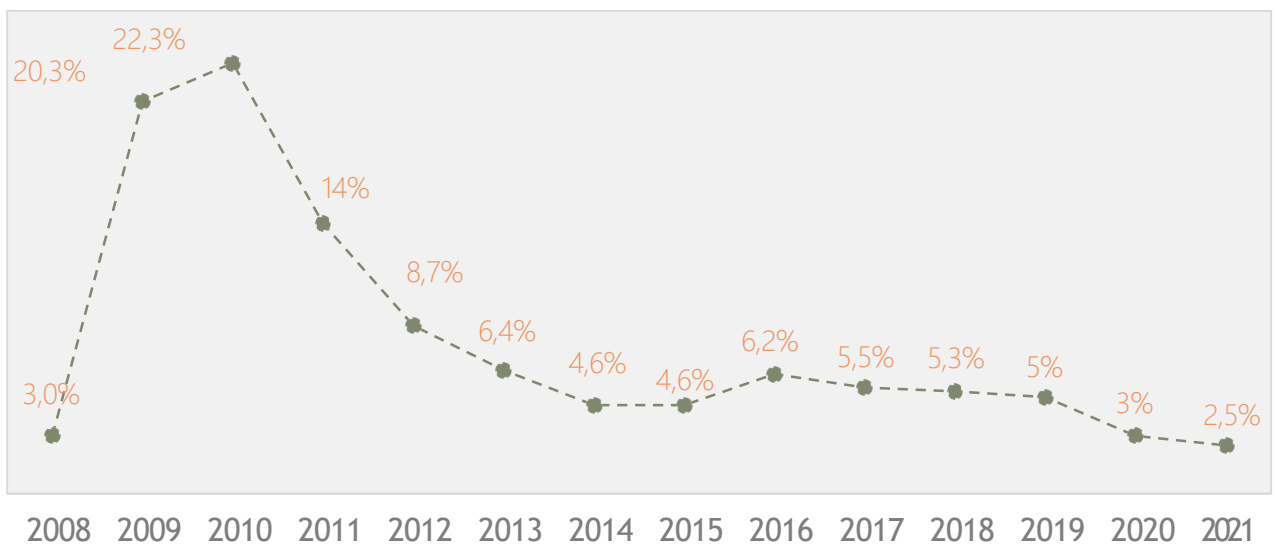
On December 1, 2008, to stabilize the situation in the bank, the Cabinet of Ministers and the Financial and Capital Market Commission, as a temporary measure, decided to impose a restriction on deposit funds with Parex banka.

Furthermore, to further stabilize Parex banka, a decision was made to increase the state's share in the bank's capital.

In this regard, on December 3, 2008, amendments were made to the previous agreement, according to which the remaining shares owned by Valery Kargins and Viktor Krasovitsky were sold to the state-owned Latvian Mortgage and Land Bank. Thus, Parex banka fully passed into state ownership.

Dynamics of NPL Share in the Total Loan Portfolio of the Banking Sector in Latvia

Source of Data: [statista.com](https://www.statista.com)



II. Reorganization of parex banka

In February 2009, the government decided to transfer the shares of Parex banka, owned by the Latvian Mortgage and Land Bank, to the state Privatization Agency to ensure more optimal management of state investments and prepare the bank for further sale.

Additionally, in 2009, the European Bank for Reconstruction and Development (EBRD) became part of Parex banka's capital structure, acquiring a 25% stake in the bank for €84.2 million, as well as providing a subordinated loan of €22 million.

The year 2010 marked several significant changes in the bank's operations. After increasing Parex banka's equity capital by €22 million, the process of restructuring the bank began. As a result, two separate legal entities were formed.

Citadele banka, which was transferred the majority of the assets from the former Parex banka, and Parex banka, which focused on the non-performing assets, became the two separate entities after the restructuring.

Thus, from August 1, 2010, Parex banka ceased providing banking services and concentrated on maximizing the recovery of government funds invested in supporting the bank.

To achieve this goal, the former bank's activities were directed towards the restructuring of loans, judicial debt collection, and management of recovered real estate with the aim of later selling it under more favorable market conditions.

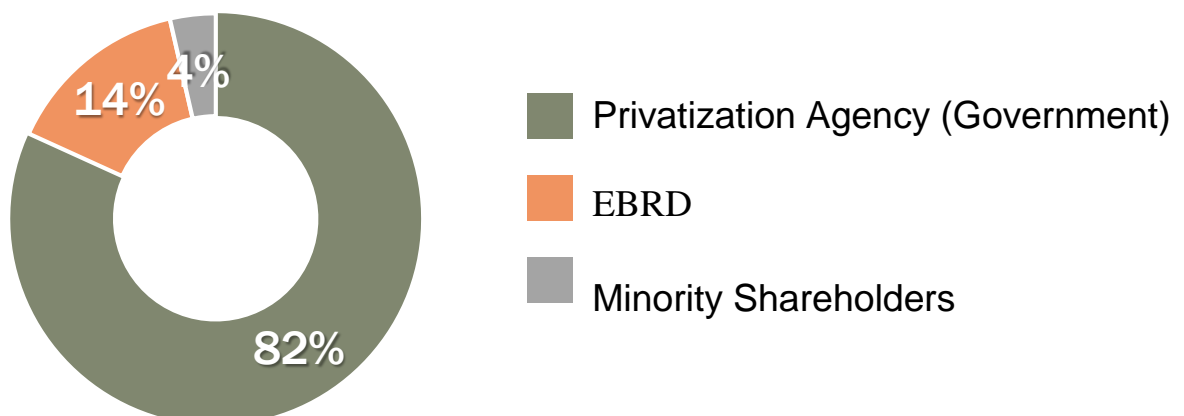
II. Reorganization of Parex banka

According to the restructuring plan, the operational period of Parex Banka was set until 2017. In November 2010, the bank's equity capital was increased by €7 million. The newly issued shares were acquired by the Privatization Agency, which allowed the government to become the majority shareholder of Parex Banka.

Thus, by the end of the year, the ownership structure of the organization looked as follows:

Since all the generated cash flows of Parex banka are accumulated for the repayment of the organization's debt and the return of state funds, the restructuring plan did not foresee the generation of profit. On December 28, 2011, the shareholders' meeting of Parex banka approved the decision to renounce the banking license and authorized the board of directors to begin preparatory work for changing the company's status.

Shareholder Structure of Parex Banka in 2010-2011.



III. Launch of REVERTA's Activities

In 2012, the reorganization process of the former bank was officially completed by transforming Parex banka into Reverta — a professional distressed asset management company.

The main functions of the organization were focused on debt restructuring and recovery, as well as managing the sale of borrowers' real estate assets.

Reverta's loan portfolio in the Baltic States primarily consisted of related assets, real estate — residential, commercial, and industrial properties at various stages of construction, including apartment buildings, office spaces, commercial premises, and land plots.

In the CIS region, industries such as oil and gas extraction and processing, agriculture, retail, manufacturing, transportation, shipping, and others were represented.

In the early years of the company's operations, it was hindered by many external factors: the macroeconomic situation, the downturn in the real estate market, and legislative restrictions on debt recovery.

Additionally, complex and lengthy processes in the CIS countries, as well as active opposition from some borrowers, including black PR campaigns, significantly complicated the process of selling collateralized property.

IV. Reverta's Activities in 2013-2014.

In its reports, Reverta highlighted issues with the documentation of loans transferred from Parex banka, as well as with the valuation of collateralized assets, which, after revaluation, were reduced several times — by 70–90% for some positions.

Company representatives repeatedly appealed to government and law enforcement agencies, emphasizing the importance of resolving these issues in the interest of the state and taxpayers.

In 2013, the company's performance indicators began to improve. Economic stabilization, marketing activities, and advertising campaigns helped generate approximately 40 million euros in proceeds from sales.

In addition, during this period, the government-guaranteed syndicated loan of Parex banka in the amount of 234 million euros was fully repaid, as well as interest totaling 10.6 million euros.

In 2014, the company faced new challenges — the worsening macroeconomic situation in Europe due to the Russian-Ukrainian conflict. The devaluation of the ruble negatively affected the financial capacity of borrowers from Russia and other CIS countries.

Despite the difficulties, the company managed to close one of the largest real estate deals in Latvia — the sale of the Skonto Sports complex for 13.8 million euros.

V. Reverta's Activities in 2015-2016

2015 was the most challenging year in Reverta's history. The unstable geopolitical situation led to a sharp decline in payments from borrowers in Russia and other CIS countries.

According to the company's annual report, borrowers took advantage of the situation, halting payments without valid reasons.

The year was also marked by a decline in interest from Russian and Western investors in the Latvian real estate market, which affected the completion of large investment projects and the return of funds to the state budget.

As the end of its operations approached in 2015, the company's staff was reduced by half.

In 2016, the company completed a series of major investment deals, including the sale of a land plot in Tallinn for 9 million euros, the central office building of airBaltic for 6 million euros, and commercial real estate in Moscow for 2.3 million euros.

By the end of 2016, Reverta had achieved a 66% recovery of funds from the original asset portfolio. Considering the average asset value was 50% of the original, the company assessed this as a positive result.

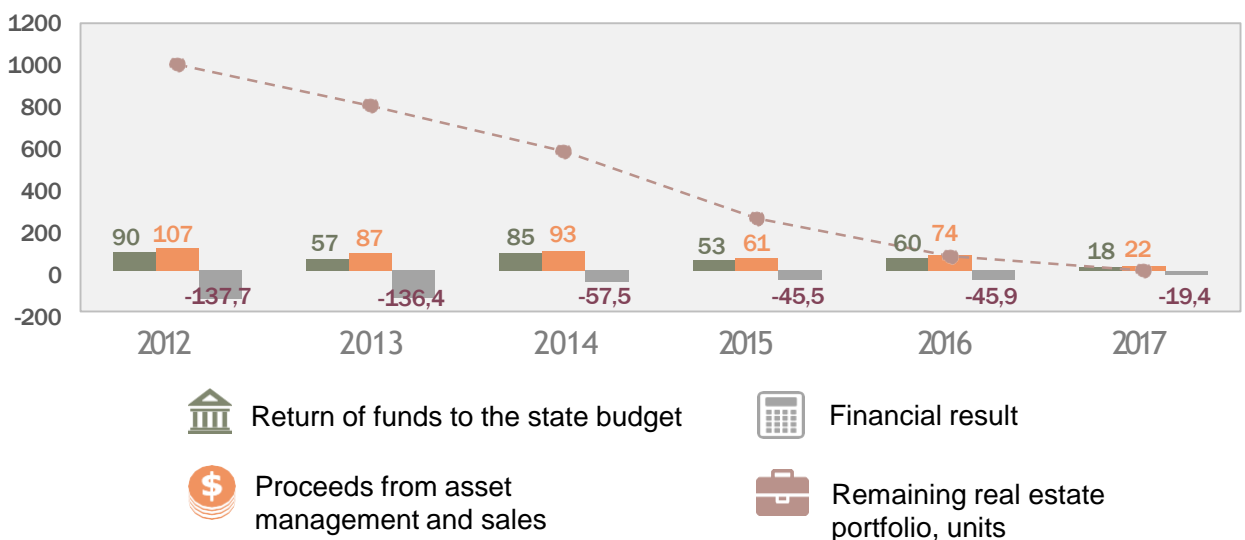
VI. Liquidation of Reverta

As part of the restructuring plan, which aimed to complete Reverta's operations by the end of 2017, the company signed an agreement with KPMG Baltics in 2016 to provide consulting services for the sale of the remaining asset portfolio.

In March 2017, the European Bank for Reconstruction and Development (EBRD) exited Reverta's shareholder structure, and in July, the liquidation process began.

Additionally, in its final year of operations, the company entered into an agreement for the sale of its remaining loan portfolio (4,500 loan files) to Gelvora, a company specializing in debt collection and credit management.

Key performance indicators of Reverta, million euros



Corporate Development Department of JSC 'Problem Loan Fund'
Sources of information:
Official website of the company reverta.lv