

# PUBLIC REPORT OF THE BANK | I.2011

**norvikbanka**



FOR I QUARTER OF YEAR 2011



# RISK ANALYSIS

Management of financial risks, the most significant of which are: liquidity risk, credit risk and market risk is being effected in accordance with the Internal financial risks management policy approved by the Board and the Council of the Bank, as well as with other normative documents that comprise the Bank's risk management system.

**LIQUIDITY RISK** includes the risk of the untimely settlement of customer and other legal creditor claims. Liquidity risk management and control is based on asset and liability term analysis, internal limit regulations regarding the net liquidity position, the effective usage of liquidity's I reserve funds and liability regulation for the remaining free resources. The Treasury department constantly manages liquidity's I reserve funds (cash, fund balances with correspondent bank accounts, short-term inter-banking transactions), in order to always have sufficient funds for fulfillment of current short-term commitments. The Board and the Assets and liabilities committee state general liquidity risk management criteria by regulating the volume, terms and directions of the Bank's activities. During the I quarter 2011 the Bank's liquidity ratio was 61-72%, while the minimum requirement set by the FCMC is 30%.

**CREDIT RISK** is the risk of untimely or incomplete fulfilment of debtor liabilities. The credit risk management system includes approval of methods for evaluation of credit risks of partners, borrowers and issuers, setting of limits for types, volumes, and maturities of lending and investment into securities of the Bank's portfolio, regular assessment of assets and off-balance sheet liabilities. The Bank makes special provisions for doubtful debts, calculated as a difference between future discounted cash flows from returnable bank's assets and the nominal value of those assets. As at March 31, 2011 the amount of special provisions was 23 776 thousand LVL or 7,68% of the total loan portfolio. Capital adequacy ratio for the I quarter 2011, adjusted for special provisions, was 10.6%. The Bank's Board and the Credit Committee ensure credit risk management and the Credit Division constantly supervises over efficient performance of internal control of credit risk management.

**MARKET RISK** is the risk of incurring losses by the Bank as a result of unfavourable changes in the market interest rates, exchange rates and prices of trade portfolio securities. By analyzing differences in the maturity and adjustment of interest rates of assets and liabilities, as well as the net interest margin and yield in relation to currencies and areas of business, the Board and the Assets and Liabilities Committee set the basic interest rates for deposits and loans for each currency group and period.

This policy is based on meeting the restrictions of the net open position of each foreign currency and the total amount of the net open positions of foreign currencies, in compliance with the requirements of the Financial and Capital Market Commission. In order to avoid losses arising from adverse changes in rates, the Treasury Department constantly supervises over the total amount of the open foreign exchange position, and the Risk Management Division controls the compliance with the restrictions of foreign currency positions. To manage the position, the Bank widely uses derivatives, such as forward transactions (conclusion of a deal at certain rates on a certain future date) and SWAP (sale of earlier purchased volume of currency on a certain date).

**OPERATIONAL RISK** is the risk of incurring losses as a result of inadequate or improper performance of internal processes, inappropriate actions of personnel or systems, or as a result of external circumstances. Operational risk management is based on well-established procedures describing all the operating processes, proper segregation of fulfilment and control functions, regular audit by the Internal Audit Service; all the events of operational risk occurrence (employees' mistakes, failures in the IT systems, etc.) are registered in the database and analyzed in order to improve operating processes and enhance internal control system.



# MANAGEMENT

	Number of shares	% of total shares	Paid up share capital LVL'000
"Straumborg Ehf." (Iceland)	28 778 560	51.13	28 778
J. Šapurovs	11 129 726	19.77	11 130
A. Svirčenkova	11 129 698	19.77	11 130
Other (individually less than 10%)	5 252 297	9.33	5 252
<b>Total</b>	<b>56 290 281</b>	<b>100.00</b>	<b>56 290</b>

JSC "NORVIK BANKA"

## SUPERVISORY COUNCIL AS AT MARCH 31, 2011

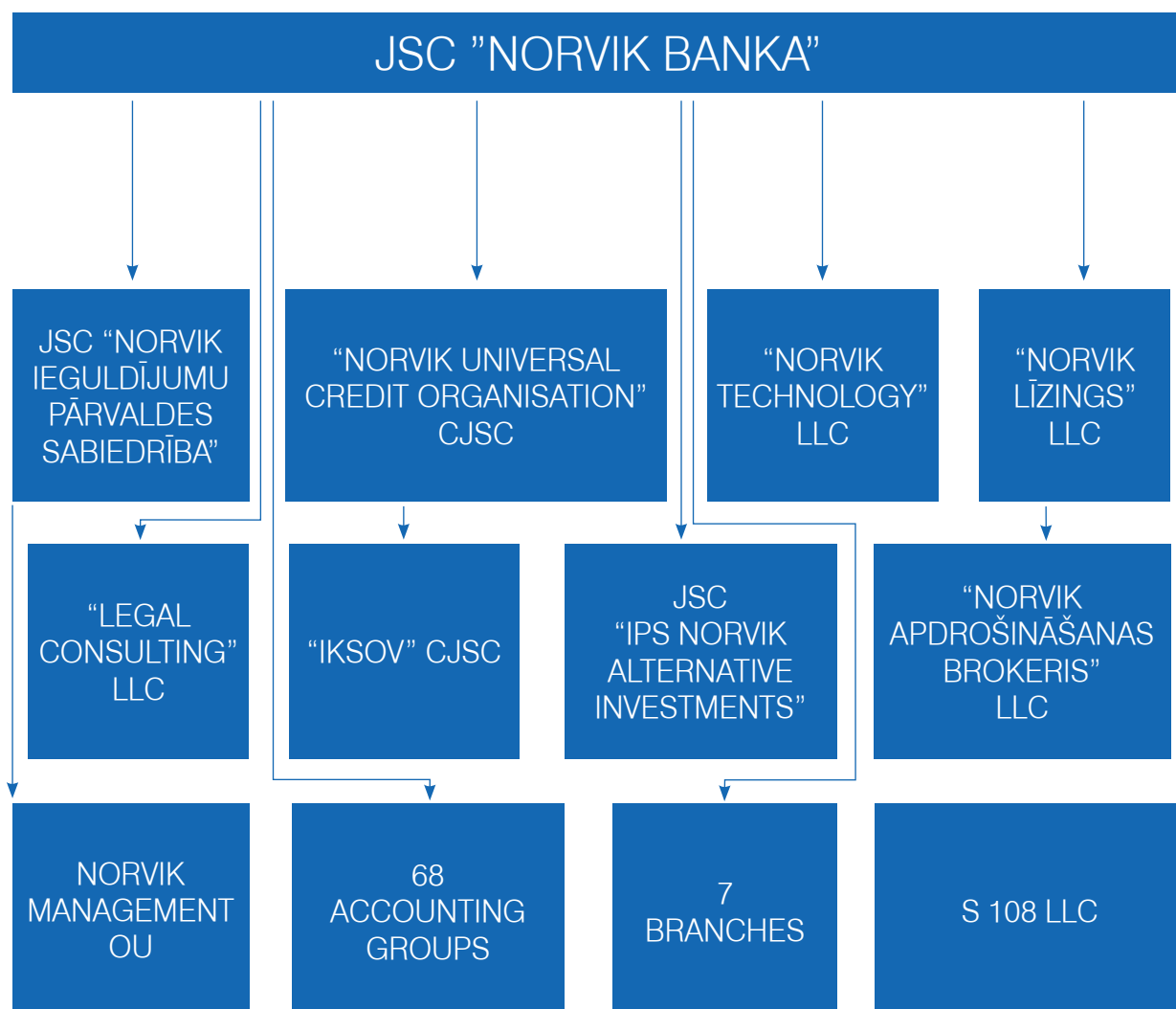
Chairman of the Supervisory Council	Jon Helgi Gudmundsson
Deputy Chairman of the Supervisory Council	Andrejs Svirčenkova
Members of the Supervisory Council	Brynja Halldorsdottir Hjalti Baldursson Valentina Keiša Jelena Svirčenkova

JSC "NORVIK BANKA"

## MANAGEMENT BOARD AS AT MARCH 31, 2011

Chairwoman of the Management Board	Laima Saltuma
Members of the Management Board	Jurijs Šapurovs Aldis Upenieks Marija Stepiņa

# STRUCTURE





# STRATEGY AND GOALS

THE BANK RE-AFFIRMS ITS MISSION TO BE AN INNOVATIVE LATVIAN BANK WORKING TO SUPPORT ITS CUSTOMERS' BUSINESS AND THE LATVIAN ECONOMY'S DEVELOPMENT BY PROVIDING HIGH QUALITY BANKING SERVICES.

THE BANK'S/GROUP'S VALUES, NAMELY – QUALITY SERVICES, INNOVATIVE SOLUTIONS, POSITIVE WORK ENVIRONMENT AND EMPLOYEES PROFESSIONAL GROWTH, WILL REMAIN A TOP PRIORITY.

THE STRATEGY IMPLEMENTATION NEEDS TO BE BASED ON THE FOLLOWING PILLARS:

- **Enhanced efficiency** of all business lines while well-diversified balance sheet
- Prudent **risk management and control**
- High **service quality** underpinned by operational excellence, professional staff and advanced technological solutions.

## GENERAL TARGETS:

- **Improve asset quality.** The asset quality has to be improved to exceed average in the sector level.
- **Maintain funding stability.** Ensure funding diversification. Funding stability has to be sustained. Funding base has to be further diversified to enhance the Bank's resilience to any external downturn. More emphasis will be put on increasing term deposits.
- **Reach targeted financials.** The level of business, profitability and key performance indicators set in this strategy has to be reached.
- **Increase intangible value.** The group's intangible value has to be increased by its franchise strengthening, sophisticated products, strong management and sound corporate culture.



# RATINGS ASSIGNED BY RATING AGENCIES

## NAME OF RATING AGENCIES

### Fitch Ratings

<http://www.fitchratings.com/>

### Moody's Investors Service

<http://www.moody's.com/>

## TYPES OF RATING ASSIGNED

### Fitch Ratings

Long Term Issuer Default Rating  
Short Term Rating  
Individual  
Outlook  
Support

B  
B  
D/E  
Negative  
5

### Moody's Investors Service

Bank financial strength rating (BFSR)

E+  
(mapping to a  
Baseline Credit  
Assessment (BCA)  
of B1)  
B1  
Not-Prime  
Negative

Long-term deposit rating  
Short-term deposit rating  
Outlook

## SHORT DESCRIPTION OF RATING ASSIGNED

**Long Term Rating** – long-term foreign currency rating. Ability of timely payment of long-term exchange liabilities.

**Short Term Rating** – short-term foreign currency rating. Ability of timely payment of short-term exchange liabilities.

**Outlook** – development forecast. Rating forecast – opportunity of rating upgrade (positive), downgrade (negative) or affirmation (stable).

**Individual** – individual rating. Assessment of the bank, taking into account its independence and lack of external support.

**Support** – support rating. Bank's ability to obtain external financial support in case of need.

**Bank financial strength rating** – internal stability and security estimation..

## CHANGES IN RATINGS ASSIGNED

Fitch Ratings	22.12.2003	22.08.2005	25.10.2006	15.01.2008	14.08.2008	03.12.2008	08.04.2009	21.12.2009	19.01.2010
Long Term Issuer Default Rating	B+	B+	B+	B+	B+	B+	B	B	B
Short Term Rating	B	B	B	B	B	B	B	B	B
Individual	D	D	D	D	D	D	D/E	D/E	D/E
Outlook	Stable	Stable	Positive	Stable	Stable	RWN	RWN	Negative	Negative
Support	5	5	5	5	5	5	5	5	5
Moody's Investors Service	27.06.2007	04.07.2008	13.11.2008	25.06.2009	25.09.2009				
Bank financial strength rating (BFSR)	D-	D-	D-	E+	E+ (mapping to a Baseline Credit Assessment (BCA) of B1) B1				
Long-term deposit rating	Ba3	Ba3	Ba3	B1	B1				
Short-term deposit rating	Not-Prime	Not-Prime	Not-Prime	Not-Prime	Not-Prime				
Outlook	Stable	Stable	Negative	Negative	Negative				

# FINANCIAL STATEMENTS APPENDIX

APPENDIX 1 TO  
FINANCIAL AND CAPITAL MARKET COMMISSION  
15.09.2006. REGULATIONS NO. 145

## BALANCE SHEET

March 31, 2011 (last date of the reporting period)

Item	Reporting period (LVL' 000)	Preceding reporting year (LVL' 000)
Cash and demand claims on the central bank	61 866	81 360
Demand claims on credit institutions	74 635	93 717
Financial assets held for trading	33 115	27 019
Financial assets at fair value through profit or loss	0	0
Available-for-sale financial assets	73 928	48 427
Loans and receivables	317 497	313 309
Held-to-maturity investments	0	0
Interest risk protected portfolio share's fair value changes	0	0
Deferred expenses and accrued income	659	431
Fixed assets	3 571	3 641
Investment property	5 200	5 200
Intangible assets	730	785
Participation in the share capital of associated and related undertakings	13 342	3 774
Tax assets	170	1 420
Other assets	4 333	8 097
<b>Total assets</b>	<b>589 046</b>	<b>587 180</b>
Liabilities to central banks	0	0
Demand liabilities to credit institutions	1 206	2 821
Financial liabilities held for trading	2 056	1 777
Financial liabilities at fair value through profit or loss	0	0
Financial liabilities at amortised value	509 083	520 131
Financial liabilities resulting from transfer of financial assets	0	0
Interest risk protected portfolio share's fair value changes	0	0
Deferred income and accrued expenses	535	876
Provisions	139	139
Tax liabilities	434	439
Other liabilities	16 349	2 031
<b>Total liabilities</b>	<b>529 802</b>	<b>528 214</b>
Capital and reserves	59 244	58 966
<b>Total capital and reserves and liabilities</b>	<b>589 046</b>	<b>587 180</b>
Commitments and contingencies	28 403	41 162
Contingent liabilities	2 018	4 362
Liabilities to customers	26 385	36 800

## PROFIT/LOSS STATEMENT

March 31, 2011 (last date of the reporting period)

Item	Reporting period (LVL' 000)	Respective period of the preceding reporting year 31.03.2010 (LVL' 000)
Interest income	4 617	5 684
Interest expense	(2 858)	(3 628)
Dividend income	3 324	0
Fee and commission income	2 096	1 866
Fee and commission expenses	(318)	(312)
Net realised profit/loss from financial assets and financial liabilities amortised value	0	0
Net realised profit/loss from financial assets available for sale	(190)	0
Net profit/loss from financial assets and financial liabilities held for trading	0	564
Net profit/loss for financial assets and financial liabilities at fair value through profit or loss	0	0
Changes in fair value due to risk minimization accounting	0	0
Profit/loss from dealing and revaluation of foreign currencies	2 139	1 439
Profit/loss from derecognition of property, equipment and machinery, investment property and intangible assets	0	0
Other income	281	695
Other expense	(143)	(238)
Administrative expenses	(3 642)	(3 499)
Depreciation and amortization	(203)	(267)
Provisions for debts impairment and liabilities	(4 748)	(1 709)
Impairment losses	0	0
Income tax	(35)	0
<b>Profit/loss of the reporting period</b>	<b>320</b>	<b>595</b>



# FINANCIAL STATEMENTS APPENDIX

APPENDIX 3 TO  
FINANCIAL AND CAPITAL MARKET COMMISSION  
15.09.2006. REGULATIONS NO. 145

## PERFORMANCE INDICATORS OF BANK

March 31, 2011 (last date of the reporting period)

Item	Reporting period	Respective period of the preceding reporting year 31.03.2010
Return on equity (ROE) (%)	2,39	3,91
Return on assets (ROA) (%)	0,23	0,48

APPENDIX 4 TO  
FINANCIAL AND CAPITAL MARKET COMMISSION  
15.09.2006. REGULATIONS NO. 145

## CONSOLIDATION GROUP COMPOSITION

March 31, 2011

Serial No.	Name of company	Country of domicile, registration address	Company type*	Portion of a holding in share capital (%)	Portion of voting rights in the company (%)	Motivation for inclusion in the group**
1	JSC "NORVIK IEGULDĪJUMU PĀRVALDES SABIEDRĪBA"	LV, Latvia, Rīga, E. Birznieka-Upīša 21	ASC	100	100	SC
2	"NORVIK UNIVERSAL CREDIT ORGANISATION" CJSC	AM, Armenia, Yerevan, KHANJYAN 41, APT. 3, 4, 5	OFI	100	100	SC
3	"NORVIK LĪZINGS" LLC	LV, Latvia, Rīga, E. Birznieka-Upīša 21	OFI	100	100	SC
4	JSC "IPS NORVIK ALTERNATIVE INVESTMENTS"	LV, Latvia, Rīga, E. Birznieka-Upīša 21	ASC	75	75	SC

\* BNK – bank, INSC – insurance company, ASC – asset management company, INVC – investment company, PF – pension fund, OFI – other financial institution, FHC – financial holding company, OC – other company.

\*\* SC – subsidiary company; JV – joint venture; PC – parent company.

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