

PUBLIC REPORT OF THE BANK | III.2011

**norvik**banka



FOR III QUARTER OF YEAR 2011



## DEAR CUSTOMERS AND SHAREHOLDERS!

Financial report of NORVIK Group for the third quarter of 2011 is published

In the third quarter of 2011 NORVIK BANKA and its Group continued presenting stable results.

Assets of the Group continued to grow reaching more than LVL 613.5 millions by September, 30; consolidated profit in accounting period reached LVL 391 thousands.

As well as previously, the Bank continued to pay particular attention to development of basis of customer deposits. Efforts were fruitful, and amount of customer deposits increased for LVL 19 millions in comparison to previous accounting period, reaching LVL 527.5 million at the end of September, 2011. Total amount of Bank customers increased successfully, reaching 144.8 thousand people by the end of September, 2011.

In July, 2011, NORVIK BANKA repeatedly received award „Elite Quality Recognition Award” given by the biggest American bank JP MORGAN CHASE BANK, N.A. NEW YORK for high quality of processing of outgoing payments implemented by the Bank, as well as NORVIK BANKA was also awarded for high quality of transactions performed in EUR and USD currencies for year 2010. This award was presented by one of the biggest European banks – Deutsche Bank. All these awards confirm effectiveness and quality of technologies used by the Bank once more.

Several subsidiary companies of the Group also settled the third quarter of 2011 successfully. JSC “NORVIK ieguldījumu pārvaldes sabiedrība” has increased amount of the 2nd tier pension funds’ assets for 13.7%. Involvement of new customers was also successful, and as a result, number of customers of NORVIK IPS increased for 11.2% reaching 67.4 thousand people by the end of accounting period.

Armenian subsidiary company of the Bank “AS “NORVIK” Universal Credit Organization” settled the accounting period with profit of LVL 791 thousands.

The Bank also continued to support different sporting and cultural events in Latvia. Support given to Latvian Men National Basketball Team should be mentioned as the greatest one, as NORVIK BANKA became one of its general sponsors this year. The team started in European Basketball Championship successfully, showing inexhaustible fighting spirit and desire for a victory.

SINCERELY YOURS,  
NORVIK BANKA

Rīga, 30th September 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 III quarter 2011 the Bank's liquidity ratio was 42-62%, 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 of 30 September 2011 the amount of special provisions was 23 754 thousand LVL or 7.71% of the total loan portfolio. Capital adequacy ratio for the III quarter 2011, adjusted for special provisions, was 10.48%. The Bank's Board and the Credit Committee ensure credit risk management and the Credit Supervision Department 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	50.15	28 779
J. Šapurovs	11 347 218	19.77	11 347
A. Svirčenkova	11 347 190	19.77	11 347
Other (individually less than 10%)	5 917 313	10.31	5 917
<b>Total</b>	<b>57 390 281</b>	<b>100.00</b>	<b>57 390</b>

JSC "NORVIK BANKA"

## SUPERVISORY COUNCIL AS AT 30 SEPTEMBER 2011

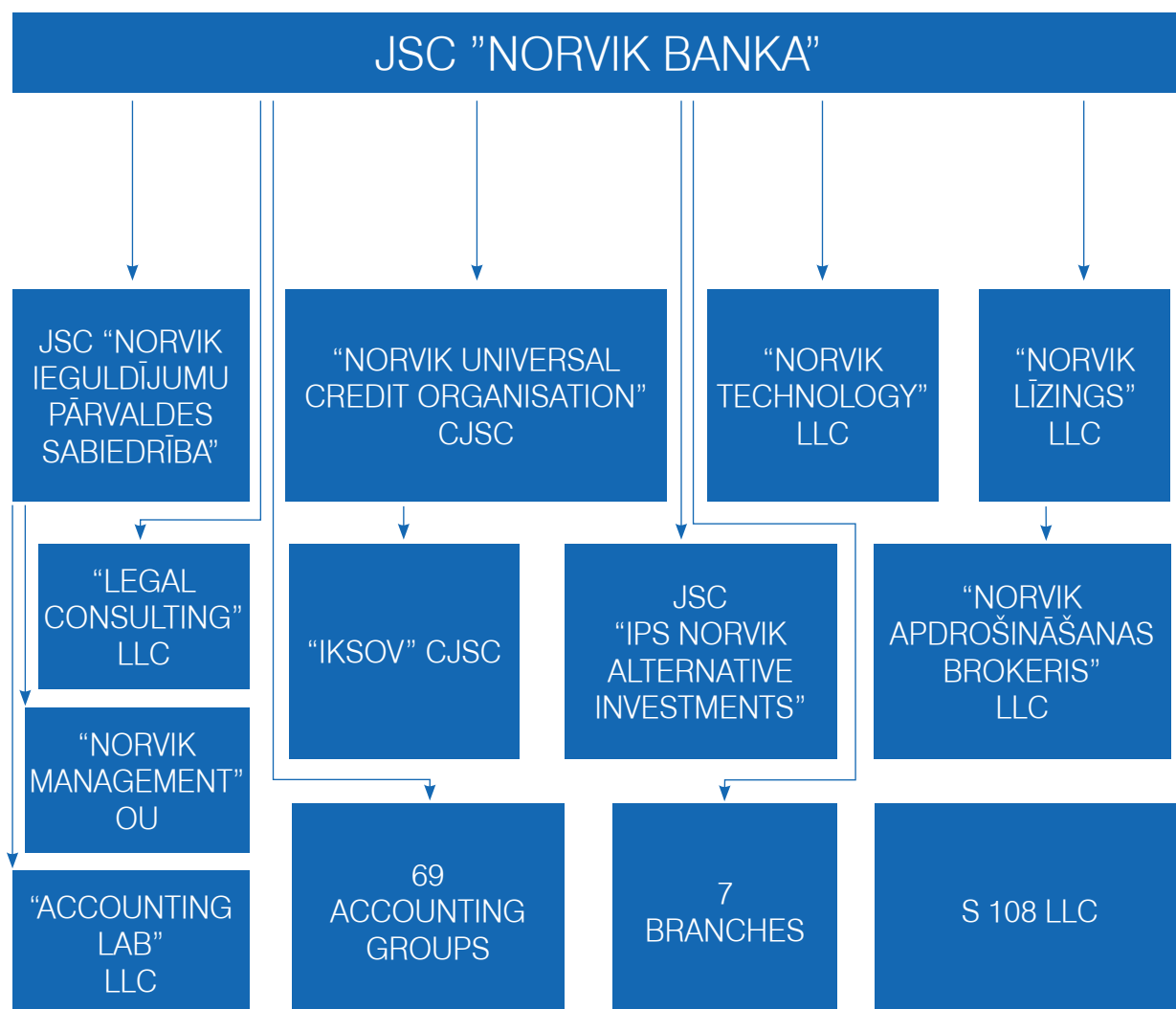
Chairman of the Supervisory Council	Jon Helgi Gudmundsson
Deputy Chairman of the Supervisory Council	Andrejs Svirčenkova
Members of the Supervisory Council	Brynja Halldorsdottir Hjalti Baldursson Valentina Keiša Jelena Svirčenkova

JSC "NORVIK BANKA"

## MANAGEMENT BOARD AS AT 30 SEPTEMBER 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.



## INFORMATION ABOUT THE TOTAL FINANCIAL INSTRUMENTS (EXCLUDING DERIVATIVES) THE BOOK VALUE BREAKDOWN BY THE COUNTRIES OF WHICH REPRESENTATIVES OF THE SECURITIES ISSUED BY A NET BOOK VALUE MORE THAN 10 PERCENT OF THE BANK'S EQUITY

Country	Total book value (000'LVL)	% from Bank`s equity	The recognised amount of the impairment (000'LVL)
<b>LV</b>	<b>89 582</b>	<b>177,25%</b>	<b>-2 930</b>
incl.central government	34 403	68,07%	
<b>MT</b>	<b>10 542</b>	<b>20,86%</b>	
<b>RU</b>	<b>25 394</b>	<b>50,25%</b>	
incl.central government	25 394	50,25%	

No impairment losses are made

# FINANCIAL STATEMENTS APPENDIX

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

## BALANCE SHEET

September 30, 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	34 092	81 360
Demand claims on credit institutions	42 457	93 717
Financial assets held for trading	48 172	27 019
Financial assets at fair value through profit or loss	0	0
Available-for-sale financial assets	115 323	48 427
Loans and receivables	333 000	313 309
Held-to-maturity investments	0	0
Interest risk protected portfolio share's fair value changes	0	0
Deferred expenses and accrued income	890	431
Fixed assets	3 394	3 641
Investment property	11 639	5 200
Intangible assets	640	785
Participation in the share capital of associated and related undertakings	16 017	3 774
Tax assets	24	1 420
Other assets	8 039	8 097
<b>Total assets</b>	<b>613 687</b>	<b>587 180</b>
Liabilities to central banks	0	0
Demand liabilities to credit institutions	3 542	2 821
Financial liabilities held for trading	3 712	1 777
Financial liabilities at fair value through profit or loss	0	0
Financial liabilities at amortised value	534 384	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	618	876
Provisions	316	139
Tax liabilities	439	439
Other liabilities	15 750	2 031
<b>Total liabilities</b>	<b>558 761</b>	<b>528 214</b>
Capital and reserves	54 926	58 966
<b>Total capital and reserves and liabilities</b>	<b>613 687</b>	<b>587 180</b>
Commitments and contingencies	15 742	41 162
Contingent liabilities	3 258	4 362
Liabilities to customers	12 484	36 800



## PROFIT/LOSS STATEMENT

September 30, 2011 (last date of the reporting period)

Item	Reporting period (LVL' 000)	Respective period of the preceding reporting year 30.09.2010 (LVL' 000)
Interest income	13 819	16 377
Interest expense	(8 149)	(10 052)
Dividend income	6 129	0
Fee and commission income	6 970	6 280
Fee and commission expenses	(1 121)	(1 090)
Net realised profit/loss from financial assets and financial liabilities amortised value	0	0
Net realised profit/loss from financial assets available for sale	(507)	(740)
Net profit/loss from financial assets and financial liabilities held for trading	3 631	9 355
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	1 186	(4 153)
Profit/loss from derecognition of property, equipment and machinery, investment property and intangible assets	0	0
Other income	2 061	2 238
Other expense	(409)	(476)
Administrative expenses	(11 403)	(10 833)
Depreciation and amortization	(577)	(768)
Provisions for debts impairment and liabilities	(10 999)	(4 594)
Impairment losses	0	0
Income tax	(240)	(366)
<b>Profit/loss of the reporting period</b>	<b>391</b>	<b>1 178</b>

# FINANCIAL STATEMENTS APPENDIX

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

## PERFORMANCE INDICATORS OF BANK

September 30, 2011 (last date of the reporting period)

Item	Reporting period	Respective period of the preceding reporting year 30.09.2010
Return on equity (ROE) (%)	0,89	2,61
Return on assets (ROA) (%)	0,08	0,29

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

## CONSOLIDATION GROUP COMPOSITION

September 30, 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	CJSC "NORVIK UNIVERSAL CREDIT ORGANISATION"	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	100	100	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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