

**JSC „NORVIK BANKA”
PUBLIC REPORT
I QUARTER 2014**

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STRATEGY AND GOALS

THE BANK'S MISSION IS TO BE INNOVATIVE LATVIAN BANK OPERATING TO SUPPORT CUSTOMERS AND TO DEVELOP LATVIAN ECONOMICS, PROVIDING HIGH-QUALITY FINANCIAL SERVICES.

THE VALUES OF THE BANK AND THE GROUP OF ITS COMPANIES – HIGH QUALITY OF SERVICE, INNOVATIVE SOLUTIONS, POSITIVE WORK ENVIRONMENT AND PROFESSIONALISM OF EMPLOYEES – WILL BE THE MAIN PRIORITIES ALSO IN FUTURE.

IMPLEMENTATION OF STRATEGY IS BASED ON FOLLOWING PRINCIPLES:

- **Increase of business efficiency**, implementing diversification of the business structure;
- **Deliberative risk management and control**;
- **High quality of service**, based on excellence, professional employees and modern technological solutions.

MAIN GOALS:

- **Increase of quality of assets.** Change of structure of assets by improving their profitability and management of current risks. Development of team of qualified and competent professionals to manage enveloped assets effectively by creating corresponding control environment to minimize damages.
- **Customer service.** Financing companies representing main segments of Latvian economics. Priorities include also transit business, agriculture, forestry, “green” energy, infrastructure, woodworking and medicine. Increase of profitability of customer service centres by improving efficiency of business processes, quality of services and implementation of new services taking into account market demands, as well as by improving repayment of consumption credits.
- **Partnership.** To become the accessible Bank with high service speed, development of partnership with public and private structures to extend range of services offered in customer service centres. Creation of modern, functional and secure mobile and Internet platforms by increasing their virtual accessibility, and development of competitiveness and advantages of existing Internet banking system e-Norvik.

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 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 2014 the Bank's liquidity ratio was 53-61%.

Credit risk is the risk of untimely or incomplete fulfillment 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 assets and the balance sheet value of those assets. The provisioning for unsecured consumer loans is made based on repayments statistics. As of 31 March 2014 the amount of special provisions was 38 998 thousand EUR or 17.70% of the total loan portfolio. Capital adequacy ratio for the I quarter 2014, adjusted for special provisions, was 10.85%. The Bank's Board and the Credit Committee ensure credit risk management and the Credit and Investment 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 unfavorable 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 foreign **currency risk** management 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 fulfillment 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.

Please see Risk management in details:

http://www.norvik.lv/files/pdf/finance/Info_atkl_2014_lv.pdf

BANK'S SHAREHOLDERS, COUNCIL AND MANAGEMENT BOARD

**JSC „NORVIK BANKA”
Shareholders as at 31 March 2014**

| | Number of shares* | % of total shares | Paid up share capital EUR'000 |
|------------------------------------|--------------------------|--------------------------|--------------------------------------|
| G.Guselnikov | 43 836 007 | 50.00 | 62 373 |
| J. Šapurov | 16 482 886 | 18.80 | 23 453 |
| Other (individually less than 10%) | 27 353 118 | 31.20 | 38 920 |
| Total | 87 672 011 | 100.00 | 124 746 |

* All shares are carrying identical voting rights. Each share has a par value of LVL 1.00.

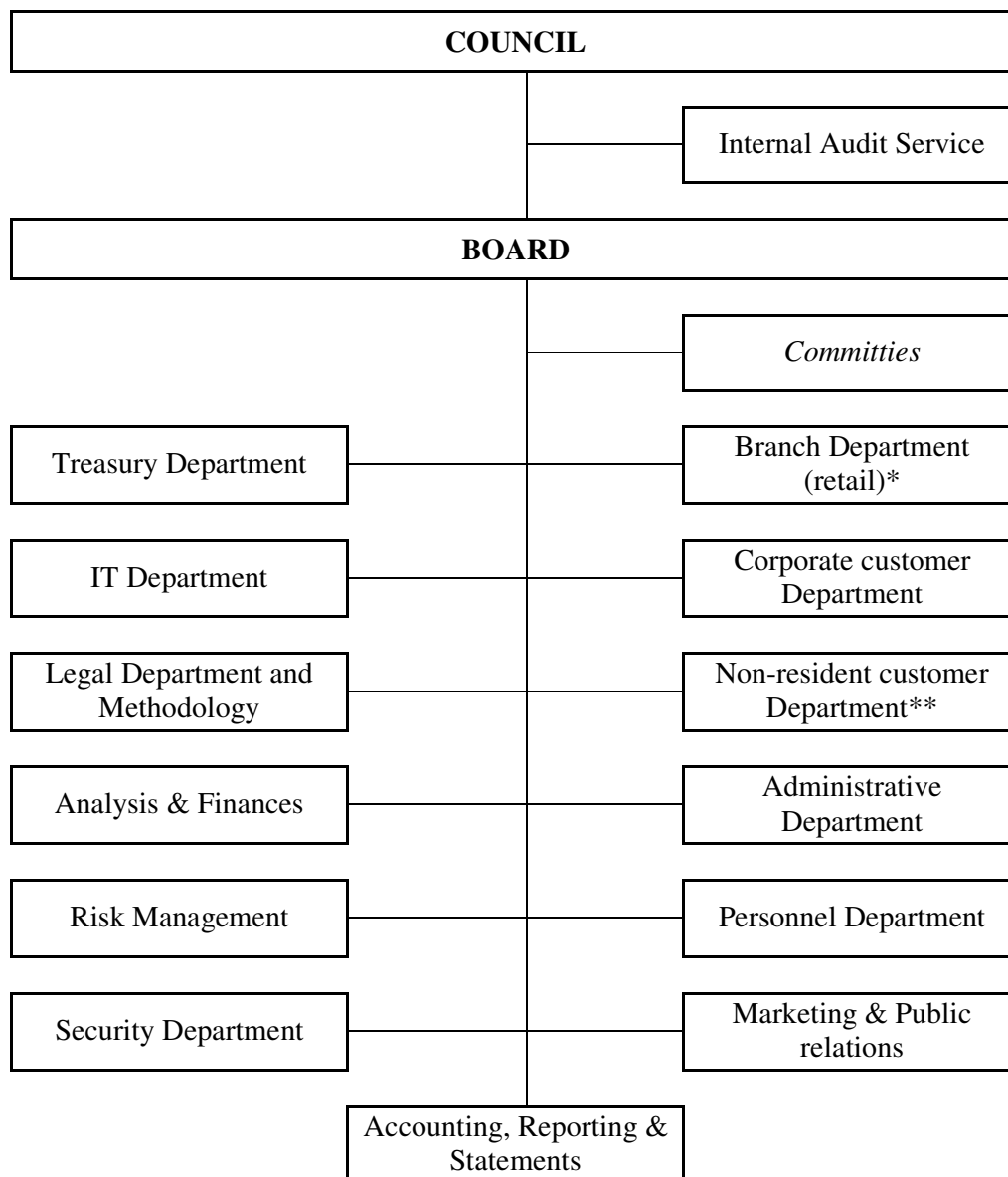
**JSC “NORVIK BANKA”
Supervisory Council as at 31 March 2014**

| | |
|--|---|
| Chairman of the Supervisory Council | Grigory Guselnikov |
| Deputy Chairman of the Supervisory Council | Ivan Bazhenov |
| Members of the Supervisory Council | Natalja Drozda Igor Smolin Andrey Danilenko |

**JSC “NORVIK BANKA”
Management Board as at 31 March 2014**

| | |
|----------------------------------|---|
| Chairman of the Management Board | Oliver Ronald Bramwell |
| Members of the Management Board | Raivis Ruskulis Igor Rozanov Alexander Zykov Marija Stepiņa Aleksandrs Fedosejevs |

JSC „NORVIK BANKA” ORGANISATIONAL STRUCTURE



* Branch list please see:

<http://www.norvik.lv/lv/bank/branches/>

** Information about representative:

http://www.norvik.lv/en/bank/contacts_moscow/

CONSOLIDATION GROUP COMPOSITION
31 March 2014

| Ser 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 IEGULDIJUMU PARVALDES SABIEDRIBA | LV, Latvia, Riga, E. Birznieka-Upisha street 21 | IMC | 100 | 100 | SC |
| 2 | CJSC NORVIK UNIVERSAL CREDIT ORGANISATION | AM, Armenia, Yerevan, Saryan 12 | OFI | 100 | 100 | SC |
| 3 | NORVIK LIZINGS LLC | LV, Latvia, Riga, E. Birznieka-Upisha street 21 | LC | 100 | 100 | SC |
| 4 | NORVIK IPS JSC CIF NAKOTNES IPAŠUMU FONDS | LV, Latvia, Riga, E. Birznieka-Upisha street 21 | SPC | 100 | 100 | SC |

* BNK – bank, EMI – electronic money institution, IBC – investment brokerage company, IMC – investment management company, PF – pension fund, LC – leasing company, OFI – other financial institution, SPC – supporting company, FMC – financial management company, MFMC – mixed financial management company.

** SC – subsidiary company; SSC – subsidiary of the subsidiary company; PC – parent company, SP – subsidiary of the parent company, OC – other company."

BALANCE SHEET

31 March 2014

(EUR'000)

| Item | Reporting period | Preceding reporting year |
|---|------------------|--------------------------|
| | Non-audited | Audited |
| Cash and demand claims on the central bank | 14 920 | 174 768 |
| Demand claims on credit institutions | 213 661 | 102 350 |
| Financial assets held for trading | 3 475 | 17 095 |
| Financial assets at fair value through profit or loss | - | - |
| Available-for-sale financial assets* | 272 998 | 228 572 |
| Loans and receivables | 295 749 | 232 956 |
| Held-to-maturity investments | - | - |
| Interest risk protected portfolio share's fair value changes | - | - |
| Deferred expenses and accrued income | 1 132 | 1 238 |
| Fixed assets | 16 587 | 16 646 |
| Investment property | 14 003 | 14 003 |
| Intangible assets | 285 | 339 |
| Participation in the share capital of associated and related undertakings | - | - |
| Tax assets | 12 | 27 |
| Other assets | 4 131 | 4 914 |
| Total assets | 836 953 | 792 908 |
| Liabilities to central banks | - | - |
| Demand liabilities to credit institutions | 9 160 | 1 034 |
| Financial liabilities held for trading | 101 | 1 129 |
| Financial liabilities at fair value through profit or loss | - | - |
| Financial liabilities at amortized value | 760 454 | 735 775 |
| Financial liabilities resulting from transfer of financial assets | - | - |
| Interest risk protected portfolio share's fair value changes | - | - |
| Deferred income and accrued expenses | 926 | 1 465 |
| Provisions | 681 | 681 |
| Tax liabilities | 622 | 631 |
| Other liabilities | 16 285 | 3 744 |
| Total liabilities | 788 229 | 744 459 |
| Capital and reserves | 48 724 | 48 449 |
| Total capital and reserves and liabilities | 836 953 | 792 908 |
| Commitments and contingencies | 17 029 | 20 807 |
| Contingent liabilities | 6 885 | 13 123 |
| Liabilities to customers | 10 144 | 7 684 |

* including participation in the share capital of the related, associated undertakings and closed investment funds (which are the Bank's auxiliaries) at the end of period amounted 172 976 thousands EUR, in the previous year end -
- 175 498 thousands EUR.

PROFIT/LOSS STATEMENT
31 March 2014

(EUR'000)

| Item | Reporting period | Respective period of the preceding reporting year |
|--|------------------|---|
| | Non-audited | Non-audited |
| Interest income | 2 448 | 3 638 |
| Interest expense | (1 172) | (1 963) |
| Dividend income | - | 1 |
| Fee and commission income | 4 619 | 4 100 |
| Fee and commission expenses | (627) | (625) |
| Net realized profit/loss from financial assets and financial liabilities amortized value | - | - |
| Net realized profit/loss from financial assets available for sale | (15 022) | (2 337) |
| Net profit/loss from financial assets and financial liabilities held for trading | (2 451) | 9 495 |
| Net profit/loss for financial assets and financial liabilities at fair value through profit or loss | - | - |
| Changes in fair value due to risk minimization accounting | - | - |
| Profit/loss from dealing and revaluation of foreign currencies | 4 052 | (6 851) |
| Profit/loss from derecognizing of property, equipment and machinery, investment property and intangible assets | - | - |
| Other income | 529 | 538 |
| Other expense | (214) | (286) |
| Administrative expenses | (5 346) | (4 593) |
| Depreciation and amortization | (279) | (307) |
| Provisions for debts impairment and liabilities | 500 | (2 550) |
| Impairment losses | 13 516 | 2 768 |
| Income tax | (15) | (26) |
| Profit/loss of the reporting period | 538 | 1 002 |

Independent auditors haven't audited Bank's financial statements during the reporting period.

TOTAL CAPITAL AND CAPITAL REQUIREMENT CALCULATION REPORT
31 March 2014

(EUR`000)

| SerNo. | Name of the position | Result of the period |
|-----------|---|----------------------|
| 1. | Own funds (1.1.+1.2.) | 65 174 |
| 1.1 | Tier 1 capital (1.1.1.+1.1.2.) | 41 866 |
| 1.1.1. | Common equity Tier 1 capital | 41 866 |
| 1.1.2. | Additional Tier 1 capital | - |
| 1.2. | Tier 2 capital | 23 308 |
| 2 | Total risk exposure amount (2.1.+2.2.+2.3.+2.4.+2.5.+2.6.+2.7.) | 547 466 |
| 2.1. | Risk weighted exposure amounts for credit, counterparty credit and dilution risks and free deliveries | 495 145 |
| 2.2. | Total risk exposure amount for settlement/delivery | - |
| 2.3. | Total risk exposure amount for position, foreign Exchange and commodities risks | 2 659 |
| 2.4. | Total risk exposure amount for operational risk | 49 662 |
| 2.5. | Total risk exposure amount for credit valuation adjustment | - |
| 2.6. | Total risk exposure amount related to large exposures in the trading book | - |
| 2.7. | Other risk exposure amount | - |
| 3. | Capital ratios and capital levels | |
| 3.1 | Common equity Tier 1(CET1) capital ratio (1.1.1./2.*100) | 7.65% |
| 3.2. | Surplus(+)/Deficit(-) of CET1 capital (-) (1.1.1.-2.*4.5%) | 17 230 |
| 3.3. | Tier1 Capital ratio (1.1./2. *100) | 7.65% |
| 3.4. | Surplus(+)/Deficit(-) of Tier1 capital (-) (1.1.-2.*6%) | 9 018 |
| 3.5. | Total capital ratio (1./2.*100) | 11.90% |
| 3.6. | Surplus(+)/Deficit(-) of total capital (-) (1.-2.*8%) | 21 377 |
| 4. | Capital buffers (4.1.+4.2.+4.3.+4.4.+4.5.) | - |
| 4.1. | Capital conservation buffer (%) | - |
| 4.2. | Institution specific countercyclical capital buffer (%) | - |
| 4.3. | Systemic risk buffer (%) | - |
| 4.4. | Systemical important institution buffer (%) | - |
| 4.5. | Other Systemically Important Institution buffer (%) | - |
| 5. | Capital ratios due to pillar ii adjustments | - |
| 5.1. | The amount of impairment or assets value adjustments, applying special policy for own funds calculation | 5 788 |
| 5.2. | CET1 capital ratio including p. 5.1 adjustments | 7.12% |
| 5.3. | Tier1 capital ratio including p. 5.1 adjustments | 7.12% |
| 5.4. | Total capital ratio including p. 5.1 adjustments | 10.85% |

**LIQUIDITY RATIO
31 March 2014**

(EUR'000)

| SerNo. | Item | Reporting period |
|-----------|---|------------------|
| 1. | Liquid assets (1.1.+1.2.+1.3.+1.4.) | 397 327 |
| 1.1. | Cash | 14 080 |
| 1.2. | Balances with the Bank of Latvia | 60 561 |
| 1.3. | Loans to and receivables from solvent banks | 228 102 |
| 1.4. | Liquid securities | 94 584 |
| 2. | Current liabilities with remaining maturity up to 30 days) (2.1.+2.2.+2.3.+2.4.+2.5.+2.6.) | 672 912 |
| 2.1. | Due to the central bank and other banks | 9 145 |
| 2.2. | Deposits | 634 758 |
| 2.3. | Debt securities in issue | - |
| 2.4. | Cash in transit | 13 427 |
| 2.5. | Other current liabilities | 4 770 |
| 2.6. | Off-balance sheet liabilities | 10 812 |
| 3. | Liquidity ratio (1.:2.); (%) | 59.05 % |
| 4. | Minimum liquidity ratio | 30.00 % |

**PERFORMANCE INDICATORS OF BANK
31 March 2014**

| Item | Reporting period | Respective period of the preceding reporting year |
|----------------------------|------------------|---|
| Return on equity (ROE) (%) | 4.06 | 7.57 |
| Return on assets (ROA) (%) | 0.25 | 0.48 |

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

31 March 2014

| Country | Trading portfolio (EUR`000) | Portfolio available for sale* (EUR`000) | Total book value (EUR`000) | % from Bank`s equity |
|-------------------------|------------------------------------|--|-----------------------------------|-----------------------------|
| Latvia | - | 146 130 | 146 130 | 224.22% |
| incl.central government | - | 8 339 | 8 339 | 12.79% |
| USA | - | 29 070 | 29 070 | 44.60% |
| incl.central government | - | 29 070 | 29 070 | 44.60% |
| Lithuania | - | 17 820 | 17 820 | 27.34% |
| incl.central government | - | 17 820 | 17 820 | 27.34% |
| Croatia | - | 9 467 | 9 467 | 14.53% |
| incl.central government | - | 9 467 | 9 467 | 14.53% |
| Hungary | - | 9 257 | 9 257 | 14.20% |
| incl.central government | - | 7 169 | 7 169 | 11.00% |
| Romania | - | 8 689 | 8 689 | 13.33% |
| incl.central government | - | 8 689 | 8 689 | 13.33% |
| Malta | - | 7 818 | 7 818 | 12.00% |

* Excluding participation in the share capital of associated and related undertakings.

For financial instruments recognized in the balance sheet at amortized value (HTM financial assets) impairment allowances have not been made.

Recognized impairment of available-for-sale financial assets is 1 700 EUR'000.