JSC „NORVIK BANKA”
PUBLIC REPORT
II QUARTER 2014

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norvikbanka

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REPORT OF THE MANAGEMENT BOARD

The second quarter of 2014 saw the continuation of the active transformation of the Bank.

Having rigorously analyzed the markets where the Bank operates, and taking into account geo-political and economic risks, the management board reviewed, and refreshed its strategy for growth in the coming years.

At the same time, the board implemented a stricter corporate governance model and the organization structure was re-aligned to enable the execution of the aforementioned strategy.

The first half of 2014 saw positive trends in balance sheet growth, and increasing return on assets, in-line with the approved annual budget.

Highlights:

- Net profit for the first half of 2014 was higher than for the same period of 2013, and the Bank earned 0.65m EUR.
- Net commission and fees income increased by 21.7% comparing to the same period of 2013.
- Assets of the Bank have increased by 2.6%. Customer deposits by 1.4%.

Key solvency, liquidity and capital adequacy indicators kept up with the trend in growth of assets.

- Capital adequacy at the end of the reporting period was 11.50%.
- The liquidity ratio at the end of the reporting period was 58.43%.

Through to the end of the first half of 2014, and with the aim of increasing the investment outlook for the Bank, the shareholders of the Bank agreed to reduce the nominal value of one share in the Bank, absorbing the previous year’s losses, and improving the balance sheet structure. Simultaneously, share capital of the Bank was denominated from LVL into EUR.

The Bank's management would like to extend their gratefulness to the Bank’s customers, partners and shareholders for their trust, cooperation and contribution to the development of the Bank.

BANK'S STRATEGY AND TARGETS

The Bank has set itself the target of becoming a leading, successful universal bank with an extensive service network in Latvia.

The Bank Group aims to become an international financial services provider, offering customers high-quality financial products and asset management services in the European Union and across Eastern Europe.

Our vision focuses on our customers' needs, creating long-term value for the bank's customers, employees, shareholders and community.

We are aiming:

- To create a successful and stable universal bank in Latvia, meeting customer needs, and following the regulators framework for success;
- For a high-level of corporate governance to ensure well-controlled, profitable future growth and effective management of the current Non-Core assets;
- To expand the Bank's direct financial services internationally, specifically in the European Union and across Eastern Europe.

Focus on niche markets:

- Latvian residents retail customers - middle-class- multi-retail-product-in-the-wallet;
- Latvian corporate clients - well collateralized loans & low-cost deposits;
- Foreign customers - fee-based income products, trade finance.

Our strategic goals are based on the following core values:

- Innovation - The use of modern information technology through all our services and leading the financial services market in technology;
- Culture – A highly developed corporate culture based on multi - national corporate standards;
- Loyalty - Promotion of higher levels of customer loyalty though the offering of significant discounts on our services to market levels to ensure customer transition from the well-entrenched banks;
- Expansion – The further development of a network of 'branches' throughout Latvia market to expand the number customers served;
- Financial Management – Focus on resource planning and management of financial resources, including the optimization of liquid assets'.

Other main building-blocks of the Bank's strategy:

- To combine the knowledge, and experience of local experts and international experience across a variety of markets;
- To provide end-to-end servicing of the full customer range, with customer service driving all product propositions, and hi-technology driving efficiencies;
- To adhere to a prudent investment and lending policy, to maintain stability and appropriate risk-income appetite.

To maintain a stable income stream so that the Bank is in a position to manage any further downside economic scenarios, without a decrease in capital adequacy ratios, without a loss in customer service levels, and with options that other banks on the market may not have available to them given the European Union geography and diversified customer base.

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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 II quarter 2014 the Bank's liquidity ratio was 56-62%.

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 30 June 2014 the amount of special provisions was 38 602 thousand EUR or 18.36% of the total loan portfolio. Capital adequacy ratio for the II quarter 2014, adjusted for special provisions, was 11.50%. 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 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 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 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.

Please see Risk management in details:

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

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BANK'S SHAREHOLDERS, COUNCIL AND MANAGEMENT BOARD

JSC "NORVIK BANKA"
Shareholders as at 30 June 2014

	Number of shares*	% of total shares	Apmaksātais pamatkapitāls (EUR`000)
G.Guselnikov	74 518 686	83.63	44 711
Other (individually less than 10%)	14 585 622	16.37	8 752
Total	**89 104 308**	**100.00**	**53 463**

* All shares are carrying identical voting rights. Each share has a par value of EUR 0,60.

JSC "NORVIK BANKA"
Supervisory Council as at 30 June 2014

Chairman of the Supervisory Council	Grigory Guselnikov
Members of the Supervisory Council	Igor Smolin Andrey Danilenko

JSC „NORVIK BANKA"
Management Board as at 30 June 2014

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

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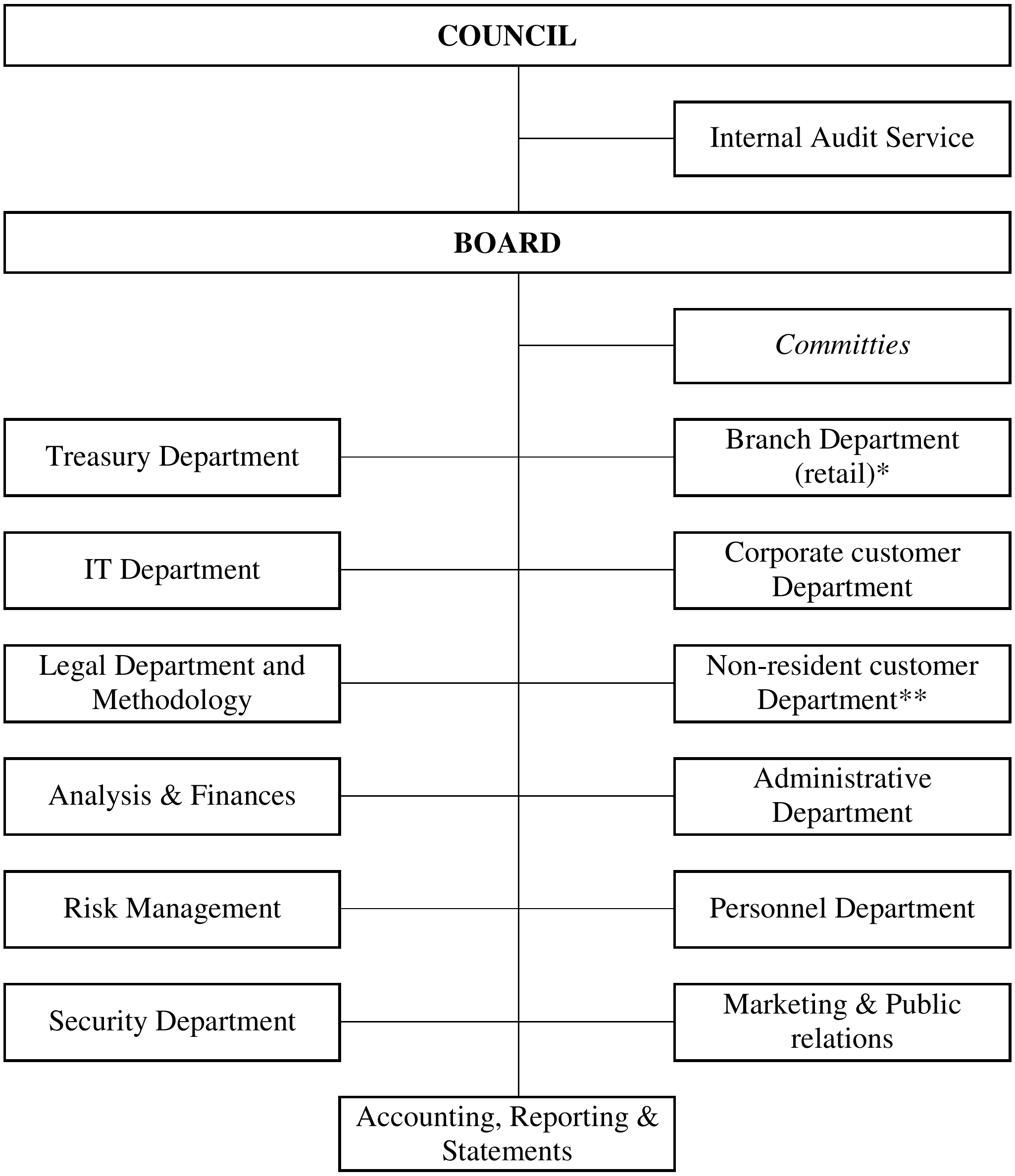
JSC NORVIK BANKA ORGANIZATIONAL STRUCTURE



* 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
30 June 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	JSC 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."

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BALANCE SHEET
30 June 2014

(EUR`000)

Item	Reporting period	Preceding reporting year
	Non-audited	Audited
Cash and demand claims on the central bank	21 066	174 768
Demand claims on credit institutions	133 968	102 350
Financial assets held for trading	8 834	17 095
Financial assets at fair value through profit or loss	-	-
Available-for-sale financial assets*	346 322	228 572
Loans and receivables	249 583	232 956
Held-to-maturity investments	14 626	-
Interest risk protected portfolio share’s fair value changes	-	-
Deferred expenses and accrued income	1 119	1 238
Fixed assets	16 378	16 646
Investment property	14 003	14 003
Intangible assets	270	339
Participation in the share capital of associated and related undertakings	-	-
Tax assets	4	27
Other assets	7 115	4 914
Total assets	**813 288**	**792 908**
Liabilities to central banks	-	-
Demand liabilities to credit institutions	1 539	1 034
Financial liabilities held for trading	55	1 129
Financial liabilities at fair value through profit or loss	-	-
Financial liabilities at amortized value	743 101	735 775
Financial liabilities resulting from transfer of financial assets	-	-
Interest risk protected portfolio share’s fair value changes	-	-
Deferred income and accrued expenses	1 016	1 465
Provisions	681	681
Tax liabilities	614	631
Other liabilities	17 386	3 744
Total liabilities	**764 392**	**744 459**
Capital and reserves	48 896	48 449
Total capital and reserves and liabilities	**813 288**	**792 908**
Commitments and contingencies	**22 353**	**20 807**
Contingent liabilities	5 063	13 123
Liabilities to customers	17 290	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 163,611 thousands EUR, in the previous year end - 175,498 thousands EUR

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PROFIT/LOSS STATEMENT
30 June 2014

(EUR'000)

Item	Reporting period	Respective period of the preceding reporting year
	Non-audited	Non-audited
Interest income	5 072	6 891
Interest expense	(2 303)	(3 365)
Dividend income	32	183
Fee and commission income	10 068	8 457
Fee and commission expenses	(1 404)	(1 336)
Net realized profit/loss from financial assets and financial liabilities amortized value	-	-
Net realized profit/loss from financial assets available for sale	(15 106)	313
Net profit/loss from financial assets and financial liabilities held for trading	(1 886)	5 706
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	5 411	(70)
Profit/loss from derecognizing of property, equipment and machinery, investment property and intangible assets	-	-
Other income	1 036	1 243
Other expense	(688)	(567)
Administrative expenses	(10 845)	(9 432)
Depreciation and amortization	(539)	(608)
Provisions for debts impairment and liabilities	(1 453)	(6 926)
Impairment losses	13 348	(166)
Income tax	(94)	(220)
Profit/loss of the reporting period	**649**	**103**

Result of subsidiary liquidation in 2014 (which at the end 2013 sold the large non-profile assets portfolio) is shown in details in the two positions of the income statement: Net realized profit/ loss from financial assets available for sale (asset derecognizing loss) and Impairment losses (previously recognized impairment loss reversal).

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

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TOTAL CAPITAL AND CAPITAL REQUIREMENT CALCULATION REPORT

30 June 2014

(EUR`000)

SerNo	Name of the position	Result of the period
1	**OWN FUNDS (1.1.+1.2.)**	**66 310**
1.1	Tier 1 capital (1.1.1.+1.1.2.)	41 934
1.1.1.	Common equity Tier 1 capital	41 934
1.1.2.	Additional Tier 1 capital	-
1.2.	Tier 2 capital	24 376
2	**TOTAL RISK EXPOSURE AMOUNT (2.1.+2.2.+2.3.+2.4.+2.5.+2.6.+2.7.)**	**530 136**
2.1.	Risk weighted exposure amounts for credit, counterparty credit and dilution risks and free deliveries	477 436
2.2.	Total risk exposure amount for settlement/delivery	-
2.3.	Total risk exposure amount for position, foreign Exchange and commodities risks	3 038
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)	7.91%
3.2.	Surplus(+)/Deficit(-) of CET1 capital (1.1.1.-2.*4.5%)	18 078
3.3.	Tier1 Capital ratio (1.1./2.*100)	7.91%
3.4.	Surplus(+)/Deficit(-) of Tier1 capital (-) (1.1.-2.*6%)	10 126
3.5.	Total capital ratio (1./2.*100)	12.51%
3.6.	Surplus(+)/Deficit(-) of total capital (1.-2.*8%)	23 899
4	**CAPITAL BUFFERS (4.1.+4.2.+4.3.+4.4.+4.5.)**	2.5%
4.1.	Capital conservation buffer (%)	2.5%
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	5 365
5.2.	CET1 capital ratio including p. 5.1 adjustments	7.40%
5.3.	Tier1 capital ratio including p. 5.1 adjustments	7.40%
5.4.	Total capital ratio including p. 5.1 adjustments	11.50%

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LIQUIDITY RATIO
30 June 2014

(**EUR`000**)

SerNo	Item	Reporting period
1	**Liquid assets (1.1.+1.2.+1.3.+1.4.)**	**382 396**
1.1.	Cash	10 028
1.2.	Balances with the Bank of Latvia	6 754
1.3.	Loans to and receivables from solvent banks	182 942
1.4.	Liquid securities	182 672
2	**Current liabilities with remaining maturity up to 30 days) (2.1.+2.2.+2.3.+2.4.+2.5.+2.6.)**	**654 456**
2.1.	Due to the central bank and other banks	1 927
2.2.	Deposits	619 410
2.3.	Debt securities in issue	-
2.4.	Cash in transit	13 977
2.5.	Other current liabilities	5 256
2.6.	Off-balance sheet liabilities	13 886
3	**Liquidity ratio (1.:2.); (%)**	**58.43%**
4	**Minimum liquidity ratio**	30.00%

PERFORMANCE INDICATORS OF BANK
30 June 2014

Item	**Reporting period**	**Respective period of the preceding reporting year**
Return on equity (ROE) (%)	2.55	0.43
Return on assets (ROA) (%)	0.15	0.02

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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

30 June 2014

Country	Trading portfolio (EUR`000)	Portfolio available for sale* (EUR`000	Held-to-maturity finance instruments (EUR`000)	Total book value (EUR`000)	% from Bank`s equity
Latvia	**-**	**142 090**	**-**	**142 090**	**214.28%**
incl.central government	-	4 464	-	4 464	6.73%
USA	**-**	**95 677**	**14 626**	**110 303**	**166.34%**
incl.central government	-	95 677	14 626	110 303	166.34%
Lithuania	**2 295**	**13 651**	**-**	**15 946**	**24.05%**
incl.central government	2 295	13 651	-	15 946	24.05%
Croatia	**-**	**11 120**	**-**	**11 120**	**16.77%**
incl.central government	-	11 120	**-**	11 120	16.77%
Hungary	**-**	**11 480**	-	**11 480**	**17.31%**
incl.central government	-	7 268	**-**	7 268	10.96%
Romania	**-**	**8 760**	**-**	**8 760**	**13.21%**
incl.central government	-	8 760	-	8 760	13.21%
Malta	**-**	**7 767**	-	**7 767**	**11.71%**

*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 1 868 EUR'000.

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