# JSC „NORVIK BANKA"
# Public report
# III quarter 2014



www.norvik.eu

Ernesta Birznieka-Upīša iela 21,
Rīga, LV-1011, Latvija
Tālr.: (+371) 67041100; Fakss: (+371) 67041111

# Table of contents

Report of the Management Board ........ 3
Bank's strategy and targets ........ 4
Risk analysis ........ 5
Bank's shareholders, Council and Management Board ........ 7
JSC Norvik Banka organizational structure ........ 8
Consolidation Group Composition ........ 9
Balance sheet ........ 10
Profit/ Loss Statement ........ 11
Total capital and capital requirement calculation report ........ 12
Liquidity ratio ........ 13
Performance Indicators of Bank ........ 13
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 ........ 14



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# Report of the Management Board

On 10 September 2014 Norvik Banka introduced a new development strategy to business and mass media representatives – the Bank plans to become one of the leading technologically high-developed banks in Northern Europe. The Bank has also introduced a new concept of its visual identity under which a modern brand has been created and the Bank's website has been updated; in cooperation with Tele2, Norvik SIM has been developed, which is a brand-new product for the Latvian market.

Norvik Banka's slogan is "Trust is rewarded". It comprises all the values our work is based on and our main idea: partnership with Norvik Banka must be rewardable, in every sense of the word. The longer you cooperate with us, the more we can give you, as this is the way mutual development is formed and long-term relationships are built.

As a result of planned development, within 9 months of the current year the Bank's assets have gone up by 8% and reached 855 M EUR. In the asset structure the share of liquid assets has increased by 7 percentage points, and their amount has grown by 26%. As a result, a liquidity ratio is at a high level and at the end of the reporting period it has reached 62%.

The Bank has been successful in developing its customer base, as a result of which within 9 months of 2014 the amount of customer deposits has grown by 7% and reached 763 M EUR.

Ever-increasing trust of the Bank's customers can be proved by the growth of the amount of subordinated liabilities by 60% or 13 M EUR.

The Group continues clearing its balance sheets off non-core assets, which were taken over during the previous years. Balance value of non-core assets sold during 9 months of 2014 has reached 26 M EUR. Within the period above, net increase in reserves formed by the Bank has reached 4.6 M EUR. Capital adequacy ratio at the end of the reporting period has reached 11.81%.

Among events that took place after the reporting date, significant investments made by Grigory Guselnikov in the Bank's capital are worth noting. Under the XXVII share issue almost 70 M EUR have been invested in Norvik Banka's equity capital, as a result of which the Bank's current capital adequacy ratio has increased and exceeded 18%.

At the beginning of October Norvik Banka became the owner of 97.75% of AKB Vyatka Bank (Russia) shares. The transaction has been approved by both the Financial and Capital Market Commission and the Central Bank of Russia. Vyatka Bank is a universal regional commercial bank present in 4 regions of the Russian Federation. Activity of Vyatka Bank is mainly focused on servicing of private individuals. Vyatka Bank is a stable leader among regional banks of Kirov Oblast by all key indicators. Audited profit of Vyatka Bank for the previous year reached 6.7 M EUR, and within 6 months of 2014 – 2.8 M EUR.

Norvik Banka's management is thankful to the Bank's customers, partners and shareholders for their trust, cooperation and contribution to the development of the Bank.



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# 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 III quarter 2014 the Bank's liquidity ratio was 59-65%.

***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 September 2014 the amount of special provisions was 39 937 thousand EUR or 18.96% of the total loan portfolio. Capital adequacy ratio for the III quarter 2014, adjusted for special provisions, was 11.81%. 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).



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***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.eu/files/pdf/finance/Info_atkl_2014_en.pdf*



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# Bank's shareholders, Council and Management Board

**JSC „NORVIK BANKA"**
**Shareholders as at 30 September 2014**

| | Number of shares* | % of total shares | Paid up share capital EUR`000 |
|---|---|---|---|
| G.Guselnikov | 65 678 686 | 73.71 | 39 407 |
| Other (individually less than 10%) | 23 425 622 | 26.29 | 14 056 |
| **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 September 2014**

| | |
|---|---|
| **Chairman of the Supervisory Council** | GRIGORY GUSELNIKOV |
| **Deputy Chairman of the Supervisory Council** | ANDRIS RUSELIS |
| **Members of the Supervisory Council** | PETER MICHAEL ODINTSOV |
| | IGOR SMOLIN |
| | ANDREY DANILENKO |

**JSC „NORVIK BANKA"**
**Management Board as at 30 September 2014**

| | |
|---|---|
| **Chairman of the Management Board** | OLIVER RONALD BRAMWELL |
| **Members of the Management Board** | RAIVIS RUSKULIS |
| | IGOR ROZANOV |
| | ALEXANDER ZYKOV |
| | MARIJA STEPINA |
| | DENIS NOVIKOV |



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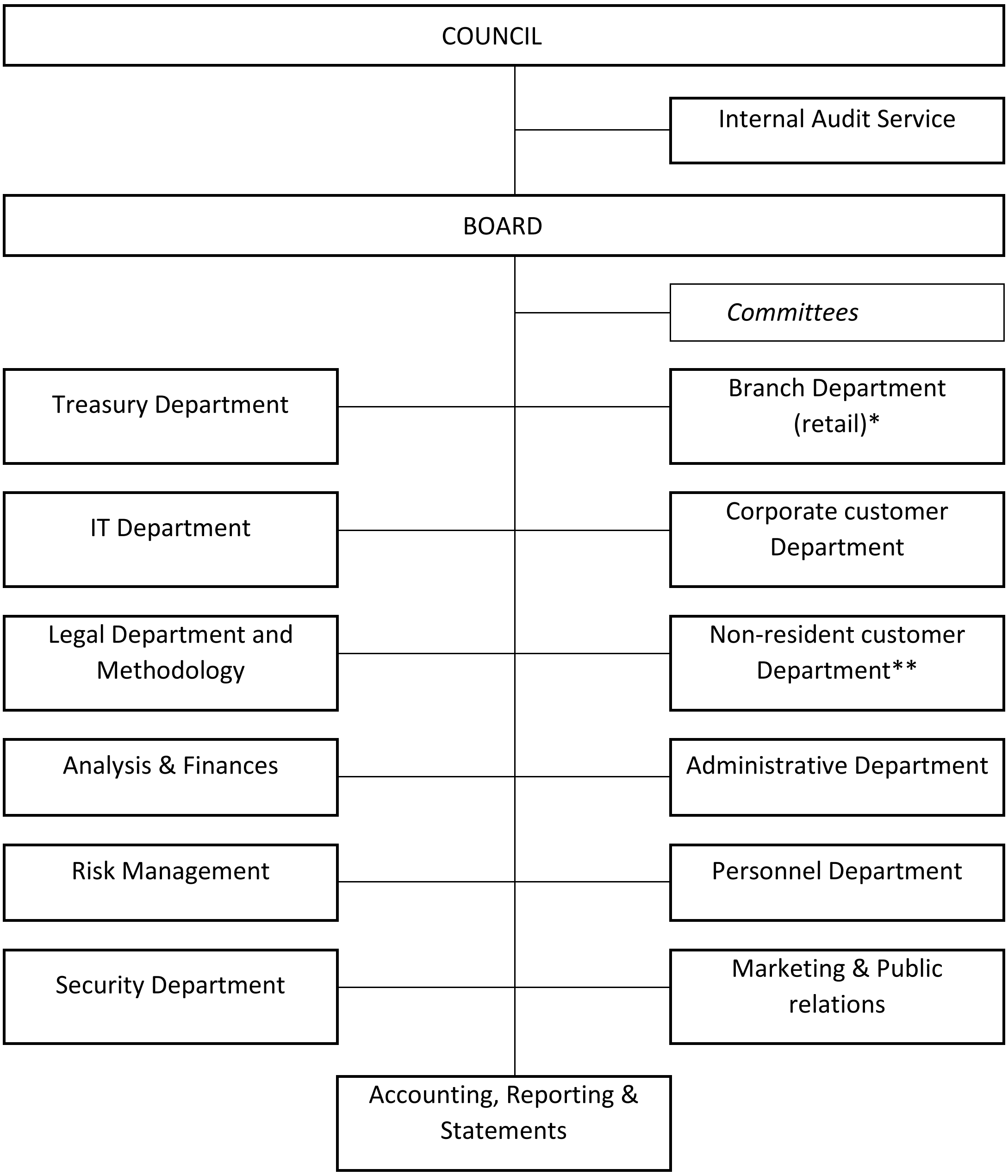
# JSC Norvik Banka organizational structure




* - Branch list please see
http://www.norvik.eu/en/map?type=branches

** -Information about representative:
*http://www.norvik.eu/en/contacts-moscow*

# Consolidation Group Composition

**30 September 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 |
| 5 | NORVIK BANKA UK LIMITED | GB, United Kingdom, London, 46/48 Grosvenor Gardens | OFI | 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 September 2014**

(EUR`000)

| Item | Reporting period | Preceding reporting year |
|---|---|---|
| | **Non-audited** | **Audited** |
| Cash and demand deposits with the central bank | 14 737 | 174 768 |
| Demand deposits with credit institutions | 183 115 | 102 350 |
| Financial assets held for trading | 7 123 | 17 095 |
| Financial assets at fair value through profit or loss | - | - |
| Available-for-sale financial assets* | 355 266 | 228 572 |
| Loans and receivables | 244 735 | 232 956 |
| Held-to-maturity investments | 17 927 | - |
| Interest risk protected portfolio share's fair value changes | - | - |
| Deferred expenses and accrued income | 1 050 | 1 238 |
| Fixed assets | 16 363 | 16 646 |
| Investment property | 6 254 | 14 003 |
| Intangible assets | 288 | 339 |
| Participation in the share capital of associated and related undertakings | - | - |
| Tax assets | - | 27 |
| Other assets | 8 351 | 4 914 |
| **Total assets** | **855 209** | **792 908** |
| Liabilities to central banks | - | - |
| Demand liabilities to credit institutions | 1 210 | 1 034 |
| Financial liabilities held for trading | 381 | 1 129 |
| Financial liabilities at fair value through profit or loss | - | - |
| Financial liabilities at amortized value | 779 795 | 735 775 |
| Financial liabilities resulting from transfer of financial assets | - | - |
| Interest risk protected portfolio share's fair value changes | - | - |
| Deferred income and accrued expenses | 1 285 | 1 465 |
| Provisions | 709 | 681 |
| Tax liabilities | 605 | 631 |
| Other liabilities | 22 983 | 3 744 |
| **Total liabilities** | **806 968** | **744 459** |
| **Capital and reserves** | 48 241 | 48 449 |
| **Total capital and reserves and liabilities** | **855 209** | **792 908** |
| **Commitments and contingencies** | **40 504** | **20 807** |
| Contingent liabilities | 4 627 | 13 123 |
| Liabilities to customers | 35 877 | 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 170 747 EUR'000, in the previous year end - 175,498 EUR'000.



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# Profit/ Loss Statement

**30 September 2014**

**(EUR'000)**

| Item | Reporting period | Respective period of the preceding reporting year |
|---|---|---|
| | **Non-audited** | **Non-audited** |
| Interest income | 7 790 | 10 578 |
| Interest expense | (3 514) | (4 804) |
| Dividend income | 47 | 185 |
| Fee and commission income | 15 464 | 13 357 |
| Fee and commission expenses | (2 275) | (2 033) |
| Net realized profit/loss from financial assets and financial liabilities amortized value | - | - |
| Net realized profit/loss from financial assets available for sale | (15 082) | (1 387) |
| Net profit/loss from financial assets and financial liabilities held for trading | (1 735) | (152) |
| 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 | 7 424 | 8 625 |
| Profit/loss from derecognizing of property, equipment and machinery, investment property and intangible assets | - | - |
| Other income | 1 602 | 1 785 |
| Other expense | (1 145) | (1 067) |
| Administrative expenses | (17 786) | (14 301) |
| Depreciation and amortization | (793) | (905) |
| Provisions for debts impairment and liabilities | (2 776) | (3 549) |
| Impairment losses | 13 348 | (5 502) |
| Income tax | (179) | (610) |
| **Profit/loss of the reporting period** | **390** | **220** |

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 reporting period.



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# Total capital and capital requirement calculation report

**30 September 2014**

(**EUR`000**)

| Ser No | Name of the position | Result of the period |
|---|---|---|
| **1** | **Own funds (1.1.+1.2.)** | **70 222** |
| 1.1 | Tier 1 capital (1.1.1.+1.1.2.) | 43 961 |
| 1.1.1. | Common equity Tier 1 capital | 43 961 |
| 1.1.2. | Additional Tier 1 capital | - |
| 1.2. | Tier 2 capital | 26 261 |
| **2** | **Total risk exposure amount** (2.1.+2.2.+2.3.+2.4.+2.5.+2.6.+2.7.) | **549 492** |
| 2.1. | Risk weighted exposure amounts for credit, counterparty credit and dilution risks and free deliveries | 489 170 |
| 2.2. | Total risk exposure amount for settlement/delivery | - |
| 2.3. | Total risk exposure amount for position, foreign Exchange and commodities risks | 10 660 |
| 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) | 8.00% |
| 3.2. | Surplus(+)/Deficit(-) of CET1 capital (1.1.1.-2.*4.5%) | 19 234 |
| 3.3. | Tier1 Capital ratio (1.1./2.*100) | 8.00% |
| 3.4. | Surplus(+)/Deficit(-) of Tier1 capital (-) (1.1.-2.*6%) | 10 991 |
| 3.5. | Total capital ratio (1./2.*100) | 12.78% |
| 3.6. | Surplus(+)/Deficit(-) of total capital (1.-2.*8%) | 26 263 |
| **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 | 5 307 |
| 5.2. | CET1 capital ratio including p. 5.1 adjustments | 7.52% |
| 5.3. | Tier1 capital ratio including p. 5.1 adjustments | 7.52% |
| 5.4. | Total capital ratio including p. 5.1 adjustments | 11.81% |



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# Liquidity ratio

**30 September 2014**

**(EUR`000)**

| Ser No. | Item | Reporting period |
|---|---|---|
| **1.** | **Liquid assets (1.1.+1.2.+1.3.+1.4.)** | **435 993** |
| 1.1. | Cash | 13 422 |
| 1.2. | Balances with the Bank of Latvia | 1 187 |
| 1.3. | Loans to and receivables from solvent banks | 238 643 |
| 1.4. | Liquid securities | 182 741 |
| **2.** | **Current liabilities with remaining maturity up to 30 days) (2.1.+2.2.+2.3.+2.4.+2.5.+2.6.)** | **702 804** |
| 2.1. | Due to the central bank and other banks | 1 210 |
| 2.2. | Deposits | 639 861 |
| 2.3. | Debt securities in issue | - |
| 2.4. | Cash in transit | 18 072 |
| 2.5. | Other current liabilities | 7 630 |
| 2.6. | Off-balance sheet liabilities | 36 031 |
| **3.** | **Liquidity ratio (1.:2.); (%)** | **62.04%** |
| **4.** | **Minimum liquidity ratio** | 30.00% |

# Performance Indicators of Bank

**30 September 2014**

| Item | Reporting period | Respective period of the preceding reporting year |
|---|---|---|
| Return on equity (ROE) (%) | 1.04 | 0.63 |
| Return on assets (ROA) (%) | 0.06 | 0.04 |



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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 September 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** | **-** | **149 075** | **-** | **149 075** | **212.29%** |
| incl. central government | - | 4 766 | - | 4 766 | 6.79% |
| **USA** | **2 705** | **103 617** | **15 943** | **122 265** | **174.11%** |
| incl. central government | - | 103 617 | 15 943 | 119 560 | 170.26% |
| **Lithuania** | **778** | **14 364** | **-** | **15 142** | **21.56%** |
| incl. central government | 778 | 14 364 | - | 15 142 | 21.56% |
| **Croatia** | **-** | **11 141** | **-** | **11 141** | **15.87%** |
| incl. central government | - | 11 141 | - | 11 141 | 15.87% |
| **Hungary** | **381** | **8 312** | **-** | **8 693** | **12.38%** |
| incl. central government | - | 4 948 | - | 4 948 | 7.05% |
| **Romania** | **-** | **8 789** | **-** | **8 789** | **12.52%** |
| incl. central government | - | 8 789 | - | 8 789 | 12.52% |
| **Malta** | **-** | **7 745** | **-** | **7 745** | **11.03%** |

* 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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