Norvik Banka

JSC „NORVIK BANKA"
Public report
IV quarter 2014

www.norvik.eu

Ernesta Birznieka-Upīša iela 21,
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Report of the Management Board

The major shareholder and management of Norvik Banka are satisfied with the results of the 4th quarter of 2014 and the year of 2014 and are convinced that the development strategy of the bank proves itself.

The bank has maintained the status of industry's leader in terms of the number of customer service centres and geographic coverage by offering Latvian residents a convenient and complete service near client's homes and offices in 7 branches and 67 service centres in 16 cities in Latvia. The bank continues to provide market leading online services (payments, foreign currency exchange, and brokerage operations) highly appreciated by our foreign customers. At the same time it helps to enhance and expand the Bank's distribution network in neighbouring countries. To improve the quality and attractiveness of services on financial market, Norvik has opened a subsidiary in London.

The Bank's assets by the end of 2014 reached the amount of 996.4 million Euro – owing to the growth of the client base by 19% or 139.5 million Euro and investments from the shareholder in the amount of 69.6 Euro. Over the year, the bank's assets grew by 203.5 Euro.

The Bank successfully continues to develop the client base; as the result the amount of client deposits grew by 123 million Euro and reached 837.7 million Euro in 2014. The amount of attracted subordinated deposits grew by 52% in 2014, reaching 33.3 million Euro. Norvik Banka issued subordinated debt securities in the amount of 4.3 million Euro. The loan portfolio of Norvik Banka by the end of 2014 reached 212.7 million Euro (growth by 24.2 million Euro over the year).

The Bank's capital adequacy ratio by the end of 2014 was 15.84%, which is significantly higher than 10.76% by the end of 2013. The Bank's liquidity ratio by the end of the reporting period reached 58,75% (in the end of 2013 – 55,38%). The Bank follows the liquidity management strategy that provides maintenance of high level of liquid assets and their investment into short-term instruments with a low level of volatility.

The increase of the bank's own found base in 2014 and the extra volume of the attracted resources has enabled the bank to diversify its assets – to increase the volume of the loan portfolio as well as make an investment in subsidiary's acquiring. During the reporting period, Norvik Banka became the owner of 97.75% shares of AKB Vjatka Bank (Russia), furthering the growth of income as part of the Norvik Group. The transaction was approved by the Financial and Capital Market Commission and the Central Bank of the Russian Federation. Vjatka Bank is a regional, universal commercial bank represented in four regions of Russia. Vjatka Bank specializes mainly in offering financial services to individuals, and it is a stable leader in terms of all main banking activity rates in the Kirov region. Owing to the diversified regional economy, Vyatka Bank has not been significantly impacted in 2014 by the global macro-economic situation.

As a significant event during the reporting period, an investment into the share capital of Norvik Banka by the shareholder Grigory Guselnikov should be noted. During the XXVII issue of shares, 69.6 million Euro were invested into the share capital of Norvik Banka.

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Additional reserves in the amount of 14.2 million Euro were formed in 2014 for the part of assets whose recovery is evaluated as doubtful. As a result, the net losses amounted to 5.61 million Euro in 2014, which is significantly better than in 2013 when after forming additional reserves for problematic debts in the amount of 32.7 million Euro, the losses amounted to 26.25 million Euro. It should be noted that in 2014 shareholders decided to absorb retained losses from the previous years through the reduction of the nominal value of one share. This undoubtedly had a positive effect on the bank's potential for growth, development and appeal for new investors.

During the reporting period, Sergey Gorashchenko started to work in the board of Norvik Banka. He has extensive experience of work in the financial sector – Sergey Gorashchenko has led the regional branch of the international company Experian (provides consulting and offers credit solutions), has been the leading member of Binbank (2001–2011) and other credit institutions.

In 2014 the bank presented itself as a socially active company. Norvik Banka started to support the Latvian TV game I Can Be a Premier Minister and agreed on the long-term cooperation with the Latvian Biathlon Federation and Latvia’s best biathlete Andrejs Rastorgujevs. Local media paid great attention to the bank’s cooperation project with SIA NMC in the construction of the most advanced cancer detection centre in the Baltic region (the medical centre is being constructed with the financial help of Norvik Banka). The website “www.pretkorupciju.lv” supported by Norvik Banka has become popular in society as a platform where information on suspicious transactions against financial institutions is being reviewed.

Norvik Banka’s management expresses gratitude to its customers, partners, employees and shareholders for their trust, loyalty and cooperation for the further development of Norvik Banka.

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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 IV quarter 2014 the Bank's liquidity ratio was 53-63%.

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 December 2014 the amount of special provisions was 37 488 thousand EUR or 14.99% of the total loan portfolio. Capital adequacy ratio for the IV quarter 2014, adjusted for special provisions, was 15.84%. 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.lv/files/pdf/finance/Info_atkl_2014_en.pdf

Bank's shareholders, Council and Management Board

JSC „NORVIK BANKA"
Shareholders as at 31 December 2014

	Number of shares*	% of total shares	Paid up share capital EUR`000
G. Guselnikov	91 845 959	44.77	55 107
Other (individually less than 10%)	113 322 989	55.23	67 994
Total	**205 168 948**	**100.00**	**123 101**

* All shares are carrying identical voting rights. Each share has a par value of **EUR 0.60**.

JSC „NORVIK BANKA"
Supervisory Council as at 31 December 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 31 December 2014

Chairman of the Management Board OLIVER RONALD BRAMWELL

Members of the Management Board RAIVIS RUSKULIS

IGOR ROZANOV

ALEXANDER ZYKOV

MARIJA STEPINA

DENIS NOVIKOV

SERGEY GORASHCHENKO

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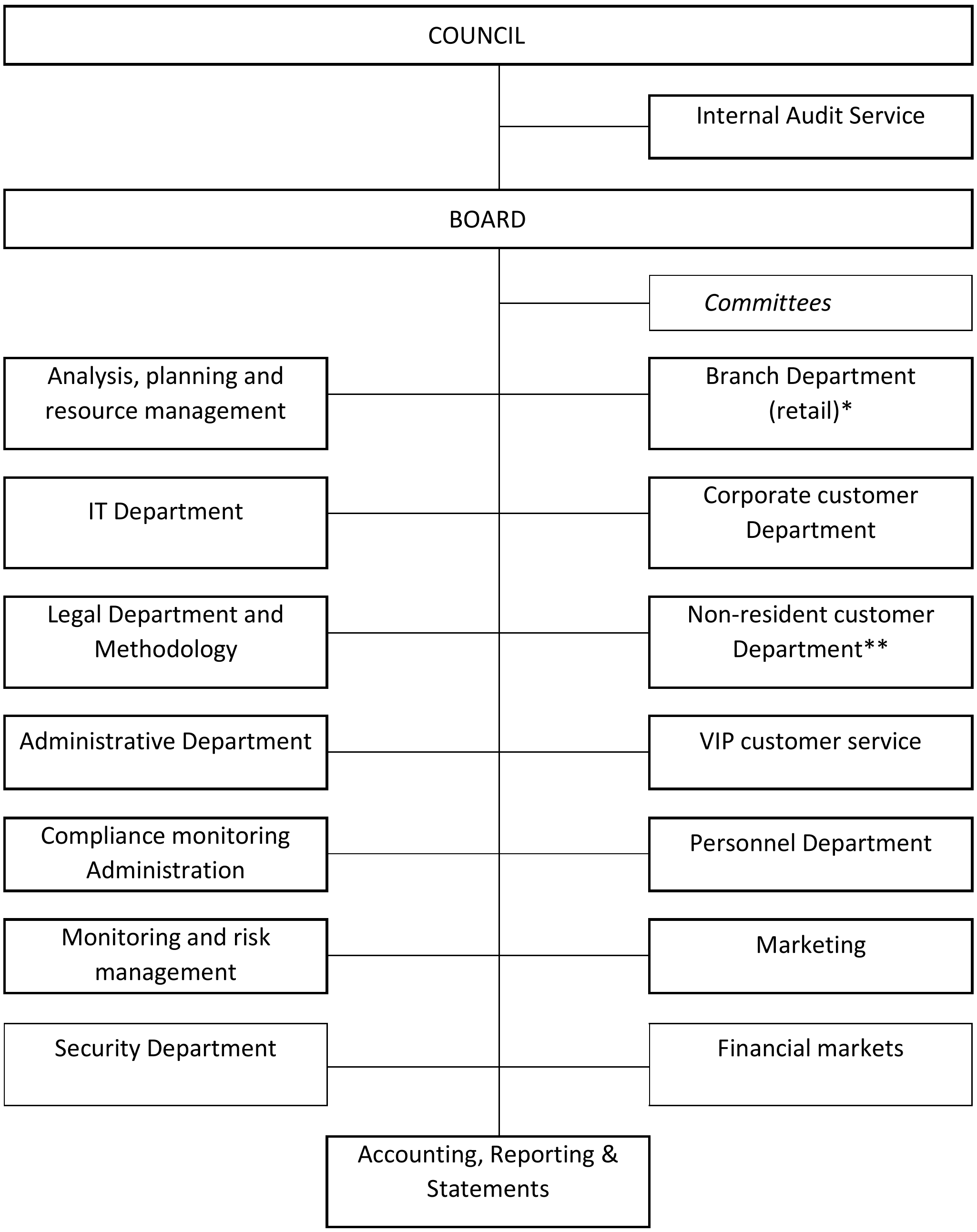
JSC Norvik Banka organizational structure



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

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

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Consolidation Group Composition

31 December 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
6	VYATKA BANK JSC	RU, Russia, Kirova,610000, Preobrazhenskaya 4	BNK	97.75	97.75	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

31 December 2014

(EUR`000)

Item	Reporting period	Preceding reporting year
	Non-audited	**Audited**
Cash and demand deposits with the central bank	22 943	174 768
Demand deposits with credit institutions	169 325	102 350
Financial assets held for trading	11 009	17 095
Financial assets at fair value through profit or loss	-	-
Available-for-sale financial assets*	444 093	228 572
Loans and receivables	298 719	232 956
Held-to-maturity investments	18 439	-
Interest risk protected portfolio share's fair value changes	-	-
Deferred expenses and accrued income	1 204	1 238
Fixed assets	16 994	16 646
Investment property	6 571	14 003
Intangible assets	290	339
Participation in the share capital of associated and related undertakings	-	-
Tax assets	-	27
Other assets	6 808	4 914
Total assets	**996 395**	**792 908**
Liabilities to central banks	-	-
Demand liabilities to credit institutions	8 740	1 034
Financial liabilities held for trading	827	1 129
Financial liabilities at fair value through profit or loss	-	-
Financial liabilities at amortized value	861 250	735 775
Financial liabilities resulting from transfer of financial assets	-	-
Interest risk protected portfolio share's fair value changes	-	-
Deferred income and accrued expenses	1 318	1 465
Provisions	698	681
Tax liabilities	705	631
Other liabilities	21 897	3 744
Total liabilities	**895 435**	**744 459**
Capital and reserves	100 960	48 449
Total capital and reserves and liabilities	**996 395**	**792 908**
Commitments and contingencies	**11 137**	**20 807**
Contingent liabilities	5 463	13 123
Liabilities to customers	5 674	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 253 119 EUR'000, in the previous year end - 175,498 EUR'000.

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Profit/ Loss Statement

31 December 2014

(EUR'000)

Item	Reporting period	Respective period of the preceding reporting year
	Non-audited	Non-audited
Interest income	12 154	13 328
Interest expense	(4 794)	(5 999)
Dividend income	88	185
Fee and commission income	21 342	18 583
Fee and commission expenses	(3 298)	(2 902)
Net realized profit/loss from financial assets and financial liabilities amortized value	-	-
Net realized profit/loss from financial assets available for sale	(15 036)	(6 179)
Net profit/loss from financial assets and financial liabilities held for trading	(2 332)	2 414
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	10 226	8 652
Profit/loss from derecognizing of property, equipment and machinery, investment property and intangible assets	-	-
Other income	2 373	1 540
Other expense	(1 736)	(1 663)
Administrative expenses	(24 200)	(19 578)
Depreciation and amortization	(1 046)	(1 195)
Provisions for debts impairment and liabilities	(12 331)	(15 196)
Impairment losses	13 406	(17 518)
Income tax	(431)	(718)
Profit/loss of the reporting period	**(5 615)**	**(26 246)**

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

31 December 2014

(**EUR`000**)

Ser No	Name of the position	Result of the period
1	**Own funds (1.1.+1.2.)**	**105 902**
1.1	Tier 1 capital (1.1.1.+1.1.2.)	78 303
1.1.1.	Common equity Tier 1 capital	78 303
1.1.2.	Additional Tier 1 capital	-
1.2.	Tier 2 capital	27 599
2	**Total risk exposure amount** (2.1.+2.2.+2.3.+2.4.+2.5.+2.6.+2.7.)	**668 225**
2.1.	Risk weighted exposure amounts for credit, counterparty credit and dilution risks and free deliveries	609 063
2.2.	Total risk exposure amount for settlement/delivery	-
2.3.	Total risk exposure amount for position, foreign Exchange and commodities risks	9 500
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)	11.72%
3.2.	Surplus(+)/Deficit(-) of CET1 capital (1.1.1.-2.*4.5%)	48 233
3.3.	Tier1 Capital ratio (1.1./2.*100)	11.72%
3.4.	Surplus(+)/Deficit(-) of Tier1 capital (-) (1.1.-2.*6%)	38 210
3.5.	Total capital ratio (1./2.*100)	15.85%
3.6.	Surplus(+)/Deficit(-) of total capital (1.-2.*8%)	52 444
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	82
5.2.	CET1 capital ratio including p. 5.1 adjustments	11.71%
5.3.	Tier1 capital ratio including p. 5.1 adjustments	11.71%
5.4.	Total capital ratio including p. 5.1 adjustments	15.84%

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Liquidity ratio

31 December 2014

(EUR`000)

Ser No.	Item	Reporting period
1.	**Liquid assets (1.1.+1.2.+1.3.+1.4.)**	**442 848**
1.1.	Cash	13 041
1.2.	Balances with the Bank of Latvia	9 901
1.3.	Loans to and receivables from solvent banks	226 845
1.4.	Liquid securities	193 061
2.	**Current liabilities with remaining maturity up to 30 days) (2.1.+2.2.+2.3.+2.4.+2.5.+2.6.)**	**753 733**
2.1.	Due to the central bank and other banks	9 218
2.2.	Deposits	714 161
2.3.	Debt securities in issue	-
2.4.	Cash in transit	14 896
2.5.	Other current liabilities	10 089
2.6.	Off-balance sheet liabilities	5 369
3.	**Liquidity ratio (1.:2.); (%)**	**58.75%**
4.	**Minimum liquidity ratio**	30.00%

Performance Indicators of Bank

31 December 2014

Item	Reporting period	Respective period of the preceding reporting year
Return on equity (ROE) (%)	(8.56)	(43.97)
Return on assets (ROA) (%)	(0.62)	(2.46)

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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

31 December 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	**-**	**169 545**	**-**	**169 545**	**160.10%**
USA	**3 066**	**107 359**	**16 461**	**126 886**	**119.81%**
incl. central government	-	107 359	16 461	123 820	116.92%
Lithuania	**809**	**14 938**	**-**	**15 747**	**14.87%**
incl. central government	809	14 938	-	15 747	14.87%
Croatia	**-**	**11 175**	**-**	**11 175**	**10.55%**
incl. central government	-	11 175	-	11 175	10.55%
Russia	**3 350**	**10 453**	**-**	**13 803**	**13.03%**

* 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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