



**JSC „NORVIK BANKA”
Public report
II quarter 2017**

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Report of the Management Board

In the second quarter of 2017, Norvik Banka continued to purposefully implement its balanced development strategy, closing the quarter with EUR 3.3. million profit.

The Bank's capital adequacy ratio in the second quarter reached 19.67%, while the liquidity ratio – 63.80% (for reference, as of 31 March 2017 the ratio was 60.52%).

The amount of the Bank's deposit portfolio – EUR 718 million, while the loan portfolio amount during the reporting period – EUR 241 million.

The Bank's asset amount during the reporting period – EUR 871 million.

In the second quarter, Norvik Banka made changes to the composition of the Bank's Council – Doctor of Law August Hanning joined the team. Mr Hanning studied in Münster and Freiburg, and graduated from the Westphalian Wilhelm University in Münster as a lawyer having defended a doctoral dissertation in Law with honours. Dr. August Hanning has devoted his professional career to work in the state administration – he was a State Secretary in the Federal Ministry of the Interior (Germany), while since 2010 he has been working as a legal adviser.

In the second quarter, the Bank's team was extended, welcoming the head of the Latvian Business development Laura Poča-Rozenblūma who as of the moment of publication of the report was confirmed in her function of a member of the Board.

This decision was driven by the Bank's strategic business development priorities associated with increasing the bank's position on the Latvian market. Laura Poča-Rozenblūma has more than 15-year experience in the financial sector. She started building her career at the former Hansabanka, and has later held leading positions at Swedbank, working both at the national and international level. Moreover, prior to joining Norvik Banka, she has been a member of Nordea bank's management team. Laura Poča-Rozenblūma has earned Master's Degree in Economics and Bachelor's Degree in Engineering Science and Economics at Riga Technical University, as well as studied Small and Medium-Sized Business Management.

During the reporting period Norvik Banka in cooperation with MTG Latvia, Bērnu Slimnīcas Fonds and Rimi Latvija implemented a Labestības Diena project, during which donations in the amount of 76 378. 85 euro were collected.

In the second quarter, Norvik Banka became the official bank of the Digital Freedom Festival to jointly promote the awareness about the development of financial technologies and innovations in the region. Moreover, a spring/summer issue of the corporate magazine Norvik News was published.

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 including versatile access to services via remote interaction channels.

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 all the customer needs within the regulations 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, predominantly via developing capabilities to service customers remotely (by phone, internet, mobile app).

Focus on markets:

- Multichannel servicing the daily financial needs of Latvian community;
- Integrated product propositions including collateralised lending for small- and med-size businesses in Latvian and Eastern Europe markets;
- Integrated service for transactional needs and asset management for international corporates, making business in spheres of international trade.
- Focused development of an artisan proposition in private banking space targeted to cover traditional needs of affluent and hi-networth individuals at a very high quality level.

Our strategic goals are based on the following core statements:

- The use of modern information technology and innovative trends across our entire service range;
- Mature corporate culture incorporating modern corporate standards;
- Fostering customer loyalty and keeping it up high towards long-term horizons;
- High quality levels deserving the terms and conditions the bank offers, including pricing;
- Optimize servicing network, amending it with high quality remote channels access capabilities;
- Divest from none-core assets with optimal balance of time to exit and financial result;
- Maintain robust performance characteristics in capital markets.

Other main building blocks of the Bank's strategy:

- To provide end-to-end servicing of the full customer range, with customer impression and experience driving all product propositions and tech-side enablers;
- To adhere to a prudent investment and lending policy, maintaining a healthy balance of assets risk quality and profitability.
- Enforce the Bank's capabilities to manage any further possible economic downturn influence and/or uncertainties, maintaining capital adequacy at required levels and keeping high quality servicing standards.

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 Resource management division 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 fulfilment 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 2017 the Bank's liquidity ratio was 59-66%.

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 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 2017 the amount of special provisions was 44 809 thousand EUR or 17.55% of the total loan portfolio. Capital adequacy ratio on 30 June 2017, adjusted for special provisions, was 19.67%. The Bank's Board and the Credit Committee ensure credit risk management and the Risk Management Division 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 Capital market 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: https://www.norvik.eu/finance/info_atkl_2017_latv.pdf

Bank's shareholders, Council and Management Board

JSC „NORVIK BANKA” Shareholders 30 June 2017

| | Number of shares* | % of total shares | Paid up share capital (EUR'000) |
|------------------------------------|--------------------|-------------------|---------------------------------|
| G. Guselnikov | 83 705 780 | 38.31 | 50 223 |
| G. Guselnikov ** | 125 985 339 | 57.66 | 75 591 |
| Other (individually less than 10%) | 8 812 381 | 4.03 | 5 288 |
| Total | 218 503 500 | 100.00 | 131 102 |

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

** Indirectly (in accordance with Article 33.1 (1) 8) of the Credit Institution Law)

JSC „NORVIK BANKA” Supervisory Council 30 June 2017

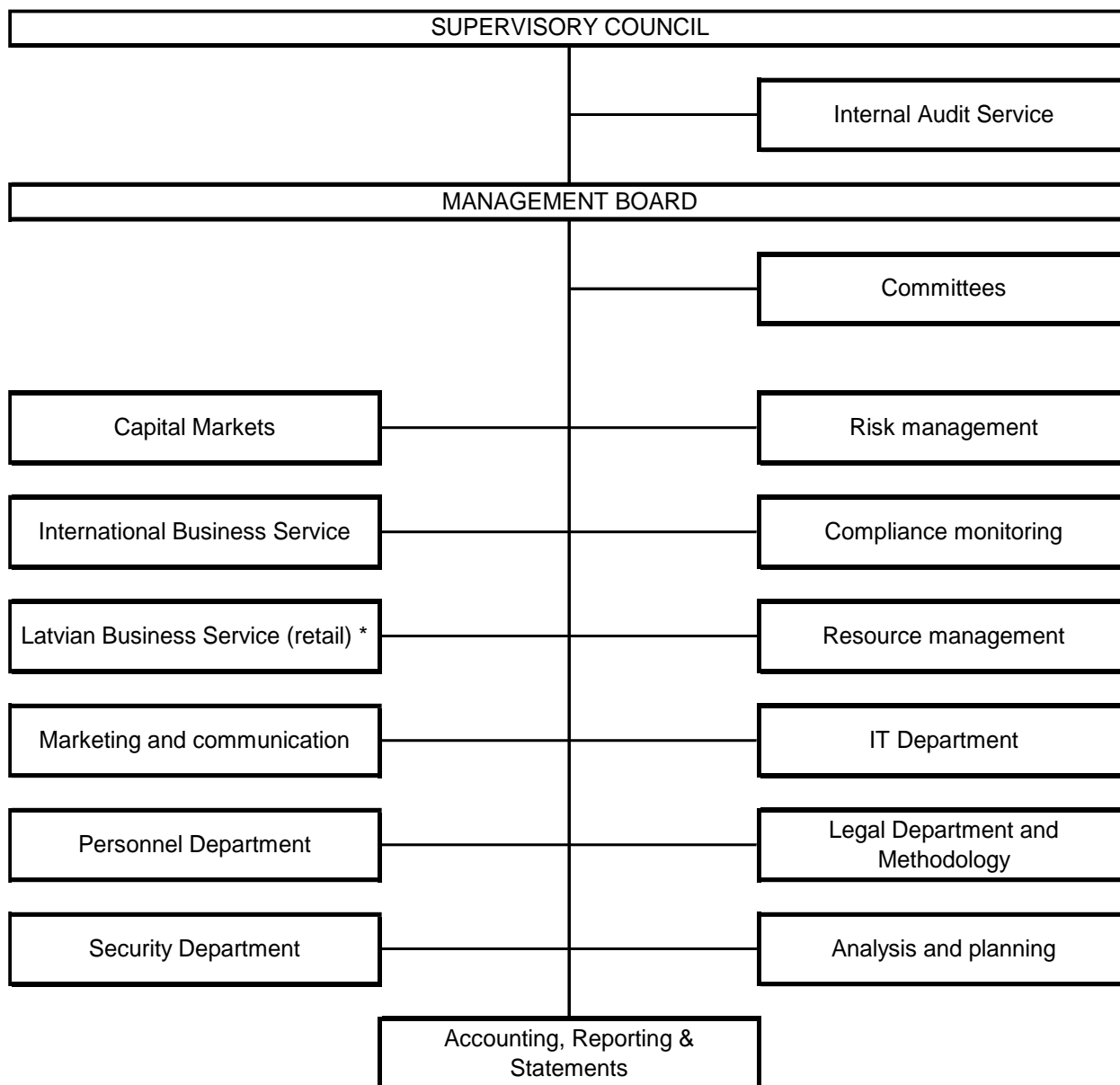
| | |
|---|--------------------------------|
| Chairman of the Supervisory Council | GRIGORY GUSELNIKOV |
| Deputy Chairman of the Supervisory Council | IGOR SMOLIN |
| Member of the Supervisory Council | ANDRIS RUSELIS |
| Member of the Supervisory Council | Dr. AUGUST GUSTAV PAUL HANNING |

JSC „NORVIK BANKA” Management Board 30 June 2017

| | |
|---|------------------------|
| Chairman of the Management Board | OLIVER RONALD BRAMWELL |
| Members of the Management Board | ALEXEY KUTYAVIN |
| | ANNA VERBICKA |
| | SERGEY GORASHCHENKO |
| | DMITRY KALMYKOV |



JSC Norvik Banka organizational structure



* Branch list please see <https://www.norvik.eu/en/map?type=branches>

Consolidation Group Composition

30 June 2017

| 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 | "Norvik" liquidation Universal Credit Organisation CJSC | AM, Yerevan, 12 Saryan | OFI | 100 | 100 | SC |
| 2 | "Norvik IPS AS SIF Nākotnes Īpašumu Fonds" | LV, Latvija, Rīga, E. Birznieka-Upīša 21 | SPC | 100 | 100 | SC |
| 3 | "Cecily Holdings" Limited | CY, 2, Sophouli Str., 8th floor, 1096 Nicosia | OFI | 100 | 100 | SSC |
| 4 | "Norvik Banka UK" Limited | GB, London, 46/48 Grosvenor Gardens, 1st floor | OFI | 100 | 100 | SC |
| 5 | AS "NORVIK ieguldījumu pārvaldes sabiedrība" | LV, Latvija, Rīga, E. Birznieka-Upīša 21 | IMC | 100 | 100 | SSC |
| 6 | AS "NORVIK EURASIA AIF" | LV, Latvija, Rīga, Elizabetes 15 - 1 | SPC | 100 | 100 | SC |
| 7 | ПАО "Норвик Банк" | RU, 610000, г. Киров (обл.), Преображенская, дом 4. | BNK | 97.75 | 97.75 | SC |
| 8 | SIA "Sport Leasing" | LV, Latvija, Rīga, E. Birznieka-Upīša 21 | LC | 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

30 June 2017

| Item | EUR'000 | |
|---|------------------|--------------------------|
| | Reporting period | Preceding reporting year |
| | Non-audited | Audited* |
| Cash and demand deposits with the central bank | 182 134 | 200 001 |
| Demand deposits with credit institutions | 26 065 | 32 948 |
| Financial assets held for trading | 441 | 763 |
| Financial assets at fair value through profit or loss | 0 | 0 |
| Available-for-sale financial assets** | 355 188 | 333 210 |
| Loans and receivables | 240 686 | 243 983 |
| Held-to-maturity investments | 18 036 | 19 483 |
| Interest risk protected portfolio share's fair value changes | 0 | 0 |
| Deferred expenses and accrued income | 1 291 | 1 141 |
| Fixed assets | 35 398 | 35 532 |
| Investment property | 6 308 | 6 308 |
| Intangible assets | 966 | 948 |
| Participation in the share capital of associated and related undertakings | 0 | 0 |
| Tax assets | 0 | 0 |
| Other assets | 4 016 | 3 859 |
| Total assets | 870 529 | 878 176 |
| Liabilities to central banks | 0 | 0 |
| Demand liabilities to credit institutions | 2 578 | 7 363 |
| Financial liabilities held for trading | 888 | 318 |
| Financial liabilities at fair value through profit or loss | 0 | 0 |
| Financial liabilities at amortized value | 753 181 | 760 847 |
| 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 | 1 037 | 1 390 |
| Provisions | 862 | 718 |
| Tax liabilities | 767 | 792 |
| Other liabilities | 9 025 | 1 932 |
| Total liabilities | 768 338 | 773 360 |
| Capital and reserves | 102 191 | 104 816 |
| Total capital and reserves and liabilities | 870 529 | 878 176 |
| Commitments and contingencies | 6 711 | 8 458 |
| Contingent liabilities | 4 280 | 3 276 |
| Liabilities to customers | 2 431 | 5 182 |

* Detailed financial information is available on the Bank's website: www.norvik.eu.

**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 227 451 EUR'000, in the previous year-end – 233 831 EUR'000.

Profit / Loss Statement

30 June 2017

| Item | EUR'000 | |
|--|------------------|---|
| | Reporting period | Respective period of the preceding reporting year |
| | Non-audited | Audited* |
| Interest income | 8 217 | 9 193 |
| Interest expense | (4 116) | (3 640) |
| Dividend income | 23 | 21 |
| Fee and commission income | 12 374 | 11 255 |
| Fee and commission expenses | (2 327) | (1 687) |
| Net realized profit/loss from financial assets and financial liabilities amortized value | 0 | 0 |
| Net realized profit/loss from financial assets available for sale | 1 724 | 10 789 |
| Net profit/loss from financial assets and financial liabilities held for trading | (8 149) | 2 023 |
| 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 | 12 907 | 2 056 |
| Profit/loss from derecognizing of property, equipment and machinery, investment property and intangible assets | 0 | 0 |
| Other income | 887 | 860 |
| Other expense | (663) | (1 174) |
| Administrative expenses | (14 128) | (13 506) |
| Depreciation and amortization | (1 075) | (721) |
| Provisions for debts impairment and liabilities | (1 632) | (4 063) |
| Impairment losses | (478) | (3 393) |
| Income tax | (258) | (295) |
| Profit/loss of the reporting period | 3 306 | 7 718 |

Independent auditors have not audited Bank's financial statements during the reporting period.

* Detailed financial information is available on the Bank's website: www.norvik.eu.

Total capital and capital requirement calculation report

30 June 2017

| | | EUR'000 |
|----------|---|----------------------|
| Ser No | Name of the position | Result of the period |
| 1 | Own funds (1.1.+1.2.) | 115 681 |
| 1.1 | Tier 1 capital (1.1.1.+1.1.2.) | 80 981 |
| 1.1.1. | Common equity Tier 1 capital | 80 981 |
| 1.1.2. | Additional Tier 1 capital | 0 |
| 1.2. | Tier 2 capital | 34 700 |
| 2 | Total risk exposure amount (2.1.+2.2.+2.3.+2.4.+2.5.+2.6.+2.7.) | 588 128 |
| 2.1. | Risk weighted exposure amounts for credit, counterparty credit and dilution risks and free deliveries | 505 276 |
| 2.2. | Total risk exposure amount for settlement/delivery | 0 |
| 2.3. | Total risk exposure amount for position, foreign exchange and commodities risks | 4 809 |
| 2.4. | Total risk exposure amount for operational risk | 78 043 |
| 2.5. | Total risk exposure amount for credit valuation adjustment | 0 |
| 2.6. | Total risk exposure amount related to large exposures in the trading book | 0 |
| 2.7. | Other risk exposure amount | 0 |
| 3 | Capital ratios and capital levels | |
| 3.1 | Common equity Tier 1(CET1) capital ratio (1.1.1./2.*100) | 13.77% |
| 3.2. | Surplus(+)/Deficit(-) of CET1 capital (1.1.1.-2.*4.5%) | 54 515 |
| 3.3. | Tier1 Capital ratio (1.1./2.*100) | 13.77% |
| 3.4. | Surplus(+)/Deficit(-) of Tier1 capital (-) (1.1.-2.*6%) | 45 693 |
| 3.5. | Total capital ratio (1./2.*100) | 19.67% |
| 3.6. | Surplus(+)/Deficit(-) of total capital (1.-2.*8%) | 68 631 |
| 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 (%) | 0.00 |
| 4.3. | Systemic risk buffer (%) | |
| 4.4. | Systemically 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 | 0 |
| 5.2. | CET1 capital ratio including p. 5.1 adjustments | 13.77% |
| 5.3. | Tier1 capital ratio including p. 5.1 adjustments | 13.77% |
| 5.4. | Total capital ratio including p. 5.1 adjustments | 19.67% |

Liquidity ratio

30 June 2017

| | | EUR'000 |
|----------|--|------------------|
| Ser No. | Item | Reporting period |
| 1 | Liquid assets (1.1.+1.2.+1.3.+1.4.) | 324 979 |
| 1.1. | Cash | 9 229 |
| 1.2. | Balances with the Bank of Latvia | 172 657 |
| 1.3. | Loans to and receivables from solvent banks | 26 021 |
| 1.4. | Liquid securities | 117 072 |
| 2 | Current liabilities with remaining maturity up to 30 days (2.1.+2.2.+2.3.+2.4.+2.5.+2.6.) | 509 397 |
| 2.1. | Due to the central bank and other banks | 2 566 |
| 2.2. | Deposits | 491 898 |
| 2.3. | Debt securities in issue | 0 |
| 2.4. | Cash in transit | 7 547 |
| 2.5. | Other current liabilities | 5 125 |
| 2.6. | Off-balance sheet liabilities | 2 261 |
| 3 | Liquidity ratio (1.:2.) | 63.80% |
| 4 | Minimum liquidity ratio | 30.00% |

Performance Indicators of the Bank

30 June 2017

| Item | Reporting period | Respective period of the preceding reporting year |
|----------------------------|------------------|---|
| Return on equity (ROE) (%) | 6.04 | 15.03 |
| Return on assets (ROA) (%) | 0.71 | 1.48 |

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

30 June 2017

| Country | Portfolio available for sale* (EUR'000) | Held-to-maturity finance instruments (EUR'000) | Total book value (EUR'000) | % from Bank's equity |
|---------------------------|---|--|----------------------------|----------------------|
| USA | 55 894 | 17 547 | 73 441 | 53.83% |
| incl. central government | 52 604 | 17 547 | 70 151 | 51.42% |
| Russian Federation | 25 175 | 0 | 25 175 | 18.45% |

* 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.

In 2017 for available-for-sale financial assets write-down losses is 362 EUR'000.