JSC „NORVIK BANKA”
Public report
I quarter 2018

www.norvik.eu

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Report of the Management Board

Despite Q1 2018 being saturated with dynamic events in the Latvian banking sector, Norvik Banka continued to implement the strategies developed earlier. We proceeded with an even greater focus on development of the Bank's business in Latvia, in particular on the servicing of senior clients. It is a client segment where we are aware of our competitive advantage supported by the largest service network and knowledge of the financial needs of senior clients acquired over the years.

The Bank's financial result for Q1 2018 amount to losses of 863 thousand euro.

In Q1 2018 the Bank's capital adequacy ratio was 14,77%, with a liquidity ratio of 57,80% (compared to 61,33% as of 31 December 2017).

The Bank's deposit portfolio amounted to 543 million euro, the loan portfolio fell slightly to 215,3 million euro (227,2 million euro – as at 31 December 2017).

During the reporting period, the Bank's assets amounted to 649 million euro.

At the beginning of the year, Anders Fogh Rasmussen became the Deputy Chairman of the Supervisory Council of the Bank. Mr Rasmussen served as NATO Secretary General from 2009-2014 and Prime Minister of Denmark from 2001-2009. Prior to this, he was Minister of Tax and Minister of Economic Affairs in the Danish government.

In Q1 2018 Norvik Banka continued to modernise the customer service centres. From February until May the customer service centre in Daugavpils, Rīgas iela 59, was closed for reconstruction to reopen with customer friendly design and improved service facilities. Whereas, at the end of January the Bank opened a new branch in Rīga, Mazā Nometņu iela 27.

The customer service centres situated in Rīga, at Nīcgales iela 2b and Dzelzavas iela 72, were merged into a new customer service centre and relocated to other premises easily accessible to the clients in Rīga, Stirnu iela 26 (in the *Rimi* shopping centre).

In the annual TOP employers survey Norvik Banka ranked 9th, joining the TOP-10 list of employers of Latvia for the first time. In last year's survey the Bank ranked 18th in the overall assessment.

During the charity campaign 'Eņģeļi pār Latviju' running from 14 November to 28 February of this year, 249 695.56 euro were donated; that was the largest amount donated in the last three years. As a result, 152 children received help in Latvia. The charity campaign is organised by TV channel *LNT* and company *Rimi Latvia* in co-operation with the Fund of the Children's Hospital and 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 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.

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Risk analysis

Management of financial risks, the most significant of which are: liquidity risk, credit risk and market risk being effected in accordance with the Liquidity and Liquidity Risk Management Policy and Financial Risks Management Policy approved by the Board and the Council of the Bank, as well as other normative documents that comprise the Bank's financial risks management system.

Liquidity risk entails the risk that the Bank might not be able to meet its obligations on time and fully. The Bank complies with the following fundamental principles in Liquidity and Liquidity risk management:

- Liquidity is being managed on a daily basis and continuously,
- the following methods are employed in Liquidity and Liquidity risk management: method of coefficients, method for analysis of the term structure of the balance sheet, cash flow forecasting method, method for establishment of limits and stress testing that provides for timely identification, assessment, analysis and management of the Liquidity risk at various periods of time (including intra-day),
- in decision making the Bank is guided by the principle of prudence, preferring Liquidity over risk,
- Liquidity and Liquidity risk management also considers impact of other operational risks of the Bank (inter alia market, operational, reputation and credit risk) that is taken into account in the course of stress testing,
- one of the major operational directions of the Bank within the Liquidity management framework is providing of efficient funding sources and their diversification by maturities.
- The Liquidity reserves used by the Bank must be adequately diversified by currencies, remaining maturities and contractors in order to eliminate inexpedient concentration on one source of liquidity only.

The Board and the Assets and Liabilities Committee state the general liquidity risk management criteria by regulating the volume, terms and directions of the Bank's activities. During the 1st quarter of 2018 the Bank's liquidity ratio was 58-65%. For calculation of the Liquidity coverage ratio see page 13 of this report.

Credit risk – possibility of the risks incurring in the event the borrower or counterparty is incapable of or refuses to fulfil its obligations towards the Bank as per the provisions of the contract. The credit risk management system includes approval of the methods for evaluation of the credit risks of partners, borrowers and issuers, setting of limits for types, volumes, and maturities of lending and investments into securities, regular assessment of the assets and off-balance sheet liabilities. The Bank's Board and the Credit Committee ensure credit risk management and the Risk Management Division supervises constantly that the internal control of the credit risk management is efficient.

As required by International Financial Reporting Standards - IFRS 9, the Bank calculates the expected credit loss for all types of financial assets held for the purpose of the following business models of: i) collecting contractual cash flows (i.e. principal amount and interest payments for the unpaid principal) and ii) both for collecting contractual cash flows and sale of Financial assets, depending on the classification stage of the financial asset: Stage 1 – includes Financial assets whose Credit risk has not increased significantly as of the initial recognition (assignment); Stage 2 – Financial assets whose Credit risk has increased significantly as of the initial recognition and Stage 3 - defaulted Financial assets and impaired Financial assets under IFRS 9. For Stage 1 and Stage 2 financial assets the special provisions for expected credit loss are calculated based on the probability of default and likely recovery rates, but for Stage 3 financial assets the bank builds special provisions that are calculated as the difference between discounted future cash flows from recoverable assets and the balance sheet value of those assets. As at the reporting date i.e. on 31.03.2018, the following special provisions were established for the expected credit losses: for Stage 1 financial assets – EUR 762 thsd, for Stage 2 financial assets – EUR 47 thsd and Stage 3 financial assets – EUR 41 243 thsd.

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Market risks – risks that the Bank's income/expenses (and equity capital) may change as a result of unfavourable changes in the market prices of the financial instruments, commodity prices, foreign exchange rates, interest rates.

By analysing the differences in the maturity and adjustment of the interest rates of the 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.

The 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 the losses arising from adverse changes in the foreign exchange rates, the Capital Market Department follows constantly the total amount of the open foreign exchange position, and the Risk Management Division controls compliance with the restrictions of foreign currency positions. To manage the position, the Bank widely uses derivatives, such as forwards (conclusion of a deal at certain rates on a certain future date) and swaps (sale of the earlier purchased volume of currency on a certain date).

Operational risk – risk of direct or indirect losses that the Bank may incur as a result of incorrectly positioned business processes, inefficiency of the internal control procedures, technological damage, unauthorised actions of the personnel or external circumstances and it includes legal risk. 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 operational risk occurrences (employees' mistakes, failures in the IT systems, etc.) are registered in the database and analysed in order to improve the operating processes and enhance internal control system.

Please see Risk management in details: https://www.norvik.eu/finance/info_atkl_2017_latv.pdf

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Bank's shareholders, Council and Management Board

JSC „NORVIK BANKA"
Shareholders

31 March 2018

	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

31 March 2018

Chairman of the Supervisory Council	GRIGORY GUSELNIKOV
Deputy Chairman of the Supervisory Council	ANDERS FOGH RASMUSSEN
Member of the Supervisory Council	IGOR SMOLIN
Member of the Supervisory Council	Dr. AUGUST GUSTAV PAUL HANNING
Member of the Supervisory Council	PETER MICHAEL ODINTSOV

JSC „NORVIK BANKA"
Management Board

31 March 2018

Chairman of the Management Board	OLIVER RONALD BRAMWELL
Members of the Management Board	ALEXEY KUTYAVIN
	ANNA VERBICKA
	DMITRY KALMYKOV

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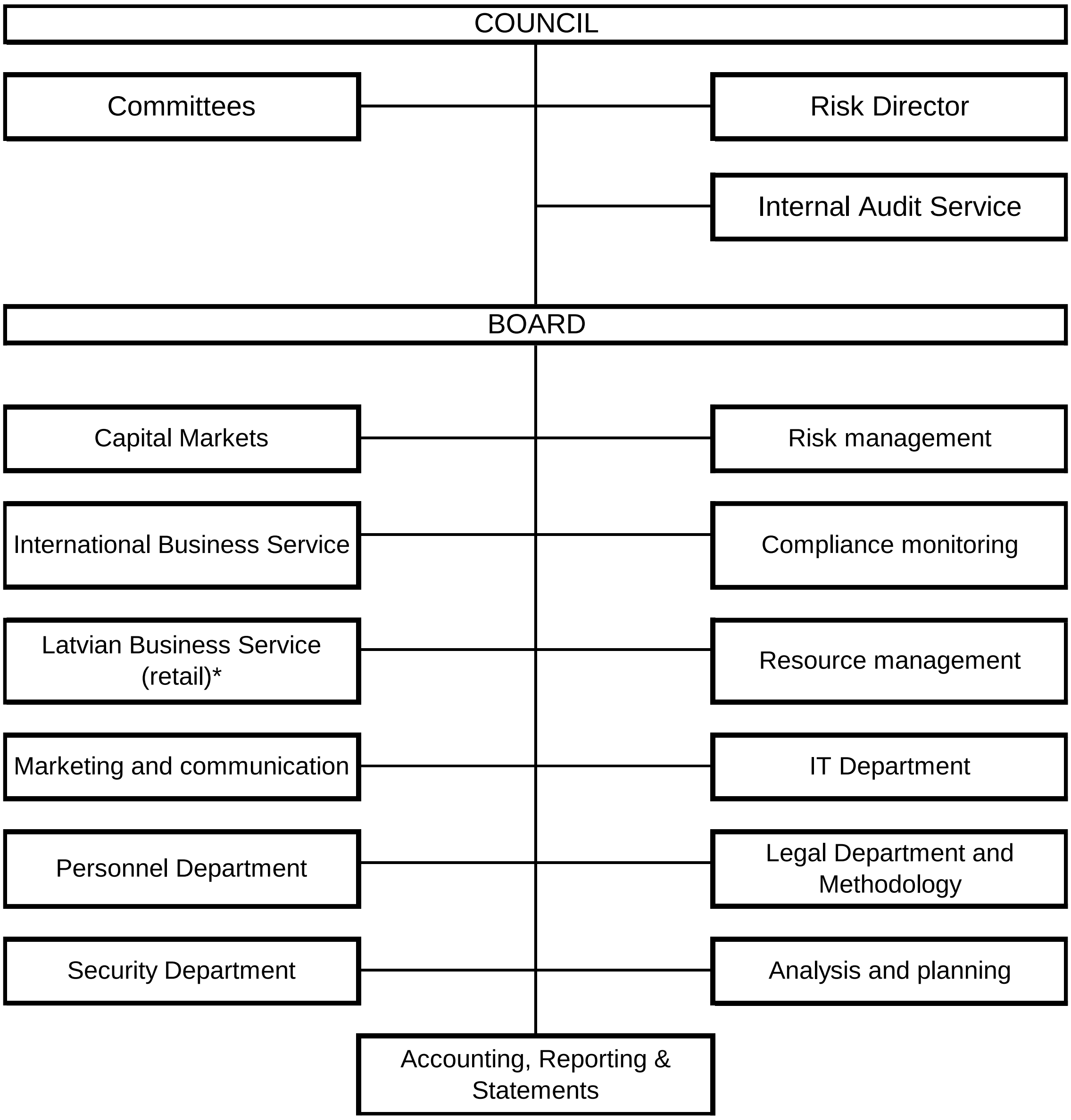
JSC Norvik Banka organizational structure



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

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Consolidation Group Composition

31 March 2018

Ser No.	Name of company	Registration number	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	NR. 14	AM, Yerevan, 12 Saryan Str.	OFI	100	100	SC
2	"Norvik IPS AS SIF Nākotnes Īpašumu Fonds"	40003411599	LV, Rīga, E. Birznieka-Upīša 21	SPC	100	100	SC
3	"Cecily Holdings" Limited	HE 275512	CY, 2, Sophouli Str., 8th floor, 1096 Nicosia	OFI	100	100	SSC
4	Eyesurf Limited	HE343592	CY, Limassol, Agiou Andreou, 332 Patrixcian chambers, 3035	OFI	100	100	SSC
5	"Norvik Banka UK" Limited	8940522	GB, London, 46/48 Grosvenor Gardens, 1st floor	OFI	100	100	SC
6	AS "NORVIK ieguldījumu pārvaldes sabiedrība"	40003411599	LV, Rīga, E. Birznieka-Upīša 21	IMC	100	100	SSC
7	SIA "Sport Leasing"	40203018685	LV, Rīga, E. Birznieka-Upīša 21	LC	100	100	SC
8	Calleri Limited	120273C	IM, IM15PD, Fort Anne Douglas	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

31 March 2018

EUR'000

Ser No.	Item	Reporting period		Preceding reporting year	
		Bank	Group	Bank	Group
		Non-audited	Non-audited	Non-audited	Non-audited
1	Cash and demand deposits with the central bank	67 735	67 738	131 977	131 978
2	Demand deposits with credit institutions	38 406	38 773	40 180	40 346
3	Financial assets designated at fair value through profit or loss	264	264	384	384
4	Financial assets at fair value through other comprehensive income *	271 386	202 152	318 249	228 234
5	Financial assets at amortised cost	215 303	221 579	243 933	250 877
6	Derivatives – Hedge accounting	0	0	0	0
7	Fair value changes of the hedged items in portfolio hedge of interest rate risk	0	0	0	0
8	Investments in subsidiaries, joint ventures and associates	0	0	0	0
9	Tangible assets	43 511	54 601	43 451	43 484
10	Intangible assets	1 130	1 542	1 115	1 527
11	Tax assets	0	98	0	114
12	Other assets	10 992	10 876	9 359	10 580
13	Non-current assets and disposal groups classified as held for sale	445	1 185	445	206 186
14	**Total assets (1.+....+13.)**	**649 172**	**598 808**	**789 093**	**913 710**
15	Liabilities to central banks	0	0	0	0
16	Demand liabilities to credit institutions	67	67	2 062	2 059
17	Financial liabilities designated at fair value through profit or loss	29	29	1 199	1 199
18	Financial liabilities measured at amortised cost	579 522	534 813	720 698	677 769
19	Derivatives – Hedge accounting	0	0	0	0
20	Fair value changes of the hedged items in portfolio hedge of interest rate risk	0	0	0	0
21	Provisions	895	980	812	895
22	Tax liabilities	0	63	0	73
23	Other liabilities	11 597	11 762	3 410	3 610
24	Liabilities included in disposal groups classified as held for sale	0	0	0	172 379
25	**Total liabilities (15.+...+24.)**	**592 110**	**547 714**	**728 181**	**857 984**
26	Capital and reserves	57 062	51 094	60 912	55 726
27	**Total capital and reserves and liabilities (25.+26.)**	**649 172**	**598 808**	**789 093**	**913 710**
28	**Commitments and contingencies**	**6 044**	**6 041**	**6 805**	**6 802**
29	Contingent liabilities	3 481	3 481	3 474	3 474
30	Liabilities to customers	2 563	2 560	3 331	3 328

* 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 154 206 EUR'000, in the previous year-end – 175 690 EUR'000.

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Profit / Loss Statement and other comprehensive income

31 March 2018

EUR'000

Ser No.	Item	Reporting period		Respective period of the preceding reporting year	
		Bank	Group	Bank	Group
		Non-audited	Non-audited	Non-audited	Non-audited
1	Interest income	2 875	2 890	4 205	8 613
2	Interest expense	(1 642)	(1 624)	(2 075)	(5 117)
3	Dividend income	2 095	0	23	23
4	Fee and commission income	6 343	6 594	5 876	7 667
5	Fee and commission expenses	(1 263)	(1 241)	(1 067)	(1 223)
6	Gains or losses on financial assets & liabilities not measured at fair value through profit or loss, net (+/–)	(2 425)	(13 478)	457	(897)
7	Gains or losses on financial assets and liabilities designated at fair value through profit or loss, net (+/–)	(260)	(263)	1 368	4 209
8	Gains or losses from hedge accounting, net (+/–)	0	0	0	0
9	Exchange differences [gain or loss], net (+/–)	2 924	2 913	691	(1 362)
10	Gains or losses on derecognition of non financial assets other than held for sale, net (+/–)	0	0	0	0
11	Other income	436	428	463	493
12	Other expense	(236)	(267)	(348)	(361)
13	Administrative expenses	(8 429)	(8 854)	(7 320)	(10 896)
14	Depreciation and amortization	(634)	(638)	(534)	(684)
15	Profit or loss recognized as a result of changes in the contractual cash flows of a financial asset (–/+)	0	0	0	0
16	Provisions or reversal of provisions (–/+)	0	0	0	0
17	Impairment or reversal of impairment (–/+)	(436)	(363)	(130)	1 176
18	Negative goodwill recognised in profit or loss	0	0	0	0
19	Share of the profit or (-) loss of investments insubsidaries, joint ventures and associates accounted for using the equity method	0	0	0	0
20	Profit or loss from non-current assets and disposal groups classified as held for sale (+/–)	0	241	0	(22)
21	Profit or loss before tax (+/–)	(652)	(13 662)	1 609	1 619
22	Income tax	(211)	(241)	(131)	(101)
23	**Profit/loss of the reporting period (+/–)**	**(863)**	**(13 903)**	**1 478**	**1 518**
24	Other comprehensive income for the year (+/–)	(1 786)	11 518	3 761	4 790

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

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Total capital and capital requirement calculation report

31 March 2018

EUR'000

Ser No.	Item	Reporting period	
		Bank	Group
1	**Own funds (1.1.+1.2.)**	**79 677**	**73 470**
1.1	Tier 1 capital (1.1.1.+1.1.2.)	53 105	46 898
1.1.1.	Common equity Tier 1 capital	53 105	46 898
1.1.2.	Additional Tier 1 capital	0	0
1.2.	Tier 2 capital	26 572	26 572
2	**Total risk exposure amount**	**539 525**	**531 573**
2.1.	Risk weighted exposure amounts for credit, counterparty credit and dilution risks and free deliveries	452 454	443 229
2.2.	Total risk exposure amount for settlement/delivery	0	0
2.3.	Total risk exposure amount for position, foreign exchange and commodities risks	3 314	5 624
2.4.	Total risk exposure amount for operational risk	83 636	82 599
2.5.	Total risk exposure amount for credit valuation adjustment	121	121
2.6.	Total risk exposure amount related to large exposures in the trading book	0	0
2.7.	Other risk exposure amount	0	0
3	**Capital ratios and capital levels**		
3.1	Common equity Tier 1(CET1) capital ratio (1.1.1./2.*100)	9.84%	8.82%
3.2.	Surplus(+)/Deficit(-) of CET1 capital (1.1.1.-2.*4.5%)	28 826	22 977
3.3.	Tier1 Capital ratio (1.1./2.*100)	9.84%	8.82%
3.4.	Surplus(+)/Deficit(-) of Tier1 capital (-) (1.1.-2.*6%)	20 734	15 004
3.5.	Total capital ratio (1./2.*100)	14.77%	13.82%
3.6.	Surplus(+)/Deficit(-) of total capital (1.-2.*8%)	36 515	30 944
4	**Capital buffers (4.1.+4.2.+4.3.+4.4.+4.5.+4.6.)**	**13 488**	**13 289**
4.1.	Capital conservation buffer	13 488	13 289
4.2.	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State	0	0
4.3.	Institution specific countercyclical capital buffer	0	0
4.4.	Systemic risk buffer	0	0
4.5.	Other Systemically Important Institution buffer	0	0
5	**Capital ratios including adjustments**		
5.1.	Asset value adjustments for prudential purposes	0	0
5.2.	CET1 capital ratio including p. 5.1 adjustments	9.84%	8.82%
5.3.	Tier1 capital ratio including p. 5.1 adjustments	9.84%	8.82%
5.4.	Total capital ratio including p. 5.1 adjustments	14.77%	13.82%

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Information on equity and capital adequacy ratios

31 March 2018

EUR'000

Ser No.	Item	Reporting period	
		Bank	Group
1.A	Own funds if the transitional period of IFRS 9 would not apply	78 471	72 264
1.1.A	Tier 1 capital if the transitional period of IFRS 9 would not apply	51 899	45 692
1.1.1.A	Tier 1 core capital if the transitional period of IFRS 9 would not apply	51 899	45 692
2.A	Total exposure value if the transitional period of IFRS 9 would not apply	538 890	530 938
3.1.A	Tier 1 core capital ratio if the transitional period of IFRS 9 would not apply	9.63%	8.61%
3.3.A	Tier 1 capital ratio if the transitional period of IFRS 9 would not apply	9.63%	8.61%
3.5.A	Total capital ratio if the transitional period of IFRS 9 would not apply	14.56%	13.61%

Liquidity coverage ratio calculation

31 March 2018

EUR'000

Ser No.	Item	Reporting period	
		Bank	Group
1.	Liquidity buffer	161 658	161 658
2.	Net liquidity outflow	43 550	41 833
3.	Liquidity coverage ratio (%)	371%	386%

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Performance Indicators of the Bank

31 March 2018

Item	Reporting period		Respective period of the preceding reporting year	
	Bank	Group	Bank	Group
Return on equity (ROE) (%)	(5.86)	(103.69)	5.50	5.96
Return on assets (ROA) (%)	(0.48)	(7.32)	0.67	0.61

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 2018

Country	Financial assets at fair value through other comprehensive income* (EUR`000)	% from Bank`s equity
USA	**35 241**	**44.23%**
incl. central government	31 483	39.51%
Poland	**12 879**	**16.16%**
incl. central government	12 879	16.16%
Latvia	**29 042**	**36.45%**
incl. central government	24 162	30.32%

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

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