

# Public Report of the Bank

for 4 quarter of the year 2008

**norvikbanka**

# 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 Internal 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** treatment of 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 interbanking 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 IV quarter 2008 the Bank's liquidity ratio was 33-47% while the minimum requirement set by the FCMC is 30%.

**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 bank's assets and the nominal value of those assets. As of 31 December 2008 the amount of special provisions was 5144 thousand lats or 1.67% of the total loan portfolio. The Bank's Board and the Credit Committee ensure credit risk management and the Credit 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 policy 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.

# Management

	Number of shares	% of total shares	Paid up share capital LVL'000
"Straumborg Ehf."	20 705 879	51.13	20 706
J. Šapurovs	8 007 091	19.77	8 007
A. Svirčenkovs	8 007 089	19.77	8 007
Other (individually less than 10%)	3 779 869	9.33	3 780
<b>Total</b>	<b>40 499 928</b>	<b>100.00</b>	<b>40 500</b>

JSC „NORVIK BANKA”

## Supervisory Council as of 31 December 2008

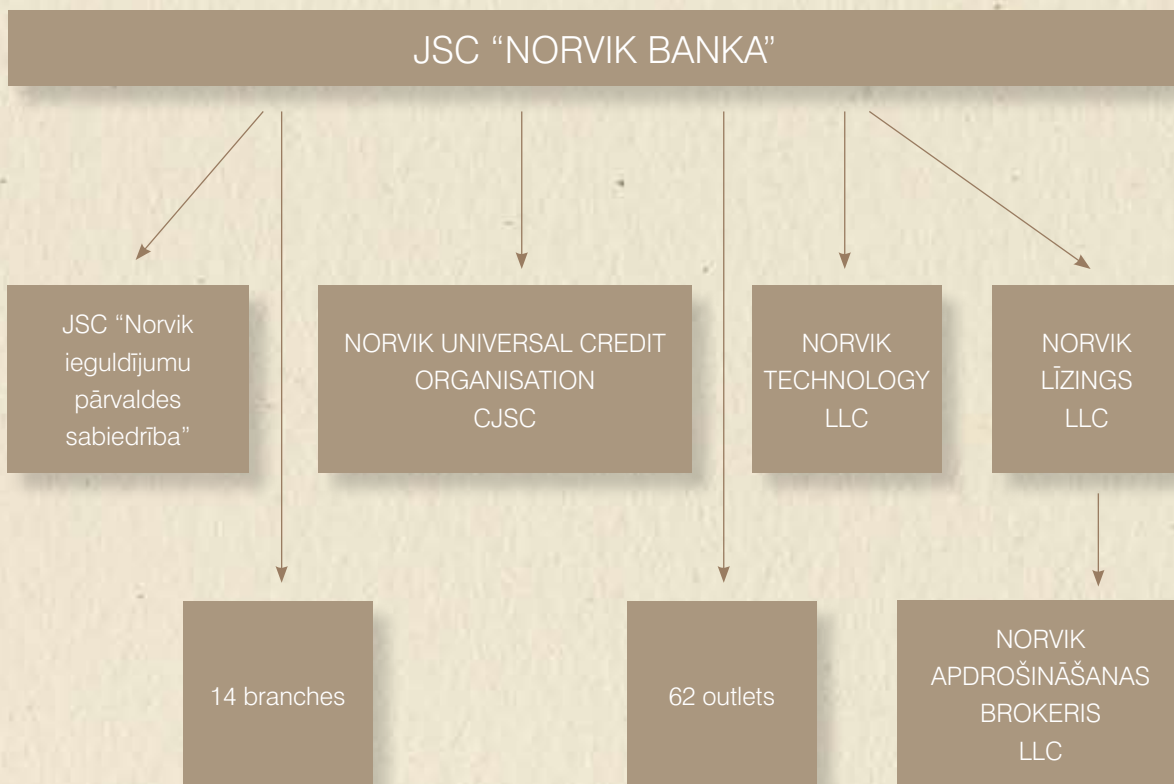
Chairman of the Supervisory Council	Jon Helgi Gudmundsson
Deputy Chairwoman of the Supervisory Council	Brynja Halldorsdottir
Members of the Supervisory Council	Hjalti Baldursson Valentina Keiša Jeļena Svirčenkova Baiba Strupiņa

JSC „NORVIK BANKA”

## Management Board as of 31 December 2008

Chairman of the Management Board	Andrejs Svirčenkovs
Deputy Chairman of the Management Board	Jurijs Šapurovs
Members of the Management Board	Sergejs Gusarovs Aldis Upenieks Laima Saltuma Marija Stepiņa

# Organisational structure



# Strategy and goals

## **Short-term strategy – to put special focus on domestic market**

Strengthening of business with residents  
Restructuring of the funding base through increase of local deposits and borrowing in the international financial markets  
Personnel development through educational and incentive measures

## **Medium-term strategy – to maintain high international standards in all aspects of business**

Substantial expansion of the product range  
Innovative solutions supported by advanced technology  
Best possible service quality  
Highly professional staff

## **Long-term strategy – to become a major financial player in the Baltic countries, to be regarded as a recognizable and reputable partner in the international banking community**

# Ratings assigned by rating agencies

## Name of rating agency

### FITCH RATINGS

<http://www.fitchratings.com/>

### MOODY'S INVESTORS SERVICE

<http://www.moodys.com>

## Types of rating assigned

### FITCH RATINGS

Long Term Issuer Default Rating	B+
Short Term Rating	B
Outlook	Stable
Individual	D
Support	5

### MOODY'S INVESTORS SERVICE

Long-term deposit rating	Ba3
Short-term deposit rating	Not-Prime
Outlook	Stable
Bank financial strength rating (BFSR)	D-

## Short description of rating assigned

**Long Term Rating** - long-term foreign currency rating. Ability of timely payment of long-term exchange liabilities.

**Short Term Rating** - short-term foreign currency rating. Ability of timely payment of short-term exchange liabilities.

**Outlook** - development forecast. Rating forecast – opportunity of rating upgrade (positive), downgrade (negative) or affirmation (stable)

**Individual** - individual rating. Assessment of the bank, taking into account its independence and lack of external support.

**Support** - support rating. Bank's ability to obtain external financial support in case of need.

**Bank financial strength rating** - bank's internal stability and security estimation

## Changes in ratings assigned

FITCH RATINGS	22.12.2003	22.08.2005	25.10.2006	15.01.2008	14.08.2008	03.12.2008
Long Term Issuer Default Rating	B+	B+	B+	B+	B+	B+
Short Term Rating	B	B	B	B	B	B
Outlook	Stable	Stable	Positive	Stable	Stable	Negative
Individual	D	D	D	D	D	D
Support	5	5	5	5	5	5
MOODY'S INVESTORS SERVICE	27.06.2007	04.07.2008	13.11.2008			
Long-term deposit rating	Ba3	Ba3	Ba3			
Short-term deposit rating	Not-Prime	Not-Prime	Not-Prime			
Outlook	Stable	Stable	Negative			
Bank financial strength rating (BFSR)	D-	D-	D-			

## Balance Sheet\* | Appendix 1 |

December 31, 2008 (last date of the reporting period)

Item	Reporting period (LVL' 000)	Preceding reporting year (LVL' 000)
Cash and demand claims on the central bank	58 621	42 157
Demand claims on credit institutions	34 258	39 542*
Financial assets held for trading	16 948	43 239
Financial assets at fair value through profit or loss	466	1 454
Available-for-sale financial assets	39 395	9 238
Loans and receivables	332 108	470 811
Held-to-maturity investments	12 326	0
Interest risk protected portfolio share's fair value changes	0	0
Deferred expenses and accrued income	461	455
Fixed assets	2 289	2 665
Investment property	4 367	4 224
Intangible assets	808	600
Participation in the share capital of associated and related undertakings	3 574	3 115
Tax assets	0	0
Other assets	1 614	630
<b>Total assets</b>	<b>507 235</b>	<b>618 130</b>
Liabilities to central banks	0	0
Demand liabilities to credit institutions	3 433	4 847
Financial liabilities held for trading	5 621	4 974
Financial liabilities at fair value through profit or loss	0	0
Financial liabilities at amortised value	436 217	550 065
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	977	1 020
Provisions	261	222
Tax liabilities	531	446
Other liabilities	871	1 735
<b>Total liabilities</b>	<b>447 911</b>	<b>563 309</b>
Capital and reserves	59 324	54 821
<b>Total capital and reserves and liabilities</b>	<b>507 235</b>	<b>618 130</b>
Commitments and contingencies	18 680	46 586
Contingent liabilities	5 275	4 681
Liabilities to customers	13 405	41 905

\* excluding the data of bank's subsidiary companies

## Profit/Loss Statement\* | Appendix 2 |

December 31, 2008 (last date of the reporting period)

Item	Reporting period (LVL' 000)	Respective period of the preceding reporting year 31.12.2007 (LVL' 000)
Interest income	43 419	33 335
Interest expense	( 21 617)	( 17 564)
Dividend income	19	3
Fee and commission income	8 396	6 751
Fee and commission expenses	( 1 745)	( 1 542)
Net realised profit/loss from financial assets and financial liabilities amortised value	0	0
Net realised profit/loss from financial assets available for sale	( 47)	0
Net profit/loss from financial assets and financial liabilities held for trading	1 841	( 3 072)
Net profit/loss for financial assets and financial liabilities at fair value through profit or loss	( 582)	55
Changes in fair value due to risk minimization accounting	0	0
Profit/loss from dealing and revaluation of foreign currencies	3 111	3 912
Profit/loss from derecognition of property, equipment and machinery, investment property and intangible assets	0	0
Other income	1 554	2 357
Other expense	( 795)	( 464)
Administrative expenses	( 18 302)	( 14 829)
Depreciation and amortization	( 1 129)	( 970)
Provisions for debts impairment and liabilities	( 7 973)	( 1 096)
Impairment losses	0	0
Income tax	( 916)	( 1 491)
<b>Profit/loss of the reporting period</b>	<b>5 234</b>	<b>5 385</b>

\* excluding the data of bank's subsidiary companies



## Performance Indicators of Bank\* | Appendix 3 |

December 31, 2008 (last date of the reporting period)

Item	Reporting period	In the preceding reporting year 31.12.2007
Return on equity (ROE) (%)	8.71	13.66
Return on assets (ROA) (%)	0.94	1.22

\* excluding the data of bank's subsidiary companies

## Consolidation Group Composition | Appendix 4 |

December 31, 2008 (last date of the reporting period)

Serial 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 ieguldījumu pārvaldes sabiedrība"	LV, Latvija, Rīga, E. Birznieka-Upīša 21	AMC	94,95	94,95	SC
2	NORVIK UNIVERSAL CREDIT ORGANISATION CJSC	AM, Armenia, Yerevan, KHANJYAN 41, APT. 3, 4, 5	OFI	100	100	SC
3	NORVIK LĪZINGS LLC	LV, Latvija, Rīga, E. Birznieka-Upīša 21	OFI	100	100	SC
4	NORVIK TECHNOLOGY LCC	LV, Latvija, Rīga, E. Birznieka-Upīša 21	OC	100	100	SC

\*BNK – bank, AMC - Assets Management Company, PF – pension fund, OFI – other financial institution, FHC – financial holding company, OC – other company.

\*\* SC – subsidiary company; JV – joint venture; PC – parent company.

INSC – insurance company



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