

**Public Report of JSC “NORVIK BANKA”  
for 3 quarter of the year 2008**

## **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 III quarter 2008 the Bank's liquidity ratio was 42-58% 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 30 September 2008 the amount of special provisions was 3102 thousand lats or 0.88% 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	EUR'000
“Straumborg Ehf.” (Iceland)	20 705 879	51.13	20 706	29 462
J. Šapurovs	8 007 091	19.77	8 007	11 393
A. Svirčenkovs	8 007 089	19.77	8 007	11 393
Other (individually less than 10%)	3 779 869	9.33	3 780	5 378
<b>Total</b>	<b>40 499 928</b>	<b>100.00</b>	<b>40 500</b>	<b>57 626</b>

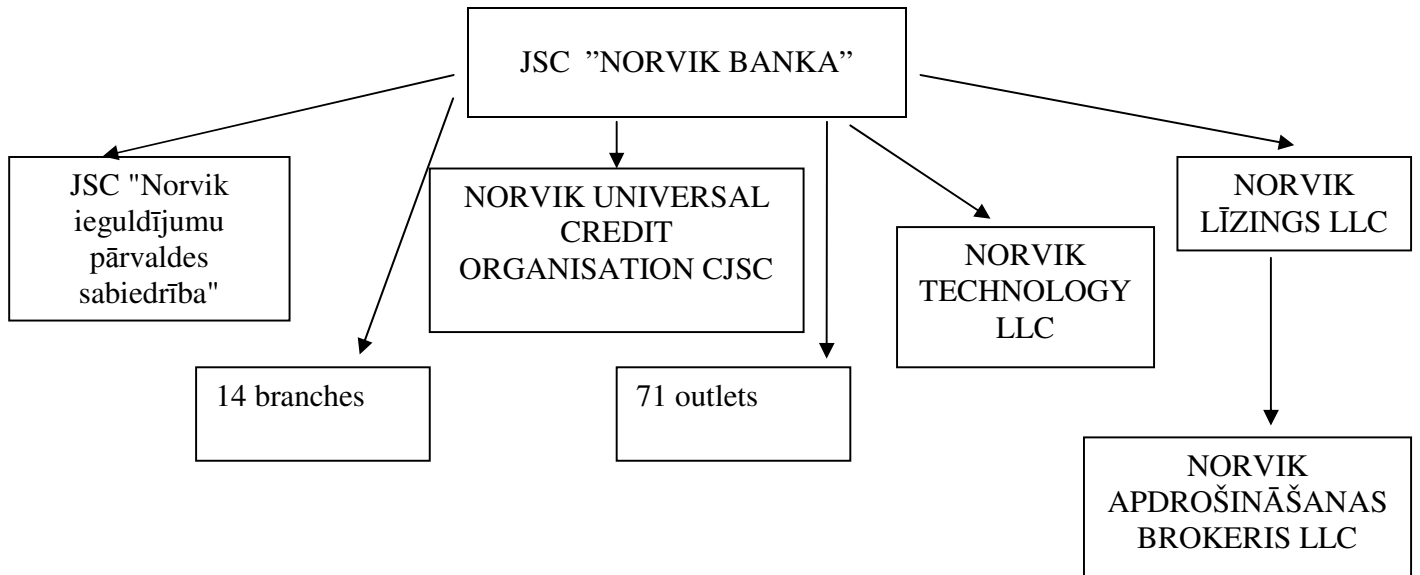
### **JSC “NORVIK BANKA” Supervisory Council as of 30 September 2008**

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

### **JSC “NORVIK BANKA” Management Board as of 30 September 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

# 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

<b>Fitch Ratings</b>	<b>Moody's Investors Service</b>
<a href="http://www.fitchratings.com">http://www.fitchratings.com</a>	<a href="http://www.moodys.com">http://www.moodys.com</a>

Types of rating assigned

<b>Fitch Ratings</b>		<b>Moody's Investors Service</b>	
Long Term Issuer Default Rating	B+	Long-term deposit rating	Ba3
Short Term Rating	B	Short-term deposit rating	Not-Prime
Outlook	Stable	Outlook	Stable
Individual	D	Bank financial strength rating (BFSR)	D-
Support	5		

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

<b>Fitch Ratings</b>	<b>22.12.2003</b>	<b>22.08.2005</b>	<b>25.10.2006</b>	<b>15.01.2008</b>	<b>14.08.2008</b>
Long Term Issuer Default Rating	B+	B+	B+	B+	B+
Short Term Rating	B	B	B	B	B
Outlook	Stable	Stable	Positive	Stable	Stable
Individual	D	D	D	D	D
Support	5	5	5	5	5

<b>Moody's Investors Service</b>	<b>27.06.2007</b>	<b>04.07.2008</b>
Long-term deposit rating	Ba3	Ba3
Short-term deposit rating	Not-Prime	Not-Prime
Outlook	Stable	Stable
Bank financial strength rating (BFSR)	D-	D-

## BALANCE SHEET (Appendix 1)

September 30, 2008 (last date of the reporting period)

Item	Reporting period		Preceding reporting year	
	LVL'000	EUR'000	LVL'000	EUR'000
Cash and demand claims on the central bank	50 935	72 474	42 157	59 984
Demand claims on credit institutions	70 772	100 699	39 542	56 263
Financial assets held for trading	38 123	54 244	43 239	61 524
Financial assets at fair value through profit or loss	1 046	1 488	1 454	2 069
Available-for-sale financial assets	12 852	18 287	9 238	13 144
Loans and receivables	368 532	524 374	470 811	669 904
Held-to-maturity investments	0	0	0	0
Interest risk protected portfolio share's fair value changes	0	0	0	0
Deferred expenses and accrued income	276	393	455	647
Fixed assets	2 438	3 469	2 665	3 792
Investment property	4 189	5 960	4 224	6 010
Intangible assets	595	847	600	854
Participation in the share capital of associated and related undertakings	3 574	5 085	3 115	4 432
Tax assets	0	0	0	0
Other assets	830	1 181	630	896
<b>Total assets</b>	<b>554 162</b>	<b>788 501</b>	<b>618 130</b>	<b>879 520</b>
Liabilities to central banks	0	0	0	0
Demand liabilities to credit institutions	1 709	2 432	4 847	6 897
Financial liabilities held for trading	14 596	20 768	4 974	7 077
Financial liabilities at fair value through profit or loss	0	0	0	0
Financial liabilities at amortized value	472 601	672 451	550 065	782 672
Financial liabilities resulting from transfer of financial assets	0	0	0	0
Interest risk protected portfolio share's fair value changes	0	0	0	0
Deferred income and accrued expenses	367	522	1 020	1 451
Provisions	222	316	222	316
Tax liabilities	516	734	446	635
Other liabilities	2 044	2 908	1 735	2 469
<b>Total liabilities</b>	<b>492 055</b>	<b>700 131</b>	<b>563 309</b>	<b>801 516</b>
Capital and reserves	62 107	88 370	54 821	78 003
<b>Total capital and reserves and liabilities</b>	<b>554 162</b>	<b>788 501</b>	<b>618 130</b>	<b>879 520</b>
Commitments and contingencies	38 737	55 118	46 585	66 284
Contingent liabilities	3 926	5 586	4 680	6 659
Liabilities to customers	34 811	49 532	41 905	59 625



## **PROFIT/LOSS STATEMENT (Appendix 2)**

**September 30, 2008 (last date of the reporting period)**

Item	Reporting period		Respective period of the preceding reporting year	
	<i>LVL'000</i>	<i>EUR'000</i>	<i>LVL'000</i>	<i>EUR'000</i>
Interest income	32 423	46 134	22 867	32 537
Interest expense	( 16 049)	( 22 836)	( 11 841)	( 16 848)
Dividend income	4	6	2	3
Fee and commission income	6 236	8 873	4 816	6 853
Fee and commission expenses	( 1 184)	( 1 685)	( 994)	( 1 414)
Net realized profit/loss from financial assets and financial liabilities amortized value	0	0	( 10)	( 14)
Net realized profit/loss from financial assets available for sale	0	0	0	0
Net profit/loss from financial assets and financial liabilities held for trading	4 102	5 837	( 1 436)	( 2 043)
Net profit/loss for financial assets and financial liabilities at fair value through profit or loss	( 437)	( 622)	0	0
Changes in fair value due to risk minimization accounting	0	0	0	0
Profit/loss from dealing and revaluation of foreign currencies	1 071	1 524	1 615	2 298
Profit/loss from derecognizing of property, equipment and machinery, investment property and intangible assets	0	0	0	0
Other income	983	1 399	1 874	2 666
Other expense	( 504)	( 717)	( 255)	( 363)
Administrative expenses	( 13 302)	( 18 927)	( 10 461)	( 14 885)
Depreciation and amortization	( 830)	( 1 181)	( 716)	( 1 019)
Provisions for debts impairment and liabilities	( 3 766)	( 5 359)	( 556)	( 791)
Impairment losses	0	0	0	0
Income tax	( 1 129)	( 1 606)	( 950)	( 1 352)
<b>Profit/loss of the reporting period</b>	<b>7 618</b>	<b>10 839</b>	<b>3 955</b>	<b>5 627</b>

**PERFORMANCE INDICATORS OF JSC “NORVIK BANKA”**  
**(Appendix 3)**

**September 30, 2008 (last date of the reporting period)**

<b>Item</b>	<b>Reporting period</b>	<b>In the preceding reporting year 30.09.2007</b>
Return on equity (ROE) (%)	17,13	13,9
Return on assets (ROA) (%)	1,81	1,26

**CONSOLIDATED GROUP COMPOSITION (Appendix 4)**

**September 30, 2008 (last date of the reporting period)**

<b>Serial No.</b>	<b>Name of company</b>	<b>Country of domicile, registration address</b>	<b>Company type*</b>	<b>Portion of a holding in share capital (%)</b>	<b>Portion of voting rights in the company (%)</b>	<b>Motivation for inclusion in the group**</b>
1	JSC "Norvik ieguldījumu pārvaldes sabiedrība"	LV, Latvia, Rīga, E. Birznieka-Upīša 21	INVC	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, Latvia, Rīga, E. Birznieka-Upīša 21	OFI	100	100	SC
4	NORVIK TECHNOLOGY LLC	LV, Latvia, Rīga, E. Birznieka-Upīša 21	OC	100	100	SC

\* BNK – bank, INSC – insurance company, INVC – investment company, PF – pension fund, OFI – other financial institution, FHC – financial holding company, OC – other company.

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