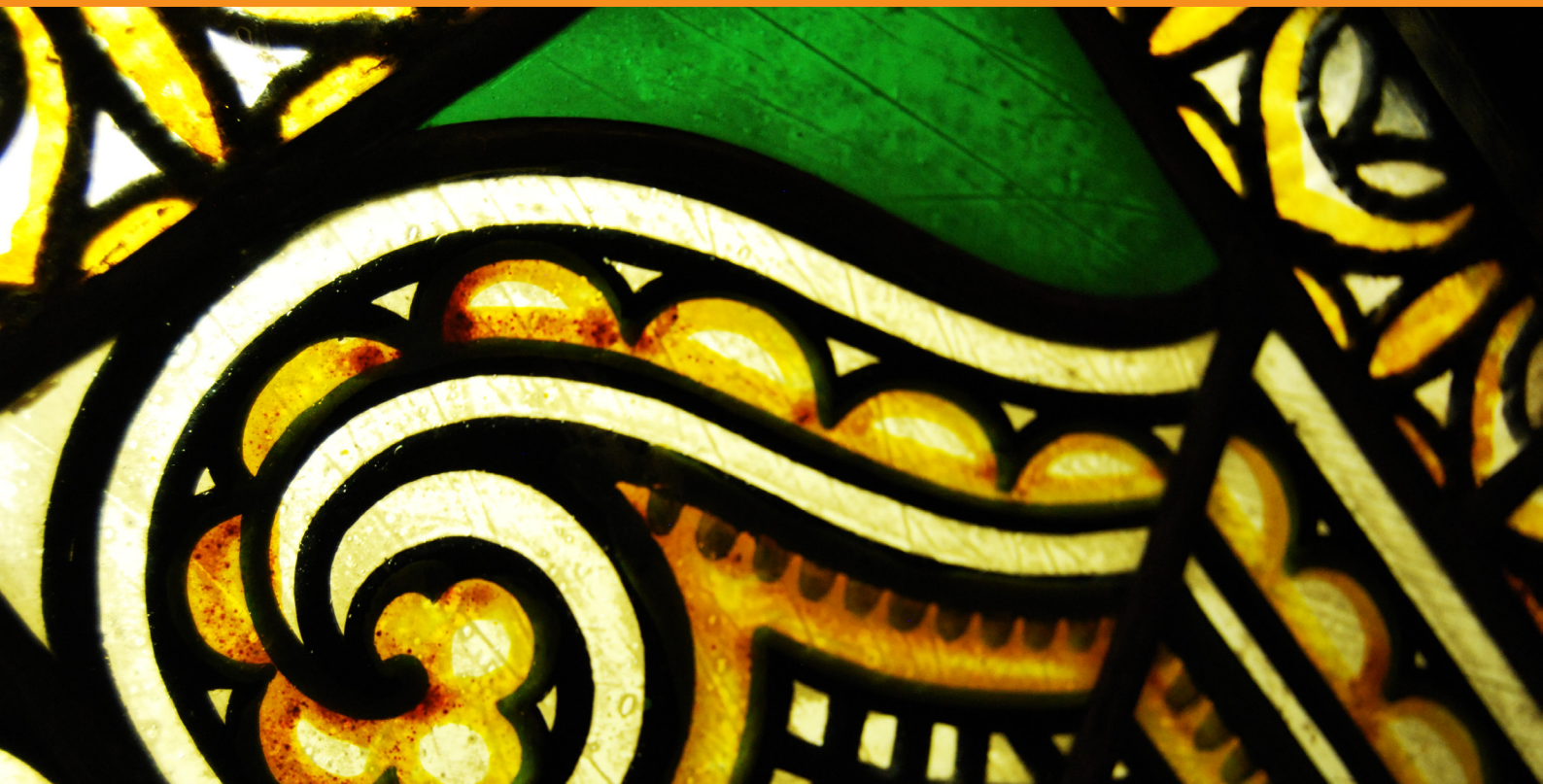


Baltikums Bank



BALTIKUMS BANK AS

III Quarter  
2014 Interim Report

(translated from Latvian)

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# Background

Baltikums Bank AS (hereinafter referred to as Baltikums Bank or Bank) is a credit institution regulated by the Finance and Capital Markets Commission (Kungu iela 1, Riga, LV-1050, Latvia) and registered with the Register of Enterprises of the Republic of Latvia on 22 June 2001, registration No. 4000351060.

The registered office of the Bank is at Smilsu iela 6, Riga, LV 1050, Latvia.

Baltikums Bank operates in accordance with the applicable legislation of the Republic of Latvia and a license issued by the Financial and Capital Market Commission.

Its shareholders (beneficial owners) are natural persons resident within the Republic of Latvia. The Bank was founded in Latvia but is also a European and international financial institution. The Bank's primary lines of business are managing the capital of high net worth individuals, banking, investment and advisory service for large and medium-sized businesses and financial institutions.

Baltikums Bank has its head office in Riga (Latvia), with representative offices in Almaty (Kazakhstan), Kyiv (Ukraine), Vilnius (Lithuania) and Tallinn (Estonia). The shareholder of Baltikums Bank also operates related companies in Moscow, St. Petersburg (Russia), Bishkek (Kyrgyzstan), Baku (Azerbaijan), Limassol (Cyprus) and Luxembourg.

The Group's consolidated and the Bank's separate financial statements for the 12 months of the year 2013 have been prepared in accordance with International Financial Reporting Standards adopted by the European Union, on a going concern basis. Audit was conducted by KPMG Baltics SIA (Vesetas iela 7, Riga, LV-1013, Latvia), reg. No. 40003235171.

This interim report has been prepared in accordance with Financial and Capital Market Commission (FCMC) regulation No. 145, "Regulations on preparation of public quarterly reports by credit institutions", and is intended to inform about the Bank's financial standing and the results of its operations.

Amounts in financial statements are indicated in thousands of euros (EUR '000), unless specified otherwise.

# Share Capital of the Bank

The sole shareholder of Baltikums Bank is AS "BBG", holding 100% of the Bank's voting shares.

The Bank's share capital is EUR 39 493 514,20 composed of 28 209 653 shares.

The nominal value per share is EUR 1.4.

# Council and Board

## **Council**

Aleksandrs Peškova (Chairman of the Council)

Sergejs Peškova (Deputy Chairman of the Council)

Andrejs Kočetkova (Member of the Council)

## **Board**

Dmitrijs Latiševa – Chairman of the Board, CEO

Inga Mukāne – member of the Board, CCO

Leonarda Višņeva – member of the Board, EO

No changes in the composition of the Baltikums Bank Council or Board took place during the reporting period.

# Strategy and Mission

Baltikums Bank AS is a leading European private bank and banking group with a business model that is built around Client Relationship Directors (CRDs). CRDs and their teams are supported by a well-developed operations infrastructure, a wide array of wealth management services, an international network of partners and representation at major business and finance centres in Europe and throughout the world. The Bank operates with maximum efficiency, generating considerable operational income while maintaining its costs at the lowest level on the Latvian market. The Bank offers banking, investment and advisory services of a high level of quality and consumer value to private clients who want to delegate financial decisions to us and develop sustainable business relations.

The Bank provides an entire range of high-quality banking products and services to its target clients. As a priority, the Bank develops lines of business that correspond to its business model and core competencies, allowing it to leverage its strengths on highly competitive markets while taking acceptable levels of risk.

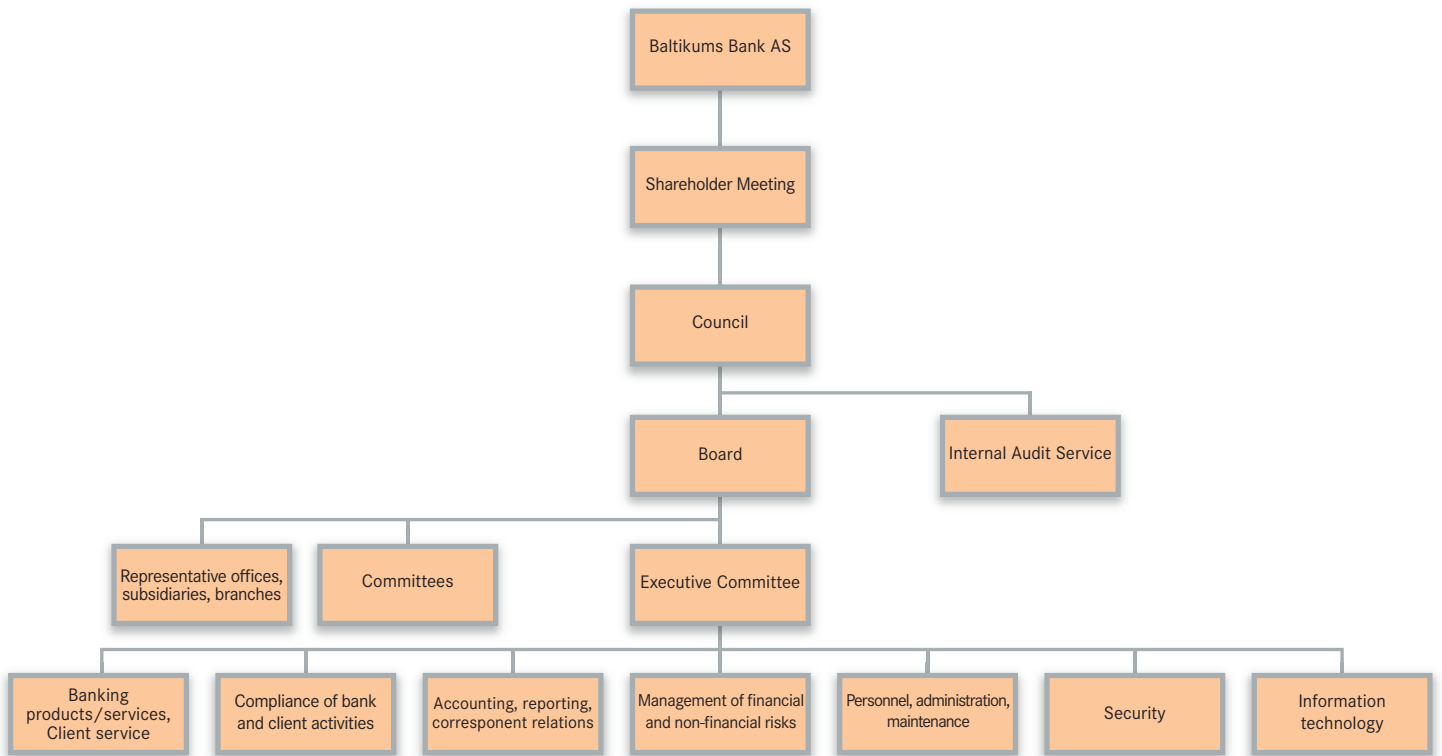
The Bank's long-term business priorities are advisory, banking, and investment service.

The target client base of the Bank is aligned to its key development goals:

- High net worth individuals, medium-sized and large companies that require a wide range of services for capital and asset management;
- Corporate entities and merchants engaged in international trade and services;
- Financial organisations and international investors that require highly professional service for settlement and financial market operations.

The Bank does not plan to provide retail banking services.

# Bank Structure



# Consolidated Group Companies

No.	Company name and registration No.	Registration country code, address	Type of business*	Equity/share of voting rights in company (%)	Reason for inclusion
1.	BBG AS 40003234829	LV Mazā Pils iela 13, Rīga, LV-1050, Latvia	FPS		MT
2.	Baltikums Bank AS 40003551060	LV Smilšu iela 6, Rīga, LV-1050, Latvia	BNK	100%	MTM
3.	Baltikums International SIA 40003444941	LV Mazā Pils iela 13, Rīga, LV-1050, Latvia.	CFI	100%	MS
4.	CityCap Service SIA 40003816087	LV Krišjāņa Valdemāra iela 149, Rīga, LV-1013, Latvia	PLS	100%	MS
5.	ZapDvina Development SIA 40003716809	LV Krišjāņa Valdemāra iela 149, Rīga, LV-1013, Latvia	PLS	100%	MS
6.	Kamaly Development EOOD 147093418	BG Etiera k-s 1/2B - 18, Sveti Vlas, Burgas obl., Nesebier 8256, Bulgaria	PLS	100%	MMS
7.	Mateli Estate SIA 50103482941	LV Krišjāņa Valdemāra iela 149-405, Rīga, LV-1013, Latvia	PLS	100%	MTM
8.	Darziems Estate SIA 40103492740	LV Krišjāņa Valdemāra iela 149-405, Rīga, LV-1013, Latvia	PLS	100%	MTM
9.	Mazirbe Estate SIA 40103492721	LV Krišjāņa Valdemāra iela 149- 405, Rīga, LV-1013, Latvia	PLS	100%	MTM
10.	Lielie Zaķi SIA 40103493765	LV Krišjāņa Valdemāra iela 149-405, Rīga, LV-1013, Latvia	PLS	100%	MTM
11.	Pulkarne Entity SIA 40103481018	LV Krišjāņa Valdemāra iela 149-405, Rīga, LV-1013, Latvia	PLS	100%	MTM
12.	Pils Pakalpojumi SIA 40103170308	LV Smilšu iela 6, Rīga, LV-1050, Latvia	PLS	100%	MS
13.	Baltikums Luxembourg S.A. № B 171575, Luxembourg	LU 42, rue de la Vallée, L-2661, Luxembourg	PLS	100%	MS
14.	Foxtran Management Ltd. № 113,276	BZ Suite 102, Ground Floor, Blake Building, Corner Eyre & Huston Streets, Belize City, Belize	PLS	100%	MMS
15.	Enarlia International Inc. № 113,273	BZ Suite 102, Ground Floor, Blake Building, Corner Eyre & Huston Streets, Belize	PLS	100%	MMS



# Consolidated Group

(continued)

No.	Company name and registration No.	Registration country code, registered office	Type of business*	Equity/share of voting rights in company (%)	Reason for inclusion
16.	Kamaly Development UAB №300558022	LT Klaipėdos m. sav. Klaipėdos m., Karklu g. 12, Lithuania	PLS	100%	MS
17.	Baltikums AAS 40003387032	LV Ūdens iela12 -115, Rīga LV-1007, Latvia	CFI	99,72%	MTM
18.	BB Broker Systems SIA 40103670482	LV Aleksandra Čaka iela 92 -2b, Rīga LV-1011, Latvia	CFI	100%	MS
19.	Jēkaba 2 SIA 40103293621	LV Jēkaba iela 2, Rīga, LV-1050, Latvia	PLS	100%	MS

\* FPS – financial management company; BNK – credit institution; CFI – other financial institution; PLS – auxiliary service company.

\*\* MS – subsidiary company; MMS – subsidiary of subsidiary company; MT – parent company; MTM – subsidiary of parent company.

# Analysis of Risks

In its activities, Baltikums Bank pays great attention to risk identification and management. The Bank considers the following risks to be substantial for its operations:

- Money laundering and terrorist financing risk;
- Credit risk;
- Liquidity risk;
- Market risks (securities price risk, interest rate risk in the non-trading portfolio, currency risk);
- Operational risk;
- Strategy and business risk.

The Bank's risk management principles are laid out in its risk management policies, which have been approved and supervised by its Council. Risk management policies define qualitative and quantitative criteria for identification of risks related to the Bank's activities, risk management and control elements, the procedure for making decisions on risky transactions, limits, various risk mitigation and minimisation measures, and the obligations of structural divisions for controlling risky transactions. Enforcement of the policies is supervised by the Bank's internal control units:

- Client Activity Compliance Department;
- Financial Analysis and Financial Risk Management Department and Operational Risk Management Department;
- Internal Audit Service.

Risk management is ensured by the following committees:

- Client Activity Compliance Control Committee;
- Credit Committee;
- Investment Committee;
- Non-financial Risk Management Committee.

During the reporting period, Baltikums Bank had no significant changes in risk management. Information about risk management is available on the Bank's website: <http://baltikums.eu/lv/about/info-atklasana/> (Latvian) and in the Bank's 2013 Annual Report at <http://www.baltikums.eu/en/about-us/financial-information/financial-statements/>

# Profit and Loss Account

30 September 2014

Item	30.09.2014, EUR'00	30.09.2013, EUR'000
Interest income	5 549	5 209
Interest expenses	(953)	(1 080)
Dividend income	6	61
Fee and commission income	14 165	14 216
Fee and commission expenses	(1 084)	(1 161)
Net realised gain/loss from financial assets and financial liabilities carried at amortised cost	0	0
Net gain/loss from available-for-sale financial assets and financial liabilities	0	0
Net gain/loss from held-for-trading financial assets and financial liabilities	(122)	(416)
Net realised gain/loss from financial assets and financial liabilities carried at fair value through profit or loss	0	0
Changes in fair value in risk mitigation accounts	0	0
Gain/loss from trading and revaluating foreign currencies	5 921	4 533
Gain/loss from ceasing recognition of property, equipment and appliances, investments in property and intangible assets	0	0
Other income	280	168
Other expenses	(324)	(696)
Administrative expenses	(10 961)	(9 496)
Depreciation	(166)	(233)
Net result of creating reserves	(522)	(427)
Recovery of written-off assets	2	0
<b>Profit before corporate income tax</b>	<b>11 791</b>	<b>10 678</b>
Corporate income tax	(1 777)	(1 707)
<b>Profit for reporting period</b>	<b>10 014</b>	<b>8 971</b>

# Balance Overview

30 September 2014

Item	30.09.2014, EUR'000	31.12.2013, EUR'000 (audited data)
Cash and on-demand claims on central banks	102 889	73 347
On-demand claims on credit institutions	150 460	141 147
Financial assets held for sale	25 194	17 241
Financial assets classified as carried at fair value through profit or loss	0	0
Financial assets available for sale	89	89
Loans and claims, including interbank loans	221 902	198 627
Investments held to maturity	35 303	29 205
Changes in fair value of risk-hedged portfolio	0	0
Accrued income and expenses for subsequent periods	184	123
Fixed assets	706	246
Investment properties	4 857	4 862
Intangible assets	699	583
Investment in the stock capital of related and associated companies	14 842	10 496
Tax assets	0	0
Other assets	9 061	11 991
<b>Total assets</b>	<b>566 186</b>	<b>487 957</b>
Due to central banks	0	0
Due on-demand to credit institutions	11 830	2 231
Financial liabilities held for trading	793	100
Financial liabilities classified as carried at fair value through profit or loss	0	0
Financial liabilities carried at amortised purchase cost	495 602	431 414
Financial liabilities due to transfer of financial assets	0	0
Liabilities due to changes in the fair value of interest-hedged portfolio	0	0
Accrued expenses and income for subsequent periods	641	300
Reserves	538	340
Tax liabilities	332	146
Other liabilities	403	294
<b>Total liabilities</b>	<b>510 139</b>	<b>434 825</b>
<b>Capital and reserves</b>	<b>56 047</b>	<b>53 132</b>
<b>Total capital, reserves and liabilities</b>	<b>566 186</b>	<b>487 957</b>
Off-balance items		
Potential liabilities	1 338	3 650
Off-balance liabilities to clients	17 302	17 166

# Equity and Capital Adequacy Calculation Overview

30 September 2014

No.	Item name	COREP item	Reporting period (thous. EUR)
1	<b>Equity (1.1.+1.2.)</b>	C 01.00 1	51 345
1.1.	Tier I capital (1.1.1.+1.1.2.)	C 01.00 1.1.	45 168
1.1.1.	Tier I fixed capital	C 01.001.1.1.	45 168
1.1.2.	Tier I added capital	C 01.00 1.1.2.	0
1.2.	Tier II capital	C 01.00 1.2.	6 177
2.	<b>Total value of risky transactions (2.1.+2.2.+2.3.+2.4.+2.5.+2.6.+2.7.)</b>	C 02.00 1.	311 461
2.1.	Total risk-weighted value of risky transactions for credit risk, counterparty credit risk, recovered value reduction risk and unpaid delivery risk	C 02.00 1.1.	242 196
2.2.	Total value of risky transactions for settlements/deliveries	C 02.00 1.2.	0
2.3.	Total value of risky transactions for position risk, currency risk, goods risk	C 02.00 1.3.	23 787
2.4.	Total value of risky transactions for operational risk	C 02.00 1.4.	45 478
2.5.	Total value of risky transactions for loan value adjustment	C 02.00 1.6.	0
2.6.	Total value of risky transactions related to large risky transactions in the trading portfolio	C 02.00 1.7.	0
2.7.	Value of other risky transactions	C 02.00 1.8.	0
3.	<b>Capital indicators and capital levels</b>		
3.1.	Tier I fixed capital indicator (1.1.1./2.*100)	C 03.00 1.	14.50
3.2.	Tier I fixed capital surplus (+)/ deficit(-) (1.1.1.-2.*4.5%)	C 03.00 2.	31 152
3.3.	Tier I capital indicator (1.1./2.*100)	C 03.00 3.	14.50
3.4.	Tier I capital surplus (+)/deficit (-) (1.1.-2.*6%)	C 03.00 4.	26 480
3.5.	Total capital indicator (1./2.*100)	C 03.00 5.	16.49
3.6.	Total capital surplus (+)/ deficit (-) (1.-2.*8%)	C 03.00 6.	26 428
4.	<b>Total capital reserve requirement (4.1.+4.2.+4.3.+4.4.+4.5.)</b>	C 04.00 27.	2.5%
4.1.	Capital preservation reserve (%)		2.5%
4.2.	Institution-specific counter-cyclical capital reserve (%)		
4.3.	Systemic risk capital reserve (%)		
4.4.	Systemically important institution capital reserve (%)		
4.5.	Other systemically important institution capital reserve (%)		

# Equity and Capital Adequacy Calculation Overview

(continued)

No.	Item name	COREP item	Reporting period (thous. EUR)
5.	<b>Capital indicators with adjustment</b>		
5.1.	Adjustment for reserve or asset value with special policy for capital adequacy purposes	C 04.00 28.	3 377
5.2.	Tier I fixed capital indicator with adjustment specified in row 5.1	C 03.00 7.	13.96
5.3.	Tier I capital indicator with adjustment specified in row 5.1	C 03.00 9.	13.96
5.4.	Total capital indicator with adjustment specified in row 5.1	C 03.00 11."	15.40

# Liquidity Indicator Calculation

30 September 2014

No.	Item name	Reporting period (thous. EUR)
1	<b>Liquid assets (1.1.+1.2.+1.3.+1.4.)</b>	379 342
1.1	Cash	1 292
1.2	Demands on the Bank of Latvia	101 597
1.3	Demands on solvent credit institutions	258 688
1.4	Liquid securities	17 765
2	<b>Current obligations with less than 30 days to maturity (2.1.+2.2.+2.3.+2.4.+2.5.+2.6.)</b>	515 592
2.1	Obligations to credit institutions	6 202
2.2	Deposits	475 102
2.3	Issued bonds and notes	0
2.4	Cash in transit	4 264
2.5	Other obligations	14 306
2.6	Off-balance obligations	15 718
3	<b>Liquidity ratio (1.:2.) (%)</b>	<b>73.57%</b>
4	<b>Minimum liquidity indicator</b>	<b>30%</b>

# Performance Indicators

30 September 2014

Item	30.09. 2014.	30.09. 2013.
Return on equity (ROE) (%)	25,00	25,95
Return on assets (ROA) (%)	2,60	2,11

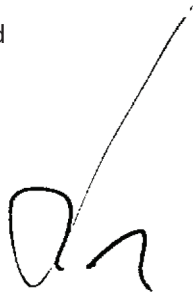


# Securities Investments

## Investments in securities by country (exceeding 10% of equity)

Issuer's country	Value (thous. EUR)	Coupon (thous. EUR)	Subtotal (thous. EUR)
Russia	33 833	764	34 597
Other countries	21 477	400	21 877
<i>Including central governments</i>	<i>4 711</i>	<i>28</i>	<i>4 739</i>
<b>TOTAL</b>	<b>55 310</b>	<b>1 164</b>	<b>56 474</b>

**Dmitrijs Latiševs**  
Chairman of the Board  
CEO



# Contact details

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