



BlueOrange

Financial services by Baltikums Bank AS

BALTIKUMS BANK AS

I Quarter
2017 Interim Report
(translated from Latvian)

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Background

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

The registered office is at Smilšu iela 6, Rīga, LV 1050, Latvija.

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 individuals resident within the Republic of Latvia. The Bank was founded in Latvia and is a European and international financial institution. The Bank's primary lines of business are managing the capital of individuals, banking, investment and lending services.

Baltikums Bank maintains representative office and a worldwide network of partnerships, servicing clients in more than 90 countries. Product sales and client service leverage remote-access systems to operate quickly and effortlessly regardless of the client's location.

The Group's consolidated and the Bank's separate financial statements for the 12 months of the year 2016 have been prepared in accordance with International Financial Reporting Standards adopted by the European Union, on a going concern basis.

The audit was conducted by KPMG Baltics SIA, registration No. 40003235171, registered office: Vesetas iela 7, Rīga, LV-1013, Latvija.

This interim report has been prepared in accordance with Financial and Capital Market Commission regulation No. 145, "Regulations on preparation of public quarterly reports by credit institutions", and is intended for disclosing 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 joint stock company "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.

The Council as of 31 March 2017

| Name and surname | Position | Date of appointment |
|--------------------|--------------------------------|---------------------|
| Aleksandrs Peškova | Chairman of the Council | 22.06.2001 |
| Sergejs Peškova | Member of the Council | 22.06.2001 |
| | Deputy Chairman of the Council | 25.07.2002 |
| Andrejs Kočetkova | Member of the Council | 22.06.2001 |

The Board as of 31 March 2017

| Name and surname | Position | Date of appointment |
|-------------------|------------------------------|---------------------|
| Dmitrijs Latiševa | Member of the Board | 01.07.2002 |
| | Chairman of the Board | 25.04.2003 |
| | Deputy Chairman of the Board | 27.04.2011 |
| Inga Preimane | Member of the Board | 11.01.2016 |
| Ēriks Zaics | Member of the Board | 11.01.2016 |

Strategy and Mission

Baltikums Bank is an international bank that provides a wide range of financial services to individuals and businesses. Its private bankers and client service specialists are supported by a solid operations infrastructure, an extensive range of wealth management services, an international network of partners, and representation in major business hubs throughout Europe and worldwide. The Bank operates efficiently and generates considerable operational income while keeping expenditures at a level that is competitive in Latvia. The Bank offers banking, investment, and financing services of the highest quality and consumer value to high net worth private persons who want to trust us with their financial solutions and are interested in developing sustainable business relations.

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

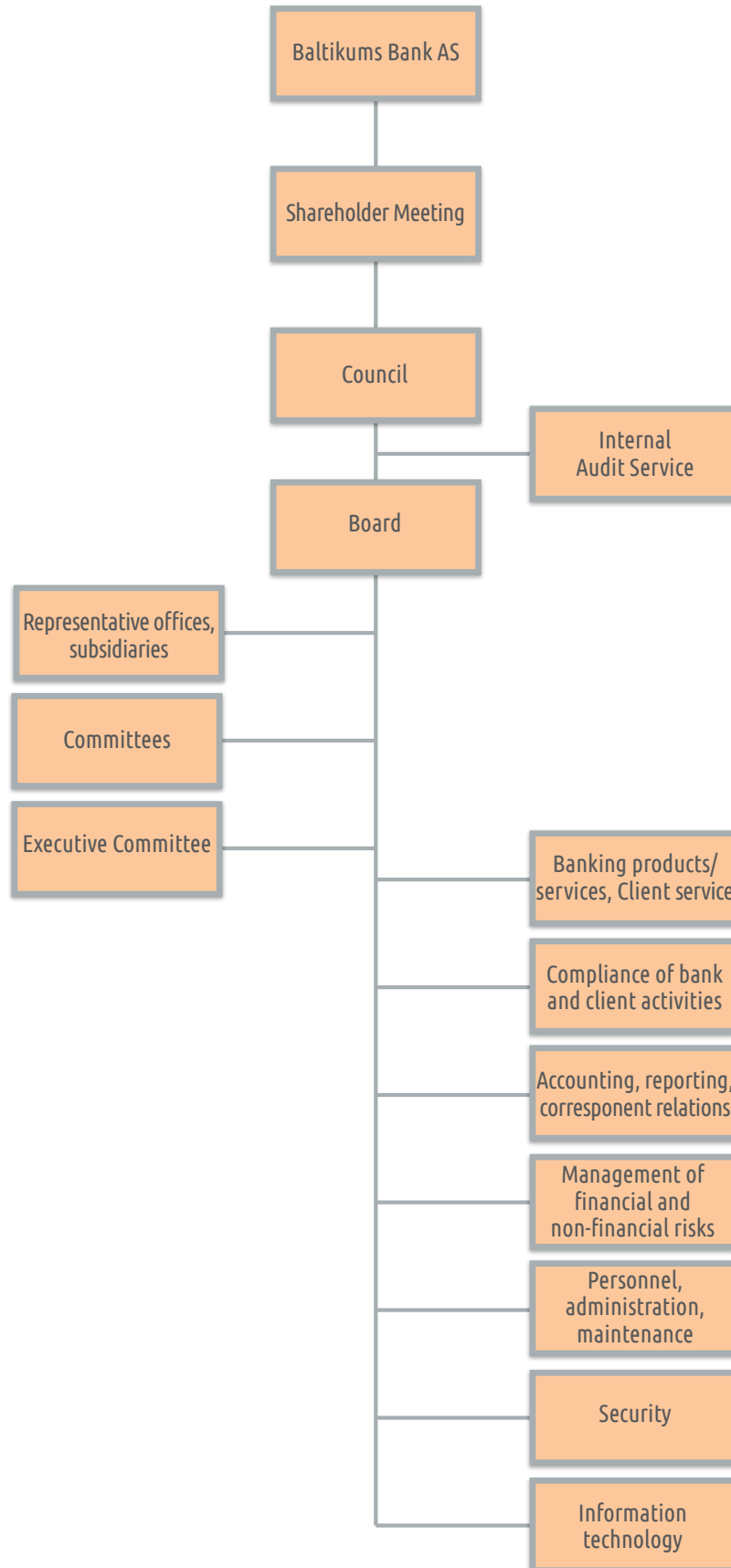
The Bank's long-term business priorities are banking, investment service, and lending.

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

- ✓ 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 institutional investors that require highly professional service for settlement and financial market operations.

Along with increasing awareness and becoming an international financial platform, the Bank is gradually starting to offer its services to a much wider group of clients. Starting with 2017, the Bank performs its financial activity using a new brand – BlueOrange.

Bank Structure



Consolidated Group Companies

| No. | Name of company | Registration number | Registration location code | Registration address | Type of activities* | Interest in share capital (%)/ Voiting shares (%) | PBasis for inclusion in the group** |
|-----|--------------------------------|------------------------------|----------------------------|--|---------------------|---|-------------------------------------|
| 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. | SIA "Blueorange International" | 40003444941 | LV | Mazā Pils iela 13, Rīga, LV-1050, Latvia | CFI | 100% | MS |
| 4. | SIA „CityCap Service” | 40003816087 | LV | Kr.Valdemāra iela 149, Rīga, LV-1013, Latvia | PLS | 100% | MS |
| 5. | SIA „ZapDvina Development” | 40003716809 | LV | Kr.Valdemāra iela149, 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 | Kr. Valdemāra iela 149-405, Rīga, LV-1013, Latvia | PLS | 100% | MTM |
| 8. | Darziems Entity SIA | 40103492740 | LV | Kr. Valdemāra iela 149-405, Rīga, LV-1013, Latvia | PLS | 100% | MTM |
| 9. | Mazirbe Estate SIA | 40103492721 | LV | Kr. Valdemāra iela 149-405, Rīga, LV-1013, Latvia | PLS | 100% | MTM |
| 10. | Lielie Zaķi SIA | 40103493765 | LV | Kr. Valdemāra iela 149-405, Rīga, LV-1013, Latvia | PLS | 100% | MTM |
| 11. | Pulkarne Entity SIA | 40103481018 | LV | Kr. 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. | Foxtran Management Ltd. | № 113,276 | BZ | Suite 102, Ground Floor, Blake Building, Corner Eyre & Huston Streets, Belize City, Belize | PLS | 100% | MMS |
| 14. | Enarlia International Inc. | № 113,273 | BZ | Suite 102, Ground Floor, Blake Building, Corner Eyre & Huston Streets, Belize City, Belize | PLS | 100% | MMS |
| 15. | Kamaly Development UAB | №300558022 | LT | Klaipėdos m. sav. Klaipėdos m., Karklu g. 12, Lithuania | PLS | 100% | MS |
| 16. | Jēkaba 2 SIA | 40103293621 | LV | Jēkaba iela 2, Rīga, LV-1050, Latvia | PLS | 100% | MS |
| 17. | Blueorange-UK Limited | 9690775, England and Wales | GB | 55 Park Lane - Suite 14, London W1 1NR, Great Britain | PLS | 100% | MMS |
| 18. | Baltikums E-Centre Limited | Cert. No. 2270200, Hong Kong | HK | Suite 2405, Progress Commercial Building 9 Irving Street, Causeway Bay Hong Kong | PLS | 100% | MMS |

* 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:

- ✓ Credit risk;
- ✓ Market risks (securities price risk, interest rate risk in the non-trading portfolio, currency risk);
- ✓ Liquidity risk;
- ✓ Operational risk;
- ✓ Compliance risk, including money laundering and terrorist financing risk;
- ✓ Reputational 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 and other measures for risk mitigation and minimisation, and the obligations of structural divisions with regard to controlling risky transactions. Enforcement of the policies is supervised by the Bank's internal control units:

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

Risk management is ensured by the following committees:

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

During the reporting period, Baltikums Bank had no significant changes in risk management. Information about risk management is provided in the [annual reports](#) and the [Internal Capital Adequacy Assessment Report](#) on the Bank's website.

Profit and Loss Account

EUR'000

| Item | 31.03.2017 Non-Audited | 31.03.2016 Non-Audited |
|--|-----------------------------------|-----------------------------------|
| Interest income | 2 830 | 2 457 |
| Interest expenses | -870 | -641 |
| Dividend income | 0 | 1 |
| Fee and commission income | 4 299 | 6 234 |
| Fee and commission expenses | -1 302 | -2 117 |
| Net gain/loss from held-for-trading financial assets and financial liabilities | 210 | 254 |
| Gain/loss from trading and revaluing foreign currencies | 2 052 | 1 781 |
| Other income | 68 | 73 |
| Other expenses | -437 | -606 |
| Administrative expenses | -4 378 | -3 483 |
| Depreciation | -108 | -69 |
| Net result of creating reserves | -521 | -1 423 |
| Corporate income tax | -100 | -227 |
| Profit before corporate income tax | 1 743 | 2 234 |

Balance Overview

| <i>EUR'000</i> | | |
|--|-----------------------------------|-------------------------------|
| Item | 31.03.2017 Non-Audited | 31.12.2016 Audited |
| Cash and on-demand claims on central banks | 181 745 | 153 865 |
| On-demand claims on credit institutions | 150 432 | 118 847 |
| Financial assets held for sale | 4 673 | 3 045 |
| Financial assets classified as carried at fair value through profit or loss | 0 | 0 |
| Financial assets available for sale | 55 941 | 68 998 |
| Loans and claims, including interbank loans | 142 114 | 177 214 |
| Investments held to maturity | 55 032 | 82 786 |
| Changes in fair value of risk-hedged portfolio | 0 | 0 |
| Accrued income and expenses for subsequent periods | 344 | 221 |
| Fixed assets | 5 358 | 4 928 |
| Investment properties | 2 527 | 2 527 |
| Intangible assets | 1 184 | 1 214 |
| Investment in the stock capital of related and associated companies | 19 175 | 19 085 |
| Tax assets | 994 | 1 057 |
| Other assets | 17 145 | 17 705 |
| Total assets | 636 664 | 651 492 |
| Due to central banks | 0 | 0 |
| Due on-demand to credit institutions | 1 677 | 3 504 |
| Financial liabilities held for trading | 64 | 136 |
| Financial liabilities classified as carried at fair value through profit or loss | 0 | 0 |
| Financial liabilities carried at amortised purchase cost | 571 173 | 585 240 |
| 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 | 1 316 | 987 |
| Reserves | 0 | 0 |
| Tax liabilities | 0 | 0 |
| Other liabilities | 1 580 | 2 553 |
| Total liabilities | 575 810 | 592 420 |
| Capital and reserves | 60 854 | 59 072 |
| Total capital, reserves and liabilities | 636 664 | 651 492 |
| Off-balance items | | |
| Potential liabilities | 80 | 98 |
| Off-balance liabilities to clients | 37 542 | 55 361 |

Equity and Capital Adequacy Calculation Overview

EUR'000

| No. | Item | COREP item | Reporting period |
|-----------|--|--------------------|------------------|
| 1 | Equity (1.1.+1.2.) | C 01.00 1 | 76 516 |
| 1.1. | Tier I capital (1.1.1.+1.1.2.) | C 01.00 1.1. | 57 272 |
| 1.1.1. | Tier I fixed capital | C 01.001.1.1. | 57 272 |
| 1.1.2. | Tier I added capital | C 01.00 1.1.2. | 0 |
| 1.2. | Tier II capital | C 01.00 1.2. | 19 244 |
| 2. | Total value of risky transactions (2.1.+2.2.+2.3.+2.4.+2.5.+2.6.+2.7.) | C 02.00 1. | 377 376 |
| 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. | 308 266 |
| 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. | 10 561 |
| 2.4. | Total value of risky transactions for operational risk | C 02.00 1.4. | 58 549 |
| 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. | Capital indicators and capital levels | | |
| 3.1. | Tier I fixed capital indicator (1.1.1./2.*100) | C 03.00 1. | 15.18 |
| 3.2. | Tier I fixed capital surplus (+)/ deficit(-) (1.1.1.-2.*4.5%) | C 03.00 2. | 40 290 |
| 3.3. | Tier I capital indicator (1.1./2.*100) | C 03.00 3. | 15.18 |
| 3.4. | Tier I capital surplus (+)/deficit (-) (1.1.-2.*6%) | C 03.00 4. | 34 629 |
| 3.5. | Total capital indicator (1./2.*100) | C 03.00 5. | 20.28 |
| 3.6. | Total capital surplus (+)/ deficit (-) (1.-2.*8%) | C 03.00 6. | 46 326 |
| 4. | Total capital reserve requirement (4.1.+4.2.+4.3.+4.4.+4.5.) | C 04.00 27. | 2.56 |
| 4.1. | Capital preservation reserve (%) | | 2.50 |
| 4.2. | Institution-specific counter-cyclical capital reserve (%) | | 0.06 |
| 4.3. | Systemic risk capital reserve (%) | | - |
| 4.4. | Systemically important institution capital reserve (%) | | - |
| 4.5. | Other systemically important institution capital reserve (%) | | - |
| 5. | Capital indicators with adjustment | | |
| 5.1. | Adjustment for reserve or asset value with special policy for capital adequacy purposes | C 04.00 28. | 0 |
| 5.2. | Tier I fixed capital indicator with adjustment specified in row 5.1 | C 03.00 7. | 15.18 |
| 5.3. | Tier I capital indicator with adjustment specified in row 5.1 | C 03.00 9. | 15.18 |
| 5.4. | Total capital indicator with adjustment specified in row 5.1 | C 03.00 11." | 20.28 |

Liquidity Indicator Calculation

EUR'000

| No. | Item | Reporting period |
|-----------|---|------------------|
| 1. | Liquid assets (1.1.+1.2.+1.3.+1.4.) | 423 277 |
| 1.1. | Cash | 721 |
| 1.2. | Demands on the Bank of Latvia | 181 024 |
| 1.3. | Demands on solvent credit institutions | 167 678 |
| 1.4. | Liquid securities | 73 854 |
| 2. | Current obligations with less than 30 days to maturity (2.1.+2.2.+2.3.+2.4.+2.5.+2.6.) | 562 354 |
| 2.1. | Obligations to credit institutions | 1 677 |
| 2.2. | Deposits | 526 100 |
| 2.3. | Issued bonds and notes | 0 |
| 2.4. | Cash in transit | 1 142 |
| 2.5. | Other obligations | 11 689 |
| 2.6. | Off-balance obligations | 21 746 |
| 3. | Liquidity ratio (1.:2.) (%) | 75.27% |
| 4. | Minimum liquidity indicator | 30% |

Performance Indicators

| Item | 31.03.2017 | 31.03.2016 |
|----------------------------|------------|------------|
| Return on equity (ROE) (%) | 11.70 | 15.74 |
| Return on assets (ROA) (%) | 1.0 | 1.2 |

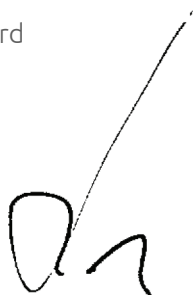
Securities Investments

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

EUR'000

| Issuer's country | Value | Coupon | Savings | Subtotal | Market value of financial instruments held to maturity | Depreciation recognised in accounts of financial instruments available for sale |
|----------------------------------|----------------|--------------|----------|----------------|--|---|
| International organisations | 26 938 | 136 | 0 | 27 074 | 0 | -10 |
| Germany | 29 262 | 328 | 0 | 29 590 | 11 860 | -11 |
| Russia | 15 337 | 346 | 0 | 15 683 | 15 034 | 0 |
| Other countries | 41 522 | 652 | 0 | 42 174 | 27 805 | -2 |
| <i>incl. central governments</i> | <i>0</i> | <i>0</i> | <i>0</i> | <i>0</i> | <i>0</i> | <i>0</i> |
| TOTAL | 113 059 | 1 462 | 0 | 114 521 | 54 699 | -23 |

Dmitrijs Latiševs
Chairman of the Board
CEO



Contact details

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