Baltikums Bank AS

III Quarter 2012 Interim Report,
(ending 30.09.2012)

Baltikums
Relations That Work

Content

Background

Baltikums Bank AS (the 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. 40003551060. 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 Bank of Latvia. Its beneficial owners are individuals resident in 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 private banking, corporate banking and wealth management.

Baltikums Bank has a head office in located in Riga (Latvia) and a branch in Limassol (Cyprus), as well as representative offices in Almaty (Kazakhstan) and Kiev (Ukraine). The Bank's shareholder also holds related companies in Moscow, St. Petersburg (Russia) and Baku (Azerbaijan)

The Group's consolidated and the Bank's separate financial statements for the first half of 2012 are 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, reg. No. 40003235171, registered office: 7 Vesetas iela, Riga, LV-1013, Latvia.

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 of Credit Institutions", and is aimed at providing information on the Bank's financial standing and the results of its operations.

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

Share Capital of the Bank

The sole shareholder of the Bank is Joint Stock Company BBG, holding 100% of the Bank's voting shares.

JSC BBG is a financial management company registered in Latvia and owned by four Latvian companies and two private individuals.

The Bank's share capital is LVL 19,756,200 (19,756,200 shares, nominal value per share: LVL 1).

Council and Board

Council

Aleksandrs Peškovs (Chairman of the Council)

Sergejs Peškovs (Deputy Chairman of the Council)

Andrejs Kočetkovs

Board

Dmitrijs Latiševs, CEO (Chairman of the Board)

Tatjana Drobina, CFA

Leonarda Višņevska, CA

Aleksandrs Halturins, CCSO

Strategy and Mission

Strategy

Baltikums Bank offers all kinds of high-value banking services necessary for its target audience. The Bank operates in areas that conform to the Bank's current business model and expertise, which, in turn, allows it to exercise the advantages and operate on highly competitive markets, as well as fields that represent an acceptable level of risk. The Bank does not provide Retail Banking services.

The Bank's long-term priorities are: Wealth Management and Private Banking, Corporate Banking, Trade Finance, as well as servicing of financial institutions and institutional investors.

The Bank's operations are not specific to any country or region, it operates on international markets. The objective is to attract high net worth individuals and companies from countries in the European Economic Area and the Commonwealth of Independent States, regardless of the country in which they are registered.

Goals

The Bank's goal is to become one of the leading private banks in the EU by rendering services of utmost quality and consumer value in order to facilitate business development and preserve and increase customers' wealth.

Structure of the Bank

The Group

No.	Name and registration number	Code of registration country and reg. address	Type of business of the enterprise	Share of voting rights (%)	Reason for inclusion in the Group
1.	"BBG" AS 40003234829	LV 13 Maza Pils str., Riga, LV -1050, Latvia	Financial Management	100%	Parent company
2.	Baltikums Bank AS 40003551060	LV 6 Smilsu str. Riga, LV-1050, Latvia	Bank	100%	Bank
3.	AS IPS "Baltikums Asset Management" 50003840061	LV 13 Maza Pils str., Riga, LV -1050, Latvia	Investment Management	100%	Subsidiary
4.	SIA " Baltikums International" 40003444941	LV 13 Maza Pils str., Riga, LV -1050, Latvia	Other business	100%	Subsidiary
5.	SIA „CityCap Service" 40003816087	LV 149 Kr. Voldemara str., Riga, LV-1013, Latvia	Other business	100%	Subsidiary
6.	SIA „ZapDvina Development" 40003716809	LV 149 Kr. Voldemara str., Riga, LV-1013, Latvia	Other business	100%	Subsidiary
7.	Kamaly Development EOOD 147093418	BG Etiera k-s 1/2B - 18, Sveti Vlas, Burgas obl., Nesebier 8256, Bulgaria	Other business	100%	Subsidiary
8.	Rostman Ltd. 56,479	BZ 35 New Road, Belize City, Belize	Other business	100%	Subsidiary
9.	Mateli Estate SIA 50103482941	LV 149-405 Kr. Valdemara str., Riga, LV-1013, Latvia	Other business	100%	Subsidiary
10.	Darzciems Estate SIA 40103492740	LV 149-405 Kr. Valdemara str., Riga, LV-1013, Latvia	Other business	100%	Subsidiary
11.	Mazirbe Estate SIA 40103492721	LV 149-405 Kr. Valdemara str., Riga, LV-1013, Latvia	Other business	100%	Subsidiary
12.	Lielie Zaķi SIA 40103493765	LV 149-405 Kr. Valdemara str., Riga, LV-1013, Latvia	Other business	100%	Subsidiary
13.	Pulkarne Entity SIA 40103481018	LV 149-405 Kr. Valdemara str., Riga, LV-1013, Latvia	Other business	100%	Subsidiary
14.	Pils Pakalpojumi SIA 40103170308	LV 149 Kr.Voldemara str., Riga, LV-1013, Latvia	Other business	100%	Subsidiary
15.	Baltikums Luxembourg S.A. № B 171575, Luxembourg	LU 42, rue de la Vallee, L-2661, Luxembourg	Other business	100%	Subsidiary

Risk Management

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 risks;
- AML (money laundering) risk;
- strategic and business risk.

The Bank's risk management principles are laid out in risk management policies approved and supervised by its Council. Implementation of the policies is monitored by the Bank's internal control units:

- Financial Analysis and Financial Risk Management Department;
- Internal Audit Department;
- Customer Activity Compliance Department.

General risk management is ensured by the following committees:

- Credit Committee;
- Assets and Liabilities Committee;
- Money Laundering Prevention Committee.

Credit Risk

Credit risk is the risk of potential loss (or reduced profit) resulting from the non-fulfilment of contractual obligations by a customer or counterparty of the Bank, an issuer of securities held by the Bank. It also includes potential loss (or reduced profit) due to falling prices of securities held by the Bank, or by impaired credit capacity of the issuer of such securities. For the Bank, credit risk is inherent in issued loans, claims on counterparties, investment in securities and other financial instruments whose price or value depends on a specific legal entity's credit capacity, as well as any other claims.

Credit risk is managed in accordance with the Credit Risk Management Policy approved by the Council. Decisions on granting loans, credit lines, overdrafts and guarantees to customers representing a credit risk for the Bank are made by the Credit Committee. According to the Bank's comply, different procedure may be specified for extending certain types of credit. The Bank's goals concerning target markets and credit products, crediting provisions, trade financing provisions, credit documentation, the process of considering and providing loans are specified in the Bank's credit policy. Management of credit risk related to loans includes evaluation of the credit capacity of potential borrowers. This is conducted by the Financial Analysis and Financial Risk Management Department, which regularly analyses the financial standing of borrowers following issuance of loans, enabling the Bank and the Group to react to a deterioration of the financial standing of its borrowers in due time. In order to mitigate the extent of credit risk it accepts, the Bank requires borrowers to provide collateral. Collateral is evaluated conservatively; options for selling collateral and controlling it (i.e. securing ownership or management of the collateral) are considered. The credit capacity of insurance companies that insure the subject of collateral is evaluated by the Financial Analysis and Financial Risk Management Department according to the Methodology for Evaluating the Credit Capacity of Insurance Companies.

The credit risk due to transactions of the Bank's Financial Markets Department (interbank loans, Forex transaction claims, loans against securities, purchase of various issuers' securities, other transactions and storage of funds on correspondent accounts with other banks) is mitigated and controlled at the Bank using limits set by the Assets and Liabilities Committee.

Limits are set on the maximum extent of the Bank's claims on each counterparty (issuer of bonds) with which (whose bonds) transactions take place. The limit system is structured according to the description of the Bank's Limit System, approved by the Assets and Liabilities Committee.

When setting limits, the Assets and Liabilities Committee ensures that sufficient information on the credit capacity of the Bank's counterparty or an issuer of bonds is available for making a decision. The credit capacity of potential institutional counterparties (i.e. banks) is evaluated in accordance with the Methodology for Evaluating the Credit Capacity of Banks. The credit capacity

Risk Management

of corporate bond issuers is evaluated according to the Methodology for Evaluating Credit Risk.

Once limits are set for counterparties and issuers of bonds, the Financial Analysis and Financial Risk Management Department regularly monitors their credit capacity according to approved methodologies.

Limits intended for controlling credit risk are supervised according to the Procedure for Controlling Observance of Counterparty Limits, which, among other things, defines the actions of Bank employees when exceeded limits are established or a counterparty fails to fulfil its obligations to the Bank. Evaluation of credit risk takes place by calculating discounted cash flows, modelling various scenarios of potential changes in the value of collateral and possible insolvency cases, which includes stress scenarios.

As of 30 September 2012, the amount of reserves in the event of asset value loss constituted LVL 2.5 mio.

Currency Risk

Currency risk is the risk of potential losses (or reduced profit) for the Bank due to exchange rate fluctuations. The Bank faces currency risk from having claims and obligations structured in a way that is not balanced according to currencies. In line with its Currency Risk Management Policy, the Bank aims for the lowest currency risk possible. The Bank has set limits on open positions in specific currencies as well as the overall open position in foreign currencies in order to manage its currency risk.

To mitigate currency risk, the Bank relies on derivative financial instruments, i.e. currency swap and forward transactions. Based on conservative limits on open currency positions and frequent changes in the structure of open currency positions, the Bank relies on stress-testing methods to evaluate currency risk.

Interest rate Risk

Interest rate risk is the risk of potential losses (or reduced profit) for the Bank due to changes in interest rates at which the Bank borrows or places its resources. Interest rate risk arises due to different dates and currencies used to "revise" interest rates for the Bank's assets and liabilities. The Bank applies the Monte Carlo simulation method to model potential interest rate changes and evaluate the respective potential for changes in pure interest income.

Securities Price Risk

Securities price risk stems from the Bank's trading portfolio, which consists of debt securities and equity. The Bank applies both the value-at-risk method and stress-testing to evaluate risks. It resorts to various limits to mitigate risks: limits on the volume of portfolios, on specific issuers, on the duration of the securities portfolio.

Liquidity Risk

Liquidity risk is the risk of potential losses (or reduced profit) for the Bank as a result of sale of assets or acquisition of resources at unfavourable prices in order for the Bank and the Group to fulfil their liabilities to creditors and depositors. Liquidity risk is caused by temporally unbalanced structuring of the Bank's claims and obligations.
Liquidity risk management is regulated by the Bank's Liquidity Risk Management Policy and consists of several elements:

- a system of liquidity risk indicators;
- cash flow planning,
- evaluation and planning of stable resources,
- stress-testing.

In order to calculate potential losses due to liquidity risk, the Bank regularly conducts stress-testing using both historic and hypothetical scenarios. The main scenario is a combined scenario consisting of a crisis for the Bank and for the market in general, which factors in considerable withdrawal of deposits and considerably reduced liquidity on the securities market. Stress-testing forecasts the potential liquidity situation, and the Bank's asset structure is shaped so as to allow the Bank to fulfil its obligations to creditors even in a crisis situation.

Risk Management

Operational Risk

Operational risk denotes the possibility of direct or indirect losses caused by uncontrollable events which occur due to flaws in the organisation of business, inadequate control, incorrect decision-making, system errors related to human factors, technology, property, internal systems, the impact of internal and external factors, legal regulation, and certain projects. The Bank regularly evaluates the probability of occurrence of operational risk identified for all crucial products, lines of business, processes and systems, as well as the impact of this risk of the Bank's operations under internal regulations developed by the Operational Risk Management Department and approved by the Board. Operational risk self-assessment methodology is used to evaluate the risk.

In order to ensure the Bank's ability to maintain operations and reduce losses in emergency situations, the Bank develops an operational continuity plan, identifying the processes and resources essential for its activity (which must therefore be restored immediately in case of faults and operational interruptions) and defines technical measures and activities as part of labour organisation and ways of restoring essential processes and resources.

Money Laundering Risk

Money laundering risk is the risk of lacking compliance of the Bank's activity to money laundering prevention regulations, or the Bank's involvement in money laundering and/or terrorist financing through its customers or counterparties. In order to manage this risk, the Bank identifies business processes subject to this risk, ensures supervision of such processes, applies acknowledged international standards and provides the necessary information technology and training of employees. The Bank's money laundering risk is managed by the Customer Activity Compliance Department and applicable committees.

Strategy and Business Risk

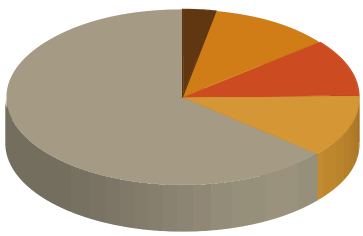
Strategy and business risk denotes the Bank's potential losses due to operation according to the strategy it has selected, which may prove erroneous or inadequate considering internal resources or external conditions.

In order to manage strategy risk, the Bank has defined a strategy, formulated its mission, primary lines of business and products, target market and customer base, as well as developed a planning system to analyse various scenarios of development conditional on the development of external trends, and an external system for controlling fulfilment of plans.

The Bank identifies risks attributable to the selected strategy and develops the relevant methods for managing them (mostly on the basis of scenario analysis), or else considers them as part of managing other substantial risks. The Bank's management is in charge of managing the strategy and business risk.

Exposure to risks

At the end of the reporting period, the Bank's equity was sufficient to cover the potential risk of loss (which is assessed using an internal methodology). The Bank's risk coverage capital is structured as shown below:



3.2 % strategic and business risk
11.2 % money laundering risk
10.4 % operational risks
11.4 % market risk
63.7% credit risk

Profit and Loss Account

30 September 2012

Title of position	30.09.2012 LVL'000	30.09.2011 LVL'000
Interest income	3 784	2 820
Interest expenses	(723)	(480)
Dividend income	107	0
Fee income	7 911	4 929
Fee expenses	(757)	(482)
Net realised profit/loss from financial assets and financial liabilities appraised at amortised purchase cost	0	0
Net realised profit/loss from financial assets available for sale	0	0
Net profit/loss from financial assets and financial liabilities held for trade	1 034	(1 092)
Net profit/loss from financial assets and financial liabilities classified as appraised at fair value with reflection in the profit/loss calculation	0	0
Changes in fair value according to risk mitigation records	0	0
Profit/loss from trading and revaluation of foreign currencies	2 346	1 000
Profit/loss from suspending acknowledgement of property, machinery and equipment, investment in property, and intangible assets	0	0
Other income	52	245
Other expenses	(365)	(1 024)
Administrative expenses	(5 353)	(4 039)
Depreciation	(163)	(195)
Result of establishing reserves	(1 754)	(291)
Recovery of written-off assets	3	6
Profit before corporate income tax	**6 122**	**1 397**
Corporate income tax	(848)	(502)
Profit for reporting year	**5 274**	**895**

Balance sheet

30 September 2012

Title of position	31.03.2012 LVL'000	31.03.2011 LVL'000
Cash and on-demand claims on central banks	20 742	11 911
On-demand claims on credit institutions	217 132	113 375
Financial assets held for trade	11 558	18 569
Financial assets classified as appraised at fair value with reflection in the profit/loss calculation	0	0
Financial assets available for sale	63	34
Loans and accounts receivable	27 917	29 403
Investments held to maturity	25 497	12 863
Changes in fair value of portfolio part hedged against interest rate risk	0	0
Accumulated income and expenses for subsequent periods	68	33
Fixed assets	260	276
Investment property	3 431	3 465
Intangible assets	171	216
Investment in the stock capital of related and associated companies	7 119	8 064
Tax assets	17	0
Other assets	4 508	6 427
Assets total	**318 483**	**204 636**
Obligations to central banks	0	0
On-demand obligations to credit institutions	2 379	1 253
Financial liabilities held for trade	90	0
Financial liabilities classified as appraised at fair value with reflection in the profit/loss calculation	0	0
Financial liabilities appraised at amortised purchase value	286 956	179 212
Financial liabilities arising from handover of financial assets	0	0
Changes in fair value of portfolio part hedged against interest rate risk	0	0
Accumulated expenses and income for subsequent periods	417	212
Reserves	203	176
Tax liabilities	392	152
Other liabilities	539	2 723
Liabilities total	**290 976**	**183 728**
Capital and reserves	**27 507**	**20 908**
Capital, reserves and liabilities total	**318 483**	**204 636**
Off-balance items		
Potential liabilities	1 266	100
Off-balance liabilities to customers	9 130	2 964

Overview of Equity and Minimum Capital Requirements

30 September 2012

No.	Title of position	During reporting period
1.	Equity (1.1+1.2+1.3+1.6) or (1.4+1.5+1.6)	26 287
1.1	First level equity	25 561
1.2	Second level equity	1 026
1.3	Reduction in first level equity and second level equity (-)	(300)
1.4	Total first level equity adjusted for reduction	25 411
1.5	Total second level equity adjusted for reduction	876
1.6	Utilised third level equity	0
2.	Total for capital requirement calculation (2.1+2.2+2.3+2.4+2.5)	12 348
2.1	Total of capital requirements for credit risk, counterparty credit risk, recovered value reduction risk and unpaid delivery risk	9 509
	Norēķinu/piegādes riska kapitāla prasība	0
2.2	Capital requirement for settlement/delivery risk	0
2.3	Total of capital requirements for position, foreign currency and goods risk	1 348
2.4	Capital requirement for operational risk	1 491
2.5	**Total of other and transitional-period capital requirements**	**0**
3.	Additional data	
3.1	Coverage of capital requirements with equity (excess (+) or deficit (–)) without accounting for the total of other and transitional-period capital requirements	17.03
= 1–(2–2.5)	13 939	13 939
3.1.a	Capital adequacy indicator (%),without accounting for the total of other and transitional-period capital requirements = 1/(2–2.5)*8%	17.03
3.2	Coverage of capital requirements with equity (excess (+) or deficit (–)) = 1–2	13 939
3.2.a	Capital adequacy indicator =1/2*8%	17.03

Performance indicators

30 September 2012

Title of position	30.09. 2012	30.09. 2011
Return on equity (ROE) (%)	27.74	5.8
Return on assets (ROA) (%)	2.52	0.73

Investment in Securities

Country	Value (thd. LVL)	Coupon (thd. LVL)	Savings (Reserves) (thd. LVL)	Total (thd. LVL)
Kazakhstan	2 820	87	0	2 907
Russia	29 473	588	0	30 061
Other countries	3 946	77	(8)	4 015
TOTAL	**36 239**	**752**	**(8)**	**36 983**

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Chairman of the Board
CEO

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