



BlueOrange

AS BLUEORANGE BANK
III Quarter
2018 Interim Report

(translated from Latvian)

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Background

AS BlueOrange Bank (hereinafter referred to as BlueOrange Bank or the Bank) is a credit institution registered on 22 June 2001, registration No. 40003551060, and regulated by the Financial and Capital Market Commission (Kungu iela 1, Rīga, LV-1050, Latvia).

The registered office of the Bank is at Smilšu iela 6, Rīga, LV-1050, Latvia.

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

The Bank's shareholders (beneficial owners) are individuals-residents of the Republic of Latvia. The Bank was founded in Latvia and is a European and international financial institution. The primary lines of business of BlueOrange Bank are servicing private individuals and managing the capital of private individuals, providing financial and crediting services to small and medium enterprises, as well as large corporate entities.

The Bank's financial statements for the twelve-months of the year 2017 are prepared in accordance with the International Financial Reporting Standards approved by the European Union, based on the principle of a going concern. The Group's financial statements for the twelve months of the year 2017 are prepared in accordance with the legislation of the Republic of Latvia. The financial reports were audited by KPMG Baltics SIA, registration No. 40003235171, legal address: Vesetas iela 7, Rīga, LV-1013, Latvia.

The quarterly report was prepared in accordance with the Financial and Capital Market Commission regulation No. 145 from 15.09.2006, "Normative regulations on preparation of public quarterly reports by credit institutions", the Financial and Capital Market Commission regulation No. 83 from 17.05.2018, "Amendments to normative regulations on preparation of public quarterly reports by credit institutions", aimed at increasing the transparency of the activities of credit institutions and promoting market discipline by providing market participants, creditors, investors and other interested parties with timely comparable information on the financial position and performance of the credit institution and its prudential consolidation group.

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

Share capital of the Bank

The shareholder of BlueOrange Bank is joint stock company "BBG", holding 100% of the Bank's voting shares.

The share capital of BlueOrange Bank is EUR 39,493,514.20.

The Bank's share capital is composed of 28,209,653 shares.

The nominal value per share is EUR 1.4.

The Council as of 30 September 2018

Name and surname	Position	Effective 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 30 September 2018

Name and surname	Position	Effective date of appointment
Dmitrijs Latiševa	Member of the Board	01.07.2002
	Deputy Chairman of the Board	25.04.2003
	Chairman of the Board	27.04.2011
Inga Preimane	Member of the Board	11.01.2016
Jānis Dubrovskis	Member of the Board	24.07.2017
Igors Petrovs	Member of the Board	31.05.2018

Strategy and mission

BlueOrange Bank is a modern, international bank that provides a wide range of financial services to individuals and businesses. The goal of the Bank is to become the best financial platform for its clients.

The Bank offers top-quality banking, investment, credit and financial services of the highest consumer value to private individuals and corporate entities, who are interested in developing sustainable business relationship.

As a priority, the Bank develops lines of business that help to improve its current business module and core competencies, allowing it to leverage its strengths on highly competitive markets while taking on acceptable levels of risk.

The long-term business priorities of BlueOrange Bank are term deposits, investment services, client financing services and e-commerce.

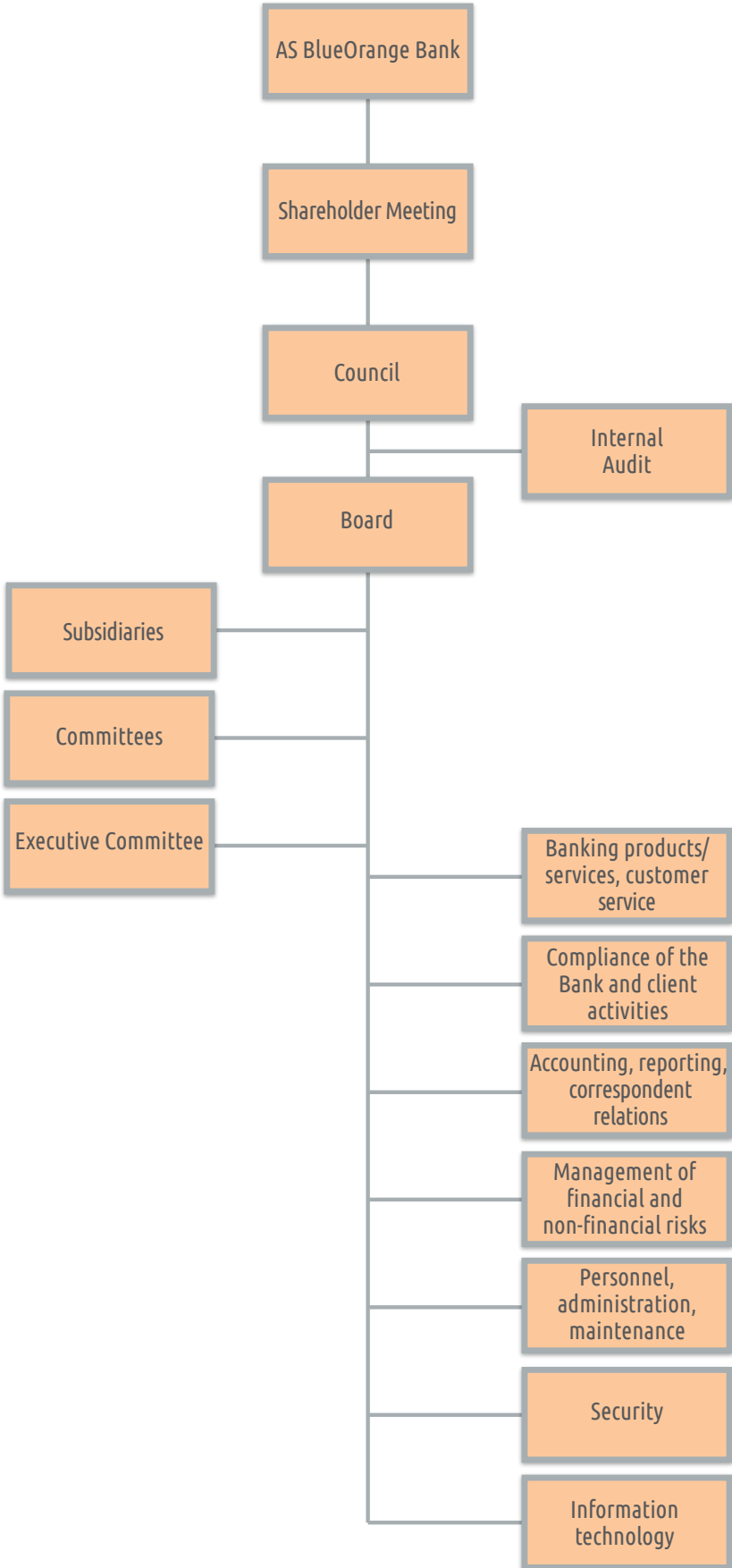
The target client base of the Bank is aligned to its key development goals:

- ✓ Private individuals and companies requiring a wide range of services for capital and asset management;
- ✓ Corporate entities engaged in international trade, transportation, logistics, manufacturing and industry;
- ✓ Small and medium-sized entities;
- ✓ Financial organisations and institutional investors requiring highly professional service for settlement and financial market operations.

Along with increasing awareness and becoming an international financial platform, the Bank offers its services in Latvia, the Baltic States and other states of the European Union, as well as to a broad range of clients world-wide.

In realizing its activities, the Bank follows a customer-oriented approach, by providing fast, efficient and safe financial solutions and at the same time creating sustainable relationship.

Structure of the Bank



Consolidated group companies

No.	Name of a commercial entity	Registration No.	Registration location code	Registration address	Type of activities*	Interest in share capital / voting shares of the commercial entity (%)	Basis for inclusion in the group**
1.	"BBG" AS	40003234829	LV	Mazā Pils iela 13, Rīga, LV-1050, Latvija	FPS		MT
2.	AS BlueOrange Bank	40003551060	LV	Smilšu iela 6, Rīga, LV-1050, Latvija	BNK	100%	MTM
3.	SIA "Blueorange International"	40003444941	LV	Mazā Pils iela 13, Rīga, LV-1050, Latvija	CFI	100%	MS
4.	SIA „CityCap Service”	40003816087	LV	Kr.Valdemara 149, Rīga, LV-1013, Latvija	PLS	100%	MS
5.	SIA „ZapDvina Development”	40003716809	LV	Kr.Valdemara 149, Rīga, LV-1013, Latvija	PLS	100%	MS
6.	Kamaly Development EOOD	№ 147093418	BG	Etiera k-s ½B – 18, Sveti Vlas, Burgas obl., Nesebier 8256, Bulgaria	PLS	100%	MMS
7.	Mateli Estate SIA	50103482941	LV	Kr. Valdemāra 149-405, Rīga, LV-1013, Latvija	PLS	100%	MS
8.	Darziems Entity SIA	40103492740	LV	Kr. Valdemāra 149-405, Rīga, LV-1013, Latvija	PLS	100%	MS
9.	Mazirbe Estate SIA	40103492721	LV	Kr. Valdemāra 149-405, Rīga, LV-1013, Latvija	PLS	100%	MS
10.	Lielie Zaķi SIA	40103493765	LV	Kr. Valdemāra 149-405, Rīga, LV-1013, Latvija	PLS	100%	MS
11.	Pulkarne Entity SIA	40103481018	LV	Kr. Valdemāra 149-405, Rīga, LV-1013, Latvija	PLS	100%	MS
12.	Pils Pakalpojumi AS	40103170308	LV	Smilšu iela 6, Rīga LV-1050, Latvija	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 2, Rīga, LV-1050, Latvija	PLS	100%	MS
17.	Blueorange-UK Limited	9690775, England and Wales (Anglija un Velsa)	GB	55 Park Lane - Suite 14, London W1 1NR, Great Britain	PLS	100%	MMS

** BNK – credit institution, ENI – electronic money institution, IBS – investment broker company, IPS – investment management company, PFO – pension fund, LIZ – leasing company, CFI – other financial institution, PLS – auxiliary service company, FPS – financial holding company, JFPS – mixed financial holding company.

** MS – subsidiary company; MMS – subsidiary of the subsidiary company; MT – parent company, MTM – subsidiary of the parent company, CT – other entity.

Risk management

BlueOrange Bank pays particular attention to the identification and management of risks in its activities. The Bank considers the following risks as significant to its activities:

- ✓ Credit risk;
- ✓ Market risk (securities price risk, interest rate risk for non-trading portfolio, currency risk);
- ✓ Liquidity risk;
- ✓ Operational risk;
- ✓ Compliance risk, including Money Laundering and Terrorism Financing risk;
- ✓ Reputation, Strategic and Business risk.

The Bank's principles of risk management are established in its risk management policies, approved and supervised by the Board of the Bank. Risk management policies identify the qualitative and quantitative criteria for identification of risks related with the activities of the Bank, as well as the elements of risk management and control, including the procedure for decision making with respect of risk exposures, limits and other risk mitigation and minimization measures, as well as the responsibilities of respective structural units for ensuring control over exposures. The Bank's Board is responsible for the establishment, implementation, management and improvement of internal control in implementing the risk management policies set by the Bank's Council.

The Bank has designated the responsible employee for risk management — the Chief Risk Officer, who is responsible for performing the risk control function at the institution, monitoring of risk management system and coordinating activities all the Bank's structural units that are involved in risk management. The implementation of the policies is controlled by the Bank's internal control structures:

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

No significant changes in management of risks of BlueOrange Bank were observed during the reporting period. Information on risk management is available in the [Bank's Annual Reports](#) and the [Capital Adequacy Assessment Report](#) on the Bank's website.

Statement of profit and loss and other comprehensive income

EUR'000

No.	Item	Credit institution in the reporting period 30.09.2018 Non-audited	Consolidated group in the reporting period 30.09.2018 Non-audited	Credit institution in the corresponding period of the previous reporting year 30.09.2017 Non-audited	Consolidated group in the corresponding period of the previous reporting year 30.09.2017 Non-audited
1	Interest income	8,449	9,006	8,070	8,460
2	Interest expenses (-)	-4,749	-5,038	-2,699	-3,025
3	Dividend income	25	25	1	1
4	Fee and commission income	16,547	16,547	12,680	12,673
5	Fee and commission expenses (-)	-3,521	-3,521	-3,889	-3,889
6	Net profit/loss from derecognition of financial assets and financial liabilities not measured at fair value through profit or loss (+/-)	74	74	0	0
7	Net profit/loss from financial assets and financial liabilities measured at fair value through profit or loss (+/-)	7,717	7,717	6,592	6,568
8	Net profit/loss from risk mitigation accounting (+/-)	0	0	0	0
9	Net profit/loss from difference in foreign currency rates (+/-)	-24	-21	0	0
10	Net profit/loss from derecognition of non-financial assets (+/-)	0	0	0	0
11	Other income	1,279	1,430	166	298
12	Other expenses (-)	-1,498	-1,432	-2,001	-1,732
13	Administrative expenses (-)	-13,311	-13,477	-12,760	-13,636
14	Depreciation (-)	-644	-1,560	-472	-577
15	Profit or loss recognised as the result of changes to contractual cash flows of the financial asset (+/-)	0	0	0	0
16	Provisions or reversal of provisions (-/+)	62	62	0	0
17	Impairment or reversal of impairment (-/+)	-797	-797	294	289
18	Negative goodwill recognised in profit or loss	0	0	0	0
19	Profit/loss from investment in subsidiaries, associate and joint ventures, recognised using the equity method (+/-)	0	0	0	0
20	Profit/loss from non-current assets and disposal groups classified as held for sale (+/-)	0	0	0	0
21	Profit/loss before corporate income tax (+/-)	9,609	9,015	5,982	5,430
22	Corporate income tax	-6	-6	-485	-485
23	Profit/loss for reporting period (+/-)	9,603	9,009	5,497	4,945
24	Other comprehensive income for reporting period (+/-)	102	102	74	74

Balance overview

EUR'000

No.	Item	Credit institution in the reporting period 30.09.2018 Non-audited	Consolidated group in the reporting period 30.09.2018 Non-audited	Credit institution in the previous reporting year 31.12.2017. Audited	Consolidated group in the previous reporting year 31.12.2017. Audited
1	Cash and on-demand claims on central banks	129,032	129,032	233,803	233,803
2	On-demand claims on credit institutions	56,983	57,015	112,495	112,523
3	Financial assets measured at fair value through profit or loss	8,053	8,053	8,769	8,769
4	Financial assets measured at fair value through other comprehensive income	23,010	23,010	54,461	54,461
5	Financial assets measured at amortised cost	259,952	278,591	198,042	217,115
6	Derivatives – hedge accounting	0	0	0	0
7	Fair value changes of the hedged items in portfolio hedge of interest rate risk	0	0	0	0
8	Investment in subsidiaries, associate and joint ventures	31,630	827	31,138	827
9	Tangible assets	6,580	31,560	6,818	31,387
10	Intangible assets	1,274	1,274	1,321	1,322
11	Tax assets	363	365	317	316
12	Other assets	12,293	12,381	13,221	13,361
13	Non-current assets and disposal groups classified as held for sale	0	0	610	611
14	Total assets (1+...+13)	529,170	542,108	660,995	674,495
15	Liabilities to central banks	0	0	0	0
16	Liabilities on-demand to credit institutions	478	478	1,428	1,428
17	Financial liabilities measured at fair value through profit or loss	0	0	232	232
18	Financial liabilities measured at amortised cost	456,386	473,133	596,424	612,086
19	Derivatives – hedge accounting	0	0	0	0
20	Fair value changes of the hedged items in portfolio hedge of interest rate risk	0	0	0	0
21	Provisions	223	882	0	660
22	Tax liabilities	0	0	0	28
23	Other liabilities	3,826	3,912	2,885	3,993
24	Liabilities in disposal groups classified as held for sale	0	0	0	0
25	Total liabilities (15+...+24)	460,913	478,405	600,969	618,427
26	Capital and reserves	68,257	63,703	60,026	56,068
27	Total capital and reserves and liabilities (25+26)	529,170	542,108	660,995	674,495
28	Off-balance items	67,147	67,138	66,201	66,189
29	Potential liabilities	9,415	9,415	12,759	12,759
30	Off-balance liabilities to clients	57,732	57,723	53,442	53,430

I. Equity and capital adequacy calculation overview

		<i>EUR'000</i>	
No.	Item	At an individual level in the reporting period	At a consolidated group or sub-consolidated level in the reporting period
1	Equity (1.1.+1.2.)	74,040	70,080
1.1.	Tier 1 capital (1.1.1.+1.1.2.)	58,570	54,609
1.1.1.	Common Equity Tier 1	58,570	54,609
1.1.2.	Additional Tier 1		
1.2.	Tier 2 capital	15,470	15,471
2.	Total risk exposure amount	400,684	392,446
2.1.	Risk-weighted exposure amount for credit risk, counterparty credit risk, dilution risk and free deliveries	328,979	319,732
2.2.	Total risk exposure amount for settlement/delivery risks		
2.3.	Total risk exposure amount for position, foreign exchange and commodity risks	14,163	14,164
2.4.	Total risk exposure amount for operational risks	57,542	58,550
2.5.	Total risk exposure amount for credit valuation adjustment		
2.6.	Total risk exposure amount related to large exposures in the trading portfolio		
2.7.	Other risk exposure amounts		
3.	Capital ratios and capital tiers		
3.1.	Common Equity Tier 1 capital ratio (1.1.1./2.*100)	14.62%	13.92%
3.2.	Common Equity Tier 1 surplus (+)/ deficit (-) (1.1.1.-2.*4.5%)	40,539	36,949
3.3.	Tier 1 capital ratio (1.1./2.*100)	14.62%	13.92%
3.4.	Tier 1 capital surplus (+)/ deficit (-) (1.1.-2.*6%)	34,529	31,062
3.5.	Total capital ratio (1./2.*100)	18.48%	17.86%
3.6.	Total capital surplus (+)/ deficit (-) (1.-2.*8%)	41,985	38,684
4.	Total capital reserve requirement (4.1.+4.2.+4.3.+4.4.+4.5.+4.6.)	10,430	10,336
4.1.	Capital preservation reserve	10,017	9,811
4.2.	Preservation reserve due to macro-prudential or systemic risk identified at the level of a member state		
4.3.	Institution-specific countercyclical capital reserve	241	353
4.4.	Systemic risk capital reserve	172	172
4.5.	Other systemically important institution's capital reserve		
5.	Capital ratios with adjustments		
5.1.	Asset value adjustment amount applied for prudential purposes		
5.2.	Common Equity Tier 1 capital ratio with an adjustment amount specified in row 5.1.		
5.3.	Tier 1 capital ratio with an adjustment amount specified in row 5.1.		
5.4.	Total capital ratio with an adjustment amount specified in row 5.1.		

II. Information on equity and capital adequacy indicators if the credit institution applies the transitional period for mitigating the impact of IFRS 9 on own funds

EUR'000

No.	Item	At an individual level in the reporting period	At a consolidated group or sub-consolidated level in the reporting period
1.A	Equity as if IFRS 9 transitional arrangements were not applied	72,642	68,682
1.1.A	Tier 1 capital as if IFRS 9 transitional arrangements were not applied	57,172	53,211
1.1.1.A	Common Equity Tier 1 as if IFRS 9 transitional arrangements were not applied	57,172	53,211
2.A	Total risk exposure amount as if IFRS 9 transitional arrangements were not applied	400,704	391,530
3.1.A	Common Equity Tier 1 capital ratio as if IFRS 9 transitional arrangements were not applied	14.27%	13.59%
3.3.A	Tier 1 capital ratio as if IFRS 9 transitional arrangements were not applied	14.27%	13.59%
3.5.A	Total capital ratio as if IFRS 9 transitional arrangements were not applied	18.13%	17.54%

Liquidity coverage ratio

EUR'000

No.	Item	At an individual level in the reporting period	At a consolidated group or sub-consolidated level in the reporting period
1	Liquidity reserve	183,065	183,065
2	Net cash outflows	106,897	105,843
3	Liquidity coverage ratio (%)	171.00%	173.00%

Expected credit losses for financial instruments

EUR'000

	Stage 1	Stage 2	Stage 3	Total
Financial assets measured at fair value through other comprehensive income	38			38
Financial assets measured at amortised cost	785	577	4,472	5,834
Potential liabilities	42			42
Off-balance liabilities to clients	160	-	20	180
Total	1,025	577	4,492	6,094

Performance indicators of the credit institution

Item	Credit institution in the reporting period 30.09.2018	Consolidated group in the reporting period 30.09.2018	Credit institution in the corresponding period of the previous reporting year 30.09.2017	Consolidated group in the corresponding period of the previous reporting year 30.09.2017
Return on equity (ROE) (%)	19.70%	17.20%	12.30%	9.30%
Return on assets (ROA) (%)	2.00%	1.90%	1.10%	1.00%

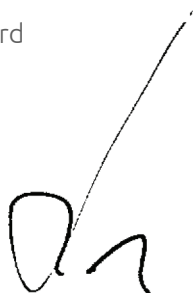
Security investments

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

EUR'000

Issuer's country	Value	Coupon	Provisions	Sum	Market value of financial instruments measured at amortised cost, without a coupon
Lithuania	22,346	8	-10	22,344	8,883
<i>incl. central governments</i>	<i>19,353</i>	<i>2</i>	<i>-2</i>	<i>19,353</i>	<i>5,988</i>
Latvia	10,745	176	-34	10,886	10,088
<i>incl. central governments</i>	<i>7,866</i>	<i>134</i>	<i>-2</i>	<i>7,998</i>	<i>7,777</i>
Portugal	10,965	177	-33	11,109	10,975
<i>incl. central governments</i>	<i>10,965</i>	<i>177</i>	<i>-33</i>	<i>11,109</i>	<i>10,975</i>
Spain	10,109	8	-6	10,111	10,128
<i>incl. central governments</i>	<i>10,109</i>	<i>8</i>	<i>-6</i>	<i>10,111</i>	<i>10,128</i>
Other countries	32,161	385	-104	32,441	16,064
<i>incl. central governments</i>	<i>8,687</i>	<i>41</i>		<i>8,728</i>	
TOTAL	86,326	754	-187	86,891	56,138

Dmitrijs Latiševs
Chairman of the Board
CEO



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