

Annual Report 2012

AP Anlage & Privatbank AG, Zürich

Annual financial statement for the financial year ended December 31,
2012 and report of the statutory auditors

Board of Directors



Alexander C. Notter
Chairman



Vladimirs Ivanovs
Vice-Chairman



Juris Jākobsons
Board Member
(since April 2012)



Dr. Peter Keppeler
Board Member



Markus Egloff
Board Member
(since April 2012)

Executive Board



Joachim Bodschinna
Managing Director



Valērijs Hudorožkovs
Deputy Managing Director

Report of the Board of Directors

The last fiscal year was again characterised by difficult economic challenges for the banking sector, with the sovereign debt crisis leading to an economic split in Europe in 2012. Painful recessions threaten the entire south; however, thanks to major efforts, national bankruptcy in Greece was averted, but the ramifications for European monetary union are difficult to predict. Domestically, pressure on margins caused by increasing competition and higher costs, due partly to increased regulation, led to a negative impact on the balance sheet.

European central banks supplied the market with almost unlimited liquidity to mitigate the impact of the sovereign debt crisis. In Switzerland, negative interest rates for short-term deposits were considered and the European Central Bank (ECB) lowered its benchmark interest rate to 0.75% (1.0% in the previous year). The Swiss National Bank's (SNB) target range remained unchanged at 0%-0.25%. The ECB declared its willingness to buy up bonds of member countries to an unlimited extent, and this measure led to a reduction in risk premiums for EU member states with low credit ratings.

European stock markets ended 2012 significantly higher. Due to historically low interest rates in the bond market, investor liquidity found its way into the stock market, leading to positive market sentiment. The Swiss Market Index closed at 6,822.44 (+14.93%), the DAX rose to 7,612.39 (+29.06%) and the Dow Jones registered a positive development for the fourth consecutive year, ending 2012 at 13,104.14 (+7.26%). The Baltic stock markets made up for their 2011 losses and also closed higher (Latvia +6.67%, Estonia +38.22% and Lithuania +18.84%).

During the second year after the implementation of the 1.20 CHF/EUR minimum exchange rate by the SNB, the exchange rate of the Swiss franc remained virtually unchanged against both the US dollar and the euro compared with the closing of the previous year. At year-end 2012, the Swiss franc closed at 0.9126 against the US dollar (2011: 0.9418) and at 1.2089 against the euro (2011: 1.2165).

Private banking is at the heart of the business activities of our bank. In addition to account management and related services, this includes stock market transactions in Eastern European equities and bonds, foreign exchange transactions and asset management with the focus on the Baltic region and neighbouring states.

In spite of the challenging market situation, our bank succeeded in expanding the basis for our business activities during the reporting period. Compared with the previous year, the number of clients rose by 16.8% and the volume of clients' deposits entrusted to us increased by 31.8%. Of personnel expenditures of CHF 2,357,838, a total of CHF 2,001,541 went to 25 employees with fixed salaries and CHF 356,297 to provisions for bonus payments for 19 employees.

The outlook for the next fiscal year presents a similar picture to 2012. Low interest rates, margin pressure, increasing regulatory requirements and difficult economic prospects will provide a challenging environment for banks in 2013.

The Board of Directors expresses its gratitude and appreciation to management and employees of the bank for their services rendered.

The Board of Directors,
March 2013



Report of the statutory auditor

To the General Meeting of
AP Anlage & Privatbank AG, Zürich

Report on the financial statements

As statutory auditor, we have audited the accompanying financial statements of AP Anlage & Privatbank AG, which comprise the balance sheet, income statement and notes for the year ended December 31, 2012.

Board of Directors' Responsibility

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements for the year ended December 31, 2012 comply with Swiss law and the company's articles of incorporation.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

Deloitte AG

Stephan Schmidli
Licensed Audit Expert
Auditor in Charge

Simon Schmid Licensed
Licensed Audit Expert

Zürich, March 4, 2W 3 STS/SSC-S/agr

Enclosures

- Financial statements (balance sheet, income statement and notes)
- Proposed appropriation of available earnings



Balance sheet
Income statement
Notes

Balance sheets as of December 31, 2012 and 2011

	Swiss Francs	
	2012	2011
Assets		
Liquid Assets	10,207,042	5,151,171
Due from banks	89,979,784	63,149,593
Due from customers	302,225	608,505
Securities and precious metal trading portfolios	90,721,264	67,018,248
Financial Investments	4,475,417	6,105,157
Fixed assets	237,855	159,245
Accrued income and prepaid expenses	1,637,583	1,362,084
Other assets	121,496	116,257
Total Assets	197,682,666	143,670,260
Total claims against group companies and significant shareholders	18,355,666	18,927,976
Liabilities		
Due to banks	5,860	6,757
Due to customers	174,612,139	121,319,618
Accrued expenses and deferred income	814,447	677,249
Other liabilities	59,758	34,070
Share capital	10,000,000	10,000,000
General statutory reserve	2,280,000	2,280,000
Other reserves	8,100,000	8,100,000
Retained earnings	1,252,566	615,750
Annual net profit	557,896	636,816
Total Liabilities	197,682,666	143,670,260
Total liabilities to group companies and significant shareholders	5,392	—

Off-balance sheet transactions as of December 31, 2012 and 2011

	Swiss Francs	
	2012	2011
Derivative financial instruments:		
- positive replacement value	6,516	3,053
- negative replacement value	5,392	2,295
- contract volume	453,990	428,828
Contingent liabilities	1,580,104	1,500,945
Irrevocable commitments	392,000	336,000
Fiduciary transactions	53,132,858	50,775,931

Income statement for the financial years ended December 31, 2012 and 2011

	Swiss Francs	
	2012	2011
Income and expenses from ordinary banking business		
Net interest income		
- Interest and discount income from money market operations	355,456	466,308
- Interest and dividend income from trading portfolio	2,886,379	2,169,682
- Interest and dividend income from financial assets	288,883	329,298
- Interest expense	(230)	(10,277)
Subtotal net interest income	3,530,488	2,955,011
Income from commissions and service business		
- Commission income from lending activities	19,211	7,946
- Commission income from securities and asset management services	790,889	634,848
- Commission income from account services	1,042,705	862,258
- Commission expense	(288,862)	(317,812)
Subtotal commission and fee income	1,563,943	1,187,240
Income from trading activities incl. foreign currency revaluation positions	(557,386)	(833,101)
Extraordinary income		
- Extraordinary income	6,977	622,376
- Extraordinary expenses	—	(50,000)
Subtotal extraordinary income	6,977	572,376
Operating expenditure		
- Personnel expenses	(2,357,838)	(1,847,178)
- General and administrative expenses	(1,327,957)	(1,204,875)
Subtotal operating expenses	(3,685,795)	(3,052,053)
Gross Profit	858,227	829,473

Income statement for the financial years ended
December 31, 2012 and 2011, continuation

	Swiss Francs	
	2012	2011
Annual profit		
Gross profit	858,227	829,473
Depreciation of fixed assets	(100,876)	(66,377)
Interim result	757,351	763,096
Tax	(199,455)	(126,280)
Annual net profit	557,896	636,816
Appropriation of earnings		
Annual profit	557,896	636,816
Retained earnings	1,252,566	615,750
Retained earnings carried forward	1,810,462	1,252,566

Notes for the financial years ended
December 31, 2012 and 2011

1. Notes on business activities and personnel

General

AP Anlage & Privatbank AG is a 100% subsidiary of Citadele Bank, Riga, Latvia. Its business activities focus on private banking, concentrating on private and corporate clients based in the Baltic states and Switzerland. In September 2011, the bank moved its domicile from Freienbach to Zurich.

Business activities

The bank is engaged in private banking activities and generates profits from the investment of funds. In addition to account management and related services for private and corporate clients, the bank offers securities trading on behalf of clients and asset management services.

Employees

As of the end of the reporting year, the bank employed a staff of 21 (19 in the previous year).

Risk assessment according to Article 663b item 12

The Board of Directors undertakes an annual risk assessment. Additional information on risk management can be found under 2.4.

2. Accounting and valuation principles

2.1 Accounting and valuation principles

General principles

Accounting and valuation principles follow Switzerland’s Code of Obligations, its Banking Act and the related ordinance, as well the Guidelines of the Swiss Financial Market Supervisory Authority (FINMA) governing financial statement reporting.

Foreign currencies

Receivables and liabilities in foreign currencies are valued according to average exchange rates on the reporting date. The following exchange rates were used:

2012		2011	
USD	0.9126	USD	0.9418
EUR	1.2089	EUR	1.2165
LVL	1.7341	LVL	1.7394
GBP	1.4715	GBP	1.4521
CAD	0.9176	CAD	0.9221
SEK	14.0219	SEK	13.6008
LTL	35.0100	LTL	35.2300
UAH	11.3100	UAH	11.7200
RUR	3.0100	RUR	2.9300
AUD	0.9479	AUD	0.9561

Notes for the financial years ended
December 31, 2012 and 2011

Securities and precious metals trading portfolios

Short-term securities held at the bank’s own risk are reported at market value on the reporting date.

Financial investments

Financial investments are valued according to the accrual method.

Fixed assets

According to group guidelines, Other fixed assets are depreciated over five years with the exception of IT equipment, which is depreciated over three years.

Deferrals

Interest expense and interest income, personnel and operating expenses are deferred. Commission income from securities business is booked at the time the transaction is entered in the income statement.

Value adjustments and provisions

Value adjustments are made and provisions set aside for all identifiable risks on the basis of the prudence principle.

Taxes

Owed and net income attributable to income tax are provided for under deferred income; excess pre-paid taxes are booked as pre-paid expenses.

Derivative financial instruments

Derivatives are stated at fair (market) value.

Pension plan liabilities

The bank uses a follow-on contract with the collective fund of an insurance company, based on a defined contribution plan. Employer contributions amounted to CHF 93,948 (2011: CHF 74,653) and are reported under personnel expenses. As of 31 December 2012, no liabilities to the collective fund existed. All risks are reinsured with insurance companies. The bank has no employer contribution reserve. There are no liabilities due to the termination of employment contracts or future reductions in contributions from available funds.

Notes for the financial years ended
December 31, 2012 and 2011

2.2. Management of endangered interest

The management of endangered interest is implemented according to the guidelines on accounting standards.

2.3 Treatment of refinancing of trading activity positions

Refinancing expenses for trading activities are charged to interest expense.

2.4 Notes on risk management

The bank is mainly active in the commission business and, as a rule, does not incur significant credit or market risks. The limits for credit and market risks are monitored constantly.

Operational risks are governed by internal regulations and directives on internal organisation. In order to limit legal risks, the bank brings in external lawyers. The bank’s governing body carries out an annual risk assessment and is regularly informed, through a management information system, about asset, financial, liquidity and earnings positions, and associated risks.

2.5 Business policy for the use of derivative instruments

Transactions involving the use of derivative financial instruments are carried out for the account of clients and for hedging.

2.6 Reporting of transactions

All transactions are recorded on the transaction date and assessed according to the principles laid out above. All completed transactions are included in the income statement. Fixed term balance sheet transactions and forward contracts are recognised at their value date. Securities transactions are reported on the balance sheet as of the settlement date.

Notes for the financial years ended December 31, 2012 and 2011

3. Balance sheet information

3.1 Summary of receivables from clients and off-balance sheet transactions

in Swiss francs	Coverage			
	Other coverage		No coverage	
	31.12.2012	31.12.2011	31.12.2012	31.12.2011
Receivables from clients	302,225	608,505	—	—
Other contingent liabilities	1,580,104	1,500,945	—	—
Irrevocable commitments	392,000	336,000	—	—

3.2 Trading positions in securities and precious metals

in Swiss francs	31.12.2012	31.12.2011
Debt securities		
- listed	90,721,264	67,018,248
- not listed	—	—
of which are own bonds and medium-term notes	—	—
Total trading assets in securities and precious metals	90,721,264	67,018,248
of which are securities eligible for repo transactions in accordance with liquidity regulations	37,973,000	28,565,000

3.3 Financial assets

in Swiss francs	Book value		Fair value	
	31.12.2012	31.12.2011	31.12.2012	31.12.2011
Debt securities				
of which are own bonds and medium-term notes	—	—	—	—
of which held to maturity	4,475,417	6,105,157	4,525,979	5,854,141
Total	4,475,417	6,105,157	4,525,979	5,854,141
of which are securities eligible for repo transactions in accordance with liquidity regulations	—	—	—	—

Notes for the financial years ended December 31, 2012 and 2011

3.4 Other assets and liabilities

in Swiss francs	Other assets		Other liabilities	
	31.12.2012	31.12.2011	31.12.2012	31.12.2011
Positive replacement values	6,516	3,053	—	—
Negative replacement values	—	—	5,392	2,295
Indirect taxes	42,263	40,491	54,366	31,775
Other assets	72,717	72,713	—	—
Total	121,496	116,257	59,758	34,070

3.5 Fixed asset schedule

in Swiss francs	2012					
	Acquisition value	Accumulated depreciation	Book value 31.12.2011	Investments	Depreciation	Book value 31.12.2012
Other fixed assets	658,237	(498,992)	159,245	179,486	(100,876)	237,855
Total	658,237	(498,992)	159,245	179,486	(100,876)	237,855
Fire insurance value of other fixed assets						450,000

3.6 Share capital and shareholders

in Swiss francs	31.12.2012			31.12.2011		
	Total nominal value	Quantity	Dividend-bearing capital	Total nominal value	Quantity	Dividend-bearing capital
Share capital:						
Share capital	10,000,000	100,000	10,000,000	10,000,000	100,000	10,000,000
Total share capital	10,000,000	100,000	10,000,000	10,000,000	100,000	10,000,000

Important shareholders:	31.12.2012		31.12.2011	
	Nominal	Percentage	Nominal	Percentage
With voting rights:				
Direct: Citadele Bank, Riga, Latvia	10,000,000	100.00	10,000,000	100.00
Indirect: Latvian Privatisation Agency, Latvia	7,500,000	75.00 (minus 1 share)	7,500,000	75.00 (minus 1 share)
European Bank for Reconstruction & Development, London, UK	2,500,000	25.00 (plus 1 share)	2,500,000	25.00 (plus 1 share)
Without voting rights: none				

Notes for the financial years ended December 31, 2012 and 2011

3.7 Statement of equity

in Swiss francs

Equity on 1.1.2012:	
Share capital	10,000,000
General reserve	2,280,000
Other reserves	8,100,000
Retained earnings	1,252,566
Total equity at 1.1.2012 (before appropriation of profit)	21,632,566
Changes 2012:	
Current year net profit	557,896
Total equity at 31.12.2012 (before appropriation of profit)	22,190,462
of which:	
Share capital	10,000,000
General reserve	2,280,000
Other reserves	8,100,000
Retained earnings	1,810,462

3.8 Maturity structure of current assets and borrowed capital

			Due			
	Sight	Subject to notice	within 3 months	from 3 months to 12 months	from 12 months to 5 years	Total
in Swiss francs						
Current assets:						
Liquid assets	10,207,042					10,207,042
Due from banks	31,693,509		58,286,275			89,979,784
Due from customers				302,225		302,225
Trading assets	90,721,264					90,721,264
Financial assets				1,178,623	3,296,794	4,475,417
Total current assets at 31.12.2012	132,621,815	—	58,286,275	1,480,848	3,296,794	195,685,732
Total current assets at 31.12.2011	84,399,353	255	50,919,659	2,752,752	3,960,655	142,032,674
Borrowed capital:						
Due to banks	5,860					5,860
Due to customers	174,612,139					174,612,139
Total borrowed capital 31.12.2012	174,617,999	—	—	—	—	174,617,999
Total borrowed capital 31.12.2011	121,326,375	—	—	—	—	121,326,375

3.9 Receivables and liabilities with related parties

	31.12.2012	31.12.2011
Demand deposits with Citadele Bank, Riga	3,136,321	995,225
Term deposits with Citadele Bank, Riga	15,208,111	17,892,192
Deferred charges/pre-paid expenses to Citadele Bank, Riga	11,234	37,506
Positive replacement values with Citadele Bank, Riga	—	3,053
Total receivables from related parties	18,355,666	18,927,976
Negative replacement values with Citadele Bank, Riga	5,392	—
Total liabilities to related parties	5,392	—

Notes for the financial years ended December 31, 2012 and 2011

3.10 Statement of required equity capital

in Swiss francs	Approach used	Equity capital requirement	
Credit risk	Standardised approach under Swiss law (SA-CH)		2'292
of which price risk concerning stocks in the banking book		—	
Non-counterparty related risks	SA-CH		119
Market risk	Standard approach		8'272
- thereof on interest rate instruments (general and specific market risk)		8'210	
- of which on equity instruments		—	
- of which on foreign exchange		62	
- of which on commodities		—	
Operational risk	Key indicators		527
Total			11'210
For SA-BIS and IRB banks: additional Swiss capital requirements for non-counterparty related risks and credit risks			
Total			11'210
Ratio of attributable/required equity capital under Swiss law			198%

3.11 Statement of eligible capital

in 1,000 Swiss francs	31.12.2012	31.12.2011
Gross core capital (after consideration of own shares, which must be deducted)	22'190	21'633
of which minority interests	—	—
of which innovative instruments	—	—
./. Regulatory deduction	—	—
./. Other elements deducted from core capital	—	—
= Eligible core capital	22'190	21'633
+ Supplementary capital and additional capital	—	—
./. Other deductions from supplementary and additional capital	—	—
and from total capital	—	—
= Eligible capital	22'190	21'633

Notes for the financial years ended December 31, 2012 and 2011

4. Information on off-balance sheet transactions

4.1 Contingent liabilities

in Swiss francs	31.12.2012	31.12.2011
Other contingent liabilities	1,580,104	1,500,945

4.2 Open derivative instruments – trading instruments

in Swiss francs	31.12.2012			31.12.2011		
	positive replacement values	negative replacement values	contract volume	positive replacement values	negative replacement values	contract volume
Forex						
Forward contracts	6,516	5,392	453,990	3,053	2,295	428,828
Total	6,516	5,392	453,990	3,053	2,295	428,828

Replacement values shown are the same as reported under the positions other assets and other liabilities.

4.3 Fiduciary business

in Swiss francs	31.12.2012	31.12.2011
Fiduciary deposits with related banks	31,043,094	9,560,416
Fiduciary deposits with third-party banks	20,412,508	39,920,540
Trust loans	1,677,256	1,294,975
Total	53,132,858	50,775,931

Notes for the financial years ended December 31, 2012 and 2011

5. Information on the income statement

5.1 Income from trading activities

in Swiss francs	2012	2011
Securities	(922,836)	(1,134,322)
Forex	365,450	301,221
Total trading income	(557,386)	(833,101)

5.2 Personnel expenditure

in Swiss francs	2012	2011
Salaries	2,097,688	1,644,960
Employee benefits	234,769	171,241
Other personnel expenditure	25,381	30,977
Total personal expenditure	2,357,838	1,847,178

5.3 Material expenditure

in Swiss francs	2012	2011
Occupancy and energy	318,740	281,648
Expenditure for IT, machinery, furnishings, vehicles and other	395,035	381,601
Other operating costs	614,182	541,626
Total material expenditure	1,327,957	1,204,875

5.4 Extraordinary expenditure

in Swiss francs	2012	2011
VAT from services purchased abroad 2006-2010	—	50,000
Total other ordinary expenditure	—	50,000

5.5 Extraordinary income

in Swiss francs	2012	2011
Expired financial investments with adjusted values from previous years	—	622,376
Insurance premium refund from previous year	6,977	—
Total other ordinary income	6,977	622,376

Offices

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