JSC “Baltic International Bank”
Publicly Available Quarterly Financial Statements
for the period ended 31 March, 2014.

Baltic International Bank

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Report from the Bank's (Group's) Senior Management

The global financial system undergoes a series of transitions along the path toward greater global stability. While the economy is showing more convincing signs of strength, the countries are moving toward normalising their monetary policies. However, the dynamics is hindered by geopolitical risks arising from country- and regional-level conflicts, which may potentially pose threats, including a threat to the financial stability.

Currently, the implementation of the Regulation (EU) No 575/2013 of the European Parliament and of the Council (the Basel III regulations) is of crucial importance in reinforcing the stability of the European financial system and maintaining sustainability in the financial sector during crisis situations. Higher minimum capital adequacy requirements (take effect in 2014) and new liquidity coverage ratio (LCR) requirements (due to take effect in 2015) are aimed at eliminating the deficiencies in financial regulation revealed by the global financial crisis.

In 1Q 2014, JSC „Baltic International Bank" (hereinafter referred to as the Bank) embarked on implementing the new bank capital and liquidity requirements, thus ensuring that the Bank's capital adequacy ratio is found in full conformity with the new requirements already this year. Measures taken by the Bank enable it to prepare to meet the proposed liquidity requirements and to test the new liquidity management techniques. 1Q 2014 proved to be successful both for the Bank and the Group (the Group's figures are shown in brackets). The Bank's operations continued to grow, and the Bank's key performance indicators (are regarded as a measure of its stability and reliability) remained at high level. As at 31 March 2014, the Bank's assets reached 368.03 million euros (368.46 million euros), up 9.32% or 31.37 million euros compared to December 2013.

In 1Q 2014, more than 50% of the assets, of which 92.26% represent 'due from credit institutions', were placed in liquid reserves. The Bank maintained a high-level liquidity ratio in 1Q 2014. The average first-quarter liquidity ratio exceeded 70%. The ratio was 76.86% as at 31 March 2014, a 5.33 percentage-point rise over the figure as of 31 December 2013 (31.12.2013: 71.53%). The liquidity ratio was boosted by the growth of customer deposits and subsequent allocation of customer-placed resources in highly liquid assets.

While implementing the Regulation (EU) No 575/2013 of the European Parliament and of the Council, Bank increased the portfolio of highly liquid securities in 1Q 2014. The portfolio totalled 19.37 million euros as at 31 March 2014 (31.12.2013: 11.76 million euros), and the per-quarter growth of the portfolio was 64.65% or 7.61 million euros. Traditionally, fixed-income debt securities represented the major holding within the securities portfolio (68.61% of the portfolio). To meet the new bank capital and liquidity requirements, in 1Q 2014 the Bank invested in debt securities issued by prime-category issuers, namely, the central governments of Latvia and Lithuania and bonds issued by multilateral development banks (MDBs), whose total percentage was 45.32% of the portfolio as at 31 March 2014. It's worth mentioning that in 1Q 2014 the Bank sold the whole portfolio of securities issued by Ukrainian issuers, taking into consideration heightened risks and preferring more liquid and safe investments. As a result, over 60% of the total portfolio comprised investment-grade securities (rated Baa3 and higher) as at 31 March 2014.

The Bank's loan portfolio reached 98.68 million euros (96.94 million euros) as at 31 March 2014 and represented 26.81% of the Bank's assets. The Bank's portfolio continues showing stable credit-quality indicators. As at 31 March 2014, the percentage of loans past due 90+ days remained almost unchanged and was

11.53% (11.74%) of the loan portfolio (31.12.2013: 11.09% (11.31%)). Allowances for loan losses have not changed and totalled 5.70% of the loan portfolio (31.12.2013: 5.46%).

The customer acquisition programme proved to be a success. In 1Q 2014, the Bank-held volume of customer deposits grew by 12.78% or 35.18 million euros. As at 31 March 2014, the deposits totalled 310.47 million euros (92.78% of the total liabilities). Customer deposits remain the primary source of financing the Bank's operating activities. Since the beginning of the year, the total customer assets (which comprise deposits, the issued debt securities, assets under management and brokerage portfolio) have increased by 8.58% to reach 524.90 million euros.

To continue the funding base diversification commenced in 2013, the Bank launched several new bond issues during the reporting period. The bonds were issued under the Programme No 1. As at 31 March 2014, the customers held the Bank's bonds 8.23 million euros worth. When investing their own funds in the bonds, the Bank's customers preferred two-year maturity bonds that made up 86.01% of the total issue.

The shareholders' equity totalled 33.40 million euros as at 31 March 2014 (31.12.2013: 33.34 million euros). The capital adequacy ratio (CAR) was 15.53% (15.31%). Amidst an active growth of the Bank's business, the appropriate-level CAR was fostered by growth of new subordinated deposits. In 1Q 2014, the subordinated deposits grew by 10.38% to reach to 12.25 million euros as at 31 March 2014.

On a year-over-year basis, the Bank's operating income grew by 8.80% to reach 3.09 million euros (3.12 million euros). The customers increasingly used payment and settlement services, brokerage and trust services as well as card products. The net fee and commission income therefore increased in 1Q 2014 by 41.41% or 400 thousand euros year-over-year. The percentage of the net fee and commission income within the operating income has grown to 44.18% from 33.99%. It is indicative of the diversification of the Bank's income sources. The net fee and commission income, which made up 47.28% of the total operating income as at 31March 2014 (31.12.2013: 52.50%), still remains the primary source of income. The percentage of the net fee and commission income continues to grow as planned.

In 1Q 2014, the Bank has undertaken a series of cultural projects. In February 2014, the premiere of the film „I WILL NOT DIE" was held. Dedicated to Ilmars Blumberg, the film was initiated by a patron of arts Valeri Belokon and sponsored by the Bank. The film signifies a continuance of the partnership with a famous Latvian artist Ilmars Blumberg. Originally, fundamentals of the partnership were laid down in 2009. In autumn of 2013, the artist celebrated his 70-year jubilee. The Bank supported his solo exhibition titled „I Will Not Die", and the edition of the eponymously-named book about Blumberg's life and art.

In March 2014, the Chairperson of the Bank's Board Ilona Gulchak was elected as a member of the ACBL Council for a three-year term at the annual meeting of the members of the Association of Commercial Banks of Latvia (ACBL).

In recognition of the value and importance of its services, the Bank received two awards in the „Gold Coin 2014" competition (the competition was closed in March 2014). The Bank's 'Deposit 33' ranked third in the 'Export of Financial Services' category. Also, Bank was the third-place award recipient in the 'Sustainability Solutions' category for its project „Conference dedicated to Baltic International Bank's 20-year anniversary and bringing together world-level experts".

With first-quarter success, the Bank is well positioned to boldly pursuing its development goals in 2014.

Members of the consolidation group

№	Company name and registration number	Code of registration state and address	Institution type1[1]	Ownership interest (%)	Percentage of voting rights (%)	Rationale behind the inclusion within the group[2]
1	AS "Baltic International Bank", 40003127883	LV, Kalēju iela 43, Riga	BNK	100	100	PC
2	SIA "BIB Consulting", 50103457291	LV, Grēcinieku iela 6, Riga	SE	100	100	PCS
3	SIA "BIB real Estate", 40003868021	LV, Kalēju iela 41, Riga	OFI	100	100	PCS
4	SIA "Gaujas īpašumi", 40103249888	LV, Kalēju iela 41, Riga	OFI	100	100	SCS
5	SIA "Global Investments", 40003785660	LV, Merkeļa iela 6 - 11, Riga	OFI	100	100	SCS

[1] BNK - bank; OFI - other financial institution; SE - supporting enterprise.

[2] PC - parent company; PCS- parent compaby subsidiary company; SCS - subsidiary company subsidiary company.

Bank’s shareholders

The Bank's share capital totals EUR 29 556 042 and is divided into 4 154 421 ordinary shares carrying identical voting rights. All shares are registered. Each share carries the right to one vote at the meetings of shareholders, a right to receive dividends as declared from time to time and a right to residual assets. Each share has a par value of EUR 7,11435905.

Of the Bank’s 93 shareholders, 28 are corporate entities and 65 are private individuals.

Listed below are the shareholders who control more than 10 percent of the shares in the shareholders’ equity:

- Valeri Belokon – 69,89467%
- Vilori Belokon – 30,00969%.

Bank's senior management

Supervisory Council (31.03.2014)

Name and surname	Position
Valeri Belokon	Chairperson of the Council
Albert Reznik	Deputy Chairperson of the Council
Vlada Belokon	Member of the Council

Management Board (31.03.2014)

Name and surname	Position
Ilona Gulchak	Chairperson of the Board
Natalja Tkachenko	Deputy Chairperson of the Board
Alon Nodelman	Member of the Board
Dinars Kolpakovs	Member of the Board
Janis Apelis	Member of the Board

Bank's organisational structure

The Bank maintains representative offices in Moscow (Russian Federation), London (UK), and Kyiv (Ukraine).

- General Meeting of Shareholders
  - Council
    - Internal Audit Service
    - Chief Risk Officer
    - Office of the Council
    - Board
      Chairperson of the Board
      - Chairperson of the Board
        Compliance Director
        - Office of the Board
        - Compliance Department
        - Customer Identification and Transactions Controlling Department
        - Legal Department
        - Marketing and Communications Department
        - Asset Management Department
        - Representative Offices
      - Deputy Chairperson of the Board
        CEO
        - Administrative Department
        - Correspondent Banking and International Payments Department
        - Treasury Department
      - Board member
        - Finance Director
        - Technical Support Department
        - Information Technologies and Business Support Director
        - Risk Management, Statements and Analysis Department
        - Accounting and Cash Operations Department
        - Loans and Documentary Operations Department
        - Payment Cards Division
      - Board member
        - Client Service Administrator
        - Wealth Management Groups
        - Corporate Service Groups
        - Client Service Analytical Division
      - Board member
        - Security Service
        - Information Department

Bank's operational strategy and goals

Our mission is to become a boutique and prominent bank in the Baltic region, specifically designed to provide family wealth management (FMW) to high-net-worth individuals (HNWIs).
A 'customer-comes-first' attitude:

- Customer family's welfare and comfort: banking comfort, financial comfort, and life comfort
- Family business interests

Family wealth management services for affluent families: dynamic and proactive development, moderate risk.
Family wealth is managed through

- structuring banking products according to 3 comfort levels: banking comfort, financial comfort, and life comfort;
- broadening the range of banking services to include investment offerings: asset management, alternative investments, equity investments, and brokerage services;
- developing non-financial services: tax and legal advice; structurisation, protection and inheritance of assets; lifestyle management.

While developing and offering banking product, Bank applies an open-architecture approach.

Bank's target markets to acquire new customers:

- Russia
- Ukraine
- Belarus
- United Kingdom
- Latvia.

Our values:

- Stability. Our conservative attitude to risk-taking has enabled us to tide over difficulties arising from the global and regional financial crisis. Wealth protection and capital preservation is our main priority.
- Trust. Customer-centric approach, reliability, high-quality service, outstanding reputation, and confidentiality
- Flexibility. Maximum comfort for every client's family in any time, any place, and any situation.
- Exclusiveness. Today's readiness for tomorrow's challenges.
- Professionalism. Understanding the features specific to Western and Eastern markets, experience in elaborating individual solutions.

Risk analysis

The Bank's (Group's) business is exposed to various risks, of which core risk categories are credit risk, liquidity risk, market risks (including foreign exchange risk, interest rate risk) and operational risk. All of the risks stem from the impairments of the borrower's credit solvency, exchange rate fluctuations, interest rate fluctuations, personnel errors, and other factors.

The Risk management process comprises four steps:

- risk identification;
- risk evaluation;
- risk management;
- risk supervision.

Risk identification process stipulated development of a portfolio of all risks associated with the Bank's (Group's) business. Risks inherent in the Bank's (Group's) activities are identified in accordance with the Bank-adopted Procedure for Identifying Significant Risks.
The Bank applies various qualitative and quantitative techniques that are useful for prevention of and timely response to increasing risk conditions.

Risk management is part of organisational decision-making with respect to:

- risk mitigation (eg. limit-setting, reduction of transaction volume);
- risk acceptance (eg. forming capital reserves);
- risk transfer (eg. insurance, hedging).

Risk supervision involves an ongoing monitoring of the exposures, implementing an effective risk mitigation procedure and improving the procedure in response to market changes.
Risk management strategy is designed to ensure the optimal balance between expected risks and return.
The Bank's Board and committees continuously verify compliance with the regulatory requirements and guidelines outlined in the Bank's internal guidance documents. Bank has established a special-purpose organisational unit (the Risk Management Division.) whose main task is to ensure the management of risks inherent in the Bank's (Group's) business in order to timely prevent adverse impacts of various risks to the Bank's (Group's) financial condition.The Bank's Council approves strategies and policies relating to the assessment and management of risks and (at least once a year) analyses the internal reports containing the assessment of risks inherent in the Bank's (Group's) business.
In view of the expansion of the Bank's activity and the evolvement of the financial market, the Bank regularly improves its risk management system over which the Internal Audit Department maintains continuing control.

Credit risk

Credit risk is the risk that the Bank may sustain losses through a counterparty's or debtor's failure to meet contractual obligations vis-à-vis the Bank.
Main sources of credit risk:

- Borrower's inability to meet all financial obligations in a timely fashion;
- Deterioration in the borrower's financial condition;
- Changes in the country's economic and political environment and restrictions imposed by governmental authorities.

<u>Lending business</u>
The Bank issues loans in accordance with the Loan Policy. The Bank conducts, in a timely manner, credit quality assessment (CQA), estimates potential losses, and regularly verifies quality of the outstanding loans in order to prudently estimate an impairment loss on the loans and to determine the impairment loss

allowance to be recognised in the financial statements as of the reporting date. At the Bank, the credit risk management process essentially involves two distinct phases: credit risk management before issuing a loan and credit risk management after issuing the loan.
Before issuing a loan, the Bank analyses:

- loan purpose and loan repayment sources;
- borrower's current risk profile, including the types of risk already taken on by the borrower; the value of an asset used as loan collateral and its market liquidity; whether the loan to be taken out is in the same currency as the borrower's income;
- borrower's own contribution under the co-financing arrangement;
- sufficiency of borrower's (a natural person) incomes to cover debt-servicing expenses, taking into consideration the debt-service coverage ratio (DSCR) used by the Bank to determine whether the borrower will be able to pay off the loan; borrower's income stability, including the development of the economic sector or geographic region where the borrower's place of employment (which is an economic operator) is based and the operator's position in the market;
- borrower's (which is an economic operator) economic performance indicators, financial condition, the projected cash flow to be used for loan repayment; the development of the respective economic sector or geographic region and the borrower's position therein; competence of the borrower's management;
- borrower's relationship to a group of connected clients or a Bank-related parties;
- borrower's credit history at the Bank and information gathered from outside sources, including the Credit Registry;
- country risk, if a loan is granted to a non-resident borrower;
- availability, eligibility and sufficiency of the collateral, taking into consideration limit set for loan-to-value-ratio (LTV), i.e. the relationship between a loan amount and the asset) that is the security for the loan; possibility for the collateral taker to dispose of or use the collateral under various scenarios;
- credit capacity (i.e. repayment ability) of third-party credit enhancers acting as guarantors for the Bank-provided loan;
- credit-granting terms and conditions and additional conditions expected to hedge against future changes in the borrower's risk profile.

The credit risk management process during the post-issuance period is carried out in accordance with the Procedure for Managing Credit Risk Inherent in the Loan Portfolio. The Procedure sets forth guidelines for identifying credit risk and its sources, credit risk assessment, measurement, management and control.
During the credit risk management process is divided into two steps: (1) assessment of the credit risk inherent in individual loans; (2) assessment of the credit risk inherent in the entire portfolio plus stress testing of the loan portfolio.

The following table provides information on the credit quality of the loan portfolio:

Loans	31.03.2014 (unaudited)		31.12.2013 (audited)	
	Group	**Bank**	**Group**	**Bank**
Overdue for more than 90 days (EUR'000)	14 823	14 823	14 952	14 952
Overdue for more than 90 days less provisions (EUR'000)	11 380	11 380	11 486	11 486
'Overdue for more than 90 days' as a percentage of the loan portfolio	14.46	14.17	13.95	13.65
'Overdue for more than 90 days less provisions' as a percentage of the loan portfolio	11.74	11.53	11.31	11.09

Securities portfolio

Securities-related credit risk (also known as default risk) is the risk that the Bank will sustain losses if the security's issuer and/or holder are unable or refuse to perform their obligations owed to the Bank, emanating from the securities issued and/or held.

The Bank-approved Procedure for Managing Securities Portfolio Risk sets forth the risk management objectives and risk assessment criteria in order to prevent the adverse affects of the securities portfolio-related credit risk on the Bank's financial condition. The Bank conducts the credit risk analysis and control both for its trading book and non-trading (banking) book.

To mitigate potential loss from transactions in securities, the Bank uses various techniques that allow Bank to prevent and identify, in a timely manner, the factors that increase the credit risk inherent in the securities.

As part of the securities portfolio-related credit risk analysis, the Bank evaluates the creditworthiness of the actual issuers and holders. The techniques applied include: monitoring of credit ratings assigned to the issuers; monitoring of the issuers' financial condition; monitoring of political and economic environment in particular countries (home countries of the actual issuers); monitoring of particular sectors of the economy (home countries of the actual issuers).

The financial condition of the actual issuers is analysed and the appropriate limits are imposed according to the Bank-approved Procedure for Evaluating Counterparties Involved in Transactions with Bank- and Customer-Owned Financial Instruments.

To hedge risks associated with securities-based transactions, the Bank has imposed limits to the risk inherent in the securities portfolio and limits to concentration of the securities portfolio.

The Bank's (Group's) securities portfolio broken down by country is:

	31.03.2014 (unaudited)			
	Financial assets held for trading	Financial assets available for sale	Investments held to maturity *	**Total**
	EUR'000	EUR'000	EUR'000	**EUR'000**
Russia	841	0	2 708	**3 549**
Multilateral Development Banks	0	7 523	0	**7 523**
United Kingdom	0	4 735	0	**4 735**
other countries	803	489	2 271	**3 563**
total	**1 644**	**12 747**	**4 979**	**19 370**
allowances	0	0	0	**0**
book value	**1 644**	**12 747**	**4 979**	**19 370**

**mark-to-market value doesn't differ significantly from book value*

Structure of investments held to maturity is as follows:

Securities	31.03.2014 (unaudited)		31.12.2013 (audited)	
	Group	**Bank**	**Group**	**Bank**
	EUR'000	EUR'000	EUR'000	EUR'000
Debt securities of credit institutions	468	468	2 304	2 304
Debt securities of private companies	2 042	2 042	2 052	2 052
Debt securities of public non-financial companies	590	590	610	610
Debt securities of central governments	1 879	1 879	747	747
total	**4 979**	**4 979**	**5 713**	**5 713**

Transactions with banks

The Bank assesses credit risk inherent in the Bank's transactions in order to ascertain the likelihood (i) of counterparty default (inability of the Bank's counterparties to timely fulfil their obligations owed to the Bank); (ii) decline in the Bank's profits as resulting from deterioration in the financial condition of the counterparties. Transactions with banks are conducted according to the Procedure for Managing Credit Risk Inherent in Transactions with Banks and Assigning Risk Categories.
Management of risks inherent in transactions with banks encompasses:

- analysis of credit capacity of the counterparty banks;
- assessment of concentration levels;
- analysis of financial performance indicators (FPIs) of the counterparty banks;
- monitoring of credit ratings assigned to the counterparty banks;
- gathering non-financial information about the counterparty banks;
- limit-setting.

Transactions with banks specified by credit ratings:

Credit ratings	31.03.2014 (unaudited)		31.12.2013 (audited)	
	Group	**Bank**	**Group**	**Bank**
	EUR'000	EUR'000	EUR'000	EUR'000
Rated Aaa to Aa3	0	0	0	0
Rated A1 to A3	121 075	121 075	100 194	100 194
Rated Baa1 to Baa3	38 188	38 188	32 062	32 062
Rated Ba1 to Ba3	0	0	0	0
Rated B1 to B3	2	2	43	43
Rated Caa1 to Caa3	2 195	2 195	2 221	2 221
Not rated	38 018	38 018	20 448	20 448
total	199 478	199 478	154 968	154 968
allowances	0	0	0	0
book value	**199 478**	**199 478**	**154 968**	**154 968**

Liquidity Risk

Liquidity risk means the risk to Bank's earnings and capital arising from its inability to
(i) satisfy legally grounded claims without incurring material losses;
(ii) withstand unexpected changes in Bank's resources and/or market conditions since Bank would not possess a sufficient (adequate) volume of liquid assets.

Main sources of liquidity risk:
- Mismatch in the cash flows of assets and liabilities;
- Concentration of funding sources (reliance on a single client or a group of clients);
- Abrupt decrease in the funding resources;
- Assets which are difficult to sell off.

The basic principles of liquidity risk management are set forth in the liquidity risk management strategy, policy and procedure. Bank's Council and Board bear ultimate responsibility for effective liquidity risk management process and formulating and implementing the relevant strategy, policy and procedure. The Resources Supervision Committee is responsible for liquidity risk control. The Risk Management Division is responsible for (i) a daily assessment and monitoring of liquidity risk and (ii) presentation of accurate information to Bank's senior management. According to the liquidity risk management strategy, Bank holds an adequate liquidity buffer for current obligations, taking into consideration both the funding liquidity risk and market liquidity risk.

To assess liquidity risk on a daily basis, Bank calculates and analyses several types of liquidity ratios and funding structure related ratios as well as the maturity pattern of assets and liabilities. Specifically for the purpose of risk analysis, Bank uses also stress tests to identify sources of potential liquidity strain and to quantify the required liquidity buffers. To mitigate liquidity risk, Bank designs a sound and effective system of internal limits, regularly assesses the liquidity risk level and analyses the reasons triggering changes in liquidity risk level. The internal limit system is built upon operating limits set on financial transactions, net

positions (within the maturity pattern of assets and liabilities), liquidity ratios and funding structure related ratios. To timely identify adverse tendencies (vulnerabilities), such as an abrupt runoff of customer deposits, or asset-liability mismatch, Bank has developed the early warning indicator methodology. When analysing the adverse tendencies, Bank evaluates whether liquidity risk mitigation arrangements should be taken (for instance, to build up additional liquidity buffers).

To reduce the impact of adverse events on Bank's financial condition in a timely and cost- proportionate manner, Bank has the Liquidity Contingency Funding Plan (plan for continuing as a going concern during liquidity crisis) in place. The Plan sets forth the principles for identifying a liquidity crisis and the appropriate measures to be taken to overcome stressed situations. The purpose of Bank's Liquidity Contingency Funding Plan is to protect the interest of Bank's depositors, creditors and shareholders and to prevent a shortage of liquid assets.

As at 31 March 2014, the Bank's liquidity ratio was 76.86 percent (31 December 2013: 71.53 percent), above the 60-percent regulatory threshold as set by the FCMC.

Market risk

Market risk is the risk to the Bank's income/expense (and equity capital) arising from adverse changes in the market prices for financial instruments, commodity prices, foreign exchange rates, and interest rates.

Main sources of market risk:

- Changes in market prices for financial instruments;
- Changes in commodity prices;
- Foreign exchange rate fluctuations;
- Interest rate variability.

Market price risk inherent in securities is the risk that the Bank's income/expense (and equity capital) and originates from unfavourable security price variations in the securities market.

The Bank-approved Procedure for Managing Risk Inherent in Securities Portfolio sets forth the risk management objectives and risk assessment criteria in order to prevent the adverse affects of the securities portfolio-related market price risk on the Bank's financial condition.

The Bank conducts the market price risk analysis and control both for its trading book and non-trading (banking) book comprising securities.
To mitigate potential loss from transactions in securities, the Bank uses various techniques that allow Bank to prevent and identify, in a timely manner, the factors that increase the risk inherent in the securities.

The analysis of market price risk inherent in securities stipulates: measurement of market price volatility, determination of market liquidity (for each position in a particular security and the overall open position in securities comprised within the portfolio); determination of the level of concentration (by actual issuers, countries, and economic sectors.

To hedge risks inherent in securities-based transactions, the Bank sets limits on risk-taking (risks associated with the securities contained within the portfolio); limits on diversification of the securities portfolio; limits on liquidity.

Foreign Exchange Risk

Foreign exchange risk (or foreign currency risk) is the risk associated with re-measurement of on and off balance sheet items into domestic currency and resulting from fluctuating foreign currency rates (gold is treated akin to foreign currency).

Main sources of foreign exchange risk:
- A substantial amount of the net open foreign-currency positions (NOFP);
- Foreign exchange rate fluctuations.

To manage foreign exchange risk, the Bank has formulated and adopted the Foreign Exchange Risk Management Policy. The Resources Supervision Committee is responsible for ensuring compliance with the Policy which establishes the foreign exchange exposure limits. To meet the requirements of the Credit Institutions Act, the net open position in any foreign currency may not exceed 10 percent, while the sum of overall foreign exchange exposure and the net position in gold may not exceed 20 percent of the Bank's equity.

Figures show that a 10 percent weakening of the euro against other currencies may have a material impact on the Bank's (Group's) profit:

	31.03.2014 (unaudited)	
	USD	**GBP**
Rate valid	1.379	0.828
Foreign currency position (EUR'000)	481	-66
Profit/(loss) (EUR'000)	-66	5

Interest Rate Risk

Interest rate risk is the risk that fluctuating interest rates will adversely affect Bank's earnings and Bank's economic value.
Main sources of interest rate risk:
- *repricing risk* means the probability of experiencing a financial loss due to timing differences in the residual maturity and repricing of Bank's assets, liabilities and off-balance sheet (OBS) positions;
- *yield curve risk* means the probability of experiencing a financial loss due to unanticipated changes in the slope and shape of the yield curve (a graphical depiction of the relationship between the yield and maturity);
- *basis risk* means the probability of experiencing a financial loss due to changes in interest rates for financial instruments with identical re-pricing characteristics/ frequencies and differing interest rate characteristics;
- *optionality risk* means the probability of experiencing a financial loss due to the existence of the express or implied options embedded in financial instruments.

Bank's Board bears ultimate responsibility for assessing interest rate risk and establishing an effective interest rate risk management process to enable Bank to mitigate the risk. The Resources Supervision Committee, in close liaison with the Risk Management Division ensures that interest rate risk is monitored and managed in a proper manner. Bank's Interest Rate Risk Management Policy and Procedure set forth the

methodology for interest rate risk measurement, which enables Bank to estimate the impact of interest rate risk on Bank's earnings and economic value. Bank uses quantitative techniques of measuring interest rate risk such as:

- *Gap analysis technique*. Gap analysis is used to measure the material effects of parallel increase in interest rate (a 1 percentage point increase or a 100 bp upward swing in interest rates) on Bank's annualised net interest income (NII), assuming that interest rates change concurrently, i.e. changes in interest rates simultaneously affect assets and liabilities appearing on the balance sheet.
- *Simplified duration method*. Duration analysis is used to estimate the impact of abrupt and unanticipated interest rate swings on Bank's economic value.
- Bank performs *stress testing* and scenario analysis through simulating different adverse situations. The scenarios incorporate both internal and external events that negatively affect Bank's asset / liability maturity structure, thus causing asset-liability imbalances and net interest income volatility.

To hedge interest rate risk, Bank establishes operating limits for (i) a tolerable decrease in the economic value and (ii) potential changes in the net interest income variable.

Information about how interest rate changes affect the Bank's annual net interest income is disclosed on page 108 (107) of annual report 2013.

Operational risk

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events, excluding compliance and strategic risk. Operational risk is inherent in all Group's and Bank's objects (processes, products and activities).

According to the Bank's internal classification scheme, operational risk sources are divided up into the following categories: risk of system failure or unreliability; risk of IT system and risk of software failure; risk of poor methodology; risk of poor organisational structure; risk of human errors or oversights; risk of internal fraud and risk of external fraud; risk of external interference (adverse affect on the processes); inappropriate employment practices and workplace safety; incorrect attitude towards clients, inappropriate products and business practices, lack of proper execution, delivery and process management; legal documentation risk.

The Bank has adopted the Operational Risk Management Policy and Operational Risk Management Procedure which set forth operational risk objectives, principles and stages of risk assessment. The Bank's operational risk management process is divided into four steps: identification, evaluation, regulation and control.

According to the internal guidance documents, operational risk identification encompasses the identification and classification of operational risk objects, sources, losses stemming from adverse events.

To measure operational risk, the Bank applies three methods: expert method, the system of risk indicators, and the 'actual loss' method (the loss modelling method which collects actual loss data from the recorded adverse events.

Bank ensures that the identified operational risk (inherent in all significant banking product, activities, processes and systems) and losses stemming from adverse events are being monitored on a regular basis, in line with the frequency and nature of the changes occurring in the Bank's business environment in order to timely detect and prevent inconsistencies in the Operational Risk Management Policy and Operational Risk Management Procedure and, hence, to reduce the probability of operating loss.

Operational risk supervision encompasses ongoing control of operational risk resulting in that the Bank updates its register of adverse events, makes decision about the Bank's readiness to take on operational risk, and determines the level of basis operational risk and the level of acceptable operational risk.

In order to timely detect and prevent adverse events and their sources, the Bank records losses arising from the adverse events in the Register of adverse events. The Bank singles out the internal collected data about actual and/or potential losses as well as the external collected data about actual and/or potential losses.
The Bank maintains bank-wide operational risk management (all organisational units are involved in the operational risk management process). The Bank's framework for delineation of responsibilities and authorities and decision-making (the framework's purpose is to ensure appropriate operational risk management process) is distinguished by the necessary flexibility and integrity.

Compliance risk

Compliance risk is the risk of legal or regulatory sanctions, material financial loss, or loss to reputation and franchise value the Bank may suffer as a result of its failure to comply with laws, regulations and rules, related self-regulatory organisation standards (together, "compliance laws, rules and standards").
Compliance risk is also referred to as integrity risk, because the Bank's reputation is closely connected with its adherence to principles of integrity and fair dealing.
Compliance risk is the risk that can

- result in lost earnings and/or can cause additional expenses (lead to reduced franchise value of Bank);

Compliance risk is the risk that can

- result in lost earnings and/or can cause additional expenses (lead to reduced franchise value of the Bank);
- lead to lessened expansion potential; compliance risk arises from violations of, or non-conformance with laws, rules, regulations, prescribed practices, or ethical standards;
- result in an adverse opinion from the Bank's clients, counterparties, shareholders, regulatory and supervisory authorities.

Compliance risk identification is carried out according to the Bank-adopted Compliance and Reputational Risks Management Policy and Compliance and Reputational Risks Management Procedure.

Baltic International Bank

Income statement

Item	01.01.2014.-31.03.2014. (unaudited)		01.01.2013.-31.03.2013. (audited)	
	Group	**Bank**	**Group**	**Bank**
	EUR'000	EUR'000	EUR'000	EUR'000
Interest income	2 030	2 047	2 021	2 042
Interest expense	-585	-585	-550	-550
Dividend income	0	0	1	1
Fee and commission income	1 636	1 637	1 145	1 145
Fee and commission expense	-271	-271	-179	-179
Net realised gain/loss on financial assets and financial liabilities carried at amortised cost	0	0	0	0
Net realised gain/loss on available for sale financial assets	0	0	0	0
Net gain/loss on financial assets and financial liabilities held for trading	-160	-160	2	2
Net gain/loss on financial assets and financial liabilities at fair value through profit or loss	0	0	0	0
Changes in fair value of the hedged items	0	0	0	0
Gain/loss on trade in and revaluation of foreign currencies	308	308	332	332
Gain/loss on derecognition of property, plant and equipment, investment property and intangible assets	0	0	0	0
Other income	162	116	108	49
Other expenses	-67	-66	-36	-32
Administrative expenses	-2 672	-2 643	-2 219	-2 184
Depreciation	-304	-304	-272	-272
Result of provisions for doubtful debts	5	5	37	37
Impairment losses	0	0	0	0
Profit/loss before corporate income tax	**82**	**84**	**390**	**391**
Corporate income tax	0	0	0	0
Profit/loss for the current year	**82**	**84**	**390**	**391**

Baltic International Bank

Balance sheet statement

Item	31.03.2014 (unaudited)		31.12.2013 (audited)	
	Group	Bank	Group	Bank
	EUR'000	EUR'000	EUR'000	EUR'000
Cash and due from central banks repayable on demand	16 545	16 540	31 446	31 444
Due from credit institutions repayable on demand	188 961	188 961	133 088	133 088
Financial assets held for trading	1 806	1 806	3 135	3 135
Financial assets at fair value through profit or loss	0	0	0	0
Financial assets available for sale	12 747	12 747	4 382	4 382
Loans and receivables	107 456	109 196	123 441	125 461
Other due from credit institutions	*10 517*	*10 517*	*21 880*	*21 880*
Loans	*96 939*	*98 679*	*101 561*	*103 581*
Investments held to maturity	4 979	4 979	5 713	5 713
Change in fair value of a hedged portion of the portfolio attributable to the interest rate risk	0	0	0	0
Deferred expenses and accrued income	2 052	2 052	2 262	2 261
Fixed assets	17 569	17 569	17 503	17 503
Investment property	7 920	4 160	7 919	4 160
Intangible assets	4 480	4 480	4 568	4 568
Investments in associated and related companies	1 145	3 088	1 145	3 088
Current tax assets	285	285	228	228
Other assets	2 514	2 167	2 064	1 625
Total assets	**368 459**	**368 030**	**336 894**	**336 656**
Liabilities to central banks	0	0	0	0
Due to credit institutions repayable on demand	288	288	7 626	7 626
Financial liabilities held for trading	1	1	623	623
Financial liabilities at fair value through profit or loss	0	0	0	0
Financial liabilities valued at depreciated cost	330 940	330 956	291 436	291 444
Term liabilities due to credit institutions	*0*	*0*	*0*	*0*
Deposits	*310 453*	*310 469*	*275 281*	*275 289*
Subordinated liabilities	*12 254*	*12 254*	*11 102*	*11 102*
Debt securities in issue	*8 233*	*8 233*	*5 053*	*5 053*
Financial liabilities arising from the transfer of financial assets	0	0	0	0
Change in fair value of a hedged portion of the portfolio attributable to the interest rate risk	0	0	0	0
Deferred income and accrued expenses	1 022	1 022	1 169	1 167
Provisions	0	0	0	0
Tax liabilities	1 270	1 270	1 270	1 270
Other liabilities	1 796	1 091	1 692	1 190
Total liabilities	**335 317**	**334 628**	**303 816**	**303 320**
Shareholders' equity	**33 142**	**33 402**	**33 078**	**33 336**
Total liabilities and shareholders' equity	**368 459**	**368 030**	**336 894**	**336 656**
Memorandum items				
Contingent liabilities	2 520	2 520	2 545	2 545
Commitments to customers	13 144	13 245	16 686	16 790

Overview of own funds and capital ratios

No	Item	31.03.2014 (unaudited) Group EUR'000	31.03.2014 (unaudited) Bank EUR'000
1.	**Own funds (1.1.+1.2.)**	**37 797**	**38 401**
1.1.	**Tier 1 capital (1.1.1.+1.1.2.)**	**28 311**	**28 915**
1.1.1.	Common equity Tier 1 capital (CET1 capital)	28 311	28 915
1.1.2.	Additional Tier 1 capital	0	0
1.2.	**Tier 2 capital**	**9 486**	**9 486**
2.	**Total risk exposure amount (2.1.+2.2.+2.3.+2.4.+2.5.+2.6.+2.7.)**	**246 806**	**247 207**
2.1.	Risk weighted exposure amounts for credit, counterparty credit and dilution risks and free deliveries	217 814	218 337
2.2.	Total risk exposure amount for settlement/delivery	0	0
2.3.	Total risk exposure amount for position, foreign exchange and commodities risks	3 016	3 016
2.4.	Total risk exposure amount for operational risk	25 976	25 854
2.5.	Total risk exposure amount for credit valuation adjustment	0	0
2.6.	Total risk exposure amount related to large exposures in the trading book	0	0
2.7.	Other risk exposure amounts	0	0
3.	**Capital ratios and capital levels**		
3.1.	CET1 capital ratio (1.1.1./2.*100)	11.47	11.70
3.2.	Surplus(+)/Deficit(-) of CET1 capital (1.1.1.-2.*4.5%)	17 205	17 791
3.3.	T1 capital ratio (1.1./2.*100)	11.47	11.70
3.4.	Surplus(+)/Deficit(-) of T1 capital (1.1.-2.*6%)	13 503	14 083
3.5.	Total capital ratio (1./2.*100)	15.31	15.53
3.6.	Surplus(+)/Deficit(-) of total capital (1.-2.*8%)	18 053	18 625
4.	**Combined Buffer Requirement (4.1.+4.2.+4.3.+4.4.+4.5.)**	**0**	**0**
4.1.	Capital conservation buffer	0	0
4.2.	Institution specific countercyclical capital buffer	0	0
4.3.	Systemic risk buffer	0	0
4.4.	Systemically important institution buffer	0	0
4.5.	Other Systemically Important Institution buffer	0	0
5.	**Capital ratios due to adjustments**		
5.1.	Provisions or assets value adjustments applying specific policy for the purpose of own funds calculation	2 513	2 513
5.2.	CET1 capital ratio due to adjustments defined in row No 5.1. (%)	10.96	11.19
5.3.	Tier 1 capital ratio due to adjustments defined in row No 5.1. (%)	10.96	11.19
5.4.	Total capital ratio due to adjustments defined in row No 5.1. (%)	14.30	14.52

Liquidity ratio calculation

No	Item	31.03.2014 (unaudited) Bank EUR'000
1	**Liquid assets**	**207 758**
1.1.	Vault cash	2 323
1.2.	Balances due from Bank of Latvia	14 217
1.3.	Balances due from solvent credit institutions	177 460
1.4.	Liquid securities	13 758
2	**Current liabilities (residual maturity of up to 30 days)**	**270 314**
2.1.	Balances due to credit institutions	288
2.2.	Deposits	255 554
2.3.	Debt securities in issue	0
2.4.	Money in transit	986
2.5.	Other current liabilities	3 234
2.6.	Off-balance sheet items	10 252
3	**Liquidity ratio (1:2) (%)**	**76.86**
4	Minimum liquidity ratio (%)	30.00

The Bank's performance ratios

Item	**01.01.2014.-31.03.2014.** (unaudited)	**01.01.2013.-31.03.2013.** (audited)
Return on Equity (ROE) (%)	1.00	0.08
Return on Assets (ROA) (%)	0.10	0.01