Baltic International Bank

JSC "Baltic International Bank"

Publicly Available Quarterly Financial Statements
for the period ended 31 March, 2015

Table of contents

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

5 **Members of the consolidation group**

6 **Bank's shareholders**

7 **Bank's senior management**

8 **Bank's organisational structure**

9 **Bank's Operational Strategy And Operational Objectives**

10 **Risk management**

10 **The Bank's performance ratios**

11 **Income statement**

12 **Balance sheet statement**

13 **Overview of own funds and capital ratios**

14 **Liquidity ratio calculation**

15 **Events after the reporting date**

16 **Notes**
Note 1. Securities portfolio
Note 2. Debt securities of central governments

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

1Q 2015 was characterised by rising financial and geopolitical risks. Low oil prices and fluctuations in the major currency pairs were the principal factors that have significantly affected the economic development. The strengthening of the U.S. dollar, the plummet in the price of Japanese yen relative to the U.S. dollar and the fall of the euro have highlighted substantial differences in the monetary policies pursued by the USA (the Federal Reserve), the euro area and Japan. Political situation in Ukraine and the Middle East continued to remain unstable. At the systemic level, the conflict in the Middle East has not triggered economic consequences. However, is has had an adverse impact on the financial condition of many customers. As a result, the need to review methods for assessing potential credit risks has emerged.

According to 1Q 2015 financial results, the Bank's assets ((the Group's figures are shown within the brackets) exceeded a half million euros and reached EUR 543.06 (543.35) million.

For the purpose of diversification, the Bank boosted its available-for-sale securities portfolio by 97.8% or EUR 85.43 million while cutting due from credit institutions. The volume of the securities portfolio totalled EUR 183.13 million as at 31 March 2015. The major holdings within the portfolio still include fixed-income debt securities issued by the issuers carrying high credit rating. As a result, the portfolio generates a stable rate of return. Bonds rated A3 and higher account for 88.3 percent of the total portfolio. Bonds of multilateral development banks (MDBs) and government bonds make up 59.1 percent of the portfolio. Sovereign bonds make up 33.4 percent of the portfolio.

As at 31 March 2015, the Bank didn't need to build up extra liquidity buffers, and its liquidity coverage ratio many-fold exceeded 100 percent. As a result of capital adjustment in respect of certain assets whose risk depends on the situation in Ukraine, the Bank's total capital ratio reached 10.49 percent (10.25 percent) by the end of March. After the capital-adjustment measures have been undertaken (please refer to the Section "Events after the reporting date"), Bank's capital adequacy ratio surged by 5.07 percentage points to attain 15.56 percent as at 15 May 2015. Thus, the Bank compiled with the prudential standards for capital adequacy prescribed by the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 and met the individual threshold prescribed by the Financial and Capital Market Commission (FCMC) of the Republic of Latvia. By specifically focusing on distressed assets, the Bank succeeded in May to scale down its exposures in Ukraine and hence reduce the capital correction and ensure the acceptable level of capital adequacy.

The volume of the loan portfolio totalled EUR 96.9 (95.2) million by the end of 1Q 2015. The loan portfolio as a percentage of the total assets accounted for 17.8 percent (17.5 percent). Mortgage loans prevail in the loan portfolio (61.6 percent of the total portfolio). Thus, the Bank's continues to pursue conservative approach to credit risk.

The sharp increase in deposits during 2014 was followed by a moderate positive dynamics in 1Q 2015. Compared with 31 December 2014, the volume of the deposits grew by 3.9 percent and totalled EUR 465.91 (465.89) million. Forming traditionally the Bank's resource base, the customers' funds made up 91.2 percent (91.0 percent) of the total liabilities as at 31 March 2015. To address the diversification of long-term resources, the Bank increased the volume of subordinated capital by 9 percent to enable itself to enhance investment volumes in the future. The volume of customers' funds (including assets under management, brokerage portfolio, debt securities issued, and subordinated deposits) totalled EUR 693.21 (693.19) million as at 31 March 2015.

While continuing to develop alternative investments, the Bank expanded its product portfolio with new projects to be co-financed by the customers. 1Q 2015 results were indicative of intensified customer activities: the number of those interested in alternative investments has doubled, and the total volume of funds under management grew by 13 percent, exceeded EUR 125 million and showed especially strong growth (79%) in the project-financing segment.

E-commerce evolved rapidly, and the number of active terminals increased by more than 50 percent while the turnover increased by more than 25 percent.

The Bank's profit before making an allowance for doubtful debts made up EUR 1.7 million. The Bank's operating income showed an increase of 55.7 percent (55.1 percent) over the same period in 2014 to stand at EUR 4.82 (4.84) million. As the customers were increasingly prone to using payment & cash services, brokerage services, card products and e-commerce services, the net fee and commission income was up 27.3 percent over the same period in 2014. The Bank recorded good results in its forex-related activities. During the reporting period, the Bank earned EUR 2 million in foreign currency transaction gains.

In 1Q 2015, the Bank implemented a number of culture-specific and social projects. To continue the tradition started last year of commemorating notable events through the prism of artistic imagination and the works of world-renowned artists, Bank issued a commemorative medal devoted to a unique album Terra Mariana. 1186-1888. On the initiative of a patron of arts and the Chairperson of the Council Valeri Belokon, the Bank decided to sponsor the series of historical novels „Mēs. Latvija, XX gadsimts" (We. Latvia, 20th Century) to be published by Dienas Grāmatas Publishing House. Altogether, Bank will sponsor publication of the books written by Nora Ikstena, Gundega Repše and Inga Ābele.

In March 2015, the Bank organised a Start-up Support Programme 9' Demo Day event within the framework of Commercialization Reactor, a technology commercialization platform. During the event, the budding entrepreneurs presented their innovative high-tech business ideas with a clear intention to raise money for further development of their projects.

In March, the Nordic and Baltic business-days event was held in Kyiv (Ukraine) with support from Baltic International Bank and Accountor, a leading Finnish accounting and payroll services provider. The main theme of the conference was Nordic & Baltic business in Ukraine: how to navigate during turbulent times? Challenges and new opportunities ahead. The event brought together entrepreneurs from Ukraine, Northern Europe and Baltic countries, business experts, diplomats and officers of foreign embassies to discuss the opportunities to strengthen the business environment and facilitate international co-operation in light of current circumstances.

Members of the consolidation group

№	Company name and registration number	Code of registration state and address	Institution type[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 43, Riga	OFI	100	100	PCS
4	SIA "Gaujas īpašumi", 40103249888	LV, Kalēju iela 43, 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 29 496 389 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 7,1.

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 (31.03.2015)

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

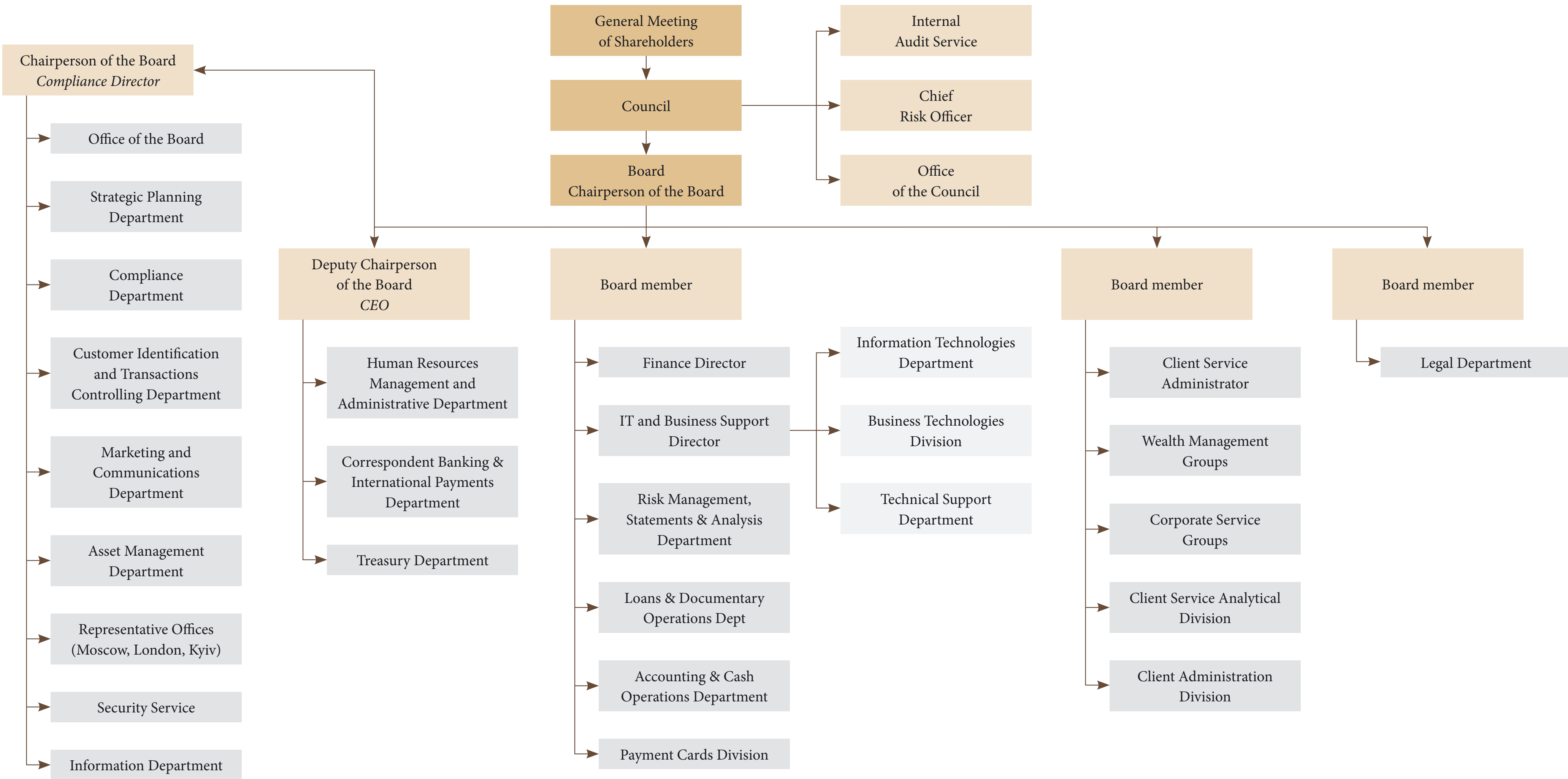
Management Board (31.03.2015)

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
Inese Lazdovska	Member of the Board

During 4Q 2014 the following changes were made in the composition of the Board:

The newly-appointed Inese Lazdovska, Head of Bank's Legal Department, has taken on Board-related responsibilities with effect from 17 October. As a member of the Board, she will be specifically responsible for ensuring legal support to Bank's overall business and providing advisory & consulting services to Bank's customers.

Bank's organisational structure



Bank's Operational Strategy and Operational Objectives

Since its foundation in 1993, Bank's strategy has remained unchanged: to provide high-net-worth individuals (HNWIs) and their family members a high level of bespoke customer service traditionally offered by private banks in Western Europe. Taking into account the global changes while still staying committed to our chosen path, Bank has devised a new operational strategy. Under the new strategy, our **vision** is **to be a sustainable** Latvia-based bank that provides HNWIs with a **superb** level of personalised **service** and **socially responsible** wealth management **tailored to suit** both their personal and business needs.

The things falling under the concept of 'Bank's **sustainable** development' include to:

1. Ensure long-term profitability for our shareholders.
2. Invest in sustainable assets and manage the assets in a socially responsible manner.
3. Ensure **corporate governance** in Bank in accordance with the Corporate Governance Guidance and Principles for Unlisted Companies in the Baltics for the purpose of maintaining a framework for interaction among the shareholders, Council member, Board members and other stakeholders and a framework of Bank's processes and attitudes that add value to the business, help build its reputation and ensure transparency of the business, long-term continuity and success; actively co-participate in the banking association.
4. Ensure that **work arrangement and workplace environment** motivate an employee to establish long-term relationship with Bank, work effectively and achieve work-life balance.
5. Ensure **fair commercial practices** through supporting a fair competition, preventing interest of conflict, adhering to high ethical standards of conduct, building up self-respect and respect towards the co-workers and shareholders, customers and partners, and demonstrating a strong sense of responsibility for work done and decisions made.
6. Communicate with our **customers** in a transparent language by providing fair, clear and non-misleading information about our performance, results, products, services, and fees charged, thus helping the customers make informed decisions; handle and resolve all customer complaints and grievances.
7. Offer our **customers** opportunities to invest in socially responsible and sustainable projects.
8. Ensure the **development of the local community and involvement of the community members** in today's programs and initiatives by encouraging the protection of cultural and historical heritage in the Baltic States, supporting national conservation efforts, and integrating modern urban features into Riga's historic centre.

When choosing representative gifts for our customers and partners, we give preference to articles (goods) made in Latvia.

Socially responsible and **customised** wealth management implies that we:

1. elicit customer's specific wishes and needs and risk tolerance; offer customer a range of suitable banking products and services.
2. ensure transparency at any stage of wealth management.
3. invest funds in sustainable sectors and business projects.
4. ensure customer privacy.

A focus on **customer service excellence** means to:

1. strive to create added value that meets and even exceeds the expectations of our customers.
2. maintain excellent long-term results.

Risk management

The information about risk management is available in 2014 Annual Report from page 36 till page 42 on JSC "Baltic International Bank" web page http://www.bib.lv/en/about-bank/reports. Since 31 December 2014 there are no any material changes in risk management.

The Bank's performance ratios

Item	**01.01.2015–31.03.2015** (unaudited)	**01.01.2014–31.03.2014** (unaudited)
Return on Equity (ROE) (%)	3,69	1,00
Return on Assets (ROA) (%)	0,22	0,10

Income statement

Item	01.01.2015–31.03.2015 (unaudited)		01.01.2014.–31.03.2014 (unaudited)	
	Group EUR'000	**Bank** EUR'000	**Group** EUR'000	**Bank** EUR'000
Interest income	1 811	1 827	2 030	2 047
Interest expense	-784	-784	-585	-585
Dividend income	0	0	0	0
Fee and commission income	2 157	2 159	1 636	1 637
Fee and commission expense	-420	-420	-271	-271
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	-12	-12	-160	-160
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	1 934	1 950	308	308
Gain/loss on derecognition of property, plant and equipment, investment property and intangible assets	0	0	0	0
Other income	152	96	162	116
Other expenses	-46	-38	-67	-66
Administrative expenses	-2 780	-2 754	-2 672	-2 643
Depreciation	-332	-332	-304	-304
Result of provisions for doubtful debts	-1 386	-1 386	5	5
Impairment losses	0	0	0	0
Profit/loss before corporate income tax	**294**	**306**	**82**	**84**
Corporate income tax	0	0	0	0
Profit/loss for the current year	**294**	**306**	**82**	**84**

Balance sheet statement

Item	31.03.2015 (unaudited) Group EUR'000	31.03.2015 (unaudited) Bank EUR'000	31.12.2014 (audited) Group EUR'000	31.12.2014 (audited) Bank EUR'000
Cash and due from central banks repayable on demand	41 348	41 348	23 530	23 525
Due from credit institutions repayable on demand	172 921	172 921	267 010	267 010
Financial assets held for trading	541	541	2 882	2 882
Financial assets at fair value through profit or loss	0	0	0	0
Financial assets available for sale	172 789	172 789	87 357	87 357
Loans and receivables	100 926	102 618	106 668	108 335
Other due from credit institutions	*5 768*	*5 768*	*10 581*	*10 581*
Loans	*95 158*	*96 850*	*96 087*	*97 754*
Investments held to maturity	9 809	9 809	8 731	8 731
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	391	391	2 386	2 388
Fixed assets	17 346	17 345	17 401	17 401
Investment property	7 496	3 918	7 476	3 918
Intangible assets	4 232	4 232	4 321	4 321
Investments in associated and related companies	1 145	3 088	1 145	3 088
Current tax assets	285	285	285	285
Other assets	14 123	13 770	1 769	1 626
Total assets	**543 352**	**543 055**	**530 961**	**530 867**
Liabilities to central banks	3 783	3 783	3 782	3 782
Due to credit institutions repayable on demand	320	320	277	277
Financial liabilities held for trading	0	0	1 965	1 965
Financial liabilities at fair value through profit or loss	0	0	0	0
Financial liabilities valued at depreciated cost	502 999	503 019	489 355	489 366
Term liabilities due to credit institutions	*0*	*0*	*6 178*	*6 178*
Deposits	*465 886*	*465 906*	*448 233*	*448 244*
Subordinated liabilities	*18 210*	*18 210*	*16 702*	*16 702*
Debt securities in issue	*18 903*	*18 903*	*18 242*	*18 242*
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	581	581	1 488	1 483
Provisions	0	0	0	0
Tax liabilities	1 139	1 139	1 139	1 139
Other liabilities	2 873	2 204	1 617	1 177
Total liabilities	**511 695**	**511 046**	**499 623**	**499 189**
Shareholders' equity	**31 657**	**32 009**	**31 338**	**31 678**
Total liabilities and shareholders' equity	**543 352**	**543 055**	**530 961**	**530 867**
Memorandum items				
Contingent liabilities	3 639	3 639	2 961	2 961
Commitments to customers	3 896	3 978	12 040	12 135

Overview of own funds and capital ratios

№	Item	31.03.2015 (unaudited) Group EUR'000	31.03.2015 (unaudited) Bank EUR'000
1.	**Own funds (1.1.+1.2.)**	**25 173**	**25 793**
1.1.	**Tier 1 capital (1.1.1.+1.1.2.)**	**19 836**	**20 456**
1.1.1.	Common equity Tier 1 capital (CET1 capital)	19 836	20 456
1.1.2.	Additional Tier 1 capital	0	0
1.2.	**Tier 2 capital**	**5 337**	**5 337**
2.	**Total risk exposure amount (2.1.+2.2.+2.3.+2.4.+2.5.+2.6.+2.7.)**	**245 492**	**245 897**
2.1.	Risk weighted exposure amounts for credit, counterparty credit and dilution risks and free deliveries	215 560	216 170
2.2.	Total risk exposure amount for settlement/delivery	0	0
2.3.	Total risk exposure amount for position, foreign exchange and commodities risks	3 661	3 661
2.4.	Total risk exposure amount for operational risk	26 271	26 066
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)	8,08	8,32
3.2.	Surplus(+)/Deficit(-) of CET1 capital (1.1.1.-2.*4.5%)	8 789	9 391
3.3.	T1 capital ratio (1.1./2.*100)	8,08	8,32
3.4.	Surplus(+)/Deficit(-) of T1 capital (1.1.-2.*6%)	5 106	5 703
3.5.	Total capital ratio (1./2.*100)	10,25	10,49
3.6.	Surplus(+)/Deficit(-) of total capital (1.-2.*8%)	5 535	6 123
4.	**Combined Buffer Requirement (4.1.+4.2.+4.3.+4.4.+4.5.)**	**2,5**	**2,5**
4.1.	Capital conservation buffer (%)	2,5	2,5
4.2.	Institution specific countercyclical capital buffer (%)	0,0	0,0
4.3.	Systemic risk buffer (%)	0,0	0,0
4.4.	Systemically important institution buffer (%)	0,0	0,0
4.5.	Other Systemically Important Institution buffer (%)	0,0	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	0	0
5.2.	CET1 capital ratio due to adjustments defined in row No 5.1. (%)	8,08	8,32
5.3.	Tier 1 capital ratio due to adjustments defined in row No 5.1. (%)	8,08	8,32
5.4.	Total capital ratio due to adjustments defined in row No 5.1. (%)	10,25	10,49

Liquidity ratio calculation

№	Item	31.03.2015 (unaudited) Bank EUR'000
1	**Liquid assets**	**369 741**
1.1.	Vault cash	1 023
1.2.	Balances due from Bank of Latvia	40 326
1.3.	Balances due from solvent credit institutions	167 612
1.4.	Liquid securities	160 780
2	**Current liabilities (residual maturity of up to 30 days)**	**425 532**
2.1.	Balances due to credit institutions	320
2.2.	Deposits	415 065
2.3.	Debt securities in issue	0
2.4.	Money in transit	3 079
2.5.	Other current liabilities	3 666
2.6.	Off-balance sheet items	3 402
3	**Liquidity ratio (1:2) (%)**	**86,89**
4	Minimum liquidity ratio (%)	30,00

Events after the reporting date

In April 2015, the FCMC communicated its opinion (regarding evaluation of the quality of certain assets whose risk depends on the situation in Ukraine) to the Bank. Based on the FCMC's opinion, the Bank made capital adjustment as at 31 March 2015. Due to a set of targeted actions, the respective assets (liabilities to the Bank) were repaid in May. As a result of the repayment (and, accordingly, as a result of reducing the capital correction), the Bank's capital totalled EUR 37.37 million and the Bank's total capital ratio attained 15.56% (see table below) as at 15 May 2015. Thus, the Bank compiled with the prudential standards for capital adequacy prescribed by the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 and met the individual threshold prescribed by the FCMC.

№	Item	**31.03.2015** (unaudited) **Bank** EUR'000
1.	**Own funds (1.1.+1.2.)**	**37 369**
1.1.	**Tier 1 capital**	**26 438**
1.1.1.	Common equity Tier 1 capital (CET1 capital)	26 438
1.2.	**Tier 2 capital**	**10 931**
2.	**Total risk exposure amount (2.1.+2.2.+2.3.+2.4.+2.5.+2.6.+2.7.)**	**240 117**
2.1.	Risk weighted exposure amounts for credit, counterparty credit and dilution risks and free deliveries	212 402
2.2.	Total risk exposure amount for settlement/delivery	0
2.3.	Total risk exposure amount for position, foreign exchange and commodities risks	1 649
2.4.	Total risk exposure amount for operational risk	26 066
2.5.	Total risk exposure amount for credit valuation adjustment	0
2.6.	Total risk exposure amount related to large exposures in the trading book	0
2.7.	Other risk exposure amounts	0
3.	**Capital ratios and capital levels**	
3.1.	CET1 capital ratio (1.1.1./2.*100)	11,01
3.2.	Surplus(+)/Deficit(-) of CET1 capital (1.1.1.-2.*4.5%)	15 633
3.3.	T1 capital ratio (1.1./2.*100)	11,01
3.4.	Surplus(+)/Deficit(-) of T1 capital (1.1.-2.*6%)	12 031
3.5.	Total capital ratio (1./2.*100)	15,56
3.6.	Surplus(+)/Deficit(-) of total capital (1.-2.*8%)	18 161
4.	**Combined Buffer Requirement, %**	**2,5**
5.	**Capital ratios due to adjustments**	
5.1.	Provisions or assets value adjustments applying specific policy for the purpose of own funds calculation	0
5.2.	CET1 capital ratio due to adjustments defined in row No 5.1. (%)	11,01
5.3.	Tier 1 capital ratio due to adjustments defined in row No 5.1. (%)	11,01
5.4.	Total capital ratio due to adjustments defined in row No 5.1. (%)	15,56

Note 1. Securities portfolio

The Bank's securities portfolio breaks down by country:

	31.03.2015 (unaudited)			
	Financial assets held for trading EUR'000	**Financial assets available for sale** EUR'000	**Investments held to maturity** EUR'000	**Total** EUR'000
Multilateral development banks	0	75 445	0	**75 445**
USA	0	46 460	0	**46 460**
Germany	0	14 062	0	**14 062**
United Kingdom	0	6 875	0	**6 875**
Lithuania	0	5 061	2 632	**7 693**
Latvia	2	3 552	2 882	**6 436**
Russia	39	0	2 709	**2 748**
Denmark	0	9 389	0	**9 389**
Sweden	0	9 310	0	**9 310**
Brasil	0	2 581	0	**2 581**
other countries	494	54	1 586	**2 134**
total	**535**	**172 789**	**9 809**	**183 133**

During the reporting period has not been recognized an impairment for financial assets available for sale.

	31.12.2014 (audited)			
	Financial assets held for trading EUR'000	**Financial assets available for sale** EUR'000	**Investments held to maturity** EUR'000	**Total** EUR'000
Multilateral development banks	0	50 040	0	**50 040**
Germany	0	8 289	0	**8 289**
United Kingdom	0	6 419	0	**6 419**
Lithuania	0	4 541	2 374	**6 915**
Latvia	1	3 245	2 550	**5 796**
Russia	40	0	2 387	**2 427**
Denmark	0	4 149	0	**4 149**
Sweden	0	8 248	0	**8 248**
Brasil	0	2 372	0	**2 372**
other countries	436	54	1 420	**1 910**
total	**477**	**87 357**	**8 731**	**96 565**

Note 2. Debt securities of central governments

The Bank's debt securities of central governments break down by country:

	31.03.2015 (unaudited) **Carrying value** EUR'000	**31.12.2014** (audited) **Carrying value** EUR'000
USA	46 460	0
Lithuania	7 693	6 915
Latvia	5 894	5 254
Poland	1 091	987
total	**61 138**	**13 156**