



Baltic International Bank

JSC “Baltic International Bank”
Publicly Available Quarterly Financial Statements
for the period ended 31 March, 2016



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

In 1Q 2016, JSC Baltic International Bank (*Bank*) posted good financial results. The Bank's profit (the Group-related financials are enclosed within the parentheses) reached EUR 1.17 million (EUR 1.15 million) and 3.8 times (3.9 times) exceeded the figure over the same 3-month period in 2015.

ROE increased by 10.2 percentage points to stand at 13.9%. The operating income attained EUR 7.72 million (EUR 7.75 million) having demonstrated a 60.4-percent (60.1-percent) growth over the same period last year. The growth was primarily facilitated by trade transactions whose income increased by EUR 1.94 million (EUR 1.92 million). A rise in the demand for the Bank's services boosted growth of fee and commission income by 14.7 percent (14.7 percent). However, the growth was accompanied by growth of fee and commission expense. Similar to documentary operations, brokerage operations contributed positively to the growth of the income: income gained from the aforesaid operations totalled +23.9 percent (+23.9 percent) and +27.7 percent (+27.7 percent), accordingly. Overall, the contribution has translated into decline of up to 9.5 percent (9.3 percent) in net interest income percentage of the Bank's operational income.

The Bank has succeeded to maintain its operational expense at the level of EUR 3.42 million (EUR 3.46 million), albeit with 9.3 percent (9.5 percent) excess over the past year's figure. Increase in the expense was most affected by factors such as increase in staff complement and costs associated with the HR management policy, which aggregately rose by 12.5 percent (13.9 percent) up to EUR 1.95 million (EUR 2.00 million). As the Bank is increasingly investing in the processes and information systems in an effort to enhance them, amortization- and depreciation-related expenses gradually grow in parallel. The expenses surged 6.0 percent (6.0 percent) during the one-year timeframe.

In order to reduce potential losses (first of all, losses from the restructured loans and loans whose recovery is underway), the Bank set aside impairment allowances totalling EUR 3.14 million (EUR 3.14 million). As a result, the loan portfolio has shrunk by EUR 1.08 million (EUR 1.12 million) up to EUR 69.24 million (EUR 67.37 million). However, the portfolio's credit quality has improved over the first 3 months of 2016. Decline in the past due exposures (loans that are 90 days past due) by EUR 7.55 million (EUR 7.55 million) is a testimony to the fact.

A more active use of brokerage services by the customers resulted in the increase in the volume of reverse repos by EU 4.40 million.

As of 31 March 2016, the Bank's assets totalled EUR 481.58 million (EUR 481.24 million). The portfolio of customers' assets under management has reached EUR 108.56 million (EUR 108.56 million). The value of financial instruments in brokerage service totalled EUR 100.9 million (EUR 100.9 million).

The asset structure is still predominantly represented by investments in available-for-sale financial assets: EUR 186.70 million (EUR 186.70 million) or 38 percent (38 percent) of the total assets. Shakiness of the global financial sector observed in 1Q 2016 coupled with the toughness of the ECB's monetary policy (the ECB Governing Council's decision to cut the deposit facility rate to minus 0.4 percent) has affected the amount and the structure of the requirements posed to banks: (1) the Bank has increased the volume of money held in accounts with the Bank of Latvia (up to EUR 96.81 million from EUR 48.93 million as at 31.12.2015); (2) 99.5 percent of all of the funds were placed with credit institutions carrying investment-grade rating.

The asset allocation policy (investments in securities) has remained unchanged. As of 31 March 2016, the volume of the assets totalled EUR 200.78 million or 41.7 percent of the total assets. Practically, the aggregate portfolio is comprised of debt fixed-income securities (issued by the issuers carrying high-grade credit rating) which generate stable interest income. Government bonds and bonds of multilateral development banks (MDBs)



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account for 50.6 percent of the total portfolio. Sovereign bonds account for 43.1 percent of the total portfolio.

In 1Q 2016, the liquidity ratios continued to remain at record levels. As of 31 March 2016, the liquidity ratio was 91.1 percent and 1.5 times exceeded the minimum internal requirement of 60 percent. The structure of liquid assets is well diversified, as represented by bonds (51 percent), due from credit institutions (21 percent), due from the Bank of Latvia (27 percent), and cash (1 percent). The liquidity coverage ratio (LCR) exceeded 600 percent and reached 615 percent (614%) (the regulatory threshold of 70 percent is set forth for the period from 01.01.2016 to 31.12.2016).

As of 31 March 2016, the Bank's own capital totalled EUR 32.07 million (EUR 31.35 million) and was sufficient to meet both the requirements of 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 the individual requirement set forth by the FCMC. Tier 1 capital ratio totalled 13.47 percent (13.16 percent). The total capital ratio totalled 17.69 percent (17.41 percent). To strengthen Bank's capital base, the shareholders decided to increase the Bank's share capital by two million euro at their general meeting held on 31 March 2016. The leverage ratio¹ totalled 4.98 percent (4.92 percent).

In 1Q 2016, the Bank continued to support various national-scale projects in areas such as culture, art and business.

During the period, the novel „Bogene” by Gundega Repse was published. The novel was included within the series of Latvian historical novels „Mēs. Latvija, XX gadsimts” (We. Latvia, 20th century). Already for the second consecutive time, the Bank supports also the Annual Latvian Literary Award (LALIGABA).

The presentation of the award is the most notable event in the country's literary world.

On the Eve of Easter, the Bank has once again granted financial support to the Roman Catholic Archdiocese of Riga.

In 1Q 2016, an active work was contributed towards developing a modern interactive mobile app for the Latvian National Museum of Art, as supported by the Bank.

¹ This ratio is the average value of the leverage ratio over the past 3 dates (31 January, 29 February and 31 March). The calculation is based on the Tier 1 capital figures.



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, Rīga	BNK	100	100	PC
2	SIA "BIB Consulting", 50103457291	LV, Grēcinieku iela 6, Rīga	SE	100	100	PCS
3	SIA "BIB real Estate", 40003868021	LV, Kalēju iela 41, Rīga	OFI	100	100	PCS
4	SIA "Gaujas īpašumi", 40103249888	LV, Kalēju iela 41, Rīga	OFI	100	100	SCS
5	SIA "Global Investments", 40003785660	LV, Merkeļa iela 6 - 11, Rīga	OFI	100	100	SCS

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

² PC - parent company; PCS- parent company 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%
- Vilor Belokon – 30,00969%.



Bank's senior management

Supervisory Council (31.03.2016)

Name and surname	Position
Valeri Belokon	Chairperson of the Council
Vlada Belokon	Deputy Chairperson of the Council
Andris Ozolins	Member of the Council

Management Board (31.03.2016)

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
Martins Neibergs	Member of the Board
Bogdan Andrushchenko	Member of the Board

During 1Q 2016, the following changes occurred in the Council membership:

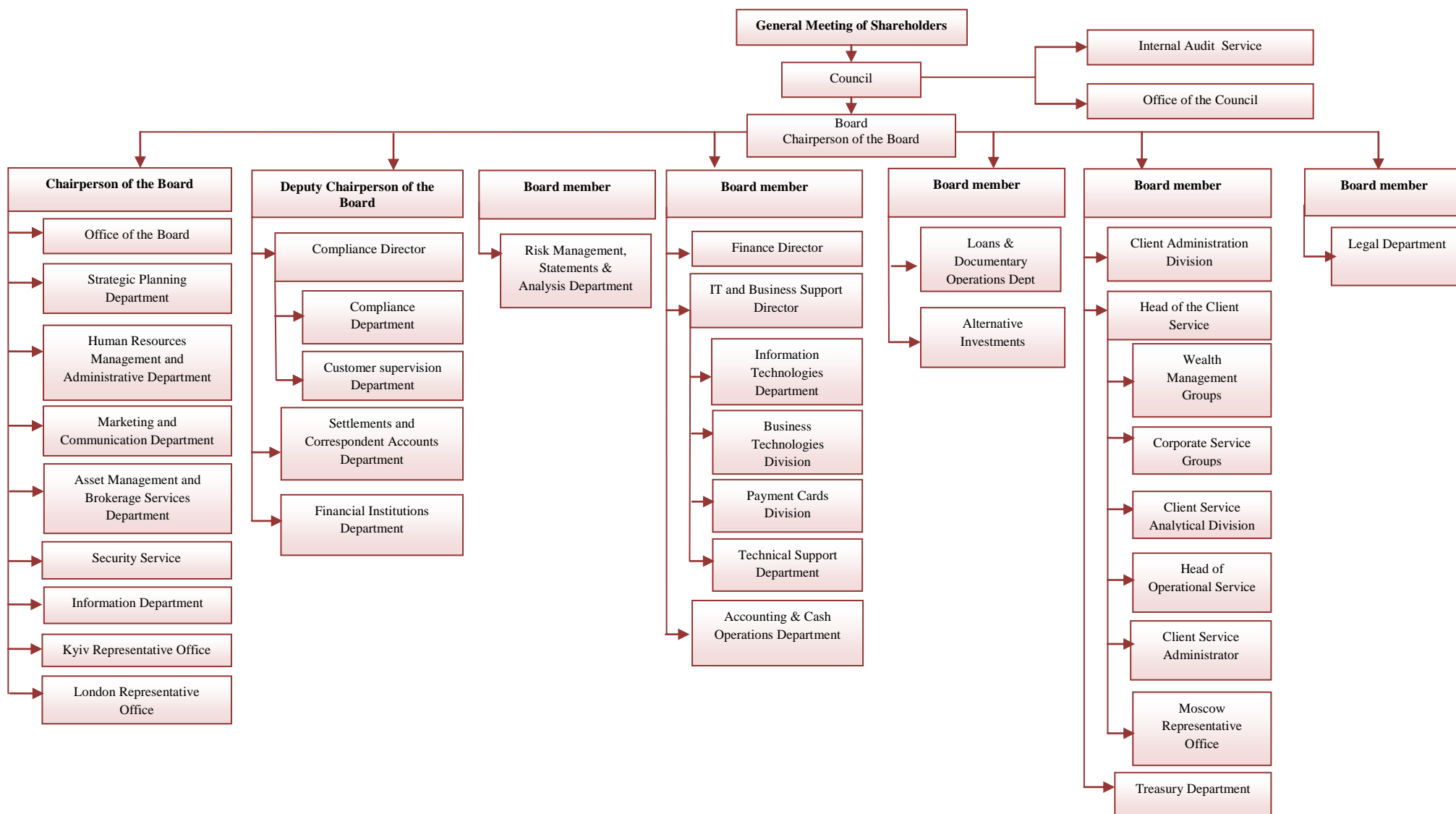
Albert Reznik resigned from his post as a member of the Council (04.01.2016), and Andris Ozolins was elected to serve as a Council member (04.01.2016).

During 1Q 2016, the following changes occurred in the Board membership:

The newly-appointed Bogdan Andrushchenko, Chief Risk Officer, has taken on Board-related responsibilities with effect from 4 February.



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 [*Biržā nekotētu uzņēmumu korporatīvās pārvaldības vadlīnijas un principi Baltijas valstīs*] 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 2015 Annual Report from page 38 till page 46 on JSC “Baltic International Bank” web page <http://www.bib.lv/en/about-bank/reports>. Since 31 December 2015 there are no any material changes in risk management.

The Bank’s performance ratios

Item	01.01.2016.- 31.03.2016. (unaudited)	01.01.2015.- 31.03.2015. (unaudited)
Return on Equity (ROE) (%)	13.86	3.69
Return on Assets (ROA) (%)	0.90	0.22



Income statement

Item	01.01.2016.-31.03.2016.		01.01.2015.-31.03.2015.	
	(unaudited)		(unaudited)	
	Group	Bank	Group	Bank
	EUR'000	EUR'000	EUR'000	EUR'000
Interest income	1 242	1 257	1 811	1 827
Interest expense	-525	-525	-784	-784
Dividend income	1	1	0	0
Fee and commission income	2 475	2 475	2 157	2 159
Fee and commission expense	-822	-822	-420	-420
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	-75	-75	0	0
Net gain/loss on financial assets and financial liabilities held for trading	-39	-39	-12	-12
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	5 363	5 363	1 934	1 950
Gain/loss on derecognition of property, plant and equipment, investment property and intangible assets	0	0	0	0
Other income	127	88	152	96
Other expenses	-107	-116	-46	-38
Administrative expenses	-3 000	-2 947	-2 780	-2 754
Depreciation	-352	-352	-332	-332
Result of provisions for doubtful debts	-3 135	-3 135	-1 386	-1 386
Impairment losses	0	0	0	0
Profit/loss before corporate income tax	1 153	1 173	294	306
Corporate income tax	0	0	0	0
Profit/loss for the current year	1 153	1 173	294	306



Balance sheet statement

Item	31.03.2016		31.12.2015	
	(unaudited)		(audited)	
	Group	Bank	Group	Bank
	EUR'000	EUR'000	EUR'000	EUR'000
Cash and due from central banks repayable on demand	96 810	96 810	48 928	48 926
Due from credit institutions repayable on demand	78 837	78 837	163 166	163 166
Financial assets held for trading	509	509	581	581
Financial assets at fair value through profit or loss	0	0	0	0
Financial assets available for sale	186 699	186 699	221 784	221 784
Loans and receivables	70 895	72 767	71 264	73 093
<i>Other due from credit institutions</i>	3 526	3 526	2 777	2 777
<i>Loans</i>	67 369	69 241	68 487	70 316
Investments held to maturity	13 569	13 569	9 624	9 624
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	2 297	2 297	2 565	2 565
Fixed assets	17 233	17 233	17 325	17 325
Investment property	6 461	2 969	6 461	2 969
Intangible assets	3 869	3 869	3 882	3 882
Investments in associated and related companies	1 145	3 088	1 145	3 088
Current tax assets	17	17	17	17
Other assets	2 894	2 914	3 370	3 407
Total assets	481 235	481 578	550 112	550 427
Liabilities to central banks	3 789	3 789	3 787	3 787
Due to credit institutions repayable on demand	1 488	1 488	2 693	2 693
Financial liabilities held for trading	265	265	3	3
Financial liabilities at fair value through profit or loss	0	0	0	0
Financial liabilities valued at depreciated cost	436 850	436 861	506 391	506 407
<i>Term liabilities due to credit institutions</i>	0	0	0	0
<i>Deposits</i>	408 916	408 927	473 246	473 262
<i>Subordinated liabilities</i>	16 465	16 465	16 715	16 715
<i>Debt securities in issue</i>	11 469	11 469	16 430	16 430
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	2 446	2 446	3 013	3 012
Provisions	0	0	0	0
Tax liabilities	958	958	959	959
Other liabilities	2 773	2 678	2 177	2 069
Total liabilities	448 569	448 485	519 023	518 930
Shareholders' equity	32 666	33 093	31 089	31 497
Total liabilities and shareholders' equity	481 235	481 578	550 112	550 427
Memorandum items				
Contingent liabilities	3 947	3 947	3 827	3 827
Commitments to customers	3 035	3 165	5 001	5 083



Overview of own funds and capital ratios

No	Item	31.03.2016	
		(unaudited)	
		Group	Bank
		EUR'000	EUR'000
1.	Own funds (1.1.+1.2.)	31 346	32 073
1.1.	Tier 1 capital (1.1.1.+1.1.2.)	23 693	24 420
1.1.1.	Common equity Tier 1 capital (CET1 capital)	23 693	24 420
1.1.2.	Additional Tier 1 capital	0	0
1.2.	Tier 2 capital	7 653	7 653
2.	Total risk exposure amount (2.1.+2.2.+2.3.+2.4.+2.5.+2.6.+2.7.)	180 014	181 283
2.1.	Risk weighted exposure amounts for credit, counterparty credit and dilution risks and free deliveries	149 200	150 576
2.2.	Total risk exposure amount for settlement/delivery	0	0
2.3.	Total risk exposure amount for position, foreign exchange and commodities	904	904
2.4.	Total risk exposure amount for operational risk	29 910	29 803
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)	13.16	13.47
3.2.	Surplus(+)/Deficit(-) of CET1 capital (1.1.1.-2.*4.5%)	15 592	16 262
3.3.	T1 capital ratio (1.1./2.*100)	13.16	13.47
3.4.	Surplus(+)/Deficit(-) of T1 capital (1.1.-2.*6%)	12 892	13 543
3.5.	Total capital ratio (1./2.*100)	17.41	17.69
3.6.	Surplus(+)/Deficit(-) of total capital (1.-2.*8%)	16 945	17 571
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. (%)	13.16	13.47
5.3.	Tier 1 capital ratio due to adjustments defined in row No 5.1. (%)	13.16	13.47
5.4.	Total capital ratio due to adjustments defined in row No 5.1. (%)	17.41	17.69

**Liquidity ratio calculation**

No	Item	31.03.2016 (unaudited) Bank EUR'000
1	Liquid assets	346 095
1.1.	Vault cash	2 277
1.2.	Balances due from Bank of Latvia	94 535
1.3.	Balances due from solvent credit institutions	71 538
1.4.	Liquid securities	177 745
2	Current liabilities (residual maturity of up to 30 days)	379 925
2.1.	Balances due to credit institutions	1 488
2.2.	Deposits	359 919
2.3.	Debt securities in issue	878
2.4.	Money in transit	5 554
2.5.	Other current liabilities	6 171
2.6.	Off-balance sheet items	5 915
3	Liquidity ratio (1:2) (%)	91.10
4	Minimum liquidity ratio (%)	30.00

**Note 1. Securities portfolio**

The Bank's securities portfolio breaks down by country:

	31.03.2016			
	(unaudited)			
	Financial assets held for trading	Financial assets available for sale	Investments held to maturity	Total
	EUR'000	EUR'000	EUR'000	EUR'000
Multilateral development banks	0	66 385	0	66 385
USA	2	21 959	0	21 961
Spain	0	20 770	0	20 770
Italy	0	20 383	0	20 383
Germany	0	17 618	0	17 618
Denmark	0	8 828	0	8 828
Sweden	0	8 803	0	8 803
Lithuania	0	4 651	2 444	7 095
Latvia	0	4 337	2 702	7 039
United Kingdom	0	8 236	0	8 236
Brazil	0	880	0	880
Turkey	0	3 813	0	3 813
Other countries*	506	36	8 423	8 965
total	508	186 699	13 569	200 776

* Each country's issuers' total carrying value is less than 10% from own funds

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



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31.12.2015				
(audited)				
	Financial assets held for trading	Financial assets available for sale	Investments held to maturity	Total
	EUR'000	EUR'000	EUR'000	EUR'000
Multilateral development banks	0	87 892	0	87 892
USA	30	27 555	0	27 585
Spain	0	21 521	0	21 521
Italy	0	20 751	0	20 751
Germany	0	18 398	0	18 398
Denmark	0	9 248	0	9 248
Sweden	0	9 179	0	9 179
Lithuania	0	4 967	2 602	7 569
Latvia	2	4 564	2 821	7 387
United Kingdom	0	8 236	0	8 236
Brazil	0	5 375	0	5 375
Turkey	0	4 061	0	4 061
Other countries*	521	37	4 201	4 759
total	553	221 784	9 624	231 961

* Each country's issuers' total carrying value is less than 10% from own funds

Note 2. Debt securities of central governments

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

	31.03.2016.	31.12.2015
	(unaudited)	(audited)
	Carrying value	Carrying value
	EUR'000	EUR'000
USA	21 959	27 582
Italy	20 383	20 751
Spain	20 770	21 521
Lithuania	7 095	7 569
Latvia	6 360	6 735
Turkey	3 813	4 061
Other countries*	5 406	1 069
total	85 786	89 288

* Each country's issuers' total carrying value is less than 10% from own funds