



Baltic International Bank

JSC “Baltic International Bank”

**Publicly Available Quarterly Financial Statements
for the period ended 30 June, 2016**



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

In 1H 2016, JSC Baltic International Bank (*Bank*) posted good financial results. The Bank's profit (the Group-related financials are enclosed within the parentheses) came close to EUR 2.94 million (EUR 3.27 million). Return on equity (ROE) landed at 17.4 percent. The total capital ratio totalled 18.42 percent (18.15 percent) and hit a 12-year high. The Bank's liquidity ratio remained at stable high level at 85.68 percent.

The operating income increased to reach EUR 15.57 million (EUR 15.59 million) having demonstrated a 55.4 percent (54.5 percent) growth over the same period last year. The positive dynamics of income growth was primarily facilitated by trade transactions whose income increased by EUR 4.52 million (EUR 4.53 million). The income saw a positive significant impact attributed largely to a one-time gain on sale of Visa Europe Ltd shares (the sale proceeds totalled EUR 1.94 million). The fee and commission income shrank by 2.3 percent, mainly because the Bank ceased to provide e-commerce services (e-commerce transactions do not fit into the Bank's business profile). Income gained from brokerage operations grew by 33.3 percent (33.3 percent) and account service fees rose by 19 percent (19 percent).

The Bank's operating expense saw increase of up to EUR 7.84 million (EUR 7.86 million), a 20.7 percent (19.7 percent) rise over the past year. The expense was primarily driven by: (1) the accrual of one-time expenses incurred in connection with AML consulting services provided to the Bank; (2) increase in the staff complement plus personnel management policy-related costs which increased overall by 14.1 percent (14.1 percent) up to EUR 3.98 million (3.98 million).

The Bank's financial result shows positive quarter-over-quarter dynamics. In 1Q 2016, the Bank's profit reached EUR 1.17 million (EUR 1.15 million). In 2Q 2016, the profit figure was EUR 1.77 million (EUR 2.12 million).

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 4.53 million (EUR 4.20 million). As a result, the loan portfolio has shrunk by EUR 2.63 million (EUR 2.39 million) to EUR 67.69 million (EUR 66.10 million). The portfolio's credit quality has improved over the first 6 months of 2016. Decline in the past due exposures (loans that are 90 days past due) by EUR 5.19 million (EUR 5.19 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 EUR 4.07 million (EUR 4.07 million).

As of 30 June 2016, the Bank's assets totalled EUR 359.55 million (EUR 359.52 million). The portfolio of customers' assets under management has reached EUR 110.67 million (EUR 110.67 million). The value of financial instruments in brokerage service totalled EUR 98.58 million (EUR 98.58 million).

The asset structure is still predominantly represented by investments in available-for-sale financial assets: EUR 143.11 million (EUR 143.11 million) or 39.8 percent (39.8 percent) of the total assets. High quality liquid assets (assets carrying investment-grade credit rating and balances due from the Bank of Latvia) accounted for EUR 231.41 million (EUR 231.41 million) or 64.4 percent (64.4 percent) of the total assets. Investments in government bonds totalled EUR 65.52 million (EUR 65.52 million) or 18.22 percent (18.22 percent) of the total assets.

In 1H 2016, the liquidity ratios continued to remain at stable high levels. As of 30 June 2016, the liquidity ratio was 85.68 percent and far exceeded the minimum internal threshold of 60 percent. The structure of liquid assets was predominantly represented by bonds (58.6 percent), due from credit institutions (23.4 percent of liquid assets), due from the Bank of Latvia (17.4 percent) and vault cash (0.6 percent). The liquidity coverage ratio (LCR) exceeded 600 percent and reached 637.36



percent (636.39 percent). The regulatory threshold of 70 percent is set forth for the period from 01.01.2016 to 31.12.2016. The Bank's net stable funding ratio (NSFR) reached 224.59 percent (223.25 percent), far higher than the regulatory threshold. Banks will have to meet an NSFR of at least 100 percent in early 2018. NSFR requires banks to maintain a stable funding profile in relation to the composition of their assets and off-balance sheet activities.

As of 30 June 2016, the Bank's own capital totalled EUR 33.18 million (EUR 32.54 million). In 2Q 2016, the Bank issued its shares, thereby increasing the share capital by EUR 1 million. Tier 1 capital ratio (CET1) totalled 13.81 percent (13.50 percent). The total capital ratio reached 18.42 percent (18.15 percent). Over the first 6 months of 2016, the leverage ratio¹ has shown positive dynamics and has surged by 1.59 (1.56) percentage points up to 6.34 percent (6.25 percent).

The Bank's operational strategy lays down sustainable development principles and aims to offer Bank's customers the opportunity to invest in environmentally friendly projects. In 2015, the Bank earned the Bronze Award in the annual Sustainability Index. Throughout 2016, the Bank implemented socially responsible activities and various projects important to the entire society and was therefore honoured with the Silver Award for its sustainability performance.

The Bank contributed to developing a modern interactive mobile application for the Latvian National Museum of Art (LNMA). In May 2016, the modern mobile app saw daylight and was made available to all museum visitors. The app enhances their enjoyment of the museum by giving the visitors more information and new impressions. The Bank is proud of having supported one of the most advanced museum apps in the whole Europe.

The Bank is well aware that the study of public opinions and attitudes is crucial for determining strategy in every country. In June 2016, the Bank

and SKDS (Latvia-based Centre for Marketing and Opinion Research) jointly embarked on conducting *BIB's Latvian Barometer*, a monthly survey of public opinions and attitudes. The *Barometer* studies and analyses the economic and social processes in Latvia.

¹ This ratio is the average value of the leverage ratio over the past 3 dates (30 April, 31 May and 30 June). The calculation is based on the CET1 figures.



Members of the consolidation group

No	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 real Estate", 40003868021	LV, Kalēju iela 41, Rīga	OFI	100	100	PCS
3	SIA "Gaujas īpašumi", 40103249888	LV, Kalēju iela 41, Rīga	OFI	100	100	SCS
4	SIA "Global Investments", 40003785660	LV, Merķeļa 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 subscribed share capital totals EUR 31 496 395.2, of which paid-in shared capital equals EUR 30 496 389.1 and is divided into 4 295 266 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 – 69,89811%
- Viloris Belokon – 30,00092%.



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
Hans-Friedrich Von Ploetz	Member of the Council

Management Board (31.03.2016)

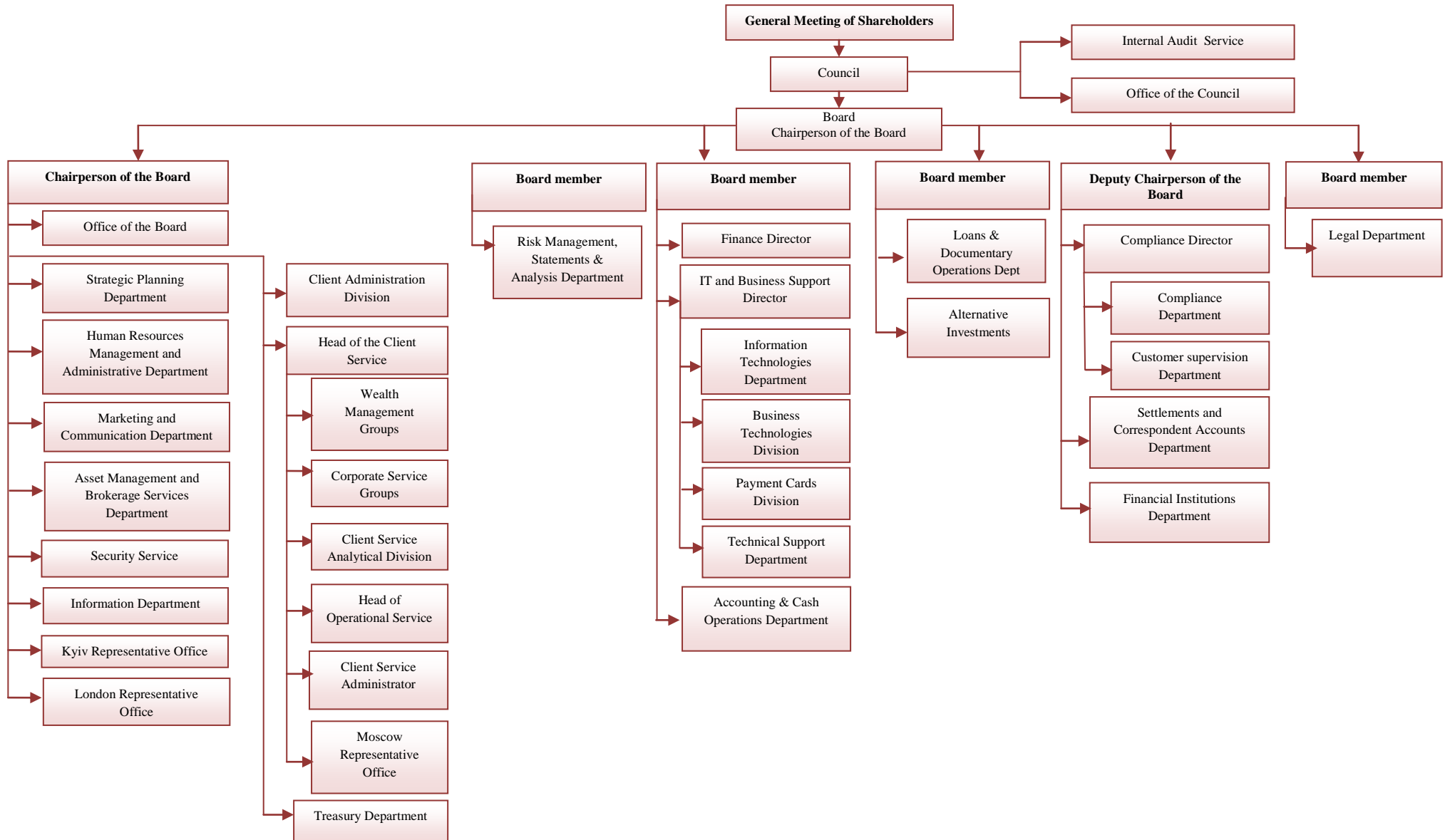
Name and surname	Position
Ilona Gulchak	Chairperson of the Board
Natalja Tkachenko	Deputy Chairperson of the Board
Alon Nodelman	Member of the Board
Inese Lazdovska	Member of the Board
Martins Neibergs	Member of the Board
Bogdan Andrushchenko	Member of the Board

During 2Q 2016, the following changes occurred in the Council membership:
Hans-Friedrich Von Ploetz was elected to serve as a Council member (18.04.2016).

During 2Q 2016, the following changes occurred in the Board membership:
Dinars Kolpakovs resigned from his post as a member of the Board (13.04.2016).



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 [*Birža 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.- 30.06.2016. (unaudited)	01.01.2015.- 30.06.2015. (unaudited)
Return on Equity (ROE) (%)	17.35	15.41
Return on Assets (ROA) (%)	1.28	0.94



Income statement

Item	01.01.2016.-30.06.2016.		01.01.2015.-30.06.2015.	
	(unaudited)		(unaudited)	
	Group	Bank	Group	Bank
	EUR'000	EUR'000	EUR'000	EUR'000
Interest income	2 380	2 404	3 347	3 382
Interest expense	-1 055	-1 055	-1 547	-1 547
Dividend income	1	1	1	1
Fee and commission income	4 568	4 568	4 675	4 675
Fee and commission expense	-1 456	-1 456	-1 201	-1 201
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	1 867	1 867	0	0
Net gain/loss on financial assets and financial liabilities held for trading	-57	-57	-15	-15
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	9 148	9 148	4 578	4 589
Gain/loss on derecognition of property, plant and equipment, investment property and intangible assets	0	0	0	0
Other income	200	149	249	137
Other expenses	-233	-225	-87	-84
Administrative expenses	-6 931	-6 908	-5 812	-5 747
Depreciation	-709	-709	-668	-668
Result of provisions for doubtful debts	-4 200	-4 532	-538	-538
Impairment losses	0	0	0	0
Profit/loss before corporate income tax	3 523	3 195	2 982	2 984
Corporate income tax	-251	-251	-408	-408
Profit/loss for the current year	3 272	2 944	2 574	2 576



Balance sheet statement

Item	30.06.2016		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	41 737	41 737	48 928	48 926
Due from credit institutions repayable on demand	54 701	54 701	163 166	163 166
Financial assets held for trading	1 023	1 023	581	581
Financial assets at fair value through profit or loss	0	0	0	0
Financial assets available for sale	143 105	143 105	221 784	221 784
Loans and receivables	70 991	72 578	71 264	73 093
<i>Other due from credit institutions</i>	4 890	4 890	2 777	2 777
<i>Loans</i>	66 101	67 688	68 487	70 316
Investments held to maturity	13 914	13 914	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	2 368	2 368	2 565	2 565
Fixed assets	17 298	17 298	17 325	17 325
Investment property	6 503	2 969	6 461	2 969
Intangible assets	3 912	3 912	3 882	3 882
Investments in associated and related companies	1 145	3 085	1 145	3 088
Current tax assets	16	16	17	17
Other assets	2 804	2 846	3 370	3 407
Total assets	359 517	359 552	550 112	550 427
Liabilities to central banks	3 790	3 790	3 787	3 787
Due to credit institutions repayable on demand	2 596	2 596	2 693	2 693
Financial liabilities held for trading	91	91	3	3
Financial liabilities at fair value through profit or loss	0	0	0	0
Financial liabilities valued at depreciated cost	313 641	313 648	506 391	506 407
<i>Term liabilities due to credit institutions</i>	0	0	0	0
<i>Deposits</i>	284 347	284 354	473 246	473 262
<i>Subordinated liabilities</i>	16 703	16 703	16 715	16 715
<i>Debt securities in issue</i>	12 591	12 591	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	1 724	1 724	3 013	3 012
Provisions	0	0	0	0
Tax liabilities	1 210	1 210	959	959
Other liabilities	2 414	2 364	2 177	2 069
Total liabilities	325 466	325 423	519 023	518 930
Shareholders' equity	34 051	34 129	31 089	31 497
Total liabilities and shareholders' equity	359 517	359 552	550 112	550 427
Memorandum items				
Contingent liabilities	3 999	3 999	3 827	3 827
Commitments to customers	3 757	3 849	5 001	5 083



Overview of own funds and capital ratios

No	Item	30.06.2016	
		(unaudited)	
		Group	Bank
		EUR'000	EUR'000
1.	Own funds (1.1.+1.2.)	32 543	33 178
1.1.	Tier 1 capital (1.1.1.+1.1.2.)	24 199	24 880
1.1.1.	Common equity Tier 1 capital (CET1 capital)	24 199	24 880
1.1.2.	Additional Tier 1 capital	0	0
1.2.	Tier 2 capital	8 344	8 298
2.	Total risk exposure amount (2.1.+2.2.+2.3.+2.4.+2.5.+2.6.+2.7.)	179 308	180 098
2.1.	Risk weighted exposure amounts for credit, counterparty credit and dilution risks and free deliveries	146 834	147 731
2.2.	Total risk exposure amount for settlement/delivery	0	0
2.3.	Total risk exposure amount for position, foreign exchange and commodities	2 564	2 564
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)	13.50	13.81
3.2.	Surplus(+)/Deficit(-) of CET1 capital (1.1.1.-2.*4.5%)	16 130	16 775
3.3.	T1 capital ratio (1.1./2.*100)	13.50	13.81
3.4.	Surplus(+)/Deficit(-) of T1 capital (1.1.-2.*6%)	13 440	14 074
3.5.	Total capital ratio (1./2.*100)	18.15	18.42
3.6.	Surplus(+)/Deficit(-) of total capital (1.-2.*8%)	18 199	18 771
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. (%)	13.50	13.81
5.3.	Tier 1 capital ratio due to adjustments defined in row No 5.1. (%)	13.50	13.81
5.4.	Total capital ratio due to adjustments defined in row No 5.1. (%)	18.15	18.42

**Liquidity ratio calculation**

No	Item	30.06.2016 (unaudited) Bank EUR'000
1	Liquid assets	231 555
1.1.	Vault cash	1 331
1.2.	Balances due from Bank of Latvia	40 406
1.3.	Balances due from solvent credit institutions	54 216
1.4.	Liquid securities	135 602
2	Current liabilities (residual maturity of up to 30 days)	270 258
2.1.	Balances due to credit institutions	2 596
2.2.	Deposits	253 252
2.3.	Debt securities in issue	1 892
2.4.	Money in transit	1 235
2.5.	Other current liabilities	5 180
2.6.	Off-balance sheet items	6 103
3	Liquidity ratio (1:2) (%)	85.68
4	Minimum liquidity ratio (%)	30.00

**Note 1. Securities portfolio**

The Bank's securities portfolio breaks down by country:

30.06.2016				
(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	49 722	0	49 722
USA	111	0	0	111
Spain	0	20 784	0	20 784
Italy	0	20 380	0	20 380
Germany	0	18 085	0	18 085
Denmark	0	9 072	0	9 072
Sweden	0	4 509	0	4 509
Lithuania	0	4 789	2 529	7 318
Latvia	0	4 451	2 755	7 206
United Kingdom	0	6 419	0	6 419
Brazil	0	910	0	910
Turkey	0	3 947	0	3 947
Other countries*	516	37	8 630	9 183
Total	627	143 105	13 914	157 646

* 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.

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

	30.06.2016.	31.12.2015
	(unaudited)	(audited)
	Carrying value	Carrying value
	EUR'000	EUR'000
USA	0	27 582
Italy	20 380	20 751
Spain	20 784	21 521
Lithuania	7 318	7 569
Latvia	6 525	6 735
Turkey	3 947	4 061
Other countries*	5 564	1 069
total	64 518	89 288

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