



Baltic International Bank

JSC “Baltic International Bank”

Publicly Available Quarterly Financial Statements
for the period ended 31 December, 2014

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

The fundamental factors driving the global economic growth in 2014 were not stable. The oil-price plunge provided an extra fillip for the global growth. But the drag factors such as weak investor sentiment, stagnation and a low inflation environment in the euro area and Japan nullified the stimulating effect of the fillip. Geopolitical risks still remain high and reduce economic growth prospects in both Western Europe and Central Europe. According to IMF forecasts, the overall global growth of GDP is projected at 3.5 percent in 2015.

JSC Baltic International Bank (Bank) ensured the healthy growth of its key performance indicators (KPIs) in 2014. With the global economy remaining unstable and the ever more stringent requirements on risk management (regulatory standards on capital adequacy and liquidity), Bank succeeded in boosting volumes across its main areas of business and in improving its financial indicators. During the reporting period, compared with December 2013, the Bank's assets (the Group's figures are shown within the brackets) increased by 58.3 percent to reach EUR 533.03 million as at 31 December 2014 (31.12.2013: EUR 336.66 million).

The Bank made substantial strides in expanding its customer base. The Bank scaled up its efforts to acquire new customers. This in turn enabled the Bank to increase its funding base significantly -- the volume of customer deposits, as compared with December 2013, grew by 62.8 percent or EUR 172.96 million. The deposits totalled EUR 448.25 (448.24) million as at 31 December 2014 and made up 89.73 percent of the total liabilities. Customer deposits remain the primary funding source for the Bank's ongoing operations. The total customer funds, including off-balance sheet assets, grew by 40.49 percent (40.49 percent) over the year to reach EUR 683.06 (683.05) million. Throughout the reporting year, the Bank offered its customers

effective solutions geared towards managing assets in both domestic and international markets. The customers were actively interested in traditional asset management, project financing and fiduciary transactions. The Bank offered its customers to co-finance business projects related to the food industry and real estate industry in Latvia and the UK. A total of EUR 3.15 million was invested in the projects.

The significant volume of external funds raised enabled the Bank to diversify its assets. The Bank carried out a substantial volume of investment operations to buy gilt-edged securities, and hence the structure of the securities portfolio (in terms of quality) changed tangibly. Sovereign bonds, bonds of multilateral development banks (MDB) and government bonds carrying investment grade credit ratings made up 86.90 percent of the portfolio. The volume of the securities portfolio totalled EUR 96.57 million or 18.11 percent (18.12 percent) of the assets as at 31 December 2014. Optimisation of the securities portfolio delivered a stable income from the bonds portfolio.

The Bank has decided to boost its securities portfolio for the purposes of application 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 (prudential standards for capital adequacy and liquidity). Currently, the Bank's asset-liability structure is fully compliant with the regulatory ratios. The Bank's liquidity coverage ratio exceeded 100 percent as at 31 December 2014 and was 253.10 percent (252.63 percent); the total capital ratio met both the regulatory threshold and the minimum individual level and was 14.43 percent (14.23 percent); the leverage ratio was 5.30 percent (5.19 percent).

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The acquisition of new subordinated deposits fostered growth of the Bank's balance-sheet variables. According to 2014 financial results, the volume of subordinated deposits totalled EUR 16.70 million and showed the increase at an annualised rate of 50.44 percent.

When carrying out product diversification to gain access to funding sources, the Bank launched several new bond issues in 2014. The customers viewed the bonds as an attractive long-term investment vehicle. Thus, the Bank successfully closed its Bond Offering Programme No 1 for the issue of bonds totalling EUR 20 million.

The volume of the loan portfolio totalled EUR 99.62 (97.95) million as at 31 December 2014. The loan portfolio as a percentage of the total assets does not exceed 20 percent. Mortgage loans prevail in the portfolio (71.79 percent of the total portfolio). This reflects the Bank's conservative approach to credit risk. Notably, the Bank-funded projects show a greater tendency to shift to Western Europe because of the tensions between Russia and Ukraine.

According to 2014 financial results, the Bank's operating income grew at a moderate pace (up 9.3 percent) to reach EUR 14.69 million. It should be mentioned that the Bank intends to increase a percentage of stable income within the operating income. As the customers were increasingly prone to using payment & cash services, brokerage services, trust services and card products, the net fee and commission income grew by 13.05% (13.01%). By the end of December 2014, the percentage of the net fee and commission income within the operating income totalled 41 percent (31.12.2013: 39 percent). Changes observed in the foreign exchange market enabled the Bank to report a threefold increase in foreign currency transaction gains. According to 2014 financial results, foreign currency transaction gains totalled EUR 3.91 (3.90) million and made up 27 percent of the total operating income.

The Bank continued to develop technologies in its efforts to provide more convenience in money

management. Bank also rolled out new technology solutions, including financial instruments-related service in the Internet Banking environment.

At the end of 2014, the Bank unveiled a mobile application for BIB Internet Banking. The new application enabled the customers to check their account status, loans, and payment card balances more conveniently, as well as to obtain information about the financial instruments they have purchased. From the beginning of December, the application is available free of charge for the customers (smart phone users) on Apple and Android devices.

In 3Q 2014, the Bank sponsored a number of events aimed at enhancing the business environment. Co-sponsored by the Bank, an open event Commercialization Reactor Performance Day was held in Riga on 7 October. The ongoing business workshop offered attendees the opportunity to hear stories of success attained through participation in Commercialization Reactor, meet founders of start-ups, learn more about projects being developed and take part in discussions with investors.

The Bank also supported the 2014 Fairness Award ceremony. The 2014 Fairness Award ceremony honours exceptional leaders whose work and life have opened opportunity and access for poor and marginalised communities throughout the world. The ceremony was held in Washington on 24 November.

Experts appreciated the Bank's achievements in private banking and wealth management. The Bank was nominated for the category the Best Bank in the Baltic States and CIS, which provides private banking and wealth management services to Customers from Russia by SPEAR'S Russia Wealth Management Awards. The award was given in recognition of the Bank's service excellence.

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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, 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 company subsidiary company; SCS – subsidiary company subsidiary company.

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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%.

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Bank's senior management

Supervisory Council (31.12.2014)

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 (31.12.2014)

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
Inese Lazdovska	Member of the Board

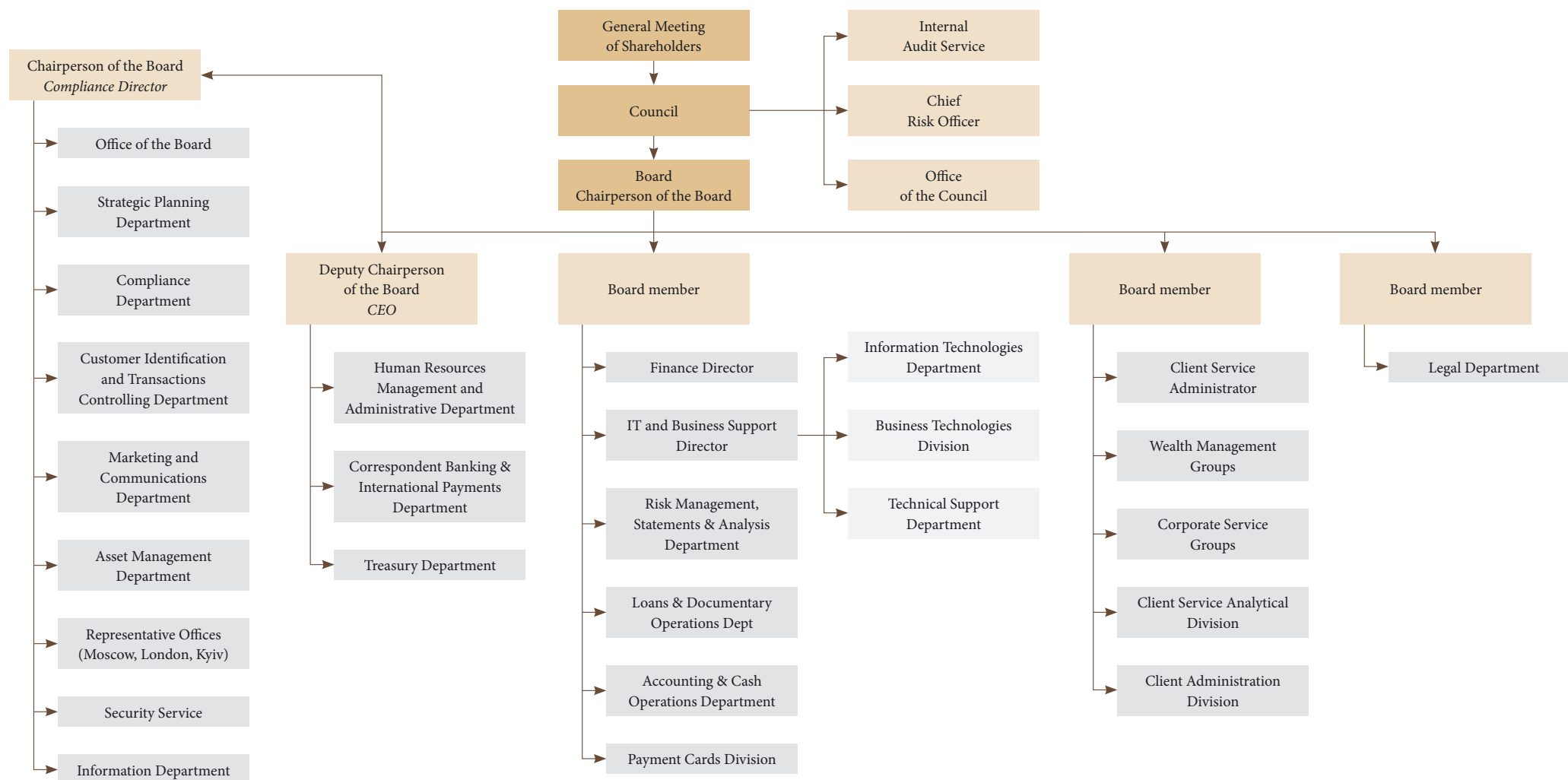
During 4Q 2014 the following changes were made in the composition of the Board:

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.

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Bank's organisational structure



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.

Strategic axes:

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; structuring, 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:

- Latvia;
- Russia;
- Ukraine;
- Kazakhstan;
- United Kingdom;
- Other Western Europe countries.

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.

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Risk management

The information about risk management is available in 2013 Annual Report from page 58 till page 64 on JSC “Baltic International Bank” web page <http://www.bib.lv/en/about-bank/reports>. Since 31 December 2013 there are no any material changes in risk management.

The Bank’s performance ratios

Item	01.01.2014.–31.12.2014. (unaudited)	01.01.2013.–31.12.2013. (audited)
Return on Equity (ROE) (%)	1,06	0,08
Return on Assets (ROA) (%)	0,08	0,01

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Profit and Loss Statement

Item	01.01.2014.–31.12.2014. (unaudited)		01.01.2013.–31.12.2013. (audited)	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Interest income	7 336	7 396	8 746	8 837
Interest expense	-2 702	-2 702	-2 170	-2 170
Dividend income	7	7	15	15
Fee and commission income	7 678	7 678	6 239	6 240
Fee and commission expense	-1 711	-1 711	-960	-960
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	205	205	0	0
Net gain/loss on financial assets and financial liabilities held for trading	-530	-530	-35	-35
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	3 902	3 913	1 342	1 343
Gain/loss on derecognition of property, plant and equipment, investment property and intangible assets	0	0	0	0
Other income	603	431	323	169
Other expenses	-266	-263	-300	-202
Administrative expenses	-11 764	-11 586	-11 379	-11 271
Depreciation	-1 262	-1 261	-1 116	-1 115
Result of provisions for doubtful debts	-1 055	-1 055	-937	-716
Impairment losses	0	0	0	0
Profit/loss before corporate income tax	441	522	-232	135
Corporate income tax	-170	-169	-84	-107
Profit/loss for the current year	271	353	-315	29

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Balance sheet statement

Item	31.12.2014. (unaudited)		31.12.2013. (audited)	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Cash and due from central banks repayable on demand	23 530	23 525	31 446	31 444
Due from credit institutions repayable on demand	271 191	271 191	133 088	133 088
Financial assets held for trading	2 882	2 882	3 135	3 135
Financial assets at fair value through profit or loss	0	0	0	0
Financial assets available for sale	87 357	87 357	4 382	4 382
Loans and receivables	104 352	106 018	123 441	125 461
<i>Other due from credit institutions</i>	6 398	6 398	21 880	21 880
<i>Loans</i>	97 954	99 620	101 561	103 581
Investments held to maturity	8 731	8 731	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	316	316	2 262	2 261
Fixed assets	17 401	17 401	17 503	17 503
Investment property	7 760	4 202	7 919	4 160
Intangible assets	4 321	4 321	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	4 074	3 713	2 064	1 625
Total assets	533 345	533 030	336 894	336 656
Liabilities to central banks	3 782	3 782	0	0
Due to credit institutions repayable on demand	277	277	7 626	7 626
Financial liabilities held for trading	1 965	1 965	623	623
Financial liabilities at fair value through profit or loss	0	0	0	0
Financial liabilities valued at depreciated cost	489 358	489 369	291 436	291 444
<i>Term liabilities due to credit institutions</i>	6 178	6 178	0	0
<i>Deposits</i>	448 236	448 247	275 281	275 289
<i>Subordinated liabilities</i>	16 702	16 702	11 102	11 102
<i>Debt securities in issue</i>	18 242	18 242	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	650	650	1 169	1 167
Provisions	0	0	0	0
Tax liabilities	1 439	1 439	1 270	1 270
Other liabilities	2 709	2 043	1 692	1 190
Total liabilities	500 180	499 525	303 816	303 320
Shareholders' equity	33 165	33 505	33 078	33 336
Total liabilities and shareholders' equity	533 345	533 030	336 894	336 656
Memorandum items				
Contingent liabilities	2 961	2 961	2 545	2 545
Commitments to customers	12 040	12 135	16 686	16 790

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Overview of own funds and capital ratios

№	Item	31.12.2014. (unaudited)	
		Group EUR'000	Bank EUR'000
1.	Own funds (1.1.+1.2.)	40 487	41 091
1.1.	Tier 1 capital (1.1.1.+1.1.2.)	28 300	28 904
1.1.1.	Common equity Tier 1 capital (CET1 capital)	28 300	28 904
1.1.2.	Additional Tier 1 capital	0	0
1.2.	Tier 2 capital	12 187	12 187
2.	Total risk exposure amount (2.1.+2.2.+2.3.+2.4.+2.5.+2.6.+2.7.)	265 604	266 076
2.1.	Risk weighted exposure amounts for credit, counterparty credit and dilution risks and free deliveries	238 673	239 267
2.2.	Total risk exposure amount for settlement/delivery	0	0
2.3.	Total risk exposure amount for position, foreign exchange and commodities risks	955	955
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)	10,65	10,86
3.2.	Surplus(+)/Deficit(-) of CET1 capital (1.1.1.-2.*4.5%)	16 348	16 930
3.3.	T1 capital ratio (1.1./2.*100)	10,65	10,86
3.4.	Surplus(+)/Deficit(-) of T1 capital (1.1.-2.*6%)	12 364	12 939
3.5.	Total capital ratio (1./2.*100)	15,24	15,44
3.6.	Surplus(+)/Deficit(-) of total capital (1.-2.*8%)	19 239	19 805
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	2 696	2 696
5.2.	CET1 capital ratio due to adjustments defined in row No 5.1. (%)	10,15	10,36
5.3.	Tier 1 capital ratio due to adjustments defined in row No 5.1. (%)	10,15	10,36
5.4.	Total capital ratio due to adjustments defined in row No 5.1. (%)	14,23	14,43

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Liquidity ratio calculation

№	Item	31.12.2014. (unaudited) Bank EUR'000
1	Liquid assets	366 597
1.1.	Vault cash	1 349
1.2.	Balances due from Bank of Latvia	22 177
1.3.	Balances due from solvent credit institutions	267 005
1.4.	Liquid securities	76 066
2	Current liabilities (residual maturity of up to 30 days)	420 620
2.1.	Balances due to credit institutions	6454
2.2.	Deposits	397 346
2.3.	Debt securities in issue	0
2.4.	Money in transit	577
2.5.	Other current liabilities	5 872
2.6.	Off-balance sheet items	10 371
3	Liquidity ratio (1:2) (%)	87,16
4	Minimum liquidity ratio (%)	30,00

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Note 1. Securities portfolio

The Bank's securities portfolio breaks down by country:

	31.12.2014. (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	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

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

	31.12.2013. (audited)			
	Financial assets held for trading EUR'000	Financial assets available for sale EUR'000	Investments held to maturity EUR'000	Total EUR'000
Russia	603	0	2 738	3 341
United Kingdom	0	3 929	0	3 929
Ukraine	1 022	0	1 837	2 859
Latvia	3	360	747	1 110
other countries	41	94	391	526
total	1 669	4 383	5 713	11 765

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Note 2. Debt securities of central governments

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

	31.12.2014. (unaudited) Carrying value EUR'000	31.12.2013. (audited) Carrying value EUR'000
Lithuania	6 915	
Latvia	5 254	747
Poland	987	
total	13 156	747