

**JSC "Baltic International Bank"**

**Unaudited Interim Condensed Group consolidated and Bank separate Financial Statements  
for the six month period ended 30 June 2016**

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## The Bank's (Group's) Management Report

Dear Ladies and Gentlemen,

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-relate 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.