



Baltic International Bank

# JSC “Baltic International Bank”

Publicly Available Quarterly Financial Statements  
for the period ended 30 September, 2015

# Table of contents

3	<b>Report from the Bank's (Group's) Senior Management</b>
6	<b>Members of the consolidation group</b>
6	<b>Bank's shareholders</b>
7	<b>Bank's senior management</b>
8	<b>Bank's organisational structure</b>
9	<b>Bank's Operational Strategy And Operational Objectives</b>
10	<b>Risk management</b>
10	<b>The Bank's performance ratios</b>
11	<b>Income statement</b>
12	<b>Balance sheet statement</b>
13	<b>Overview of own funds and capital ratios</b>
14	<b>Liquidity ratio calculation</b>
15	<b>Note 1. Securities portfolio</b>
16	<b>Note 2. Debt securities of central governments</b>

## Publicly Available Quarterly Financial Statements for the period ended 30 September, 2015

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

In 2015, the economy did not show signs of reinvigoration. Rather, deflation and recession risks were elevated. The deflation risk induces the national central banks of the euro area countries to cut key interest rates below zero. This negatively affects profitability ratios in the banking sector. It is apparent that the monetary policy and the situation in the financial markets cause banks to shift vectors and to place emphasis on non-interest income when developing banking services.

JSC Baltic International Bank (here referred to as the *Bank*, the Group's figures are shown within the brackets) succeeded to retain its business volumes and to show growth of its key performance indicators (KPI). The total volume of customer's assets under management increased by 3.60% to reach EUR 701.24 (701.23) million, subordinated deposits increased by 8.01% and made up EUR 18.04 million.

As at 30 September 2015, the Bank's total capital ratio of 16.0% (15.8%) met both the regulatory threshold and the minimum individual level. The liquidity position remains stable; as at 30 September, the liquidity ratio was 90.56% and significantly exceeds the minimum internal requirement of 60%. The Bank's liquidity coverage ratio (LCR) far exceeded 100%.

The Bank does not need to raise financial resource in the external markets. The Bank's loan portfolio and securities portfolio are fully financed through customers' funds. The deposits accounted for EUR 457.94 (457.93) million or 91.27% (91.22%) of the total liabilities as at 30 September 2015.

On 31 July 2015, for the first time in its history, the Bank carried out the public issue of its own bonds. On 12 August 2015, the Bank's bonds were admitted to official stock-exchange listing on *Nasdaq Riga* and quoted on the *Nasdaq Baltic Bond List*. The official listing on *Nasdaq Riga* presents strong

evidence of Bank's overall stability and openness to investors, boosts the brand awareness and visibility internationally, and enables Bank to take advantage of the vast benefits offered by public market. Under the first public issue, the Bank launched 3 issues of EUR- and USD-denominated bonds with one- and two-year maturities. When the issue was launched on a trial basis, the volume of bonds in public circulation totalled EUR 6.27 million. As at 30 September 2015, the total volume of Bank-issued bonds was EUR 17.40 million.

The Bank continued to invest its temporarily idle funds in securities. As at 30 September 2015, the Bank's securities portfolio totalled EUR 180.72 million and by 87.15% (or EUR 84.15 million) exceeded the volume recorded on 31 December 2014. Practically, the aggregate portfolio is comprised of available-for-sale securities portfolio (94.53% of the total securities portfolio) and predominantly bonds (95.83% of the total securities portfolio). The three types of bonds account for 87.88% of the total portfolio: sovereign bonds, bonds of multilateral development banks (MDBs), and bonds issued by credit institutions incorporated or established by the central or regional governments of Member States and carrying AA- credit, which is indicative of the portfolio's high level of liquidity and safety.

As at 30 September 2015, the Bank's loan portfolio totalled EUR 77.09 (75.23) million. During the first 9 months of 2015, the loan portfolio shrunk by 21.14% (21.71%) largely due to the fact that the Bank specifically focused on its distressed assets and scaled down its exposure in Ukraine. Since the Bank has switched over its attention to the European market, the replacement of the aforesaid exposure and further growth is ensured through projects that satisfy sustainable development principles laid down in the Bank's Operational Excellence Strategy 2015–2017 (a medium-term plan). This also meets

## Publicly Available Quarterly Financial Statements for the period ended 30 September, 2015

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the interests of those clients who invest in liaison with the Bank.

While developing alternative investments, the Bank has changed to some extent its approach to the product offer. At the time of launching the product, the clients had the opportunity to co-finance already existing (actually functioning) loan projects. Currently, the Bank starts negotiating with a client on project-consideration stage and engages a client while carrying out due diligence on the project. Thus, the Bank involves the client in the financial attractiveness assessment of the project and identifies the interest of potentially interested investors.

Over the reporting period, the Bank has seen a 15-percent increase in the number of clients who have displayed their interest in the product and transferred their funds under the Bank's management or set aside their funds specifically for investing in a business project.

While continuing to develop its offers to the clients, the Bank expands opportunities for making portfolio investments. For this purpose, the Bank devises portfolio management strategies, which satisfy the Principles for Responsible Investment, and places a special emphasis on a broad-scale assessment of issuers. The broad-scale assessment implies evaluating whether the outlook for financial stability of the issuers is good and whether the capitalisation is aimed at growth. Also, the broad-scale assessment identifies to what extent the issuers satisfy sustainable development criteria in areas such as environmental protection, social responsibility and corporate governance.

In an effort to broaden the range of portfolio-investment offers, the Bank has concluded the partnership agreement with a London-based Hassium Asset Management. This enables the Bank's clients to avail of the competences and analytical potential possessed by the managers which have accumulated vast experience while working at global-level investment banks. Due to this partnership, the Bank has the opportunity to offer its clients

strategies differing both in exposures to various types of risks and potential yields, with a particular focus on different sectors and regions, and the minimum investment amounts.

As at 30 September 2015, the volume of customers' funds (including assets under management, brokerage portfolio, debt securities issued, deposits, and subordinated deposits) exceeded EUR 700 million, showing an increase by EUR 24.36 million as compared to December 2014. The clients showed heightened interest in brokerage services. As a result, the volume of the brokerage portfolio totalled EUR 97.52 million, up 51.86 percent (or EUR 33.31 million) from the figure recorded on 31 December 2014.

In 3Q 2015, the Bank's profit exceeded EUR 2 million. The operating income totalled EUR 14.90 (14.97) million, showing a 50.80-percent (49.61-percent) increase over the same period in 2014. Taking into account the changing economic realities that are pushing interest rates into negative territory, the Bank is focusing on a gradual growth of fee and commission income and other non-interest income. Compared to the same period in 2014, the net interest income, as a percentage of the operating income, dropped as at 30 September to 17.24% (16.74%) from 39.12% (38.15%). At the same time, the percentage of the net fee and commission income rose (35.36% (35.20%)), and the financial result of forex transaction increased (45.10% (44.83%)).

In 3Q 2015, the Bank focused its attention on important financial events. In the beginning of September, the Bank's representatives participated in the annual conference InvestPro Kazakhstan 2015. The conference was held in Almaty and Astana (Kazakhstan) and brought together more than 600 wealth and investment management experts from Europe, the CIS, the Mid East, and Asia. Key issues, such as international investments, financing, wealth management and growth, were highlighted at the conference. The participants shared their experiences and discussed the latest industry trends. In

## Publicly Available Quarterly Financial Statements for the period ended 30 September, 2015

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their speeches, the Bank's representatives addressed the most up-to-date solutions in the area of alternative investments and trade finance.

Baltic International Bank for the second time participated, as an event partner, in the Forbes Club's visiting session organised in Lviv, Ukraine. The Club's members pooled together to meet with Jean-Yves Charliere, newly appointed CEO of telecommunication holding Vimpelcom Ltd,

to discuss the theme *Telecom of the Future: How Business Will Benefit From Development of Mobile Technologies*.

As part of *Wealth Management Trends* project supported by the Bank, Forbes magazine (published in Russia and Latvia, the September issue) offered its readers an insight into the tendencies of the second half-year of 2015, as seen by financial-market experts.

# Publicly Available Quarterly Financial Statements for the period ended 30 September, 2015

## Members of the consolidation group

No	Company name and registration number	Code of registration state and address	Institution type <sup>1</sup>	Ownership interest (%)	Percentage of voting rights (%)	Rationale behind the inclusion within the group <sup>2</sup>
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 41, Riga	OFI	100	100	PCS
4	SIA "Gaujas īpašumi", 40103249888	LV, Kalēju iela 41, Riga	OFI	100	100	SCS
5	SIA "Global Investments", 40003785660	LV, Merkeļa iela 6-11, Riga	OFI	100	100	SCS

<sup>1</sup> BNK – bank; OFI – other financial institution; SE – supporting enterprise.

<sup>2</sup> 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%
- Vilori Belokon – 30.00969%.

Publicly Available Quarterly Financial Statements  
for the period ended 30 September, 2015

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## Bank's senior management

### Supervisory Council (30.06.2015)

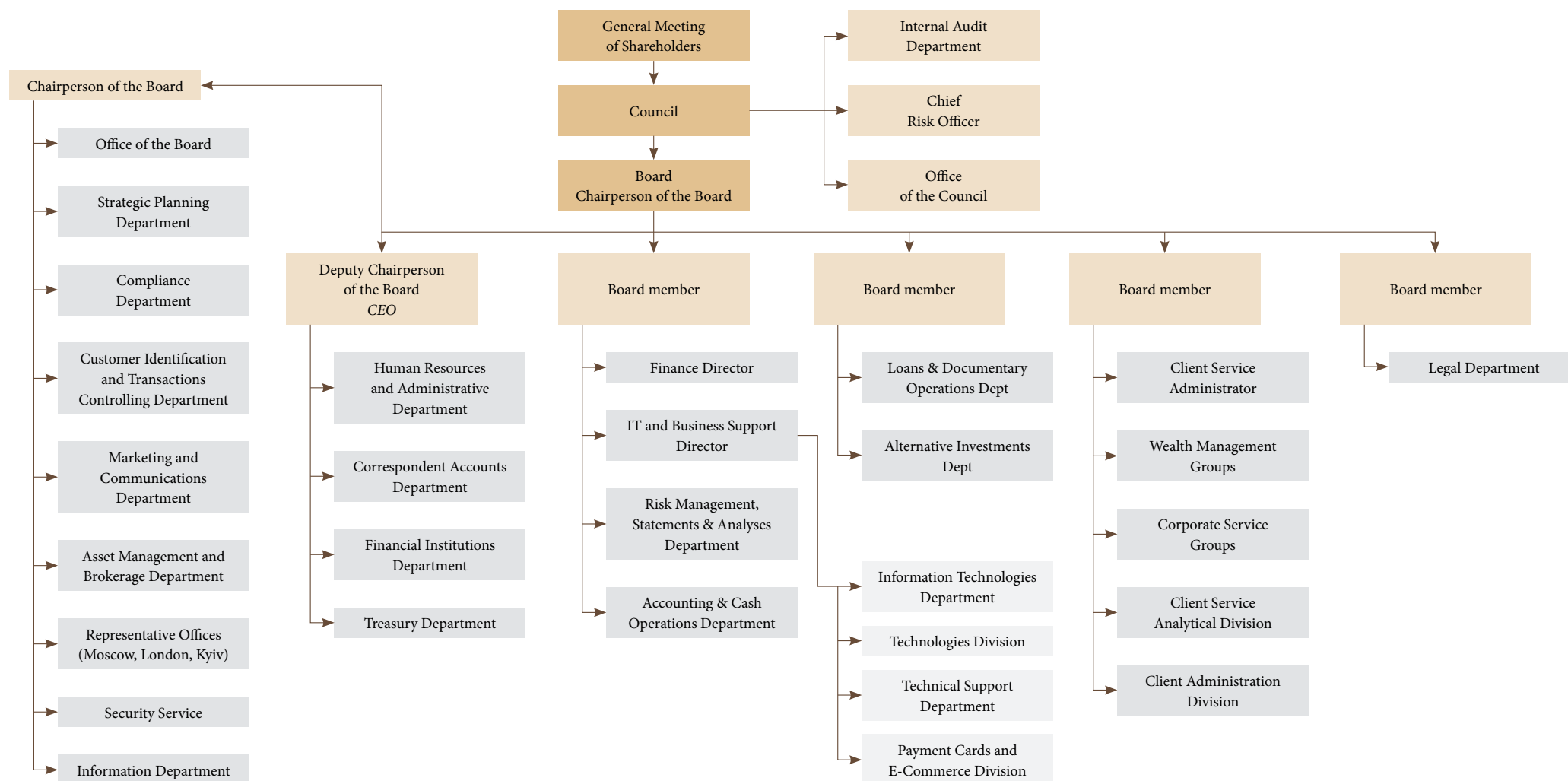
Name and surname	Position
Valeri Belokon	Chairperson of the Council
Albert Reznik	Deputy Chairperson of the Council
Vlada Belokon	Member of the Council

### Management Board (30.06.2015)

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
Martins Neibergs	Member of the Board

Publicly Available Quarterly Financial Statements  
for the period ended 30 September, 2015

## 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.

# Publicly Available Quarterly Financial Statements for the period ended 30 September, 2015

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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	01.01.2015–30.09.2015 (unaudited)	01.01.2014–30.09.2014 (unaudited)
Return on Equity (ROE) (%)	8.74	0.97
Return on Assets (ROA) (%)	0.53	0.08

Publicly Available Quarterly Financial Statements  
for the period ended 30 September, 2015

## Income statement

Item	01.01.2015–30.09.2015 (unaudited)		01.01.2014.–30.09.2014 (unaudited)	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Interest income	4 817	4 869	5 735	5 784
Interest expense	-2 312	-2 300	-1 919	-1 919
Dividend income	2	2	3	3
Fee and commission income	7 669	7 670	5 173	5 174
Fee and commission expense	-2 401	-2 401	-991	-991
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	205	205
Net gain/loss on financial assets and financial liabilities held for trading	-31	-31	-432	-432
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	6 709	6 719	1 827	1 827
Gain/loss on derecognition of property, plant and equipment, investment property and intangible assets	0	0	0	0
Other income	512	371	402	229
Other expenses	-128	-123	-148	-142
Administrative expenses	-9 033	-8 936	-8 448	-8 310
Depreciation	-1 013	-1 013	-936	-936
Result of provisions for doubtful debts	-2 227	-2 227	-106	-106
Impairment losses	0	0	0	0
<b>Profit/loss before corporate income tax</b>	<b>2 564</b>	<b>2 600</b>	<b>365</b>	<b>386</b>
Corporate income tax	-408	-408	-143	-143
<b>Profit/loss for the current year</b>	<b>2 156</b>	<b>2 192</b>	<b>222</b>	<b>243</b>

Publicly Available Quarterly Financial Statements  
for the period ended 30 September, 2015

## Balance sheet statement

Item	30.09.2015 (unaudited)		31.12.2014 (audited)	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Cash and due from central banks repayable on demand	80 142	80 140	23 530	23 525
Due from credit institutions repayable on demand	147 707	147 707	267 010	267 010
Financial assets held for trading	660	660	2 882	2 882
Financial assets at fair value through profit or loss	0	0	0	0
Financial assets available for sale	170 836	170 836	87 357	87 357
Loans and receivables	90 657	92 522	106 668	108 335
<i>Other due from credit institutions</i>	15 430	15 430	10 581	10 581
<i>Loans</i>	75 227	77 092	96 087	97 754
Investments held to maturity	9 366	9 366	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	2 145	2 145	2 386	2 388
Fixed assets	17 403	17 403	17 401	17 401
Investment property	7 496	3 918	7 476	3 918
Intangible assets	4 009	4 009	4 321	4 321
Investments in associated and related companies	1 145	3 088	1 145	3 088
Current tax assets	0	0	285	285
Other assets	3 790	3 682	1 769	1 626
<b>Total assets</b>	<b>535 356</b>	<b>535 476</b>	<b>530 961</b>	<b>530 867</b>
Liabilities to central banks	3 786	3 786	3 782	3 782
Due to credit institutions repayable on demand	297	297	277	277
Financial liabilities held for trading	151	151	1 965	1 965
Financial liabilities at fair value through profit or loss	0	0	0	0
Financial liabilities valued at depreciated cost	493 363	493 372	489 355	489 366
<i>Term liabilities due to credit institutions</i>	0	0	6 178	6 178
<i>Deposits</i>	457 926	457 935	448 233	448 244
<i>Subordinated liabilities</i>	18 040	18 040	16 702	16 702
<i>Debt securities in issue</i>	17 397	17 397	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	313	313	1 488	1 483
Provisions	0	0	0	0
Tax liabilities	1 548	1 548	1 139	1 139
Other liabilities	2 544	2 279	1 617	1 177
<b>Total liabilities</b>	<b>502 002</b>	<b>501 746</b>	<b>499 623</b>	<b>499 189</b>
<b>Shareholders' equity</b>	<b>33 354</b>	<b>33 730</b>	<b>31 338</b>	<b>31 678</b>
<b>Total liabilities and shareholders' equity</b>	<b>535 356</b>	<b>535 476</b>	<b>530 961</b>	<b>530 867</b>
<b>Memorandum items</b>				
Contingent liabilities	3 911	3 911	2 961	2 961
Commitments to customers	4 901	4 982	12 040	12 135

Publicly Available Quarterly Financial Statements  
for the period ended 30 September, 2015

## Overview of own funds and capital ratios

№	Item	30.09.2015 (unaudited)	
		Group EUR'000	Bank EUR'000
<b>1.</b>	<b>Own funds (1.1.+1.2.)</b>	<b>36 031</b>	<b>36 651</b>
<b>1.1.</b>	<b>Tier 1 capital (1.1.1.+1.1.2.)</b>	<b>25 694</b>	<b>26 314</b>
1.1.1.	Common equity Tier 1 capital (CET1 capital)	25 694	26 314
1.1.2.	Additional Tier 1 capital	0	0
<b>1.2.</b>	<b>Tier 2 capital</b>	<b>10 337</b>	<b>10 337</b>
<b>2.</b>	<b>Total risk exposure amount (2.1.+2.2.+2.3.+2.4.+2.5.+2.6.+2.7.)</b>	<b>227 608</b>	<b>228 518</b>
2.1.	Risk weighted exposure amounts for credit, counterparty credit and dilution risks and free deliveries	199 202	200 317
2.2.	Total risk exposure amount for settlement/delivery	0	0
2.3.	Total risk exposure amount for position, foreign exchange and commodities risks	2 135	2 135
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
<b>3.</b>	<b>Capital ratios and capital levels</b>		
3.1.	CET1 capital ratio (1.1.1./2.*100)	11.29	11.52
3.2.	Surplus(+)/Deficit(-) of CET1 capital (1.1.1.-2.*4.5%)	15 451	16 031
3.3.	T1 capital ratio (1.1./2.*100)	11.29	11.52
3.4.	Surplus(+)/Deficit(-) of T1 capital (1.1.-2.*6%)	12 037	12 603
3.5.	Total capital ratio (1./2.*100)	15.83	16.04
3.6.	Surplus(+)/Deficit(-) of total capital (1.-2.*8%)	17 823	18 370
<b>4.</b>	<b>Combined Buffer Requirement (4.1.+4.2.+4.3.+4.4.+4.5.)</b>	<b>2.5</b>	<b>2.5</b>
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
<b>5.</b>	<b>Capital ratios due to adjustments</b>		
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. (%)	11.29	11.52
5.3.	Tier 1 capital ratio due to adjustments defined in row No 5.1. (%)	11.29	11.52
5.4.	Total capital ratio due to adjustments defined in row No 5.1. (%)	15.83	16.04

Publicly Available Quarterly Financial Statements  
for the period ended 30 September, 2015

## Liquidity ratio calculation

		<b>30.09.2015</b> (unaudited)
№	Item	<b>Bank</b> EUR'000
<b>1</b>	<b>Liquid assets</b>	<b>378 040</b>
1.1.	Vault cash	1 279
1.2.	Balances due from Bank of Latvia	78 861
1.3.	Balances due from solvent credit institutions	143 677
1.4.	Liquid securities	154 223
<b>2</b>	<b>Current liabilities (residual maturity of up to 30 days)</b>	<b>417 451</b>
2.1.	Balances due to credit institutions	297
2.2.	Deposits	406 761
2.3.	Debt securities in issue	0
2.4.	Money in transit	1 312
2.5.	Other current liabilities	4 003
2.6.	Off-balance sheet items	5 078
<b>3</b>	<b>Liquidity ratio (1:2) (%)</b>	<b>90.56</b>
4	Minimum liquidity ratio (%)	30.00

Publicly Available Quarterly Financial Statements  
for the period ended 30 September, 2015

## Note 1. Securities portfolio

The Bank's securities portfolio breaks down by country:

	30.09.2015 (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	85 692	0	85 692
USA	0	22 316	0	22 316
Germany	0	17 948	0	17 948
Sweden	0	8 961	0	8 961
Lithuania	0	4 819	2 506	7 325
United Kingdom	0	6 771	0	6 771
Latvia	2	4 509	2 757	7 268
Denmark	0	9 000	0	9 000
Other countries*	515	10 820	4 103	15 438
<b>total</b>	<b>517</b>	<b>170 836</b>	<b>9 366</b>	<b>180 719</b>

\*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.

	31.12.2014 (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
Sweden	0	8 248	0	8 248
Lithuania	0	4 541	2 374	6 915
United Kingdom	0	6 419	0	6 419
Latvia	1	3 245	2 550	5 796
Denmark	0	4 149	0	4 149
Other countries*	476	2 426	3 807	6 709
<b>total</b>	<b>477</b>	<b>87 357</b>	<b>8 731</b>	<b>96 565</b>

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

Publicly Available Quarterly Financial Statements  
for the period ended 30 September, 2015

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## Note 2. Debt securities of central governments

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

	<b>30.09.2015</b> (unaudited) <b>Carrying value</b> EUR'000	<b>31.12.2014</b> (audited) <b>Carrying value</b> EUR'000
USA	22 316	0
Lithuania	7 325	6 915
Latvia	6 544	5 254
Other countries*	4 948	987
<b>total</b>	<b>41 133</b>	<b>13 156</b>

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