

JSC "Baltic International Bank"

**Unaudited Interim Condensed Group consolidated and Bank separate Financial Statements
for the twelve month period ended 31 December 2016**

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The Bank's (Group's) Management Report

Dear Ladies and Gentlemen,

The year 2016 was marked by significant events which affected the Bank's operations and the direction in which the Bank's further development could proceed:

- The Bank articulated and approved its Strategy 2030. The Strategy centres around and places the main focus on the Bank's (Group's) investing activities. The paramount strategic goal is to invest jointly with the customers in the enterprises whose activities resonate with environmental, social and governance (ESG) factors and in projects having a built-in ESG component.
- The Bank increased its share capital by EUR 2 million through issuing new shares. The Bank is owned by the majority shareholder Valeri Belokon (69.90 percent) and a shareholder Vilori Belokon (30.05 percent).
- In light of new approaches to the assessment of customers' activities, the Bank finalised the revision of its cooperation with a number of customers posing potentially high risks.
- The Bank evaluated the integrity of its AML/CFT controls and the level of compliance with the United States' AML/CFT regime. Based on the relevant recommendations, the Bank developed the action plan designed to integrate the innovations into the Bank's internal control system (ICS) throughout 2017.

As of 31 December 2016, the Bank had the following key financial indicators (the Group-related financials are enclosed within the parentheses):

- Profit: EUR 1.21 million (EUR 2.07 million)
- Capital adequacy ratio: 15.86 percent (15.52 percent)
- Liquidity ratio: 70.02 percent
- Return on Equity (ROE): 3.55 percent
- Assets: EUR 306.75 million (EUR 307.76 million)
- Assets under management: EUR: 81.98 million (EUR 81.98 million)
- The value of financial instruments in brokerage service: EUR 105.67 million (EUR 105.67 million).

The operating income increased to reach EUR 26.86 million (EUR 27.47 million) having demonstrated a 35.8 percent (38.7 percent) growth over the same period last year. The positive dynamics of the income growth was primarily fostered by trade transactions whose income increased by EUR 7.73 million (EUR 7.74 million). The operating 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 2.79 million). The fee and commission income shrank by 31.5 percent (31.6 percent), mainly because of suspension of e-commerce operations. Income gained from brokerage operations surged by 23.4 percent (23.4 percent).

The Bank's operating expense saw increase of up to EUR 17.00 million (EUR 17.15 million), a 6.0 percent (5.2 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 13.4 percent (13.4 percent) up to EUR 8.02 million (EUR 8.02 million).

The Bank's (Group's) 4Q 2016 financial result proved negative and totalled minus EUR 2.42 million (minus EUR 1.77 million). The negative result was fuelled by impairment allowances of EUR 2.69 million (EUR 2.62 million) set aside by the Bank. The structure of the Bank's operating income was heavily dominated by income from trade transactions totalling 74.99 percent (66.95 percent). At the same time, certain types of fee and commission income shifted into positive territory as they rose compared to 3Q 2016 results: income from current-accounts administration and transactions grew by 22.3 percent (22.3 percent); income from customer asset management changed by +26.2 percent (+26.2 percent).

The asset structure is still predominantly represented by investments in available-for-sale financial assets: EUR 86.44 million (EUR 86.44 million) or 28.2 percent (28.1 percent) of the total assets. High quality liquid assets: (assets carrying investment-grade credit ratings and balances due from the Bank of Latvia) totalled EUR 162.55 million (EUR 162.55 million) or 53.0 percent (52.8 percent) of the total assets. Investments in government bonds totalled EUR 47.09 million (EUR 47.09 million) or 15.4 percent (15.3 percent) of the total assets.

Diversification of the borrowed resources improved slightly during the year largely due to the fact that the Bank raised money through a second series of the targeted long-term refinancing operations (the Eurosystem's TLTRO II). Customer deposits, as a percentage of the total liabilities, dropped to 83.38 percent (83.16 percent) from 91.20 percent (91.18 percent). Due to the Central Bank grew to 5.13 percent (5.12 percent) from 0.73 percent (0.73 percent). To raise long-term financing, the Bank intends to continue to use lending opportunities offered by the EU institutions.

The liquidity ratios exceed the regulatory thresholds. As of 31 December 2016, the liquidity ratio was 70.02 percent (the minimum internal threshold is 60 percent). The liquidity coverage ratio (LCR) was 404.06 percent (401.93 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 143.51 percent (141.68 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 31 December 2016, the Bank's own funds totalled EUR 31.58 million (EUR 31.00 million). The own funds declined over 4Q 2016 because of the re-evaluation of the Bank's investments in the equity of a company carrying on its business in Great Britain. The Bank's Tier 1 capital ratio (CET1) totalled 11.74 percent (11.42 percent). Having reached 15.86 percent (15.52 percent), the total capital ratio exceeds the individual ratio, as set by the Financial and Capital Market Commission, by 5.66 percentage points. By the end of 4Q 2016, the leverage ratio was 7.61 percent (7.45 percent).

* The calculation is based on the CET1 figures and the data relevant to the assets and off-balance sheet liabilities as of 31 December 2016.

Support for projects of social significance

In 2016, the Bank continued to actively support various publicly important projects and events. Special focus was placed on promoting the development of Latvian literature by supporting the publishing of historical novel series “Mēs. Latvija, XX gadsimts” (Us. Latvia, XX century), as well as various other culture and art projects. We are proud that Baltic International Bank could support the Latvian National Museum of Art in developing its mobile application, which has been recognised as one of the most sophisticated mobile apps of art museums across Europe. We are also glad that with the Bank’s support the “Baltic International Bank Latvian Barometer” monthly surveys were carried out, studying various publicly topical issues.

28 February 2017



Iona Gulchak
Chairperson of the Board

Supervisory Council and Management Board

Supervisory Council (as of 31 December 2016)

Name	Position held	Appointed	Re- appointed
Valeri Belokon	Chairperson of the Supervisory Council	15/09/2010	11/10/2016
Vlada Belokon	Deputy Chairperson of the Supervisory Council	11/10/2016	11/10/2016
	Member of the Supervisory Council	19/08/2011	11/10/2016
Andris Ozolinsh	Member of the Supervisory Council	27/11/2015	11/10/2016
Dr.Hans-Friedrich von Ploetz	Member of the Supervisory Council	30/03/2016	11/10/2016
Black Joseph Cofer	Member of the Supervisory Council	01/11/2016	-

Management Board (as of 31 December 2016)

Name	Position held	Appointed	Re- appointed
Ilona Gulchak	Chairperson of the Board	25/01/2008	25/01/2016
Natalya Tkachenko	Deputy Chairperson of the Board	26/02/2008	13/08/2015
	Member of the Board	01/08/2007	13/08/2015
Alon Nodelman	Member of the Board	15/08/2003	13/08/2015
Martins Neiberghs	Member of the Board	24/04/2015	16/06/2015
Bogdan Andrushchenko	Member of the Board	04/03/2016	-
Dace Duklava-Kokina	Nominee Member of the Board	04/01/2016	-

In the twelve month period ended 31 December 2016, the following changes were made in the composition of JSC “Baltic International Bank” Supervisory Council and Management Board:

Supervisory Council:

According to the resolution of the General Meeting of Shareholders held on 30 March 2016, Dr. Hanss-Frīdrihs fon Plocs was elected as a new member of the Supervisory Council. According to the resolution of the extraordinary General Meeting of Shareholders held on 11 Oktober 2016, Black Joseph Cofer was elected as a new member of the Supervisory Council.

Management Board:

According to the Council’s resolution of 12 January 2016, Bogdan Andrushchenko was elected as a member of the Board. According to the Council’s resolution of 12 January 2016, Dace Duklava-Kokina and Albert Reznik were elected as nominee members of the Board. Dinars Kolpakov have withdrawn their membership in the Management Board of JSC “Baltic International Bank”.

There were no changes in the Supervisory Council of the Bank during the period from 1 January 2017 to the date of the approval of these financial statements.

During the period from 1 January 2017 to the date of the approval of these financial statements the following changes were made in the composition of JSC “Baltic International Bank” Management Board:

Albert Rezniks have withdrawn their membership in the Management Board of JSC “Baltic International Bank”.

Statement of Management's Responsibility

Riga

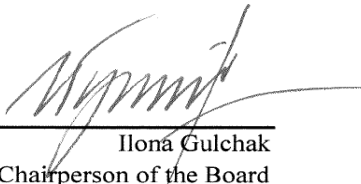
28 February 2017

The management of JSC Baltic International Bank (the Bank) is responsible for the preparation of the interim condensed consolidated financial statements of the Bank and its subsidiaries (the Group) as well as for the preparation of the interim condensed separate financial statements of the Bank. The interim condensed Group consolidated and Bank separate financial statements are prepared in accordance with IAS 34 Interim Financial Reporting on a going concern basis. Appropriate accounting policies have been applied on a consistent basis. Prudent and reasonable judgements and estimates have been made by the Management in the preparation of the condensed interim financial statements.

The interim condensed Group consolidated and Bank separate financial statements on pages 8 to 32 are prepared in accordance with the source documents and present the financial position of the Group and Bank as at 31 December 2016 and the results of its performance and cash flows for the twelve month period ended 31 December 2016.

The Management of the Bank is responsible for the maintenance of proper accounting records, the safeguarding of the Group's and Bank's assets and the prevention and detection of fraud and other irregularities in the Group and Bank. The Management is also responsible for operating the Group and Bank in compliance with the Law on Credit Institutions, regulations of the Financial and Capital Market Commission and other legislation of the Republic of Latvia applicable to the credit institutions.

On behalf of the Management of the Bank and Group:



Ilona Gulchak
Chairperson of the Board

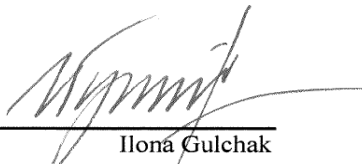
Financial Statements

INTERIM CONDENSED GROUP CONSOLIDATED AND BANK SEPARATE STATEMENT OF COMPREHENSIVE INCOME

		for the twelve month period ended 31 December 2016		for the twelve month period ended 31 December 2015	
		Group EUR	Bank EUR	Group EUR	Bank EUR
Interest income	3	4 501 151	4 521 332	6 332 606	6 400 073
Interest expense	4	(1 868 421)	(1 867 753)	(2 968 185)	(2 889 376)
Net interest income		2 632 730	2 653 579	3 364 421	3 510 697
Fee and commission income	5	8 426 632	8 427 277	11 107 012	11 108 358
Fee and commission expense	6	(3 479 435)	(3 479 386)	(3 881 062)	(3 881 002)
Net fee and commission income		4 947 197	4 947 891	7 225 950	7 227 356
Dividend income		6 880	6 880	2 345	2 345
Net trading profit	7	2 753 203	2 753 203	31 067	31 067
Net foreign exchange income	7	16 345 937	16 345 375	8 559 109	8 572 829
Other operating income		209 682	156 909	628 781	431 199
Total operating income		26 895 629	26 863 837	19 811 673	19 775 493
Administrative expenses	8	(16 396 426)	(16 252 521)	(13 848 683)	(13 706 342)
Other operating expenses		(1 197 955)	(433 806)	(1 392 023)	(1 383 215)
Net impairment loss	9	(8 537 182)	(8 869 429)	(5 558 088)	(5 715 209)
Loss on revaluation of investment property		(306 609)	(314 015)	(1 057 560)	(948 765)
Profit before income tax		457 457	994 066	(2 044 681)	(1 978 038)
Income tax benefit		214 783	214 833	180 416	180 854
Profit for the period		672 240	1 208 899	(1 864 265)	(1 797 184)
Other comprehensive income					
<i>Items that are or may be reclassified to profit or loss</i>					
Available for sale financial assets – net change in fair value		(2 012 844)	(2 012 844)	1 625 691	1 625 691
Available for sale financial assets, reclassified to profit or loss		(2 127 168)	(2 127 168)	(9 889)	(9 889)
Total comprehensive income for the period		(3 467 772)	(2 931 113)	(248 463)	(181 382)

The accompanying notes on pages 16 to 32 are an integral part of these Interim Condensed Group consolidated and Bank separate Financial Statements.

The Interim Condensed Group consolidated and Bank separate Financial Statements on pages 8 to 32 have been authorised for issue by the Board on 28 February 2017, and signed on their behalf by:



Ilona Gulchak
Chairperson of the Board

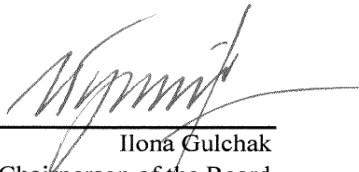
Financial Statements

**INTERIM CONDENSED GROUP CONSOLIDATED AND BANK SEPARATE
STATEMENT OF FINANCIAL POSITION**

ASSETS	Notes	Group 31.12.2016 EUR	Bank 31.12.2016 EUR	Group 31.12.2015 EUR	Bank 31.12.2015 EUR
Cash and due from central banks		70 152 023	70 152 023	48 927 561	48 925 707
Financial assets held-for-trading		1 177 668	1 177 668	581 338	581 338
<i>Securities held-for-trading</i>	10	628 345	628 345	553 657	553 657
<i>Derivative financial instruments</i>		549 323	549 323	27 681	27 681
Due from credit institutions	11	17 918 028	17 918 028	165 943 153	165 943 153
Other financial assets		7 299 867	7 299 867	-	-
Loans	12	62 231 527	69 231 266	68 487 551	70 316 285
Available for sale instruments	13	86 438 544	86 438 544	221 783 703	221 783 703
Securities held-to-maturity	14	16 691 688	16 691 688	9 623 763	9 623 763
Investments					
in equity accounted investees	15	1 144 547	1 144 547	1 144 547	1 144 547
Investments in subsidiaries	16	-	2 065 229	-	1 943 074
Investment property		6 185 430	2 655 073	6 461 188	2 969 088
Property and equipment		17 249 526	17 249 228	17 324 928	17 324 901
Intangible assets		4 107 870	4 107 870	3 881 712	3 881 712
Current income tax assets		14 943	14 943	17 497	17 497
Deferred expenses and accrued income		2 462 562	2 405 024	2 565 415	2 564 851
Other assets		13 292 716	8 200 358	3 369 895	3 406 959
Total assets		<u>306 366 939</u>	<u>306 751 356</u>	<u>550 112 251</u>	<u>550 426 578</u>

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 Ilona Gulchak
 Chairperson of the Board


Financial Statements

INTERIM CONDENSED GROUP CONSOLIDATED AND BANK SEPARATE STATEMENT OF FINANCIAL POSITION

LIABILITIES AND SHAREHOLDERS' EQUITY	Group Notes	Bank 31.12.2016 EUR	Bank 31.12.2016 EUR	Group 31.12.2015 EUR	Bank 31.12.2015 EUR
Liabilities					
Derivative financial instruments		-	-	3 056	3 056
Due to credit institutions		15 956 666	15 956 666	6 479 755	6 479 755
Deposits	17	229 881 183	230 016 396	473 245 931	473 262 367
Debt securities in issue	18	10 123 468	10 123 468	16 429 701	16 429 701
Accrued expenses, provisions and deferred income		1 834 231	1 833 455	3 012 928	3 011 598
Deferred tax liabilities		743 629	743 629	958 462	958 462
Other liabilities		2 179 803	1 486 025	2 177 855	2 069 959
Subordinated liabilities	19	16 026 412	16 026 412	16 715 268	16 715 268
Total liabilities		276 745 392	276 186 051	519 022 956	518 930 166
Shareholders' equity					
Share capital	20	31 496 395	31 496 395	29 496 389	29 496 389
Reserve capital	20	835 170	835 152	835 152	835 152
Property revaluation reserve		34 900	34 900	34 900	34 900
Available for sale instruments revaluation reserve		(2 708 104)	(2 708 104)	1 431 908	1 431 908
Retained earnings/(accumulated losses) (Accumulated losses)/ retained earnings		(36 814) (709 054)	906 962 (301 937)	(709 054) 1 155 211	(301 937) 1 495 247
Profit/(loss) for the period		672 240	1 208 899	(1 864 265)	(1 797 184)
Total shareholders' equity		29 621 547	30 565 305	31 089 295	31 496 412
Total liabilities and shareholders' equity		306 366 939	306 751 356	550 112 251	550 426 578
Commitments and contingencies					
Sureties (guarantees)		1 549 746	1 549 746	3 827 416	3 827 416
Commitments to customers		9 717 384	9 803 278	5 000 762	5 082 647
Total commitments and contingencies		11 267 130	11 353 024	8 828 178	8 910 063

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 Chairperson of the Board

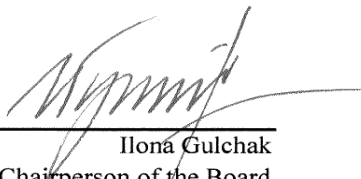
Financial Statements

INTERIM CONDENSED GROUP CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital EUR	Reserve capital EUR	Property revaluation reserve EUR	Available for sale instru- ments revaluation reserve EUR	Retained earnings/ (accumu- lated losses) EUR	TOTAL EUR
Balance as of 31 December 2014	29 496 389	835 152	34 900	(183 894)	1 155 211	31 337 758
Total comprehensive income						
Net income for the period	-	-	-	-	2 573 711	2 573 711
Available for sale instruments revaluation reserve	-	-	-	226 438	-	226 438
Total comprehensive income	-	-	-	226 438	2 573 711	2 800 149
Balance as of 30 June 2015	29 496 389	835 152	34 900	42 544	3 728 922	34 137 907
Total comprehensive income						
Net income for the period	-	-	-	-	(4 437 976)	(4 437 976)
Available for sale instruments revaluation reserve	-	-	-	1 389 364	-	1 389 364
Total comprehensive income	-	-	-	1 389 364	(4 437 976)	(3 048 612)
Balance as of 31 December 2015	29 496 389	835 152	34 900	1 431 908	(709 054)	31 089 295
Total comprehensive income						
Net income for the period	-	-	-	-	3 272 498	3 272 498
Available for sale instruments revaluation reserve	-	-	-	(1 311 210)	-	(1 311 210)
Total comprehensive income	-	-	-	(1 311 210)	3 272 498	1 961 288
Transactions with owners, recorded directly in equity						
Increase in share capital	1 000 000	-	-	-	-	1 000 000
Total transactions with owners, recorded directly in equity	1 000 000	-	-	-	-	1 000 000
Balance as of 30 June 2016	30 496 389	835 152	34 900	120 698	2 563 444	34 050 583
Total comprehensive loss						
Net loss for the period	-	-	-	-	(2 600 258)	(2 600 258)
Available for sale instruments revaluation reserve	-	-	-	(2 828 802)	-	(2 828 802)
Total comprehensive loss	-	-	-	(2 828 802)	(2 600 258)	(5 429 060)
Transactions with owners, recorded directly in equity						
Acquisition of subsidiary	-	18	-	-	-	18
Increase in share capital	1 000 006	-	-	-	-	1 000 006
Total transactions with owners, recorded directly in equity	1 000 006	18	-	-	-	1 000 024
Balance as of 31 December 2016	31 496 395	835 170	34 900	(2 708 104)	(36 814)	29 621 547

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 Ilona Gulchak
 Chairperson of the Board

Interim Condensed Group consolidated and Bank separate Financial Statements
for the twelve month period ended 31 December 2016

Financial Statements


INTERIM CONDENSED BANK SEPARATE

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital EUR	Reserve capital EUR	Property revaluation reserve EUR	Available for sale instru- ments revaluation reserve EUR	Retained earnings/ (accumu- lated losses) EUR	TOTAL EUR
Balance as of 31 December 2014	<u>29 496 389</u>	<u>835 152</u>	<u>34 900</u>	<u>(183 894)</u>	<u>1 495 247</u>	<u>31 677 794</u>
Total comprehensive income						
Net income for the period	-	-	-	-	2 576 425	2 576 425
Available for sale instruments revaluation reserve	-	-	-	226 438	-	226 438
Total comprehensive income	<u>-</u>	<u>-</u>	<u>-</u>	<u>226 438</u>	<u>2 576 425</u>	<u>2 802 863</u>
Balance as of 30 June 2015	<u>29 496 389</u>	<u>835 152</u>	<u>34 900</u>	<u>42 544</u>	<u>4 071 672</u>	<u>34 480 657</u>
Total comprehensive income						
Net income for the period	-	-	-	-	(4 373 609)	(4 373 609)
Available for sale instruments revaluation reserve	-	-	-	1 389 364	-	1 389 364
Total comprehensive income	<u>-</u>	<u>-</u>	<u>-</u>	<u>1 389 364</u>	<u>(4 373 609)</u>	<u>(2 984 245)</u>
Balance as of 31 December 2015	<u>29 496 389</u>	<u>835 152</u>	<u>34 900</u>	<u>1 431 908</u>	<u>(301 937)</u>	<u>31 496 412</u>
Total comprehensive income						
Net income for the period	-	-	-	-	2 943 784	2 943 784
Property revaluation	-	-	-	-	-	-
Other comprehensive income	-	-	-	-	-	-
Available for sale instruments revaluation reserve	-	-	-	(1 311 210)	-	(1 311 210)
Total comprehensive income	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1 311 210)</u>	<u>2 943 784</u>	<u>1 632 574</u>
Transactions with owners, recorded directly in equity						
Increase in share capital	1 000 000	-	-	-	-	1 000 000
Total transactions with owners, recorded directly in equity	<u>1 000 000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1 000 000</u>
Balance as of 30 June 2016	<u>30 496 389</u>	<u>835 152</u>	<u>34 900</u>	<u>120 698</u>	<u>2 641 847</u>	<u>34 128 986</u>
Total comprehensive income						
Net income for the period	-	-	-	-	(1 734 885)	(1 734 885)
Available for sale instruments revaluation reserve	-	-	-	(2 828 802)	-	(2 828 802)
Total comprehensive income	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2 828 802)</u>	<u>(1 734 885)</u>	<u>(4 563 687)</u>
Transactions with owners, recorded directly in equity						
Total transactions with owners, recorded directly in equity	1 000 006	-	-	-	-	1 000 006
Balance as of 31 December 2016	<u>31 496 395</u>	<u>835 152</u>	<u>34 900</u>	<u>(2 708 104)</u>	<u>906 962</u>	<u>30 565 305</u>

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 Ilona Gulchak
 Chairperson of the Board

Financial Statements

INTERIM CONDENSED CONSOLIDATED AND BANK STATEMENT OF CASH FLOWS

	for the twelve month period ended 31 December 2016		for the twelve month period ended 31 December 2015	
	Group EUR	Bank EUR	Group EUR	Bank EUR
Cash flows from operating activities				
Profit before income tax	457 457	994 066	(2 044 681)	(1 978 038)
Amortisation and depreciation	1 469 683	1 469 683	1 362 101	1 362 035
Impairment loss	8 537 182	8 869 429	5 558 088	5 715 209
Unrealised loss on revaluation of investment property	306 609	314 015	1 057 560	948 765
Profit on disposal of property and equipment and investment property	(1 809)	(1 809)	(601)	(601)
Increase in cash and cash equivalents from operating activities before changes in assets and liabilities	10 769 122	11 645 384	5 932 467	6 047 370
(Increase)/decrease in loans Decrease in due from credit institutions	(2 223 323)	(7 726 575)	21 959 728	21 763 279
(Increase)/decrease in financial assets held-for-trading	(596 330)	(596 330)	2 300 513	2 300 513
Increase in deferred expenses and accrued income	102 853	159 827	(179 081)	(176 475)
Increase/(decrease) in other assets Increase in due to credit institutions	(17 622 588)	(12 462 062)	(1 529 775)	(1 812 087)
Decrease in deposits	(243 364 748)	(243 245 971)	25 012 465	25 018 081
Increase/(decrease) in derivative liabilities	(3 056)	(3 056)	(1 962 004)	(1 962 004)
Decrease in accrued expenses, provisions and deferred income	(1 178 697)	(1 178 143)	1 524 266	1 527 918
Increase in other liabilities	1 948	(583 934)	561 195	892 246
Increase in cash and cash equivalents resulting from operating activities	(241 553 558)	(241 429 599)	57 248 864	57 227 931

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Financial Statements

INTERIM CONDENSED CONSOLIDATED AND BANK STATEMENT OF CASH FLOWS

	for the six month period ended 30 June 2016		for the six month period ended 30 June 2015	
	Group EUR	Bank EUR	Group EUR	Bank EUR
Corporate income tax paid	2 504	2 554	267 366	267 804
Increase in cash and cash equivalents from operating activities	<u>(241 551 054)</u>	<u>(241 427 045)</u>	<u>57 516 230</u>	<u>57 495 735</u>
Cash flow from investing activities				
Acquisition of property and equipment, intangible assets and investment property	(1 620 168)	(1 620 168)	(869 543)	(846 370)
Proceeds from sale of property and equipment and investment property	1 809	1 809	601	601
Acquisition of shares in equity accounted investees	-	-	-	-
Proceeds from the sale of stakes in undertakings	-	(122 155)	-	-
Purchase of available-for-sale instruments	-	-	(173 499 775)	(173 499 775)
Proceeds from available-for-sale instruments	131 516 108	131 516 108	40 679 252	40 679 252
Purchase of securities held-to-maturity	<u>(7 067 925)</u>	<u>(7 067 925)</u>	<u>(893 104)</u>	<u>(893 104)</u>
Decrease in cash and cash equivalents as a result of investing activities	<u>122 829 824</u>	<u>122 707 669</u>	<u>(134 582 569)</u>	<u>(134 559 396)</u>

The accompanying notes on pages 16 to 32 are an integral part of these Interim Condensed Group consolidated and Bank separate Financial Statements.


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INTERIM CONDENSED CONSOLIDATED AND BANK STATEMENT OF CASH FLOWS

	for the six month period ended 30 June 2016		for the six month period ended 30 June 2015	
	Group EUR	Bank EUR	Group EUR	Bank EUR
Cash flows from financing activities				
Subordinated liabilities	-	-	2 241 612	2 241 612
Cash paid out				
to repay subordinated debt	(688 856)	(688 856)	(2 228 071)	(2 228 071)
Buyback of debt securities	(6 306 233)	(6 306 233)	(11 821 416)	(11 821 416)
(Decrease)/increase in cash and cash equivalents as a result of financing activities	<u>(4 995 083)</u>	<u>(4 995 083)</u>	<u>(1 798 543)</u>	<u>(1 798 543)</u>
(Decrease)/increase in cash and cash equivalents	<u>(123 716 313)</u>	<u>(123 714 459)</u>	<u>(78 864 882)</u>	<u>(78 862 204)</u>
Cash and cash equivalents at the beginning of the period	209 400 273	209 398 419	288 265 155	288 260 623
Cash and cash equivalents at the end of the period	<u>85 683 960</u>	<u>85 683 960</u>	<u>209 400 273</u>	<u>209 398 419</u>

The accompanying notes on pages 16 to 32 are an integral part of these Interim Condensed Group consolidated and Bank separate Financial Statements.

The Interim Condensed Group consolidated and Bank separate Financial Statements on pages 8 to 32 have been authorised for issue by the Board on 28 February 2017, and signed on their behalf by:



 Iona Gulchak
 Chairperson of the Board

Financial Statements

Notes to the Interim Condensed Group consolidated and Bank separate Financial Statements for the twelve month period ended 31 December 2016

1 GENERAL INFORMATION

These interim condensed Group consolidated and Bank separate financial statements comprise the financial statements of JSC „Baltic International Bank” (hereinafter referred to as the Bank) and its subsidiary, namely a real estate company "BIB Real Estate" LLC (acquired on 11 June 2009) that in turn owns several subsidiaries, „Claim Management” LLC acquired on 14 July 2016 and AS „BIB Alternative Investment Management”.

JSC "Baltic International Bank" is a joint stock company registered in the Republic of Latvia. The registered office address is: Kalēju iela 43, Riga, LV-1050, Latvia. On 8 April 1993, the Bank of Latvia approved JSC "Baltic International Bank" as a credit institution and issued Banking Licence No. 103. The activities of the Bank are regulated by the Bank of Latvia and the Financial and Capital Market Commission of the Republic of Latvia (“FCMC”).

Established to cater to the needs of both individuals and corporate customers, JSC “Baltic International Bank” provides a comprehensive range of financial services: personal and corporate loans, acceptance of money deposits and other funds, funds transfers, treasury and capital market services carried out according to customer instructions and for the Bank’s own trading purposes.

2 BASIS OF PREPARATION

Statement of Compliance

These interim condensed Group consolidated and Bank separate financial statements are prepared in accordance with IAS 34 Interim Financial Reporting. These interim condensed financial statements do not include all of the information required for a complete set of annual financial statements, and should be read in conjunction with the Group consolidated and Bank separate financial statements as at and for the year ended 31 December 2015.

The Group consolidated and Bank separate financial statements for the year ended 31 December 2015 are available at the Bank’s web site (www.bib.eu).

The interim condensed Group consolidated and Bank separate financial statements are presented in euro. Subsidiaries of the Group operate in the functional currency of euro.

The accounting policies applied by the Group and Bank in these condensed Group consolidated and Bank separate interim financial statements are consistent with those applied by the Group and Bank in the consolidated and Bank financial statements as at and for the year ended 31 December 2015.

In preparing these interim condensed Group consolidated and Bank separate interim financial statements, the significant judgements made by management in applying the accounting policies and the key sources of estimation uncertainty were the same as those applied to the Group consolidated and Bank separate financial statements as at and for the year ended 31 December 2015.

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Notes to the Interim Condensed Group consolidated and Bank separate Financial Statements for the twelve month period ended 31 December 2016

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

3 INTEREST INCOME

	Group 2016 EUR	Bank 2016 EUR	Group 2015 EUR	Bank 2015 EUR
Loans	2 943 076	2 983 590	4 732 914	4 805 119
<i>Loans,</i>	<i>2 929 915</i>	<i>2 970 429</i>	<i>4 687 468</i>	<i>4 759 673</i>
<i>including interest income</i>				
<i>on impaired loans</i>	<i>679 840</i>	<i>679 840</i>	<i>679 840</i>	<i>679 840</i>
<i>Payment cards</i>	<i>13 161</i>	<i>13 161</i>	<i>45 446</i>	<i>45 446</i>
Available for sale instruments	775 435	775 435	714 427	714 427
Securities held-to-maturity	508 979	508 979	395 740	395 740
Due from credit institutions	122 899	122 899	366 476	366 476
Interest income for negative interest rate applied to				
current account balances	59 653	59 653	38 782	38 782
Securities held-for-trading	34 033	34 033	34 273	34 273
Due from Bank of Latvia	630	630	2 331	2 331
Other interest income	56 446	36 113	47 663	42 925
	<u>4 501 151</u>	<u>4 521 332</u>	<u>6 332 606</u>	<u>6 400 073</u>

**Notes to the Interim Condensed Group consolidated and Bank separate Financial Statements
for the twelve month period ended 31 December 2016**

Financial Statements

4 INTEREST EXPENSE

	Group 2016 EUR	Bank 2016 EUR	Group 2015 EUR	Bank 2015 EUR
Liabilities at amortised cost	1 426 839	1 426 178	1 991 785	1 991 785
<i>Deposits</i>	645 998	645 337	876 745	876 745
<i>Subordinated liabilities</i>	525 390	525 390	630 799	630 799
<i>Debt securities</i>	250 965	250 965	477 631	477 631
<i>Due to credit institutions</i>	4 486	4 486	6 610	6 610
Contributions				
to Deposit Guarantee Fund	233 930	233 930	610 773	610 773
Contributions				
to Deposit Guarantee Fund	145 044	145 044	-	-
Financial stability fee	62 601	62 601	286 725	286 725
Other interest expense	7	-	78 902	93
	<u>1 868 421</u>	<u>1 867 753</u>	<u>2 968 185</u>	<u>2 889 376</u>

5 FEE AND COMMISSION INCOME

	Group 2016 EUR	Bank 2016 EUR	Group 2015 EUR	Bank 2015 EUR
Servicing of transactions	3 155 444	3 155 444	3 616 118	3 616 118
Payment cards	1 273 264	1 273 264	3 528 209	3 528 209
Accounts administration charges	1 749 930	1 750 575	1 331 099	1 332 445
Trust operations	782 209	782 209	1 135 410	1 135 410
Securities accounts				
administration charges	934 852	934 852	757 767	757 767
Forex transactions	178 556	178 556	253 134	253 134
Fees and commissions from banks	110 927	110 927	226 839	226 839
Letters of credit and guarantees	184 101	184 101	200 505	200 505
Transactions in precious metals	18 139	18 139	18 556	18 556
Cash operations	10 980	10 980	15 370	15 370
Other	28 230	28 230	24 005	24 005
	<u>8 426 632</u>	<u>8 427 277</u>	<u>11 107 012</u>	<u>11 108 358</u>

**Notes to the Interim Condensed Group consolidated and Bank separate Financial Statements
for the twelve month period ended 31 December 2016**

Financial Statements

6 FEE AND COMMISSION EXPENSE

	Group 2016 EUR	Bank 2016 EUR	Group 2015 EUR	Bank 2015 EUR
Payment cards	1 332 276	1 332 276	2 683 129	2 683 129
Services of correspondent banks	392 933	392 933	544 354	544 354
Services of agents and brokers	1 222 640	1 222 640	461 397	461 397
Securities-based transactions	531 494	531 494	177 722	177 722
Foreign exchange operations	43	43	2 232	2 232
Other	49	-	12 228	12 168
	<u>3 479 435</u>	<u>3 479 386</u>	<u>3 881 062</u>	<u>3 881 002</u>

7 NET TRADING INCOME

	Group 2016 EUR	Bank 2016 EUR	Group 2015 EUR	Bank 2015 EUR
Gain				
on foreign exchange operations	16 282 898	16 282 336	17 866 916	17 880 636
Loss on revaluation of positions in foreign currency	63 039	63 039	(9 307 807)	(9 307 807)
	<u>16 345 937</u>	<u>16 345 375</u>	<u>8 559 109</u>	<u>8 572 829</u>
Profit/(loss) from trading				
in held-for-trading securities	677 790	677 790	34 016	34 016
in available-for-sale financial instruments	2 021 597	2 021 597	9 889	9 889
Profit/(loss) on revaluation of held-for-trading securities	2 752	2 752	17 760	17 760
Loss on revaluation of available-for-sale financial instruments	51 064	51 064	(30 598)	(30 598)
	<u>2 753 203</u>	<u>2 753 203</u>	<u>31 067</u>	<u>31 067</u>
	<u>19 099 140</u>	<u>19 098 578</u>	<u>8 590 176</u>	<u>8 603 896</u>

**Notes to the Interim Condensed Group consolidated and Bank separate Financial Statements
for the twelve month period ended 31 December 2016**

Financial Statements

8 ADMINISTRATIVE EXPENSES

	Group 2016 EUR	Bank 2016 EUR	Group 2015 EUR	Bank 2015 EUR
Staff salaries	6 570 034	6 563 063	5 947 269	5 859 871
Professional services	2 738 540	2 650 021	1 793 092	1 786 400
Amortisation and depreciation (Notes 26, 27)	1 469 684	1 469 684	1 362 101	1 362 035
Social insurance payments	1 456 708	1 455 063	1 232 392	1 211 774
Representation expenses	1 162 884	1 162 884	811 909	811 909
Renovation and maintenance of property and equipment	1 125 426	1 118 985	726 281	719 394
Business trips	346 506	346 506	374 991	374 991
Taxes	467 130	467 130	264 562	251 040
Event organisation	290 758	290 758	258 634	258 634
Communication	179 766	173 564	194 361	194 127
Advertising and publicity	27 650	27 650	139 469	139 469
Stationary goods and household equipment	61 031	61 031	115 745	115 745
Charity and sponsorship	153 789	153 789	101 276	101 276
Motor vehicles	84 165	80 252	86 797	82 236
Security	56 105	56 105	41 103	41 103
Insurance	48 499	48 142	13 593	13 186
Other	157 751	127 894	385 108	383 152
	<u>16 396 426</u>	<u>16 252 521</u>	<u>13 848 683</u>	<u>13 706 342</u>

Notes to the Interim Condensed Group consolidated and Bank separate Financial Statements for the twelve month period ended 31 December 2016

Financial Statements

9 ANALYSIS OF CHANGES IN IMPAIRMENT LOSS ALLOWANCE FOR ASSET EXPOSURES

Group

	Allowances for claims on the credit institutions EUR	Allowances for loans EUR	Allowances for accrued income EUR	Allowances for other assets EUR	Recovery of written-off assets EUR	Total EUR
Allowances as of 31 December 2014	-	8 806 139	6 296	365 755	(4 601)	9 173 589
Increase in allowances	1 797 721	387 774	-	688 932	-	2 874 427
Reversal of allowances	-	(1 665 049)	-	(670 000)	-	(2 335 049)
Recovery of written-off assets	-	-	-	-	(1 031)	(1 031)
Net impairment loss for the period	1 797 721	(1 277 275)	-	18 932	(1 031)	538 347
Amounts written-off	-	(1 501)	-	(18 391)	-	(19 892)
Difference due to fluctuations in foreign currency exchange rates	(13)	246 604	536	(355)	-	246 772
Allowances as of 30 June 2015	1 797 708	7 773 967	6 832	365 941	(5 632)	9 938 816
Increase in allowances	(1 796 596)	6 905 664	-	23 851	-	5 132 919
Reversal of allowances	-	(8 506)	-	(103 203)	-	(111 709)
Recovery of written-off assets	-	-	-	-	(1 469)	(1 469)
Net impairment loss for the period	(1 796 596)	6 897 158	-	(79 352)	(1 469)	5 019 741
Amounts written-off	-	(1 772 597)	-	-	-	(1 772 597)
Difference due to fluctuations in foreign currency exchange rates	-	151 964	189	(227)	-	151 926
Allowances as of 31 December 2015	1 112	13 050 492	7 021	286 362	(7 101)	13 337 886
Increase in allowances	17	4 184 109	-	6 723	-	4 190 849
Reversal of allowances	-	(52 977)	-	-	-	(52 977)
Recovery of written-off assets	-	-	-	-	(3 672)	(3 672)
Net impairment loss for the period	17	4 131 132	-	6 723	(3 672)	4 134 200
Amounts written-off	-	(459 253)	-	(1 284)	-	(460 537)
Difference due to fluctuations in foreign currency exchange rates	(6)	(101 750)	(136)	(935)	-	(102 827)
Allowances as of 30 June 2016	1 123	16 620 621	6 885	290 866	(10 773)	16 908 722
Increase in allowances	(1 123)	4 304 670	-	119 158	-	4 422 705
Reversal of allowances	-	(19 723)	-	-	-	(19 723)
Net impairment loss for the period	(1 123)	4 284 947	-	119 158	-	4 402 982
Amounts written-off	-	(2 586 714)	-	(1 428)	-	(2 588 142)
Difference due to fluctuations in foreign currency exchange rates	-	413 934	367	(1 328)	-	412 973
Allowances as of 31 December 2016	-	18 732 788	7 252	407 268	(10 773)	19 136 535

Financial Statements

Notes to the Interim Condensed Group consolidated and Bank separate Financial Statements for the twelve month period ended 31 December 2016

Bank

	Allowances for claims on the credit institutions EUR	Allowances for loans EUR	Allowances for accrued income EUR	Allowances for other assets EUR	Recovery of written-off assets EUR	Total EUR
Allowances as of 31 December 2014	-	9 202 378	6 296	144 383	(4 601)	9 348 456
Increase in allowances	1 797 721	387 774	-	688 932	-	2 874 427
Reversal of allowances	-	(1 665 049)	-	(670 000)	-	(2 335 049)
Recovery of written-off assets	-	-	-	-	(1 031)	(1 031)
Net impairment loss for the period	1 797 721	(1 277 275)	-	18 932	(1 031)	538 347
Amounts written-off	-	(1 501)	-	(18 391)	-	(19 892)
Difference due to fluctuations in foreign currency exchange rates	(13)	246 604	536	(355)	-	246 772
Allowances as of 30 June 2015	1 797 708	8 170 206	6 832	144 569	(5 632)	10 113 683
Increase in allowances	(1 796 596)	6 959 582	-	23 851	-	5 186 837
Reversal of allowances	-	(8 506)	-	-	-	(8 506)
Recovery of written-off assets	-	-	-	-	(1 469)	(1 469)
Net impairment loss for the period	(1 796 596)	6 951 076	-	23 851	(1 469)	5 176 862
Amounts written-off	-	(1 772 597)	-	-	-	(1 772 597)
Difference due to fluctuations in foreign currency exchange rates	-	151 964	189	(227)	-	151 926
Allowances as of 31 December 2015	1 112	13 500 649	7 021	168 193	(7 101)	13 669 874
Increase in allowances	17	4 579 625	-	6 723	-	4 586 365
Reversal of allowances	-	(52 977)	-	-	-	(52 977)
Recovery of written-off assets	-	-	-	-	(3 672)	(3 672)
Net impairment loss for the period	17	4 526 648	-	6 723	(3 672)	4 529 716
Amounts written-off	-	(459 253)	-	(1 284)	-	(460 537)
Difference due to fluctuations in foreign currency exchange rates	(6)	(101 750)	(136)	(935)	-	(102 827)
Allowances as of 30 June 2016	1 123	17 466 294	6 885	172 697	(3 672)	17 643 327
Increase in allowances	(1 123)	4 304 670	-	55 889	-	4 359 436
Reversal of allowances	-	(19 723)	-	-	-	(19 723)
Net impairment loss for the period	(1 123)	4 284 947	-	55 889	-	4 339 713
Amounts written-off	-	#####	-	(1 428)	-	#####
Difference due to fluctuations in foreign currency exchange rates	-	413 934	367	(1 328)	-	412 973
Allowances as of 31 December 2016	-	#####	7 252	225 830	(3 672)	#####

10 SECURITIES-HELD-FOR TRADING

	Group and Bank 31.12.2016 EUR	Group and Bank 31.12.2015 EUR
Debt securities of credit institutions	486 159	478 897
Debt securities of central governments	-	27 555
Debt securities of municipal authorities	-	31 012
Total debt securities	486 159	537 464
State-owned companies enterprises	12 335	10 230
Shares of private enterprises	9 162	5 963
Investment certificates	120 689	-
Total shares	142 186	16 193
	628 345	553 657

Financial Statements

Notes to the Interim Condensed Group consolidated and Bank separate Financial Statements for the twelve month period ended 31 December 2016

The table below shows the geographical concentration of securities:

	Group and Bank 31.12.2016 EUR	Group and Bank 31.12.2015 EUR
Debt securities of entities registered in OECD countries	-	27 555
Debt securities of entities registered in CIS countries	486 159	509 909
Total debt securities	486 159	537 464
Shares of entities registered in the Republic of Latvia	2 080	1 664
Shares of entities registered in other EU countries	120 689	-
Shares of entities registered in OECD countries	3 206	2 903
Shares of entities registered in CIS countries	16 211	11 626
Total shares	142 186	16 193
	628 345	553 657

11 DUE FROM CREDIT INSTITUTIONS

	Group and Bank 31.12.2016 EUR	Group and Bank 31.12.2015 EUR
Receivable on demand	11 481 129	153 511 915
Amounts with no stated maturity or serving as collateral and security deposits	5 254 348	11 685 178
Other deposits	1 182 551	747 172
	17 918 028	165 943 153

Financial Statements

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

12 LOANS

	Group	Bank	Group	Bank
	31.12.2016	31.12.2016	31.12.2015	31.12.2015
	EUR	EUR	EUR	EUR
Loans to corporate clients	49 126 508	56 908 651	54 900 349	57 179 240
Loans to financial institutions	9 740 785	9 740 785	10 536 875	10 536 875
Loans to individuals	22 160 290	22 160 290	16 100 819	16 100 819
	81 027 583	88 809 726	81 538 043	83 816 934
Allowances (Note 9)	(18 796 056)	(19 578 460)	(13 050 492)	(13 500 649)
	62 231 527	69 231 266	68 487 551	70 316 285

13 AVAILABLE FOR SALE INSTRUMENTS

	Group and	Group and
	Bank	Bank
	31.12.2016	31.12.2015
	EUR	EUR
Debt securities of central governments (Moody's ratings)	33 624 194	82 769 787
Debt securities of credit institutions (Moody's ratings)	19 048 450	37 747 455
Debt securities of financial institutions (Moody's ratings)	28 497 385	87 892 181
Debt securities of public non-financial Corporations (Moody's ratings)	-	4 452 392
Shares and other variable income securities	5 268 515	8 921 888
<i>Tamar Energy, Ltd</i>	3 837 376	6 419 309
<i>Visa Europe</i>	681 437	1 816 207
<i>Imprimatur Capital Technology Venture Fund, LP</i>	531 920	468 589
<i>Capital, JSC</i>	180 862	180 863
<i>S.W.I.F.T., SCRL</i>	36 920	36 920
	86 438 544	221 783 703

Tamar Energy is a renewable energy business focusing entirely on anaerobic digestion. Investment Tamar Energy is measured at cost as there is no readily available active market to determine the fair value. The entity is still in its start up phase and is expanding operations as per its operational plans. Management has assessed the investment and no impairment was identified.

Imprimatur Capital Technology Venture Fund makes seed investments in SMEs which become its portfolio companies. The Fund's purpose is to invest in technology-related SMEs, develop their business potential and then sell its ownership interests in such SMEs at a profit and for the benefit of the Fund and its Investors.

Investment in Capital is measured at cost less impairment as the Bank believes there is no readily available active market to determine the fair value.

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Notes to the Interim Condensed Group consolidated and Bank separate Financial Statements for the twelve month period ended 31 December 2016

The fair value of S.W.I.F.T. SCRL is reported according to a certain withdrawal price as of 31 December 2016 and 31 December 2015.

14 SECURITIES HELD-TO-MATURITY

	Group and Bank 31.12.2016 EUR	Group and Bank 31.12.2015 EUR
Government bonds	13 469 250	6 490 840
Bonds and other fixed-income securities	3 222 438	3 132 923
	<u>16 691 688</u>	<u>9 623 763</u>

15 INVESTMENTS IN EQUITY ACCOUNTED INVESTEEES

	Ownership %	Country of incorporation	Purpose	Group and Bank 31.12.2016 EUR	Group and Bank 31.12.2015 EUR
LLC "Komunikācijas un projekti"	50	Latvia	Investments	1 144 547	1 144 547
				<u>1 144 547</u>	<u>1 144 547</u>

The management assessed future cash flows to be generated by the investee and as a result of this assessment concluded that there is no objective evidence of impairment of the investment.

16 INVESTMENTS IN SUBSIDIARIES

The subsidiaries of the Bank are as follows:

Name	Country of incorporation	Principal Activities	Carrying amount of investment EUR	Ownership 31.12.2016 %	Ownership 31.12.2015 %
"BIB Real Estate" LLC	Latvia	Real estate	1 940 228	100	100
"Gaujas Īpašumi" LLC (through BIB Real Estate)	Latvia	Real estate	-	100	100
"Global Investments" LLC (through BIB Real Estate)	Latvia	Real estate	-	100	100
„Claim Management” LLC	Latvia	Legal advice, asset protection services and advice and guidance on taxation and tax planning	1	100	100
„BIB Alternative Investment Management” JSC	Latvia		-	-	-
Investments in subsidiaries			<u>2 065 229</u>		

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Notes to the Interim Condensed Group consolidated and Bank separate Financial Statements for the twelve month period ended 31 December 2016

The management assessed future cash flows to be generated by the investee and as a result of this assessments concluded that there is no objective evidence of impairment of the investment.

17 DEPOSITS

	Group	Bank	Group	Bank
	31.12.2016	31.12.2016	31.12.2015	31.12.2015
	EUR	EUR	EUR	EUR
Repayable on demand				
Corporate customers	146 961 967	147 097 180	348 867 690	348 884 126
Financial institutions	1 123 318	1 123 318	6 883 091	6 883 091
State-owned companies	976	976	23 759	23 759
Individuals	47 923 031	47 923 031	68 094 195	68 094 195
	<u>196 009 292</u>	<u>196 144 505</u>	<u>423 868 735</u>	<u>423 885 171</u>
Term deposits				
Corporate customers	19 294 017	19 294 017	32 861 129	32 861 129
Financial institutions	-	-	617 780	617 780
Individuals	14 577 874	14 577 874	15 898 287	15 898 287
	<u>33 871 891</u>	<u>33 871 891</u>	<u>49 377 196</u>	<u>49 377 196</u>
Total deposits	<u>229 881 183</u>	<u>230 016 396</u>	<u>473 245 931</u>	<u>473 262 367</u>

18 DEBT SECURITIES IN ISSUE

	Group and	Group and
	Bank	Bank
	31.12.2016	31.12.2015
	EUR	EUR
Bonds in issue	10 123 468	16 429 701
	<u>10 123 468</u>	<u>16 429 701</u>

19 SUBORDINATED LIABILITIES

Subordinated deposits have a fixed term of seven years at their origination, and are repayable before maturity only on winding up or bankruptcy of the Bank and rank before shareholders' claims.

**Notes to the Interim Condensed Group consolidated and Bank separate Financial Statements
for the twelve month period ended 31 December 2016**

Financial Statements

	Group and Bank 31.12.2016 EUR	Group and Bank 31.12.2015 EUR
Residents of the Republic of Latvia <i>Individuals</i>	6 847 346	5 265 163
Residents of other countries <i>Individuals</i>	8 678 997	11 450 105
	<u>16 026 412</u>	<u>16 715 268</u>

20 SHAREHOLDERS' EQUITY

On 30 March 2016, the Shareholders' Meeting of JSC „Baltic International Bank” has approved the decision to increase the share capital by EUR 2 000 006.10 through issuing 281 691 registered and dematerialised ordinary shares (with each share having a face value of EUR 7.10). Shares are fully paid up.

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. Of the Bank's 93 shareholders, 28 are legal entities and 65 are individuals.

Reserve capital in the amount of EUR 835 152 (31 December 2015: EUR 835 152) is formed from the contributions made by the Bank's shareholders. The Bank's General Meeting of Shareholders makes the decision concerning further usage of reserve capital. Reserve capital can be used to:

- cover losses;
- increase the share capital;
- pay dividends.

	Quantity	Amount EUR
Total paid-in share capital 31 December 2014	4 154 421	29 496 389
Total paid-in share capital 31 December 2015	4 154 421	29 496 389
Increase of paid-in share capital	281 691	2 000 006
Total paid-in share capital 31 December 2016	4 436 112	31 496 395

Listed below are the shareholders who control more than 10 percent of the shares in the shareholders' equity:

	31.12.2016	31.12.2015
Valeri Belokon	69.90%	69.89%
Vilori Belokon	30.05%	30.01%

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Notes to the Interim Condensed Group consolidated and Bank separate Financial Statements for the twelve month period ended 31 December 2016

21 RELATED PARTY TRANSACTIONS

The outstanding balances as of 31 December 2016 and related income statement amounts of transactions for the twelve month period ended 31 December 2016 with other related parties are as follows:

31 December 2016	Group and Bank					
	Subsidiary EUR	Associate EUR	Shareholders, Members of the Supervisory Council and Management Board EUR	Other senior executives EUR	Related to shareholders and management EUR	Total EUR
Loans						
At the beginning of the period	1 828 734	92 213	245 020	-	1 241 898	3 407 865
<i>Gross Loans</i>	2 278 891	92 213	245 020	-	1 241 898	3 858 022
<i>Allowances</i>	(450 157)	-	-	-	-	(450 157)
Issued during the period	366 570	15 786	529 110	-	3 430 414	4 341 880
Repaid during the period	(258 635)	-	(482 181)	-	(1 678 780)	(2 419 596)
Difference due to fluctuations in foreign currency exchange rates	-	-	(9 993)	-	-	(9 993)
Changes in the group of Bank-related parties	-	-	(2)	-	(114 226)	(114 228)
Net impairment difference	(332 247)	-	-	-	-	(332 247)
At the end of the period	1 604 422	107 999	281 954	-	2 879 306	4 873 681
<i>Gross Loans</i>	2 386 826	107 999	281 954	-	2 879 306	5 656 085
<i>Allowances</i>	(782 404)	-	-	-	-	(782 404)
Interest income	40 514	8 252	25 649	-	73 396	147 811
Other assets						
At the beginning of the period	82 035	-	-	-	-	82 035
Issued during the period	10 378	-	-	-	-	10 378
At the end of the period	92 413	-	-	-	-	92 413
Deposits						
At the beginning of the period	16 437	612	565 678	-	590 166	1 172 893
Increase in balances during the period	173 419	8 864	4 520 626	-	35 996 945	40 699 854
Decline in balances during the period	(174 541)	(8 700)	(4 521 676)	-	(36 103 653)	(40 808 570)
Difference due to fluctuations in foreign currency exchange rates	-	-	(92)	-	(10 788)	(10 880)
Changes in the group of Bank-related parties	118 951	-	(489 363)	-	(660)	(371 072)
At the end of the period	134 266	776	75 173	-	472 010	682 225
Interest expense	-	-	2 227	-	468	2 695
Subordinated liabilities						
At the beginning of the period	-	-	10 066	-	4 907 181	4 917 247
Decline in balances during the period	-	-	(10 066)	-	(95)	(10 161)
Difference due to fluctuations in foreign currency exchange rates	-	-	-	-	(486 280)	(486 280)
At the end of the period	-	-	-	-	4 420 806	4 420 806
Interest expense	-	-	142	-	318 188	318 330

All related party transactions are at arm's length.

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Notes to the Interim Condensed Group consolidated and Bank separate Financial Statements for the twelve month period ended 31 December 2016

Group and Bank

31 December 2015	Subsidiary EUR	Associate EUR	Shareholders, Members of the Supervisory Council and Management Board EUR	Other senior executives EUR	Related to shareholders and management EUR	Total EUR
Due from credit institutions						
At the beginning of the period	-	-	-	-	65	65
Difference due to fluctuations in foreign currency exchange rates	-	-	-	-	3	3
Net impairment difference	-	-	-	-	(68)	(68)
At the end of the period	-	-	-	-	-	-
Loans						
At the beginning of the period	1 666 505	67 392	258 148	-	1 283 329	3 275 374
<i>Gross Loans</i>	2 062 744	67 392	258 148	-	1 283 329	3 671 613
<i>Allowances</i>	(396 239)	-	-	-	-	(396 239)
Issued during the period	229 705	24 821	534 021	-	186 870	975 417
Repaid during the period	(13 558)	-	(547 841)	-	(228 283)	(789 682)
Difference due to fluctuations in foreign currency exchange rates	-	-	692	-	-	692
Changes in the group of Bank-related parties	-	-	-	-	(18)	(18)
Net impairment difference	(53 918)	-	-	-	-	(53 918)
At the end of the period	1 828 734	92 213	245 020	-	1 241 898	3 407 865
<i>Gross Loans</i>	2 278 891	92 213	245 020	-	1 241 898	3 858 022
<i>Allowances</i>	(450 157)	-	-	-	-	(450 157)
Interest income	34 790	3 393	2 662	-	35 072	75 917
Other assets						
At the beginning of the period	54 289	-	-	-	-	54 289
Issued during the period	27 837	-	-	-	-	27 837
Repayment during the period	(91)	-	-	-	-	(91)
At the end of the period	82 035	-	-	-	-	82 035
Due to credit institutions						
At the beginning of the period	-	-	-	-	243 946	243 946
Difference due to fluctuations in foreign currency exchange rates	-	-	-	-	4 612	4 612
Changes in the group of Bank-related parties	-	-	-	-	(248 558)	-
At the end of the period	-	-	-	-	-	-
Deposits						
At the beginning of the period	10 822	108	318 459	-	473 480	802 869
Increase in balances during the period	493 186	18 924	2 919 980	-	10 491 673	13 923 763
Decline in balances during the period	(487 571)	(18 420)	(2 672 840)	-	(10 377 233)	(13 556 064)
Difference due to fluctuations in foreign currency exchange rates	-	-	79	-	10 210	10 289
Changes in the group of Bank-related parties	-	-	-	-	(7 964)	(7 964)
At the end of the period	16 437	612	565 678	-	590 166	1 172 893
Interest expense	-	-	5 663	-	691	6 354
Subordinated liabilities						
At the beginning of the period	-	-	10 064	-	4 729 644	4 739 708
Increase in balances during the period	-	-	2	-	-	2
Decline in balances during the period	-	-	-	-	(19 035)	(19 035)
Difference due to fluctuations in foreign currency exchange rates	-	-	-	-	196 572	196 572
At the end of the period	-	-	10 066	-	4 907 181	4 917 247
Interest expense	-	-	400	-	173 671	174 071

All related party transactions are at arm's length.

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Notes to the Interim Condensed Group consolidated and Bank separate Financial Statements for the twelve month period ended 31 December 2016

22 CAPITAL ADEQUACY CALCULATION

The Financial and Capital Market Commission sets forth capital requirements for the Bank as a whole and supervises the adherence to the requirements.

According to the specific requirement of the FCMC, the Bank should maintain a capital adequacy ratio above minimum level – 10.2% for the period starting from 1 October 2016 till 30 September 2017 (from 1 October 2015 till 30 September 2016: 16.4%).

The Bank also monitors its capital adequacy levels calculated in accordance with the requirements of the New Basel Capital Accord, commonly known as Basel III.

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Notes to the Interim Condensed Group consolidated and Bank separate Financial Statements for the twelve month period ended 31 December 2016

	Group EUR	Bank EUR
Total equity capital		
Paid-in share capital	31 496 395	31 496 395
Reserve capital and other reserves	835 170	835 152
Retained earnings	(709 054)	(301 937)
Intangible assets	(4 107 870)	(4 107 870)
Deferred tax related to the intangible asset	509 939	509 939
Specific decline in Tier 1 capital, as stipulated by the applicable law	(2 250 154)	(2 250 154)
Available for sale instruments revaluation reserve	(2 708 104)	(2 708 104)
Less revaluation of investment property	(258 348)	(90 188)
Tier 1 Core Capital	22 807 974	23 383 233
Subordinated liabilities	10 445 893	10 445 893
Specific decline in Tier 2 capital, as stipulated by the applicable law	(2 250 154)	(2 250 154)
Tier 2 Supplementary Capital	8 195 739	8 195 739
TOTAL CAPITAL	31 003 713	31 578 972
Capital charge for credit risk inherent in the Bank's book, including the breakdown of exposures by categories:	12 771 309	12 759 817
<i>Central governments or central banks</i>	743 780	743 780
<i>Public entities</i>	335 940	335 940
<i>Commercial companies</i>	3 076 317	3 076 317
<i>Overdue (delinquent) exposures</i> *	1 378 080	1 698 080
<i>High-risk exposures</i>	3 157 817	3 355 501
<i>Shares and other variable income securities</i>	470 491	635 710
<i>Other items</i>	3 608 884	2 914 489
The total capital charge for market risks	286 874	286 874
Capital charge for operational risk	2 922 928	2 883 770
Total capital charge	15 981 111	15 930 461
CAPITAL ADEQUACY RATIOS		
Common Equity Tier 1 capital ratio	11.42%	11.74%
Tier 1 capital ratio	11.42%	11.74%
CAPITAL ADEQUACY RATIOS		
31 December 2016	15.52%	15.86%
CAPITAL ADEQUACY RATIOS		
31 December 2015	17.15%	17.38%

* past due exposures: exposures that are 90 days or more past due.

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Notes to the Interim Condensed Group consolidated and Bank separate Financial Statements for the twelve month period ended 31 December 2016

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of – and reflecting an estimate of credit, market and other risks associated with – each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for sureties and commitments, with some adjustments to reflect the more contingent nature of the potential losses.

To calculate the required capital charge in accordance with the minimum regulatory capital requirements, Bank applies the following approaches:

- capital charge for credit risk – the Standardised Approach;
- capital charge for market risk –the Standardised Approach;
- capital charge for operational risk – the Basic Indicator Approach.

17 EVENTS SUBSEQUENT TO THE REPORTING DATE

From the last day of the reporting period to the date of signing of these consolidated financial statements, no events have occurred which would entail making adjustments to these consolidated financial statements or which ought to have been explained in these consolidated financial statements.