

JSC «BALTIC INTERNATIONAL BANK»

PUBLICLY AVAILABLE QUARTERLY FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 31 MARCH 2007.

## Balance Sheet Statement as at 31 March, 2007

Items	31.03.2007 LVL	31.03.2006 LVL
Cash and balances with the Bank of Latvia	8 081 285	6 049 758
Due from credit institutions and central banks	31 483 783	20 437 018
Loans	36 479 249	24 960 267
Debt securities and other fixed income securities	7 059 964	5 244 952
Equities and other non-fixed income securities	1 164 184	1 040 046
Derivative contracts	19 842	100 762
Investments in associated and related companies	433 009	127 111
Intangible assets	254 580	173 120
Fixed assets	6 382 193	3 026 601
Other assets	567 057	1 392 407
Deferred expenses and accrued income	1 168 445	441 775
<b>Total assets</b>	<b>93 093 591</b>	<b>62 993 817</b>
Due to credit institutions and central banks	2 015 379	832 772
Deposits	72 578 864	49 123 315
Debt securities	950 400	1 091 250
Derivative contracts	99 181	6 440
Other liabilities	5 108 781	2 905 483
Deferred income and accrued expenses	557 507	368 261
Provisions for liabilities and payments	252 227	167 563
Subordinated liabilities	20 368	130 288
Shareholders' equity	11 510 884	8 368 445
<b>Total liabilities</b>	<b>93 093 591</b>	<b>62 993 817</b>
Contingent liabilities	1 468 468	267 058
Commitments to customers	3 169 527	1 979 315
<b>Assets under trust management</b>	<b>27 561 801</b>	<b>8 312 314</b>




## Profit and Loss Statement as at 31 March, 2007

Items	31.03.2007 LVL	31.03.2006 LVL
Interest income	1 305 216	946 975
Interest expense	(416 513)	(241 742)
Income from securities	1 584	687
Fees and commission income	625 053	516 257
Fees and commission expense	(215 156)	(227 778)
Gain on trading in financial instruments and their revaluation	349 355	240 300
Other operating income	4 105	4 989
Administrative expenses	(717 599)	(563 648)
Amortization of intangible assets and depreciation of fixed assets and their value corrections	(96 250)	(57 797)
Other operating expenses	(18 638)	(23 176)
Provisions for doubtful debts and off-balance sheet liabilities-related expenses	(78 339)	(48 321)
Release of provisions	41 821	24 142
Profit before taxation	784 639	570 888
Corporate income tax	(7 351)	(9 674)
<b>Current year's profit</b>	<b>777 288</b>	<b>561 214</b>

## The Bank's Performance Ratios as at 31 March, 2007

Items	31.03.2007	31.03.2006
Return on Equity (ROE) (%)	26.97%	27.39%
Return on Assets (ROA) (%)	3.16%	3.14%





## BANK'S MANAGEMENT

### Supervisory Council and Management Board

#### SUPERVISORY COUNCIL (as at 31 March 2007)

Name	Position held
Leonid Kramnoy	Chairman of the Council
Vilori Belokon	Deputy Chairman of the Council
Viacheslav Kramnoy, sr.	Member of the Council

#### MANAGEMENT BOARD (as at 31 March 2007)

Name	Position
Valeri Belokon	Chairman of the Board
Alon Nodelman	Member of the Board Deputy Chairman of the Board
Janis Apelis	Member of the Board
Ilona Gulchak	Member of the Board
Albert Reznik	Member of the Board
Bogdan Andrushchenko	Member of the Board
Dinars Kolpakovs	Member of the Board
Ilze Lase	Nominee Member of the Board

### Bank's shareholders

The total authorised and paid-in share capital is represented by 1 522 257 (One million five hundred twenty two thousand two hundred fifty seven) ordinary voting shares. These are dematerialized registered shares, each having a par value of LVL 5 (five lats).

Of the Bank's 102 shareholders, 33 are corporate entities and 69 are private individuals.

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

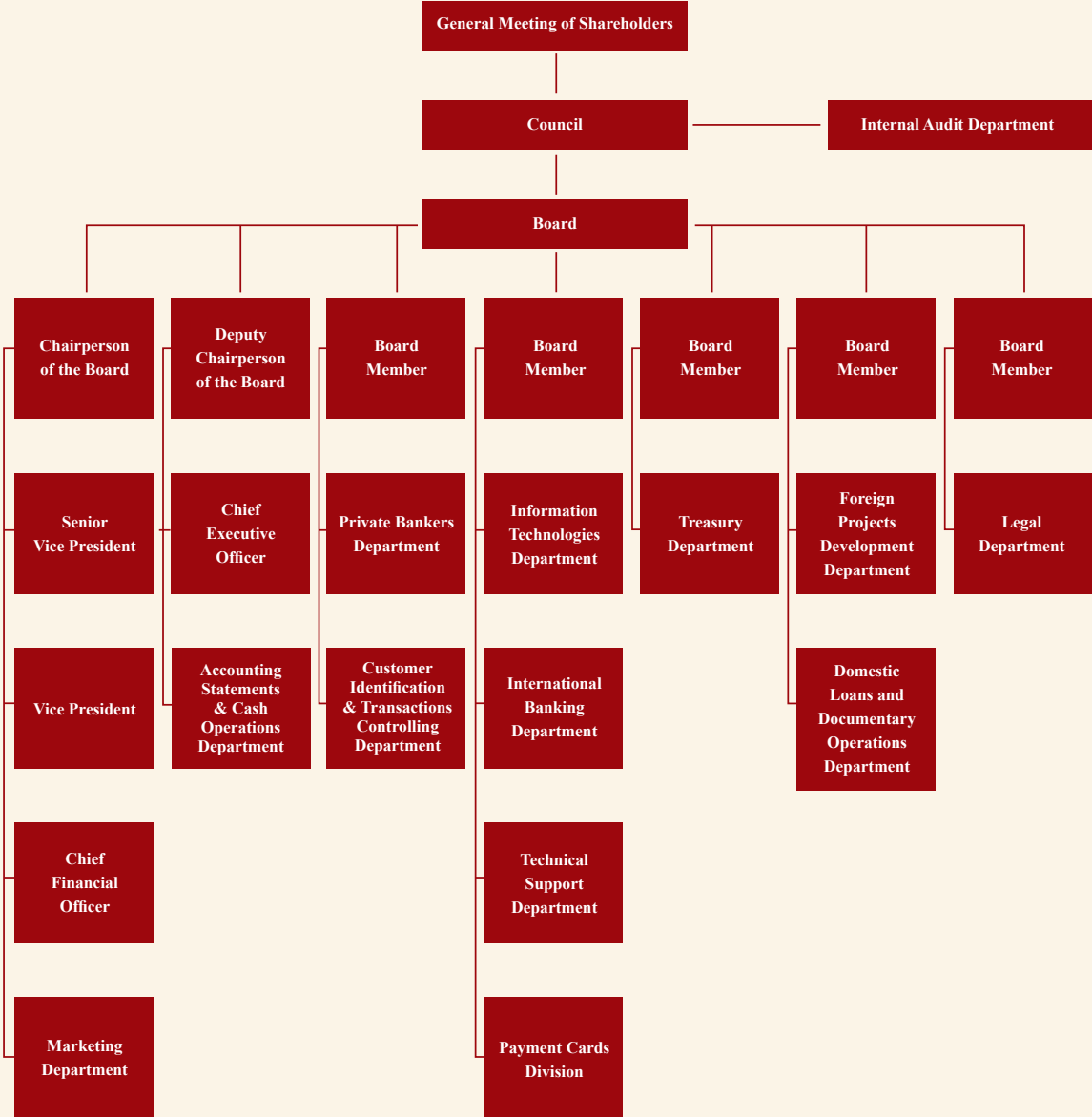
Valeri Belokon	39,9038 %
Viacheslav Kramnoy	27,9721 %
Vilori Belokon	12,1657 %



# BANK'S STRUCTURE

The Bank has opened its representative offices in Moscow (Russian Federation) and in London (United Kingdom). The Bank's plans envisage opening the representative office in Kiev (Ukraine).

# BANK'S ORGANIZATIONAL STRUCTURE





## **BANK'S STRATEGY AND GOALS**

### **Bank's Strategy**

To take a prudent and conservative approach to customer acquisition and asset allocation, while abiding by the KYC principle and maintaining the same level of top-quality services provided to private banking customers.

### **Bank's Goals**

- To enhance the Bank's value;
- To develop long-term relationships between the Bank and its customers;
- To maintain competitive advantage in terms of performance indicators within a long-term perspective.

## **BANK'S STRATEGY AND GOALS**

International credit rating agency Moody's Investors Service assigned the following ratings to JSC Baltic International Bank:

- long-term deposits - B1;
- short-term deposits - Not-Prime;
- financial stability - E+.
- All the ratings carry a stable outlook.

The full text of the Moody's Investors Service press release is available on their website at [www.moody.com](http://www.moody.com).





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## RISK ANALYSIS

### **Bank's Strategy**

The Bank's financial business is exposed to various risks, of which core risk categories are credit risk, liquidity risk, currency risk, interest rate risk, market risk and operational risk. All the aforementioned risks stem from the impairment of the borrower's credit solvency, exchange rate fluctuations, interest rates fluctuations, and other factors. The Bank's risk management policies establish limits to risky exposures and set forth the procedures designed to reduce risks across all of the Bank's business areas. The Bank's Board and two committees – the Loan Committee and the Resources Supervision Committee – continuously verify compliance with the regulatory requirements and guidelines outlined in the Bank's internal guidance documents. In view of the expansion of the Bank's activity and the evolvement of the financial market, the Bank regularly improves its risk management system over which the Internal Audit Department maintains continuing control.

### **Credit Risk**

Credit risk is the risk that the Bank may sustain losses through a counterparty's or debtor's failure to meet contractual obligations vis-à-vis the Bank.

#### ***Main sources of credit risk:***

- Borrower's inability to meet all financial obligations in a timely fashion;
- Deterioration in the borrower's financial condition;
- Changes in the country's economic and political environment and restrictions imposed by governmental authorities.

#### ***Credit risk management and monitoring:***

For the purpose of minimizing credit risk, the Bank has set operating limits on various deals and transactions, depending on the borrower's financial stability, credit solvency, registration and the region where the borrower's business is based, and depending on the amount and type of the underlying collateral. All of the said restrictions and limitations are set forth by the Bank's internal policies and guidelines. The Bank's organisational units are obligated to enforce operating limits. The Resources Supervision Committee, the Loan Committee, and the Bank's Board are charged with the control function and are responsible for ensuring the implementation of the aforementioned internal guidance documents.





## **Liquidity Risk**

Liquidity is the Bank's ability to ensure that its unexpected or forecasted financing needs are satisfied to meet legally proven claims of the Bank's creditors. Liquidity is understood as the Bank's ability to convert assets into ready cash with the minimal losses or to borrow funds at a reasonable price.

### ***Main sources of liquidity risk:***

- Mismatching the maturities of assets and liabilities; timing differences between cash inflows from the business and cash outflows for business needs and maturing debt obligations;
- Concentrations in funding sources by relying on an individual customer or customer group;
- Unexpected reduction in funding;
- Difficulties in selling assets.

### ***Liquidity risk management and monitoring:***

The Bank meets its liquidity requirements in compliance with the Bank's Liquidity Management Policy, which sets forth terms for overall net position limits on a maturity basis. The Resource Supervision Committee has the responsibility to ensure uniform implementation of the Policy. The Committee sets appropriate liquidity net positions sub-limits on the maximum aggregate deposit amount deposited by an individual customer (a group of interlinked customers) and other restrictions. Also, the Committee ensures the enforcement of operating limits and adherence to the relevant procedures. To comply with the regulatory requirements of the Financial and Capital Market Commission, the Bank is obliged to hold sufficient liquid assets reserve to meet its financial commitments, however not less than 30 percent of the Bank's total current liabilities.

## **Foreign Exchange Risk**

Foreign exchange risk (or foreign currency risk) is the risk associated with re-measurement of on and off balance sheet items into domestic currency and resulting from fluctuating foreign currency rates (gold is treated akin to foreign currency).

### ***Main sources of foreign exchange risk:***

- A substantial amount of the net open foreign-currency positions (NOFP);
- Foreign exchange rate fluctuations.

### ***Foreign exchange risk management and monitoring:***

To manage foreign exchange risk, the Bank has formulated and adopted the Foreign Exchange Risk Management Policy. The Resources Supervision Committee is responsible for ensuring compliance with the Policy which establishes the foreign exchange exposure limits. To meet the requirements of the Credit Institutions Act, the net open position in any foreign currency may not exceed 10 percent, while the sum of overall foreign exchange exposure and the net position in gold may not exceed 20 percent of the Bank's equity.





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## **Interest Rate Risk**

Interest rate risk is the risk that fluctuating interest rates will adversely affect the Bank's earnings and the Bank's economic value.

### ***Main sources of interest rate risk:***

- Repricing risk;
- Yield curve risk
- Basis risk;
- Optionality risk.

### ***Interest rate risk managements and monitoring:***

To manage interest rate risk, the Bank has formulated and adopted the Interest Rate Risk Management Policy. To set interest rate risk limits, the Delta approach (Delta measures interest rate changes) is used. Given a one percent change in the interest rate under the Delta approach, the Bank calculates the affect on the annual net interest profit separately for every single currency and for the overall foreign exchange exposure. The Resources Supervision Committee is responsible for ensuring compliance with the operating limits requirements. The Bank's Board regularly resets the pre-determined interest rates based on the analysis of the current market and based on the predictions for the rise or fall of interest rates.

## **Market Risk**

Market risk means the risk of potential loss from the revaluation (marking-to-market) the on and off-balance sheet items, largely due to the factors such as swings in market prices on financial instruments due to the effects of changes in foreign currency exchange rates and variable interest rates, and other similar factors. The standard market risk factors include: foreign exchange risk, position risk, and counterparty risk.

### ***Main sources of market risk:***

- Changes in market prices for financial instruments;
- Changes in commodity prices;
- Foreign exchange rate fluctuations;
- Interest rate variability.

### ***Market risk management and monitoring:***

The Bank focuses a lot of attention on the monitoring and analysis of market risk. The Bank has formulated and adopted the Trading Portfolio Policy designed to define the structure of the Bank's trading portfolio and to set out the maximum effective open position transacted with an individual issuer and the limits by the maturity profile of the securities. The Resources Supervision Committee is charged with the responsibility of implementing the Trading Portfolio Policy.



## Operational Risk

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events.

### *Main sources of operational risk:*

- Internal and external fraud;
- Inadequate employment practices and workplace safety;
- Failure to meet a professional obligation to specific clients; sale of unauthorized products and improper business practices;
- Loss or damage to physical assets;
- Business disruption and system failures;
- Failed execution, delivery and process management.

### *Operational risk management and monitoring:*

To manage operational risk, the Bank has formulated and adopted the Operational Risk Management Policy. The Bank's Board is responsible for developing an operational risk measuring and monitoring framework and for evaluating its effectiveness. To minimize operational risk, the Bank takes actions designed to enhance personnel management effectiveness, to optimise IT infrastructure, and to use insurance and outsourcing services.

## Bank's Risk Ratios

Items	31.03.2007
1. Credit Risk Ratios	
1.1. Specific loss provisions for loans extended to non-banks as percentage of total loan portfolio	3.2%
1.2. Poorly performing loans <sup>1</sup> (excluding specific provisions) as a percentage of the shareholders' equity	3.1%
2. Liquidity Risk Ratios	
2.1. Liquidity ratio <sup>2</sup>	72.1%
2.2. The ratio of loans and advances extended to non-banks to total customer deposits	51.9%
2.3. The share of sight deposits in total deposits	56.0%
3. Foreign Exchange Risk Ratios	
3.1. The overall net open foreign -currency position <sup>3</sup>	8.96%
4. Capital adequacy ratio <sup>4</sup>	16.9%

<sup>1</sup> Poorly performing loans: substandard, doubtful, loss or complete write-off

<sup>2</sup> FCMC requirements not less than 30%

<sup>3</sup> Under the Law On Credit Institutions may not exceed 20%

<sup>4</sup> FCMC requirements not less than 8%