



Baltic International Bank

JSC “BALTIC INTERNATIONAL BANK”
PUBLICLY AVAILABLE
QUARTERLY FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2018



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

In terms of its performance results, Baltic International Bank shows a positive trend. In 4Q 2018, the Bank's financial performance surpassed the cumulative financial result gained over the first three quarters of 2018. The year 2018 was marked by Bank-specific changes and optimisation efforts. The Bank's senior management successfully implemented its cost-optimisation and income-boosting plan in order to minimise the losses incurred by Bank during the first two quarters of 2018.

The change processes at the Bank and the overall situation in the sector create circumstances under which the Bank needs to be able to combine cost optimisation and income boosting. Notably, in the second half of 2018, the Bank's management made a huge stride towards success. During the period being analysed, the Bank's greatest challenge was to optimise costs in order to achieve perceptible effectiveness and to explore and pinpoint possibilities for investing in the Bank's development and improving customer service.

While tracking customers' behavioural changes and developing remote digital solutions, we have embarked on shaping conditions for customer-focused service in our intention to minimise the necessity of in-person visits to the Bank and its representative office. The Bank launched its new Internet Banking project, rolled out newly designed credit and debit cards offering enhanced functionalities, unveiled a number of initiatives intended to improve investment services. The Bank found the ways of how to work more efficiently and to trim down fixed costs associated with the representative office. The Bank also implemented a number of optimisation-specific initiatives whose results became apparent already in Q4 2018.

Compared to 2017, Bank succeeded to close the year 2018 with a higher operating income and more lenient operating expense. By the end of 4Q 2018, the operating income totalled EUR 14.88 million (EUR 14.95 million). The percentage of the net fee and commission income surged up to 56.9percent (56.6 percent) compared to the same period last year when the net fee and commission income totalled 25.6 percent (25.6 percent). The net interest income totalled 24.1 percent (24 percent). Administrative expenses reached EUR 13.39 million (EUR 13.47 million).

In 2018, the Bank continued to contribute to the new business strategy geared towards customers who display investment needs and possess the investment potential. The sector-related events and priorities inevitably bring along corrections. We therefore need to revisit the timelines for our goals and objectives previously set. However, the Bank made impressive progress towards gaining larger amount of fee and commission income for customer service, investment services, brokerage services and asset management services.

To spur the Bank's conformity with international standards and transparency and to create favourable entrepreneurship environment in the financial sector, the Bank has purposefully engaged in the activities of the Finance Latvia Association and has cooperated with the public entities.

Baltic International Bank invested money towards enhancing professional qualification of its employees and their expertise in *the fight against financial crimes in accordance with* international standards. For instance, all of the employees involved in implementing the Know Your Customer (KYC) and Know Your Customer`s Partner (KYCP) principles have undergone an in-depth AML/CFT training. The Bank has also made relevant amendments to its AML/CFT policy and related procedures.

The Bank (the Group-related financials are enclosed within the parentheses) posted the following financial results for 4Q 2018:

	31.12.2018	30.09.2018
Loss:	EUR 305 thousand (EUR 498 thousand)	EUR 2,35 million (EUR 2,55 million)
Liquidity ratio:	76,33%	72,96%
Assets:	EUR 287,28 million (EUR 287,27 million)	EUR 272,34 million (EUR 272,09 million)
Capital adequacy ratio:	13,70% (13,76%)	12,66% (12,72%)

In 4Q 2018, the total customer funds reached EUR 499 million (Annex 1). By the end of 4Q 2018, the assets under management reached EUR 74.34 million (EUR 74.34 million). The volume of financial instruments in brokerage service has



also shown a positive dynamics: by the end of 4Q 2018, the volume reached EUR 178 million (EUR 178 million), a 47-percent increase from the end of 2017.

The Bank's high-quality liquid assets (assets carrying investment-grade credit rating and balances due from the Bank of Latvia) made up EUR 159.40 million (EUR 159.40 million) or 56 percent (56 percent) of the total assets. Investments in government bonds accounted for EUR 17.5 million (EUR 17.5 million) or 6.1 percent (6.1 percent) of the total assets.

The Bank maintains a well-diversified structure of liquid assets represented by bonds (13 percent), due from credit institutions (7 percent), due from the Bank of Latvia (79 percent) and cash (1 percent). The liquidity coverage ratio (LCR) was 247 percent. The net stable funding ratio (NSFR), characterizing the availability of a stable funding profile in relation to the composition of assets and off-balance sheet activities, reached 153.6percent (153.7 percent).

As of 31 December 2018, the Bank's own funds totalled EUR 24.39 million (EUR 24.46 million). The Bank's Tier I capital ratio (CETI) was 9.63 percent (9.68 percent). The total SREP ratio (TSCR ratio) reached 13.70 percent (13.76 percent).

As the Bank continues to support Latvian literature and its development, it implemented a project titled "Library" in 4Q 2018. The project aims to educate the public regarding the importance of literature in people's lives and to tell people about private libraries and collections held in private libraries, as well as emotional and educational attributes of the collections. The project involves Latvian literati and other active shapers of the literary life in Latvia. Baltic International Bank organised creative works competition aimed at school students. The Ērgļi high school was the first place winner and won the top prize, 100 books for their school library. The renowned jury that included a brilliant Latvian writer Nora Ikstena evaluated the student works. The Bank's employees brought a plenty of books, and the Bank donated them to People's Bookshelf (*Tautas grāmatu plaukts*) located in the atrium of the National Library of Latvia. Thus, the Bank has excelled itself by placing a strong emphasis on one of the Bank's core values, namely, SUCCESSION. Books offer a unique opportunity to preserve legacy and pass on fundamental values to the next generations.

To implement the Bank's long-term plans, create a convenient environment for its employees and customers and foster its sustainability, the Bank launched an ambitious refurbishment and regeneration of the Old Riga quarter situated between Kalēju Street and Vecpilsētas Square. Within the 5-year timeframe, the Bank intends to allocate nearly EUR 12 million towards the project. During the first phase of the project, the Bank will provide its employees with modern workplace premises. During the second phase, the Bank will offer the local businesspeople premises for business development.

The Bank launched an ambitious refurbishment and regeneration of the Old Riga quarter situated between Kalēju Street and Vecpilsētas Square. The Bank allocated nearly EUR 12 million towards the project. The architectural ensemble comprising five intra-quarter buildings will include covered shopping arcades, known as passages or galleries, the Money Museum, and the Bank's office premises wherein the employees will enjoy modern workplace environment.

Largely due to its business model and string adherence to corporate governance principles, sustainable business principles and socially responsible initiatives, in 2018 Baltic International Bank received the Gold Award from the annual Sustainability Index and the Family-Friendly Company Status.



Members of the consolidation group

No	Company name and registration number	Code of registration state and address	Institution type ¹	Ownership interest (%)	Percentage of voting rights (%)	Rationale behind the inclusion within the group ²
1	AS "Baltic International Bank", 40003127883	LV, Kalēju iela 43, Rīga	BNK	100	100	PC
2	SIA "CLAIM MANAGEMENT", 40103681310	LV, Kalēju iela 47-1, Rīga	OFI	100	100	PCS
3	AS "BIB Alternative Investment Management", 40203036638	LV, Kalēju iela 43-4, Rīga	OFI	100	100	PCS
4	SIA "BIB real Estate", 40003868021	LV, Kalēju iela 41, Rīga	OFI	100	100	PCS
5	SIA "Gaujas īpašumi", 40103249888	LV, Kalēju iela 41, Rīga	OFI	100	100	SCS
6	SIA "Global Investments", 40003785660	LV, Merķeļa iela 6-11, Rīga	OFI	100	100	SCS

¹ BNK - Bank, OFI - Other Financial Institution, SE - Supporting Enterprise

² PC - Parent Company, PCS - Parent Company Subsidiary company, SCS - Subsidiary Company Subsidiary company

Bank's shareholders

The Bank's paid-in share capital totals EUR 33 626 395.20 and is divided into 4 736 112 shares. All of the shares are dematerialised registered voting shares. Each share has a par value of EUR 7.10.

Of the Bank's 92 shareholders, 27 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 – 66.94873%
- Vilori Belokon – 32.99998%.

Bank's senior management

Supervisory Board (31.12.2018.)

Full name	Position
Valeri Belokon	Chairperson of the Supervisory Board
Ilona Gulchak	Deputy Chairperson of the Supervisory Board
Hans-Friedrich Von Ploetz	Member of the Supervisory Board
Joseph Cofer Black	Member of the Supervisory Board

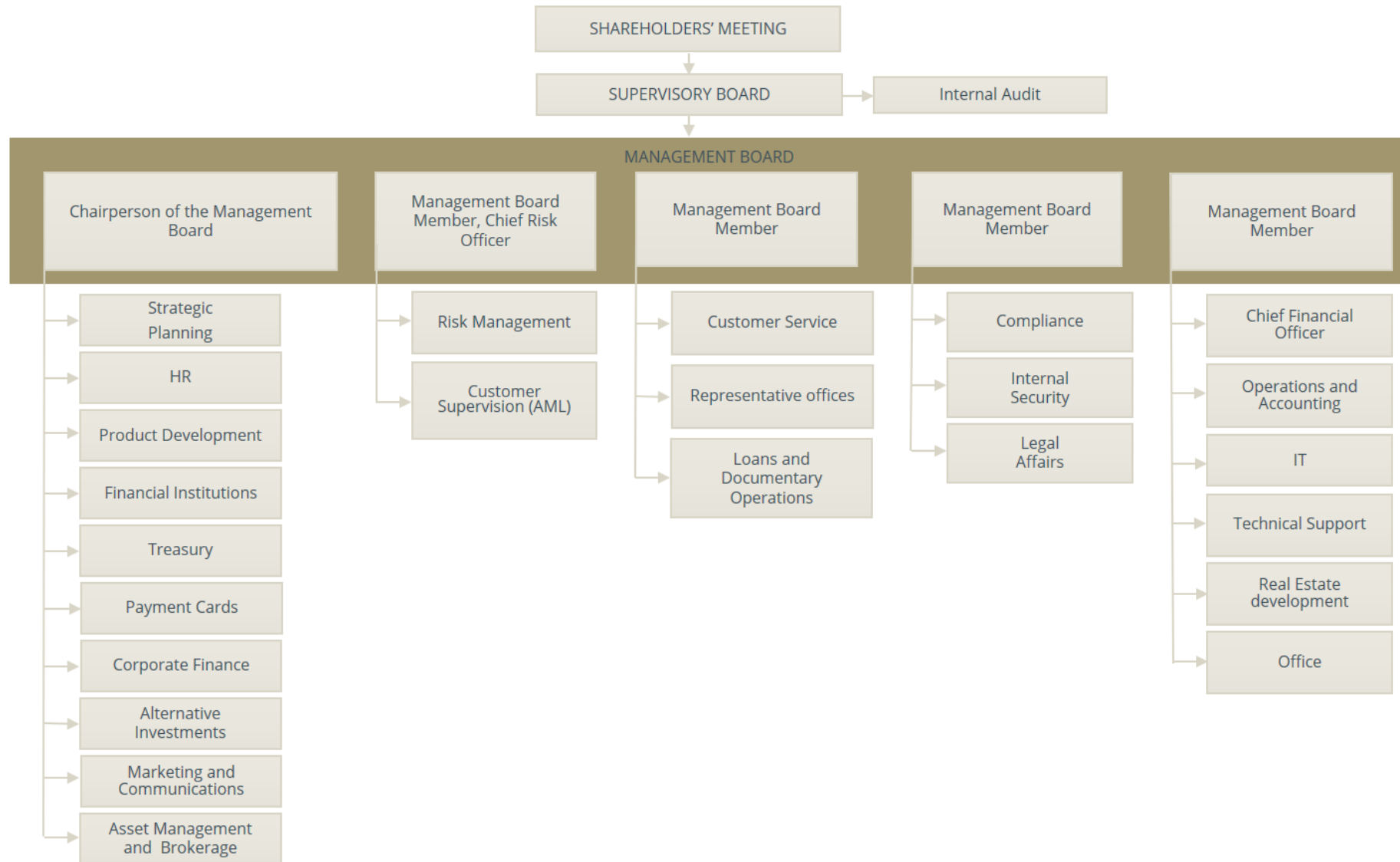
Management Board (31.12.2018.)

Full name	Position
Viktors Bolbats	Chairperson of the Management Board
Alon Nodelman	Member of the Management Board, Authorised Signatory
Bogdan Andrushchenko	Member of the Management Board
Anda Saukane	Member of the Management Board
Guntars Reidzans	Member of the Management Board



Baltic International Bank

The organizational structure of the Bank





Bank's operational strategy and operational objectives

Bank's strategy is to provide bespoke services to HNWIs and corporate clients, managing clients' wealth responsibly, and offering excellent top-level personalised service. The banking sector both in Latvia and around the world changing rapidly. To ensure sustainable operations and development in the ever-changing market circumstances, the Bank is focusing on implementation of its *Strategy 2030*.

Strategy based on ESG concept

One of the major **goals** of the *Bank's Strategy 2030* is to become a bank which, together with its clients, through generations, invests in environmentally-friendly and sustainable projects and companies which are dedicated to similar environmental values and which exert a positive long-term impact on the future.

The Bank's operational strategy is based on ESG concept. ESG refers to considering the environmental, social and governance issues. The ESG concept focuses on environmental protection, social responsibility and principles of good governance.

Clients

The Bank's **clients** are individuals for whom socially responsible investment is an integral and essential part of capital allocation decision-making. By seizing Bank-offered opportunities, our clients not only realise their intention to earn money from investing but also positively shape the world around and acquire new experience and knowledge.

The Bank's objective is to maintain geographically diversified client base, to focus more intensely on clients from Europe and Asia and to pinpoint new market segments. We help our clients safeguard and grow their wealth, pass the wealth on to future generations, and create harmonious future environment.

Team

The Bank employ highly professional and competent team of experts to provide personalised services to the clients and ensure safety, security, accessibility and growth of their money. We purposefully enhance our knowledge and expertise and strengthen our competences in environmentally friendly and sustainable investment. Bank's corporate values include knowledge & expertise, confidence, and succession.



Risk management

The information about risk management is available in 2016 Annual Report from page 50 till page 59 on JSC "Baltic International Bank" web page www.bib.eu/en/financial-performance. Since 31 December 2016 there are no any material changes in risk management.

The Bank's performance ratios

Item	31.12.2018 (unaudited)	31.12.2017 (audited)
Return on Equity (ROE) (%)	-1.25	-25.49
Return on Assets (ROA) (%)	-0.11	-2.88
Total capital ratio (%)	13.70	13.00
Liquidity coverage ratio (%)	247	375
Operational income* (in thousands euro)	14 877	14 421

*Operational income = net interest income + net fee and commission income + other income

Annex 1. Total of client funds

	Group	Bank
	EUR'000	EUR'000
Deposits	233 128	233 273
Subordinated liabilities	13 636	13 636
Debt securities in issue	0	0
Financial instruments in brokerage service	177 844	177 844
The assets under management	74 341	74 341
TOTAL of customer funds	498 949	499 094



Income statement

Item	01.01.2018 - 31.12.2018		01.01.2017 - 31.12.2017	
	(unaudited)		(audited)	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Interest income	5 316	5 321	4 319	4 335
Interest expense	-1 731	-1 731	-1 826	-1 826
Dividend income	49	49	10	10
Fee and commission income	9 902	9 902	5 453	5 454
Fee and commission expense	-1 438	-1 438	-1 760	-1 759
Gains or (-) losses on financial assets & liabilities not measured at fair value through profit or loss, net (+/-)	-24	-24	-2 172	-2 172
Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net (+/-)	3 110	3 110	8 750	8 750
Gains or (-) losses from hedge accounting, net (+/-)	0	0	0	0
Exchange differences [gain or (-) loss], net (+/-)	-613	-613	1 487	1 487
Gains or (-) losses on derecognition of non financial assets other than held for sale, net (+/-)	0	0	0	0
Other operating income	376	301	173	142
Other operating Expenses (-)	-700	-646	-3 767	-2 416
Administrative Expenses (-)	-13 472	-13 392	-13 906	-13 731
Depreciation (-)	-1 428	-1 428	-1 525	-1 525
Profit / Loss recognized as a result of changes in contractual cash flows of a financial asset (+/-)	0	0	0	0
Provisions or (-) reversal of provisions (-/+)	0	0	0	0
Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss (-/+)	202	331	-3 973	-5 880
Negative goodwill recognised in profit or loss	0	0	0	0
Share of the profit or (-) loss of investments in subsidiaries, joint ventures and associates accounted for using the equity method (+/-)	0	0	0	0
Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations (+/-)	0	0	0	0
Profit or (-) loss before tax from continuing operations (+/-)	-451	-258	-8 737	-9 131
Tax Expenses or (-) income related to profit or loss from continuing operations	-47	-47	1 037	1 037
Profit / Loss for the reporting period (+/-)	-498	-305	-7 700	-8 094
TOTAL comprehensive loss for the reporting period (+/-)	-685	-492	-7 414	-7 807



Balance sheet statement

Item	31.12.2018 (unaudited)		31.12.2017 (audited)	
	Group	Bank	Group	Bank
	EUR'000	EUR'000	EUR'000	EUR'000
Cash and due from central banks repayable on demand	119 856	119 856	105 915	105 915
Due from credit institutions repayable on demand	12 605	12 605	24 323	24 323
Financial assets at fair value through profit or loss	22 069	22 069	15 989	15 989
<i>Loans</i>	15 608	15 608	5 447	5 447
<i>other financial assets</i>	6 461	6 461	10 542	10 542
Financial assets at fair value through other comprehensive income	8 599	8 599	16 328	16 328
Financial assets at amortised cost	79 257	80 274	100 650	101 499
<i>Loans</i>	48 049	49 067	61 885	62 734
<i>Debt securities</i>	31 207	31 207	38 765	38 765
Derivatives – Hedge accounting	0	0	0	0
Fair value changes of the hedged items in portfolio hedge of interest rate risk	0	0	0	0
Investments in subsidiaries, joint ventures and associates	1 145	3 286	1 145	2 934
Tangible assets	25 742	22 820	23 940	21 409
Intangible assets	4 181	4 181	4 184	4 184
Tax assets	0	0	14	14
Other assets	13 818	13 588	5 549	5 352
Non-current assets and disposal groups classified as held for sale	0	0	0	0
Total assets	287 272	287 278	298 037	297 947
Liabilities to central banks	12 250	12 250	14 160	14 160
Due to credit institutions repayable on demand	825	825	279	279
Financial liabilities designated at fair value through profit or loss	16	16	462	462
Financial liabilities measured at amortised cost	246 764	246 909	255 248	255 415
<i>Deposits</i>	233 128	233 273	238 941	239 108
<i>Subordinated liabilities</i>	13 636	13 636	14 638	14 638
<i>Debt securities in issue</i>	0	0	1 669	1 669
Derivatives – Hedge accounting	0	0	0	0
Fair value changes of the hedged items in portfolio hedge of interest rate risk	0	0	0	0
Provisions	47	96	0	0
Tax liabilities	10	10	0	0
Other liabilities	2 429	2 311	3 445	3 365
Liabilities included in disposal groups classified as held for sale	0	0	0	0
Total liabilities	262 341	262 417	273 594	273 681
Shareholders' equity	24 931	24 861	24 443	24 266
Total liabilities and shareholders' equity	287 272	287 278	298 037	297 947
Memorandum items				
Contingent liabilities	914	914	210	210
Commitments to customers	4 240	4 354	6 293	6 378



Overview of own funds and capital ratios

No	Item	31.12.2018	
		(unaudited)	
		Group	Bank
		EUR'000	EUR'000
1.	Own funds (1.1.+1.2.)	24 462	24 391
1.1.	Tier 1 capital (1.1.1.+1.1.2.)	17 212	17 141
1.1.1.	Common equity Tier 1 capital (CET1 capital)	17 212	17 141
1.1.2.	Additional Tier 1 capital	0	0
1.2.	Tier 2 capital	7 250	7 250
2.	Total risk exposure amount (2.1.+2.2.+2.3.+2.4.+2.5.+2.6.+2.7.)	177 725	178 085
2.1.	Risk weighted exposure amounts for credit, counterparty credit and dilution risks and free deliveries	142 802	143 219
2.2.	Total risk exposure amount for settlement/delivery risk	0	0
2.3.	Total risk exposure amount for position, foreign exchange and commodities risks	569	569
2.4.	Total risk exposure amount for operational risk	34 354	34 297
2.5.	Total risk exposure amount for credit valuation adjustment	0	0
2.6.	Total risk exposure amount related to large exposures in the trading book	0	0
2.7.	Other risk exposure amounts	0	0
3.	Capital ratios and capital levels		
3.1.	CET1 capital ratio (1.1.1./2.*100)	9.68	9.63
3.2.	Surplus(+)/Deficit(-) of CET1 capital (1.1.1.-2.*4.5%)	9 214	9 127
3.3.	T1 capital ratio (1.1./2.*100)	9.68	9.63
3.4.	Surplus(+)/Deficit(-) of T1 capital (1.1.-2.*6%)	6 548	6 456
3.5.	Total capital ratio (1./2.*100)	13.76	13.70
3.6.	Surplus(+)/Deficit(-) of total capital (1.-2.*8%)	10 243	10 144
4.	Combined Buffer Requirement (4.1.+4.2.+4.3.+4.4.+4.5.)	4 885	4 894
4.1.	Capital conservation buffer	4 443	4 452
4.2.	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State	0	0
4.3.	Institution specific countercyclical capital buffer	442	442
4.4.	Systemic risk buffer	0	0
4.5.	Other Systemically Important Institution buffer	0	0
5.	Capital ratios due to adjustments		
5.1.	Assets value adjustments applying for the prudential purposes	0	0
5.2.	CET1 capital ratio due to adjustments defined in row No 5.1. (%)	0	0
5.3.	Tier 1 capital ratio due to adjustments defined in row No 5.1. (%)	0	0
5.4.	Total capital ratio due to adjustments defined in row No 5.1. (%)	0	0



The information about own funds and capital ratios, if a credit institution applies transitional arrangements for the purpose of mitigating the impact of the introduction of IFRS 9 on the level of own funds

No	Item	31.12.2018 (unaudited)	
		Group EUR'000	Bank EUR'000
1.A	Own funds without the application of IFRS 9 transitional arrangements	23 956	23 885
1.1.A	Tier 1 capital without the application of IFRS 9 transitional arrangements	16 706	16 635
1.1.1.A	Common Equity Tier 1 capital without the application of IFRS 9 transitional arrangements	16 706	16 635
2.A	Total risk exposure amount without the application of IFRS 9 transitional arrangements	177 126	177 472
3.1.A	Common Equity Tier 1 capital ratio without the application of IFRS 9 transitional arrangements	9.43	9.37
3.3.A	Tier 1 capital ratio without the application of IFRS 9 transitional arrangements	9.43	9.37
3.5.A	Total capital ratio without the application of IFRS 9 transitional arrangements	13.52	13.46

Liquidity coverage ratio

No	Item	31.12.2018 (unaudited)	
		Group EUR'000	Bank EUR'000
1	Liquidity buffer	130 773	130 773
2	Net liquidity outflow	52 917	52 958
3	Liquidity coverage ratio (%)	247%	247%



Annex 2. Securities portfolio

The Bank's securities portfolio breaks down by country:

31.12.2018 (unaudited)				
	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Financial assets at amortised cost	Total
	EUR'000	EUR'000	EUR'000	EUR'000
Multilateral development banks	-	-	1 736	1 736
Lithuania	-	-	4 712	4 712
United Kingdom	969	350	3 201	4 520
Netherlands	-	875	3 454	4 329
Poland	-	2 295	1 639	3 934
Denmark	-	4 428	4 363	8 791
Latvia	855	181	4 660	5 696
Germany	3 005	-	-	3 005
Other countries*	1 627	472	7 450	9 549
Total	6 456	8 601	31 215	46 272
Allowances (IFRS 9)	0	(2)	(8)	(10)
Book value	6 456	8 599	31 207	46 262

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

31.12.2017 (audited)				
	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Financial assets at amortised cost	Total
	EUR'000	EUR'000	EUR'000	EUR'000
Multilateral development banks	-	12 504	1 653	14 157
Denmark	-	-	4 147	4 147
Latvia	4 874	181	6 541	11 596
Other countries*	5 668	3 643	19 375	28 686
Total	10 542	16 328	31 716	58 586

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



Annex 3. Debt securities of central governments

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

	31.12.2018	31.12.2017
	(unaudited)	(audited)
	Carrying value	Carrying value
	EUR'000	EUR'000
Poland	3 934	2 673
Spain	0	20 762
Lithuania	4 712	7 579
Latvia	4 659	6 777
Turkey	0	4 034
Other countries*	4 176	5 268
Total	17 481	47 093
Allowances (IFRS 9)	(6)	0
Carrying value	17 475	47 093

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

The amount of expected credit losses according to IFRS 9 breakdown by the Stages:

	31.12.2018		
	EUR'000		
Financial assets	Stage 1	Stage 2	Stage 3
Debt securities	9		1
Due from credit institutions	4		
Loans	89	137	12 343
Financial guarantees and other commitments	39		57