



Baltic International Bank

**JSC “Baltic International Bank”**  
**Publicly Available Quarterly Financial Statements**  
**for the period ended 31 December, 2016**



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

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



## Baltic International Bank

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 <sup>1</sup> was 7.61 percent (7.45 percent).

### 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.

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<sup>1</sup> 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.



## Members of the consolidation group

№	Company name and registration number	Code of registration state and address	Institution type <sup>1</sup>	Ownership interest (%)	Percentage of voting rights (%)	Rationale behind the inclusion within the group <sup>2</sup>
1	AS "Baltic International Bank", 40003127883	LV, Kalēju iela 43, 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 ģīpašumi", 40103249888	LV, Kalēju iela 41, Rīga	OFI	100	100	SCS
6	SIA "Global Investments", 40003785660	LV, Merkeļa iela 6 - 11, Rīga	OFI	100	100	SCS

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

<sup>2</sup> PC - parent company; PCS- parent company subsidiary company; SCS - subsidiary company subsidiary company.

## Bank's shareholders

The Bank's subscribed and paid-in share capital totals EUR 31 496 395.2 and is divided into 4 295 266 ordinary shares carrying identical voting rights. All shares are registered. Each share carries the right to one vote at the meetings of shareholders, a right to receive dividends as declared from time to time and a right to residual assets. Each share has a par value of EUR 7.1.

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

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

- Valeri Belokon – 69,898911%
- Vilori Belokon – 30,04633%.



## Bank's senior management

### Supervisory Council (31.12.2016)

Name and surname	Position
Valeri Belokon	Chairperson of the Council
Vlada Belokon	Deputy Chairperson of the Council
Andris Ozolins	Member of the Council
Hans-Friedrich Von Ploetz	Member of the Council
Joseph Cofer Black	Member of the Council

### Management Board (31.12.2016)

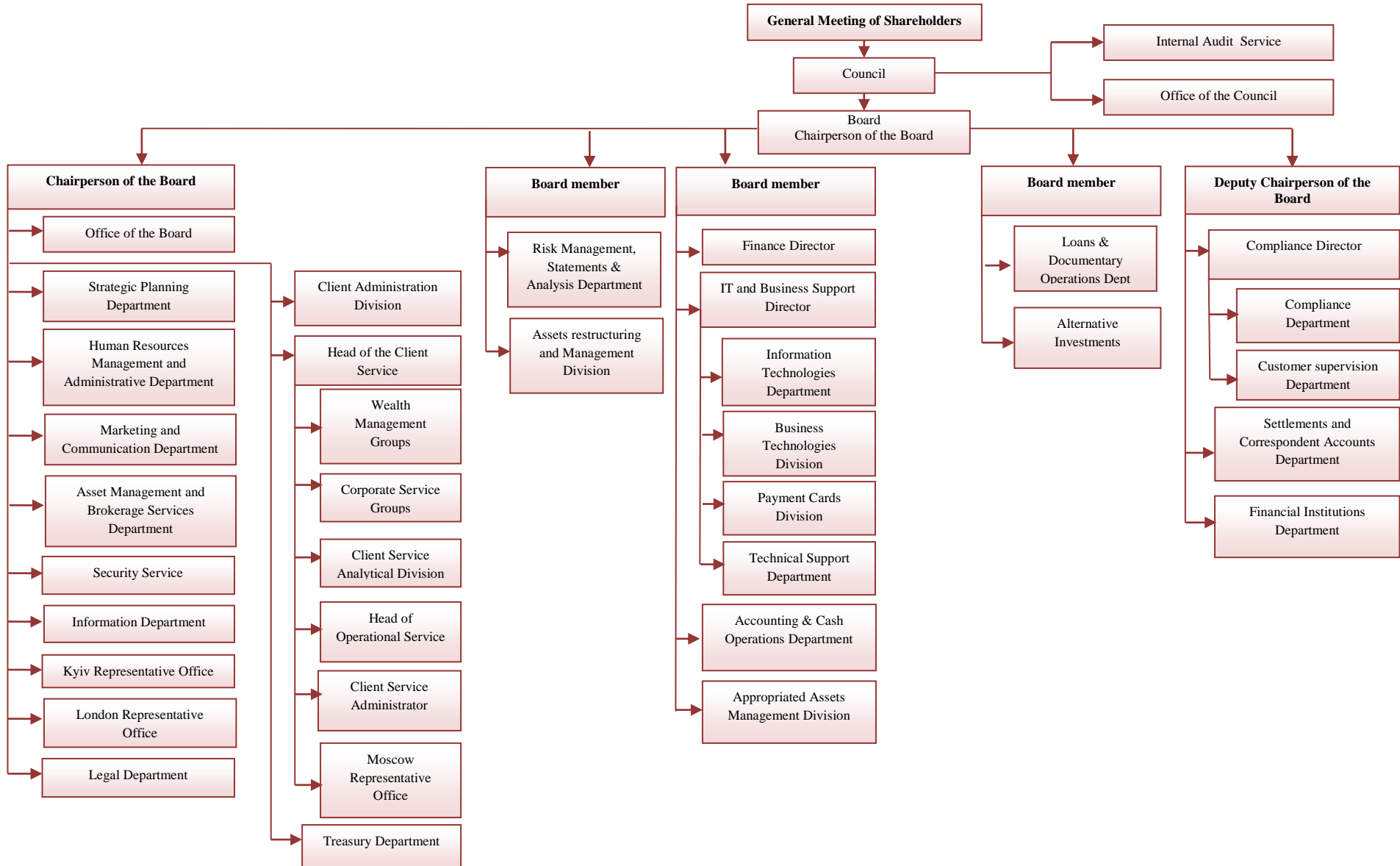
Name and surname	Position
Ilona Gulchak	Chairperson of the Board
Natalja Tkachenko	Deputy Chairperson of the Board
Alon Nodelman	Member of the Board
Martins Neibergs	Member of the Board
Bogdan Andrushchenko	Member of the Board

During 4Q 2016, the following changes occurred in the Council membership: Joseph Cofer Black was elected to serve as a Council member (01.11.2016).

During 4Q 2016, the following changes occurred in the Board membership: Inese Lazdovska resigned from his post as a member of the Board (27.12.2016).



## Bank's organisational structure





## Bank's operational strategy and operational objectives

Bank's strategy has always been geared towards providing bespoke services to HNWIs and corporate customers, managing customers' wealth responsibly, and offering excellent top-level personalised service. Over the past few years, the banking sector both in Latvia and around the world experienced drastic changes. To ensure sustainable operations and development in the ever-changing market circumstances, the Bank adopted its new *Strategy 2030* in autumn 2016.

### 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 customers, 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.

### Customers

The Bank's **customers** are individuals for whom socially responsible investment is an integral and essential part of capital allocation decision-making. By seizing Bank-offered opportunities, our customers 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 customer base, to focus more intensely on customers from Europe and Asia and to pinpoint new market segments. We help our customers safeguard and grow their wealth, pass the wealth on to future generations, and create harmonious future environment.

### Team

The Bank's objective is to employ a highly professional team of experts to be able to provide personalised services to the customers 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 2015 Annual Report from page 38 till page 46 on JSC “Baltic International Bank” web page [www.bib.eu/en/financial-performance](http://www.bib.eu/en/financial-performance). Since 31 December 2015 there are no any material changes in risk management.

## The Bank’s performance ratios

Item	31.12.2016 (unaudited)	31.12.2015 (audited)
Return on Equity (ROE) (%)	3.55	-5.39
Return on Assets (ROA) (%)	0.30	-0.33
Total capital ratio (%)	15.86	17.38
Liquidity ratio (%)	70.02	91.96
Operational income* (in thousands euro)	26 863	19 775
Operational expences** (in thousands euro)	17 001	16 038
Financial result before specific provisions and corporate income tax*** (in thousands euro)	9 862	3 737

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

\*\*Operational expences = administrative expences + amortisation + other operational expences

\*\*\*Financial result before specific provisions and corporate income tax = operational income - operational expences

**Income statement**

Item	01.01.2016.-31.12.2016.		01.01.2015.-31.12.2015.	
	(unaudited)		(audited)	
	Group	Bank	Group	Bank
	EUR'000	EUR'000	EUR'000	EUR'000
Interest income	4 501	4 521	6 333	6 400
Interest expense	-1 868	-1 868	-2 968	-2 889
Dividend income	7	7	2	2
Fee and commission income	8 426	8 427	11 107	11 108
Fee and commission expense	-3 480	-3 479	-3 881	-3 881
Net realised gain/loss on financial assets and financial liabilities carried at amortised cost	0	0	0	0
Net realised gain/loss on available for sale financial assets	2 755	2 755	0	0
Net gain/loss on financial assets and financial liabilities held for trading	-12	-12	31	31
Net gain/loss on financial assets and financial liabilities at fair value through profit or loss	0	0	0	0
Changes in fair value of the hedged items	0	0	0	0
Gain/loss on trade in and revaluation of foreign currencies	16 346	16 345	8 559	8 573
Gain/loss on derecognition of property, plant and equipment, investment property and intangible assets	0	0	0	0
Other income	800	168	629	431
Other expenses	-747	-748	-2 450	-2 332
Administrative expenses	-14 931	-14 783	-12 486	-12 344
Depreciation	-1 470	-1 470	-1 362	-1 362
Result of provisions for doubtful debts	-8 474	-8 869	-5 558	-5 715
Impairment losses	0	0	0	0
<b>Profit/loss before corporate income tax</b>	<b>1 853</b>	<b>994</b>	<b>-2 044</b>	<b>-1 978</b>
Corporate income tax	215	215	180	181
<b>Profit/loss for the current year</b>	<b>2 068</b>	<b>1 209</b>	<b>-1 864</b>	<b>-1 797</b>



## Balance sheet statement

Item	31.12.2016		31.12.2015	
	(unaudited)		(audited)	
	Group	Bank	Group	Bank
	EUR'000	EUR'000	EUR'000	EUR'000
Cash and due from central banks repayable on demand	70 152	70 152	48 928	48 926
Due from credit institutions repayable on demand	14 316	14 316	163 166	163 166
Financial assets held for trading	1 178	1 178	581	581
Financial assets at fair value through profit or loss	0	0	0	0
Financial assets available for sale	86 439	86 439	221 784	221 784
Loans and receivables	74 528	80 133	71 264	73 093
<i>Other due from credit institutions</i>	3 602	3 602	2 777	2 777
<i>Loans</i>	70 926	76 531	68 487	70 316
Investments held to maturity	16 692	16 692	9 624	9 624
Change in fair value of a hedged portion of the portfolio attributable to the interest rate risk	0	0	0	0
Deferred expenses and accrued income	2 405	2 405	2 565	2 565
Fixed assets	17 250	17 248	17 325	17 325
Investment property	6 185	2 655	6 461	2 969
Intangible assets	4 108	4 108	3 882	3 882
Investments in associated and related companies	1 145	3 210	1 145	3 088
Current tax assets	15	15	17	17
Other assets	13 349	8 200	3 370	3 407
<b>Total assets</b>	<b>307 762</b>	<b>306 751</b>	<b>550 112</b>	<b>550 427</b>
Liabilities to central banks	14 160	14 160	3 787	3 787
Due to credit institutions repayable on demand	1 540	1 540	2 693	2 693
Financial liabilities held for trading	0	0	3	3
Financial liabilities at fair value through profit or loss	0	0	0	0
Financial liabilities valued at depreciated cost	256 287	256 422	506 391	506 407
<i>Term liabilities due to credit institutions</i>	0	0	0	0
<i>Deposits</i>	230 138	230 273	473 246	473 262
<i>Subordinated liabilities</i>	16 026	16 026	16 715	16 715
<i>Debt securities in issue</i>	10 123	10 123	16 430	16 430
Financial liabilities arising from the transfer of financial assets	0	0	0	0
Change in fair value of a hedged portion of the portfolio attributable to the interest rate risk	0	0	0	0
Deferred income and accrued expenses	1 833	1 833	3 013	3 012
Provisions	0	0	0	0
Tax liabilities	744	744	959	959
Other liabilities	2 181	1 487	2 177	2 069
<b>Total liabilities</b>	<b>276 745</b>	<b>276 186</b>	<b>519 023</b>	<b>518 930</b>
<b>Shareholders' equity</b>	<b>31 017</b>	<b>30 565</b>	<b>31 089</b>	<b>31 497</b>
<b>Total liabilities and shareholders' equity</b>	<b>307 762</b>	<b>306 751</b>	<b>550 112</b>	<b>550 427</b>
<b>Memorandum items</b>				
Contingent liabilities	3 794	3 794	3 827	3 827
Commitments to customers	7 474	7 559	5 001	5 083



## Overview of own funds and capital ratios

No	Item	31.12.2016	
		(unaudited)	
		Group	Bank
		EUR'000	EUR'000
<b>1.</b>	<b>Own funds (1.1.+1.2.)</b>	<b>31 004</b>	<b>31 579</b>
<b>1.1.</b>	<b>Tier 1 capital (1.1.1.+1.1.2.)</b>	<b>22 808</b>	<b>23 383</b>
1.1.1.	Common equity Tier 1 capital (CET1 capital)	22 808	23 383
1.1.2.	Additional Tier 1 capital	0	0
<b>1.2.</b>	<b>Tier 2 capital</b>	<b>8 196</b>	<b>8 196</b>
<b>2.</b>	<b>Total risk exposure amount (2.1.+2.2.+2.3.+2.4.+2.5.+2.6.+2.7.)</b>	<b>199 764</b>	<b>199 131</b>
2.1.	Risk weighted exposure amounts for credit, counterparty credit and dilution risks and free deliveries	159 641	159 498
2.2.	Total risk exposure amount for settlement/delivery	0	0
2.3.	Total risk exposure amount for position, foreign exchange and commodities	3 586	3 586
2.4.	Total risk exposure amount for operational risk	36 537	36 047
2.5.	Total risk exposure amount for credit valuation adjustment	0	0
2.6.	Total risk exposure amount related to large exposures in the trading book	0	0
2.7.	Other risk exposure amounts	0	0
<b>3.</b>	<b>Capital ratios and capital levels</b>		
3.1.	CET1 capital ratio (1.1.1./2.*100)	11.42	11.74
3.2.	Surplus(+)/Deficit(-) of CET1 capital (1.1.1.-2.*4.5%)	13 819	14 422
3.3.	T1 capital ratio (1.1./2.*100)	11.42	11.74
3.4.	Surplus(+)/Deficit(-) of T1 capital (1.1.-2.*6%)	10 822	11 435
3.5.	Total capital ratio (1./2.*100)	15.52	15.86
3.6.	Surplus(+)/Deficit(-) of total capital (1.-2.*8%)	15 023	15 649
<b>4.</b>	<b>Combined Buffer Requirement (4.1.+4.2.+4.3.+4.4.+4.5.)</b>	<b>2.5</b>	<b>2.5</b>
4.1.	Capital conservation buffer (%)	2.5	2.5
4.2.	Institution specific countercyclical capital buffer (%)	0.0	0.0
4.3.	Systemic risk buffer (%)	0.0	0.0
4.4.	Systemically important institution buffer (%)	0.0	0.0
4.5.	Other Systemically Important Institution buffer (%)	0.0	0.0
<b>5.</b>	<b>Capital ratios due to adjustments</b>		
5.1.	Provisions or assets value adjustments applying specific policy for the purpose of own funds calculation	0	0
5.2.	CET1 capital ratio due to adjustments defined in row No 5.1. (%)	11.42	11.74
5.3.	Tier 1 capital ratio due to adjustments defined in row No 5.1. (%)	11.42	11.74
5.4.	Total capital ratio due to adjustments defined in row No 5.1. (%)	15.52	15.86



## Liquidity ratio calculation

No	Item	31.12.2016 (unaudited)
		<b>Bank</b>
		EUR'000
<b>1</b>	<b>Liquid assets</b>	<b>150 381</b>
1.1.	Vault cash	2 800
1.2.	Balances due from Bank of Latvia	67 352
1.3.	Balances due from solvent credit institutions	10 662
1.4.	Liquid securities	69 567
<b>2</b>	<b>Current liabilities (residual maturity of up to 30 days)</b>	<b>214 760</b>
2.1.	Balances due to credit institutions	1 797
2.2.	Deposits	197 989
2.3.	Debt securities in issue	0
2.4.	Money in transit	973
2.5.	Other current liabilities	3 954
2.6.	Off-balance sheet items	10 047
<b>3</b>	<b>Liquidity ratio (1:2) (%)</b>	<b>70.02</b>
4	Minimum liquidity ratio (%)	30.00

**Note 1. Securities portfolio**

The Bank's securities portfolio breaks down by country:

<b>31.12.2016</b>				
(unaudited)				
	Financial assets held for trading	Financial assets available for sale	Investments held to maturity	<b>Total</b>
	EUR'000	EUR'000	EUR'000	<b>EUR'000</b>
Multilateral development banks	0	28 497	0	<b>28 497</b>
USA	3	681	0	<b>684</b>
Spain	0	20 762	0	<b>20 762</b>
Italy	0	0	0	<b>0</b>
Germany	50	9 474	0	<b>9 524</b>
Denmark	0	9 575	0	<b>9 575</b>
Sweden	0	0	0	<b>0</b>
Lithuania	0	4 940	2 639	<b>7 579</b>
Latvia	2	4 601	2 889	<b>7 492</b>
United Kingdom	71	3 837	0	<b>3 908</b>
Brazil	0	0	0	<b>0</b>
Turkey	0	4 035	0	<b>4 035</b>
Other countries*	503	37	11 164	<b>11 704</b>
<b>Total</b>	<b>629</b>	<b>86 439</b>	<b>16 692</b>	<b>103 760</b>

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

During the reporting period has not been recognized an impairment for financial assets available for sale.

<b>31.12.2015</b>				
(audited)				
	Financial assets held for trading	Financial assets available for sale	Investments held to maturity	<b>Total</b>
	EUR'000	EUR'000	EUR'000	<b>EUR'000</b>
Multilateral development banks	0	87 892	0	<b>87 892</b>
USA	30	27 555	0	<b>27 585</b>
Spain	0	21 521	0	<b>21 521</b>
Italy	0	20 751	0	<b>20 751</b>
Germany	0	18 398	0	<b>18 398</b>
Denmark	0	9 248	0	<b>9 248</b>
Sweden	0	9 179	0	<b>9 179</b>
Lithuania	0	4 967	2 602	<b>7 569</b>
Latvia	2	4 564	2 821	<b>7 387</b>
United Kingdom	0	8 236	0	<b>8 236</b>
Brazil	0	5 375	0	<b>5 375</b>
Turkey	0	4 061	0	<b>4 061</b>
Other countries*	521	37	4 201	<b>4 759</b>
<b>total</b>	<b>553</b>	<b>221 784</b>	<b>9 624</b>	<b>231 961</b>

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



## Note 2. Debt securities of central governments

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

	<b>31.12.2016.</b>	<b>31.12.2015</b>
	(unaudited)	(audited)
	Carrying value	Carrying value
	EUR'000	EUR'000
USA	0	27 582
Italy	0	20 751
Spain	20 762	21 521
Lithuania	7 579	7 569
Latvia	6 777	6 735
Turkey	4 034	4 061
Other countries*	7 941	1 069
<b>Total</b>	<b>47 093</b>	<b>89 288</b>

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