AS Citadele banka

Risk management and capital adequacy report (pillar 3)

for the year ended
31 December 2016

Citadele

INTRODUCTION

As stipulated in the part eight of the Regulation (EU) No 575/2013 the institution at least annually should disclose information on the major risks of its operations and its risk management objectives and policies and information on capital requirements.

The objective of this report is to disclose additional detailed information on risk management and capital adequacy at consolidated level. Consolidated figures as at 31 December 2016 are disclosed. This report is not audited and the audit of these figures is not required.

Information on the remuneration policy, its impact on risk, detailed quantitative information on remuneration for AS Citadele banka Group is disclosed in a separate report which is available at the Groups web page.

This report is presented in thousands of Euros (EUR 000's). If not specified otherwise, all figures represent amounts as at 31 December 2016.

CONSOLIDATION GROUP

AS Citadele banka (thereon – the Bank), registration number 40103303559, is the parent company of the Group. In the consolidation group for regulatory purposes (thereon – the Group) companies are included as per requirements of Regulation (EU) No 575/2013; in the consolidation group for the accounting purposes – in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union.

Name of the company	Business profile	Bank's share (%)	Country	Consolidation method
AS Citadele banka	Banking	100	LV	Full
AB Citadele bankas	Banking	100	LT	Full
AP Anlage & Privatbank AG	Banking	100	CH	Full
SIA Citadele līzings un faktorings	Leasing	100	LV	Full
UAB Citadele faktoringas ir lizingas	Leasing	100	LT	Full
OU Citadele Leasing & Factoring	Leasing	100	EE	Full
SIA Citadele Express Kredīts	Other financial services	100	LV	Full
AS CBL atklātais pensiju fonds	Pension fund	100	LV	Full
IPAS CBL Asset Management	Investment management company	100	LV	Full
OOO Mizush Asset Management Ukraine	Investment management company	100	UA	Full
SIA PR Speciālie projekti	Support services	100	LV	Full
Calenia Investments Limited	Support services	100	CY	Full
SIA Rīgas pirmā garāža	Support services	100	LV	Full
SIA RPG interjers	Support services	100	LV	Full
SIA CBL Cash Logistics	Support services	100	LV	Full
SIA Hortus Residental	Support services	100	LV	Full
SIA Hortus Commercial	Support services	100	LV	Full
SIA Hortus Land	Support services	100	LV	Full
SIA Hortus TC	Support services	100	LV	Full
SIA Hortus MD	Support services	100	LV	Full
SIA Hortus JU	Support services	100	LV	Full
SIA Hortus RE	Support services	100	LV	Full
SIA Hortus BR	Support services	100	LV	Full
SIA Hortus NI	Support services	100	LV	Full

Subsidiary which is not included in the consolidation for regulatory purposes and investment in which is not deducted from regulatory capital for capital adequacy calculation purposes.

Name of the company	Business profile	Bank's share (%)	Country	Consolidation method
AAS CBL Life	Life insurance	100	LV	Full

There are no immediate or foreseeable legal obstacles for capital element transferability or liability repayment between the Group's mother company and its subsidiaries.

In certain jurisdictions all profits may not be paid out in dividends. Specific part from accumulated profits has to be set aside for reserves. These reserves are freely available to the respective company for unlimited and immediate use to cover risks or losses, when such are incurred.

GOVERNANCE

In order to ensure that the Bank's Supervisory Board and Management Board members and key function holders are suitable for their position and represent diversity, the Bank has developed internal regulation document "AS Citadele banka's policy on the assessment of the suitability of members of the Supervisory Board and Management Board and key function holders".

The policy has been developed in accordance with the Credit Institution Law of the Republic of Latvia, the Financial and Capital Market Commission (further – FCMC) Recommendations No.166 "Recommendations on the assessment of the suitability of members of management board and supervisory board and key function holders", the FCMC Regulation No.112 "Regulation on the issuance of licences for performance of the operations of credit institutions and credit unions, the receipt of permissions regulating the specific operations of credit institutions and credit unions, the confirmation of documents and provision of information" and FCMC Regulation No.233 "Regulation on establishment of internal control system". The policy is reviewed once a year.

The policy prescribes the procedure and the frequency of the assessment of the suitability of members of the Bank's Supervisory Board and Management Board and key function holders, as well as procedure for decision making on the suitability.

The initial suitability assessment is performed when a new member is nominated to the Bank's Supervisory Board or Management Board prior to his/her election or prior to the date of commencement of his/her duties, but not later than within 6 weeks after the election of the member of the Supervisory Board or the Management Board.

The reassessment of suitability is performed in the following cases:

- in case of the annual assessment of the suitability of a member of the Supervisory Board or the Management Board;
- if a member of the Supervisory Board or the Management Board is re-elected to his/her position;
- if changes are made to the responsibilities of a member of the Supervisory Board or the Management Board or in the competences required to carry out such responsibilities;
- if there is a doubt about the reliability, competence or reputation of a member of the Supervisory Board or the Management Board.

The suitability assessment is performed taking into consideration the overall composition of the Supervisory Board and the Management Board, as well as the knowledge and competence collectively necessary for the Supervisory Board and the Management Board, awareness and personal qualities in order to properly carry out the duties assigned to the members of the Supervisory Board in relation to the supervision of the Management Board activities, and to the Management Board in relation to the Bank's and the Group's operational management.

The suitability assessment of members of the Supervisory Board and the Management Board is performed by the Remuneration and Nomination Committee. The Supervisory Board approves the composition and also regulations of this committee. The suitability assessment of key function holders is performed by the Responsible Person Assessment Committee. The Management Board approves the composition and also regulations of this committee.

Each member of the Management Board is responsible for specific scope of operations of the Group. The suitability assessment process ensures that members of the Management Board have adequate level of necessary knowledge and competence in relation to specific scope of operations of the Group under responsibility of each member of the Management Board, as well adequate necessary collective knowledge and competence.

RISK MANAGEMENT

The Group considers risk management to be an essential component of its management process. The Group believes that it pursues prudent risk management policies that are aligned with its business and which aim to achieve effective risk mitigation. In order to assess and monitor complex risk exposures, the Group applies a wide range of risk management tools in conjunction with risk committees. Members of risk committees represent various operations of the Group in order to balance business and risk orientation within respective risk committees. The Group's risk management principles are set out in its Risk Management Policy. The Group adheres to the following key risk management principles:

- the Group aims to ensure that it maintains low overall risk exposure, diversified asset portfolio, limited risks in financial markets and low levels of operational risk;
- the Group aims to ensure an acceptable risk level in all operations. Risks are always assessed in relation to their expected return. Risk exposures that are not acceptable are avoided, limited or hedged;
- the Group does not assume high or uncontrollable risks irrespective of the return they provide, and assumes risks only in economic fields and geographical regions in relation to which it believes it has sufficient knowledge and expertise;
- risk management is based on each Group's employee's responsibility for the transactions carried out by him/her and awareness of the related risks;

- risk limit system and strict controls are essential risk management elements. Control over risk levels and compliance with the imposed limits is achieved by the existence of structured risk limit systems for all material risks.

The aim of the risk management in the Group is to facilitate the achievement of the Group’s goals, successful development, long-term financial stability, and to protect the Group from unidentified risks. The Bank has appointed a Risk Director (CRO) who is a member of the Bank's Management Board and whose responsibilities do not include the duties related to the activities under control. The Risk Director has a direct access to the Bank's Supervisory Board. The Risk and Governance Committee, which is subordinated to the Bank's Supervisory Board, has been established in the Bank. The main task of the Risk and Governance Committee is to provide support to the Bank's Supervisory Board in relation to the monitoring of the Group's risk management system. The Risk and Governance Committee established by the Bank's Supervisory Board provides recommendations to the Bank's Management Board regarding improvements of the risk management system. Risk management within the Group is controlled by an independent unit – the Risk and Compliance Sector.

The main risks to which the Group is exposed are: credit risk, market risk, interest rate risk, liquidity risk, currency risk and operational risk. For each of these risks the Group has approved risk management policies and other internal regulations defining key risk management principles and processes, functions and responsibilities of units, risk concentration limits, as well as control and reporting system. The Bank’s Supervisory Board approves risk management policies and ensures control of efficiency of the risk management system. The Bank's Management Board and Risk Director ensure implementation of the risk management policies and development of internal regulations for the management of each material risk within the Group. In order to assess and monitor material and complex risk exposures, the Bank's Management Board establishes risk committees. Members of risk committees represent various units of the Group in order to ensure the balance between the units responsible for risk monitoring and control and the units with business orientation.

The Group continuously assesses and controls risks – both on an individual basis by type of risk and by performing a comprehensive assessment within the capital adequacy assessment process. Each member of the Group is responsible for risk control and management. Each employee of the Group is responsible for the compliance with the principles set out in the Group’s internal regulations.

Risk management process includes the following elements: risk identification, risk assessment and decision making, risk management and control, risk monitoring and reporting. The Group regularly, at least once a year, identifies and describes the types of material risks inherent in its operations by assessing what types of risks may have a negative impact on achieving its performance targets and projected financial results. In order to identify the types of material risks, quantitative and qualitative criteria are used and the results of the process are documented. For all types of identified material risks the aims of risk management are defined and risk appetite is determined. In addition, the development of internal regulations in relation to risk management of those risks is ensured, including risk identification and assessment methods, adequate risk restriction and control procedures, such as quantitative restrictions and limits, or control measures that reduce unquantifiable risks, risk appetite, procedures for reporting the information on risks, risk levels assumed and trends thereof to the Group’s management bodies, as well as other information necessary for decision making, risk management policy and control procedures, including procedures for control of compliance with the restrictions and limits set, segregation of duties, approval rights and responsibilities.

Risk assessment and decision making include selection, approval and documentation of risk assessment methodology, regular risk assessment, establishment of the risk restriction and controlling system and setting the acceptable level of risks within this system, decision making on assuming the risks. Risk assessment includes the determination of qualitative and quantitative impact of the source of each identified risk using generally accepted methodology which is adequately documented. The Group makes a decision in relation to each identified and assessed risk whether the Group accepts such risk or takes the necessary measures for its mitigation, or ceases activities related to this risk. The Group does not assume risks with the impact exceeding the risk appetite determined for each respective type of risk regardless of the economic benefits that might result from assuming such risk.

Risk management and control include the compliance with the level of risk acceptable for the Group including the compliance with the limits restricting the amount of risk. Monitoring and reporting includes regular assessment of the existing level of risk against the desirable level of risk, trend analysis, regular reporting to the relevant unit heads, the Bank’s Management Board and the Supervisory Board.

The integral part of the risk management is risk stress testing. Stress testing process ensures regular identification and assessment of risks inherent to the Group’s current and future operations, as well as assessment of the impact of different extraordinary and adverse events on the Group’s operations, in order to provide support to responsible employees of the Group in management decision-making process at different levels of management (e.g. strategic planning, determination and correction of the risk appetite, capital planning, liquidity management, etc.).

The Group’s Internal Audit Division regularly monitors the implementation of risk management policies and other internal regulations, as well as provides recommendations regarding improvements of the risk management system.

CAPITAL ADEQUACY CALCULATION

Capital adequacy refers to the sufficiency of the Group's capital resources to cover credit risks and market risks arising from portfolio of assets and off-balance sheet exposures and other operational risks. Capital adequacy ratio is calculated in accordance with Regulation (EU) 575/2013. Minimum capital requirements are calculated for credit risks, counterparty credit risk, dilution risk, position risk, foreign currency open position risk, commodities risk, settlement risk, operational risk and credit valuation adjustment. The regulation defines not only capital adequacy calculation methods, bet also defines eligible capital elements and limitations for inclusion of these in own funds.

The capital adequacy calculation in accordance with FCMC regulations (Basel III framework, Pillar I as implemented by EU and FCMC):

	31/12/2016 Group
Common equity Tier 1 capital	
Paid up capital instruments	156,556
Retained earnings and eligible profits	95,568
Deductible other intangible assets	(3,052)
Other capital components, deductions and transitional adjustments, net	(7,069)
Tier 2 capital	
Eligible part of subordinated liabilities	53,254
Total own funds	**295,257**
Risk weighted exposure amounts for credit risk, counterparty credit risk and dilution risk	
Central governments or central banks	33,518
Regional governments or local authorities	849
Public sector entities	67
Multilateral development banks	2,461
Institutions	92,763
Corporates	742,291
Retail	138,350
Secured by mortgages on immovable property	272,040
Exposures in default	90,797
Items associated with particularly high risk	32,810
Claims on institutions and corporates with a short-term credit assessment	337
Collective investments undertakings	11,041
Equity	12,822
Other items	126,296
Total exposure amounts for position, foreign currency open position and commodities risk	
Traded debt instruments	2,850
Equity	-
Foreign Exchange	7,044
Commodities	
Total exposure amounts for settlement	-
Total exposure amounts for operational risk	223,140
Total exposure amounts for credit valuation adjustment	1,109
Total risk exposure amount	**1,790,585**
Total capital adequacy ratio	**16.5%**
Common equity Tier 1 capital ratio	**13.5%**

Capital instruments' main features template

		Ordinary shares	Subordinated liabilities: Agreement 1	Subordinated liabilities: Agreement 2	Subordinated liabilities: Publicly listed unsecured bonds
	Capital instruments' main features				
1	Issuer	AS Citadele banka	AS Citadele banka	AS Citadele banka	AS Citadele banka
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	-	-	-	-
3	Governing law(s) of the instrument	Latvia	Latvia	English	Latvia
	Regulatory treatment				
4	Transitional CRR rules	Common Equity Tier 1	Tier 2	Tier 2	Tier 2
5	Post-transitional CRR rules	Common Equity Tier 1	Tier 2	Tier 2	Tier 2
6	Eligible at solo/(sub-)consolidated/ solo & (sub-)consolidated	Solo & consolidated	Solo & consolidated	Solo & consolidated	Solo & consolidated
7	Instrument type (types to be specified by each jurisdiction)	Ordinary shares	Subordinated liabilities	Subordinated liabilities	Subordinated liabilities
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	EUR 156.6 million	-	EUR 13.3 million	EUR 40.0 million
9	Nominal amount of instrument	EUR 156.6 million	EUR 35.7 million	EUR 19.0 million	EUR 40.0 million
9a	Issue price	EUR 156.6 million	EUR 35.7 million	EUR 19.0 million	EUR 40.0 million
9b	Redemption price	-	EUR 35.7 million	EUR 19.0 million	EUR 40.0 million
10	Accounting classification	Shareholders' Equity	Liabilities at amortised cost	Liabilities at amortised cost	Liabilities at amortised cost
11	Original date of issuance	Various (1)	22/05/2009	11/09/2009 (2)	06/12/2016
12	Perpetual or dated	Perpetual	Dated	Dated	Dated
13	Original maturity date	No Maturity	20/12/2017 (3)	8/8/2020	06/12/2026
14	Issuer call subject to prior supervisory approval	Yes	Yes	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	-	-	-	-
16	Subsequent call dates, if applicable	-	-	-	-
	Coupons / dividends				
17	Fixed or floating dividend/coupon	Floating	Floating	Floating	Fixed
18	Coupon rate and any related index	-	6.82% (5)	8.30% (5)	6.25%
19	Existence of a dividend stopper	-	-	-	-
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Discretionary	Fixed	Fixed	Fixed
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Discretionary	Fixed	Fixed	Fixed
21	Existence of step up or other incentive to redeem	-	-	-	-
22	Noncumulative or cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative
23	Convertible or non-convertible	Non-Convertible	Convertible	Convertible	Non-Convertible
24	If convertible, conversion trigger(s)	-	-	-	-
25	If convertible, fully or partially	-	Fully or partially	Fully or partially	-
26	If convertible, conversion rate	-	1) In line with law, fair and non-discriminatory 2) Share subscription price	1) In line with law, fair and non-discriminatory 2) Share subscription price	-
27	If convertible, mandatory or optional conversion	-	Subordinated lenders – optional, AS Citadele banka – mandatory	Subordinated lenders – optional, AS Citadele banka – mandatory	-
28	If convertible, specify instrument type convertible into	-	Voting shares	Voting shares	-
29	If convertible, specifiy issuer of inctrument it converts into	-	AS Citadele banka	AS Citadele banka	AS Citadele banka
30	Write-down future	No	No	No	No
31	If write-down, write-down triger(s)	-	-	-	-
32	If write-down, full or partial	-	-	-	-
33	If write-down, permanent or temporary	-	-	-	-
34	If temporary write-down, description of write-up mechanism	-	-	-	-
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinated to subordinated liabilities	Subordinated to other non-subordinated liabilities	Subordinated to other non-subordinated liabilities	Subordinated to other non-subordinated liabilities
36	Non-compliant transitioned features	No	No	No	No
37	If yes, specify non-compliant features	-	-	-	-

(1) As at 1/1/2015 Citadele share capital was EUR 146,556 thousands. On 20 April 2015 the capital was increased by EUR 10 million.
(2) On 20 April 2015 a portion of subordinated liabilities amounting to EUR 18.4 million was repaid to Latvian Privatisation Agency and EUR 11.2 million subordinated liabilities transferred from Latvian Privatisation agency to European Bank for Reconstruction and Development (subordinated liabilities: agreement 2). The maturity of the outstanding subordinated liabilities to European Bank for Reconstruction and Development (subordinated liabilities: agreement 2) was extended to 2020. The Group's and Bank's capitalisation was positively affected by changes in the subordinated liabilities and the increase in the Bank's share capital.
(3) On 4 January 2017, AS Citadele banka made an early repayment of the EUR 34.7 million subordinated loan outstanding and the accrued interest of EUR 0.98 million to the State Joint Stock Company Privatisation agency. This was made possible by previously issued subordinated bonds in the amount of EUR 40 million. According to the Base Prospectus, the aim of the subordinated bond issuance, among others, was early repayment of the outstanding amount of subordinated debt to SJSC Privatisation agency. The remaining proceeds from the issuance is planned to be used to strengthen the overall capital of AS Citadele banka and to facilitate the execution of the Bank's growth strategy across the Baltics.
(5) The coupon rate is updated semi-annually.

The Group's own funds disclosure template in accordance with Commission Implementing Regulation (EU) No 1423/2013 Annex VI

			Regulation (EU) No 575/2013 Article Reference
	Common Equity Tier 1 (CET1) capital: Instruments and reserves		
1	Capital Instruments and the related share premium accounts	156,556	26 (1), 27, 28, 29, EBA list 26 (3)
	of which: ordinary shares	*156,556*	EBA list 26 (3)
2	Retained earnings	95,568	26 (1) (c)
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the appropriate accounting standards)	1,797	26 (1)
3.a	Funds for general banking risk	-	26 (1) (f)
4	Amount of qualifying items referred to in the Article 484 (3) and the related share premium accounts subject to phase out from CET1	-	486 (2)
	Public sector capital injections grandfathered until 1 January 2018	-	483 (2)
5	Minority interest (amount allowed in consolidated CET1)	-	84, 479, 480
5.a	Independently reviewed interim profits net of any foreseeable change or dividend	-	26 (2)
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**253,921**	**Sum of lines 1 to 5.a**
	Common Equity Tier 1 (CEt1) capital: regulatory adjustments		
7	Additional value adjustments (negative amount)	(1,020)	34, 105
8	Intangible assets (net of related tax liability) (negative amount)	(3,052)	36 (1) (b), 37, 472 (4)
9	Empty set in the EU	-	
10	Deferred tax assets that relay on future profitability excluding these arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	(22,821)	36 (1) (c), 38, 472 (5)
11	Fair value reserves related to gains or losses on cash flow hedges	-	33 (1) (a)
12	Negative amounts resulting from the calculation of expected loss amounts	-	36 (1) (d), 40, 159, 472 (6)
13	Any increase in equity that results from securitised assets (negative amount)	-	32 (1)
14	Gain or loss on liabilities valued at fair value resulting from changes in own credit standing		33 (1) (b)
15	Defined-benefit pension fund assets (negative amount)		36 (1) (e), 41, 472 (7)
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	-	36 (1) (f), 42, 472 (8)
17	Direct, indirect and synthetic holdings of CET1 instruments of financial sector entities where those entities have reciprocal holdings with the institution designated to inflate artificially the own funds of the institution (negative amount)	-	36 (1) (g), 44, 472 (9)
18	Direct, indirect and synthetic holdings of CET1 instruments of financial sector entities where the institution does not have a significant investment in these entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	36 (1) (h), 43, 45, 46, 49 (2) and (3), 79, 472 (10)
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in these entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	36 (1) (i), 43, 45, 47, 48 (1) (b), 49 (1) to (3), 79, 470, 472 (11)
20	Empty set in EU	-	
20.a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	-	36 (1) (k)
20.b	*of which: qualifying holdings outside the financial sector (negative amount)*	-	*36 (1) (k) (i), 89 to 91*
20.c	*of which: securitisation positions (negative amount)*	-	*36 (1) (k) (ii), 243 (1) (b), 244 (1) (b), 258*
20.d	*of which: free deliveries (negative amount)*	-	*36 (1) (k) (iii), 379 (3)*
21	Deferred tax asset arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	-	36 (1) (c), 38, 48 (1) (a), 470, 472 (5)
22	Amount exceeding the 15% threshold (negative amount)	-	48 (1)
23	*of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in these entities*	-	*36 (1) (i), 48 (1) (b), 470, 472 (11)*
24	*Empty set in the EU*	-	
25	*of which: deferred tax assets arising from temporary differences*	-	*36. panta 1. punkta c) apakšpunkts, 38. pants, 48. panta 1. punkta a) apakšpunkts*
25.a	Losses for the current financial year (negative amount)	-	36 (1) (a), 472 (3)
25.b	Foreseeable tax charges relating to CET1 items (negative amount)	-	36 (1) (l)
26	Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment	-	
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to Article 467 and 468	(3,281)	467, 468
26b	Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre CRR	-	481
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	-	36 (1) (j)
	Regulatory corrections related to deferred tax assets in accordance with Article 472	18,257	472
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**(11,917)**	**Sum of lines 7 to 20.a, 21, 22, and 25.a to 27**
29	**Common Equity Tier 1 (CET1) capital**	**242,004**	**Lines 6 less 28**
	Additional Tier 1 (At1) capital: instruments		
30	Capital instruments and the related share premium accounts	-	51, 52
31	*of which: classified as equity under applicable accounting standards*	-	

32	*of which: classified as liabilities under applicable accounting standards*	-	
33	Amounts of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1	-	486 (3)
	Public sector capital injections grandfathered until 1 January 2018	-	483 (3)
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	-	85, 86, 480
35	*of which: instruments issued by subsidiaries to phase out*	-	*486 (3)*
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	**-**	**Tabulas 30., 33. un 34. rindas summa**
	Additional Tier 1 (AT1) capital: regulatory adjustments		
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	-	52 (1) (b), 56 (a), 57, 475 (2)
38	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	56 (b), 58, 475 (3)
39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	56 (c), 59, 60, 79, 475 (4)
40	Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	-	56 (d), 59, 79, 475 (4)
41	Regulatory adjustments applied to additional tier 1 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amount)	-	
41a	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	-	472, 472 (3) (a), 472 (4), 472 (6), 472 (8) (a), 472 (9), 472 (10) (a), 472 (11) (a)
	Of which: items to be detailed line by line, e.g. material net interim losses, intangibles, shortfall of provisions to expected losses etc.	-	
41b	Residual amounts deducted from Additional Tier 1 capital with regards to deductions from Tier 2 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013	-	477, 477 (3), 477 (4) (a)
	Of which: items to be detailed line by line, e.g. reciprocal cross holdings in Tier 2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc.	-	
41c	Amount to be deducted from or added to Additional Tier 1 capital with regard to additional filters and deductions required pre-CRR	-	467, 468, 481
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	-	56 (e)
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	**-**	**Sum of lines 37 to 42**
44	**Additional Tier 1 (AT1) capital**	**-**	**Line 36 less line 43**
45	**Tier 1 capital (T1 = CET1 + AT1)**	**242,004**	**Sum of lines 29 and 44**
	Tier 2 (T2) capital: instruments and provisions		
46	Capital instruments and the related share premium accounts	53,254	62, 63
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2	-	486 (4)
	Public sector capital injections grandfathered until 1 January 2018	-	483 (4)
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiary and held by third parties	-	87, 88, 480
49	*of which: instruments issued by subsidiaries subject to phase out*	-	*486 (4)*
50	Credit risk adjustments	-	62 (c) and (d)
51	**Tier 2 (T2) capital before regulatory adjustments**	**53,254**	
	Tier 2 (T2) capital: regulatory adjustments		
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	-	63 (b) (i), 66 (a), 67, 477 (2)
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those have reciprocal cross holdings with the institution designated to inflate the own funds of the institution (negative amount)	-	66 (b), 68, 477 (3)
54	Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	66 (c), 69, 70, 79, 477 (4)
54a	*of which: new holdings not subject to transitional arrangements*	-	
54b	*of which: holdings existing before 1 January 2013 and subject to transitional arrangements*	-	
55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	-	66 (d), 69, 79, 477 (4)
56	Regulatory adjustments applied to tier 2 in respect of amount subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EUR) No 575/2013 (i.e. CRR residual amounts)	-	
56a	Residual amounts deducted from Tier 2 capital with regard to deductions from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	-	472, 472 (3) (a), 472 (4), 472 (6), 472 (8) (a), 472 (9), 472 (10) (a), 472 (11) (a)
	of which: items to be detailed line by line, e.g. material net interim losses, intangibles, shortfall of provisions to expected losses etc.	-	

56b	Residua amounts deducted from Tier 2 capital with regard to deductions from Additional Tier 1 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013	-	475, 475 (2) (a), 475 (3), 475 (4) (a)
	of which: items to be detailed line by line, e.g. reciprocal cross holdings in AT1 instruments, direct holdings of non significant investments in capital of other financial sector entities, etc..	-	
56c	Amount to be deducted from or added to Tier 2 capital with regards ro additional filters and deductions required pre CRR	-	467, 468, 481
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**-**	**Sum of lines 52 to 56**
58	**Tier 2 (T2) capital**	**53,254**	**Line 51 less line 57**
59	**Total capital (TC = T1 + T2)**	**295,257**	**Sum of line 45 and line 58**
59a	Risk weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)		
	of which: items not deducted from CET1 (Regulation (EU) No 575/2013 residual amount) (items to be deducted line by line, e.g. deferred tax assets that rely on future profitability net of related tax liabilities, indirect holdings of own CET1, etc.)		472, 472 (5), 472 (8) (b), 472 (10) (b), 472 (11) (b)
	of which: items not deducted from AT1 items (Regulation (EU) No 575/2013 residual amount) (items to be detailed line by line, e.g. reciprocal cross holdings in T2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc.)		475, 475 (2) (b), 475 (2) (c), 475 (4) (b)
	Items not deducted from T2 items (Regulation (EU) No 575/2013 residual amount) (items to be detailed line by line, e.g. indirect holdings of own T2 instruments, indirect holdings of other financial sector entities, indirect holdings of significant investments in the capital of other financial sector entities etc.)		477, 477 (2) (b), 477 (2) (c), 477 (4) (b)
60	**Total risk weighted assets**	**1,790,585**	
	Capital ratios and buffers		
61	Common Equity Tier 1 (as a percentage of risk exposure amount)	13.5%	92 (2) (a), 465
62	Tier 1 (as a percentage of risk exposure amount)	13.5%	92 (2) (b), 465
63	Total capital (as a percentage of risk exposure amount)	16.5%	92 (2) (c)
64	Instruction specific buffer requirements (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer (G-SII or O-SII buffer), expressed as a percentage of risk exposure amount	2.5%	CRD 128, 129, 130
65	*of which: capital conservation buffer requirement*	*2.5%*	
66	*of which: countercyclical buffer requirement*	*0.0%*	
67	*of which: systemic risk buffer requirement*	-	
67.a	*of which: Global Systematically Important Institution (G-SII) or Other Systematically Important Institution (O-SII) buffer*	-	*CRD 131*
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	9.0%	CRD 128
69	[non relevant in EU regulation]	-	
70	[non relevant in EU regulation]	-	
71	[non relevant in EU regulation]	-	
	Capital ratios and buffers		
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	-	36 (1) (h), 45, 46, 472 (10), 56 (c), 59, 60, 475 (4), 66 (c), 69, 70, 477 (4)
73	Direct and indirect holdings by the institution of the CET 1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	4,269	36 (1) (i), 45, 48, 470, 472 (11)
74	Empty set in the EU	-	
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	3,480	36 (1) (c), 38, 48, 470, 472 (5)
	Applicable caps on the inclusion of provisions in Tier 2		
76	Credit risk adjustments included in T2 in respect of exposures subject to standardized approach (prior to the application of the cap)	-	62
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach)	-	62
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	-	62
79	Cap for inclusion of credit risk adjustment in T2 under internal ratings-based approach	-	62
	Capital instruments subject to phase-out arrangements (only applicable between 1 January 2013 and 1 January 2022)		
80	Current cap on CAT1 instruments subject to phase out arrangements	-	484 (3), 486 (2) and (5)
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-	484 (3), 486 (2) and (5)
82	Current cap on AT1 instruments subject to phase out arrangements	-	484 (3), 486 (2) and (5)
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-	484 (3), 486 (2) and (5)
84	Current cap on T2 instruments subject to phase out arrangements	-	484 (3), 486 (2) and (5)
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-	484 (3), 486 (2) and (5)

CREDIT RISK

Credit risk is the risk that the Group will incur a loss from debtor's non-performance or default. The Group is exposed to credit risk in its lending, investing and transaction activities, as well as in respect of the guarantees issued to or received from third parties and other off-balance sheet commitments to third parties. Credit risk management is performed pursuant to the Credit Risk Management Policy. The goal of credit risk management is to achieve a diversified asset portfolio which generates profits that correspond to the assumed level of risk.

The Group executes risk transactions which according to the Group's assessment have probability of default acceptable to the Group and which meet the risk appetite determined by the Group. The assessment of a client's creditworthiness is based on the client's ability to repay the loan, while the Group accepts the collateral in order to minimise losses in case of default. The Group assumes only a measurable and manageable credit risk. The increased interest rate cannot compensate a high credit risk unacceptable for the Group. The aim of the Group's employee remuneration policy is to prevent the remuneration of such activities which facilitate the assuming of unacceptably high credit risk to the Group.

The Group performs regular assessment of the sources of credit risk which may have a negative impact on the Group's performance targets including projected financial results. Based on the identified sources of credit risk the Group performs regular assessment of the compliance of the credit risk management system with the Group's credit risk management objectives and the necessity to improve the credit risk management policy and other internal regulations of credit risk management.

Credit risk management is based on an adequate assessment of a credit risk and a proper decision-making in relation to such risk. In cases when significant risk is to be undertaken, the credit risk analysis is performed by an independent units of the Risk and Compliance Sector. The credit risk analysis consists of an assessment of customer's creditworthiness and collateral quality and liquidity. The analysis of a legal entity's creditworthiness includes an assessment of the industry in which it operates, as well as an analysis of its credit history and current and forecasted financial situation. The assessment of a private individual's creditworthiness consists of the analysis of its credit history, income and debt-to-income ratio analysis, as well as an analysis of applicable social and demographic factors. In cases of material risks, lending decisions are taken by the Credit Committee and approved by the Bank's Management Board.

In relation to the acquisition of corporate bonds, the Group always analyses the business profile and financial performance of the issuer, taking into consideration the credit ratings assigned to it by international rating agencies, as well as market-based indicators. Sovereign bonds are assessed similarly, but with an emphasis on different fundamental factors, including the country's economic strength, institutional strength, financial strength of the government, political risks and other relevant factors.

When concluding credit risk transactions the Group requires collateral and/or guarantee to secure fulfilment of the obligations in accordance with the Group's internal regulations regarding the necessity of requesting collateral and/or guarantee in order to conclude specific credit risk transaction. Upon assessment of the collateral the Group takes into consideration the value of collateral offered, its re-sale options and the possible future changes in its value. The most common types of collateral to secure fulfilment of the obligations arising from credit risk transactions are real estate, movable property, and financial pledge. The real estate and specific types of movable property defined in the Group's internal regulations, which are offered to the Group as collateral to secure fulfilment of the obligations under the credit risk transaction, shall be appraised and insured pursuant to the procedures prescribed in the Group's internal regulations. Financial pledge shall be valued pursuant to the procedures prescribed by the Group's internal regulations. The Group performs revaluation of the value of collateral on a regular basis.

After a loan is issued or a fixed income security is acquired, the customer's financial position and the issuers' risk indicators, such as credit rating changes, are monitored on a regular basis in order to timely identify potential credit quality deterioration. The loan monitoring process covers monitoring of financial results, financial position and cash flows of the borrower, loan repayment discipline and assessment of collateral quality. In order to estimate the potential losses under different economic conditions at least annually the Group performs stress testing and scenario analysis in respect of selected clients, loan portfolio or its parts, specific types of collateral or credit risk transactions. During stress testing and scenario analysis the Group also assesses the impact of the possible critical situations on the Group's credit risk and its ability to overcome the critical situations identified, as well as analyses the possible action plan.

The Group reviews its loan portfolio and securities portfolio on a regular basis to assess its structure, quality and concentration levels, as well as to evaluate portfolio trends and to control credit risk level. The Group takes measures for limiting credit risk concentration by diversifying the portfolio and setting credit risk concentration limits. To limit its credit risk, the Group has set the following concentration limits: individual counterparty and issuer limits, maximum exposure limit linked to a particular risk class of counterparty/issuer, limit for internally risk weighted exposures in a particular country/sector combination, limit for groups of mutually related customers, limit for large risk exposures, limit for transactions with the Group's related parties, industry limit, limit by customer type, loan product type, collateral type, intra-group transactions. The Group monitors industry credit risk concentration by regular analysis of industry financial indicators and industry development trends in domestic, regional and global markets. The Group regularly assesses the necessity to review current credit risk limits or establish new credit risk limits taking into consideration the laws and regulations of the Republic of Latvia and other applicable laws and regulations, changes in the Group's operations and external circumstances having impact on its operations, the compliance of credit risk limits with the overall market and economic situation. Credit risk limits are approved by the Bank's Management Board. Control of compliance with credit risk concentration limits, credit risk identification, monitoring and reporting is the responsibility of the Risk and Compliance Sector.

In addition to the credit risk, which is inherent in the Group's loan portfolio and fixed-income securities portfolio, the Group is also exposed to credit risk as a result of its banking relationships with multiple credit institutions which it maintains in order to process customer transactions in a prompt and efficient manner. The Group manages its exposure to commercial banks and brokerage companies by monitoring on a regular basis the credit ratings of such institutions, conducting due diligence of their credit profiles and monitoring the individual exposure limits applicable to counterparties set by the Financial Market and Counterparty Risk Committee (further – FMCRC). The Group's exposures to derivative counterparties arise from its activities in managing liquidity and credit risks through short term derivatives that do not expose it to material counterparty risk. None of the Group's derivative exposures is overdue.

In order to calculate credit risk capital requirement the Group applies standardised approach. For the minimum credit risk capital requirement calculation the Group uses ratings assigned by the following external credit rating institutions: Moody's Investors Service Ltd, Fitch Ratings and Standard & Poor's Rating Services. Ratings assigned by the external credit rating institutions are used in the risk weighted value calculation for the following risk transaction categories: credit institutions and securities.

Exposure value

Exposure value of an asset item is its accounting value remaining after specific credit risk adjustments, additional value adjustments and other own funds reductions related to the asset item have been applied. The exposure value of an off-balance sheet item is a specified percentage of its nominal value after reduction of specific credit risk adjustments.

Exposure amounts for credit risk

	Central governments or central banks	Institutions	Corporates	Retail	Secured by mortgages on immovable property	Other positions
Exposure value	1,200,505	374,622	917,690	205,599	310,562	386,320
Exposure net of value adjustments and provisions	1,173,689	374,091	995,534	300,571	314,792	396,734
Average exposure value in 2016*	934,085	435,990	921,052	186,770	303,564	372,239

* calculated as arithmetic average of exposure values after credit risk mitigation as at the beginning of the year and as at the end of each quarter of the respective year.

Exposure value for credit risk, split by geographic regions

	Central governments or central banks	Institutions	Corporates	Retail	Secured by mortgages on immovable property	Other positions
Latvia	849,485	1,519	414,625	76,907	183,012	260,328
Lithuania	116,106	1,294	94,807	128,591	77,438	23,999
Estonia	25,432	15	84,530	14	43,039	18,204
United States	10,592	69,295	65,823	-	42	5,732
United Kingdom	8,989	6,847	29,717	1	351	-
Netherlands	4,992	43,185	48,492	-	-	-
Switzerland	107,588	43,159	15,863	14	13	5,694
Germany	7,181	29,727	20,647	1	361	2,254
All other countries	70,140	179,581	143,186	71	6,306	70,109

Delinquency structure of exposure value for credit risk, split by geographic regions

Gross exposure value:

			Past due, not impaired			Past due, impaired	
	Not past due, not impaired	Not past due, impaired	Less than 29 days	30-89 days	90 and more days	Less than 89 days	90 and more days
Latvia	1,881,219	45,215	12,344	4,344	4,573	7,954	29,854
Lithuania	433,454	6,805	21,519	4,700	4,210	1,885	4,978
Estonia	168,461	363	7,185	3,105	618	481	3,040
United States	151,488	1	-	-	-	-	2
United Kingdom	46,483	-	-	-	-	-	1
Netherlands	96,879	-	-	-	-	-	-
Switzerland	173,078	-	-	14	-	-	-
Germany	60,599	-	-	-	-	-	-
All other countries	452,243	24,536	193	3	717	-	408

Risk exposure impairment allowance, split by country of residence

	Impairment allowance
Latvia	(74,976)
Lithuania	(8,742)
Estonia	(6,554)
United States	(5)
United Kingdom	(8)
Netherlands	(209)
Switzerland	(1)
Germany	(17)
All other countries	(6,910)

Exposure value for credit risk, split by remaining contractual maturity

	Central governments or central banks	Institutions	Corporates	Retail	Secured by mortgages on immovable property	Other positions
Less than 29 days and delayed	765,946	141,440	102,942	4,951	2,850	72,128
30-89 days	122,220	14,511	46,099	11,250	5,562	16,466
90-179 days	20,314	15,644	49,431	18,318	10,586	14,609
180-359 days	17,061	47,665	137,450	33,929	22,943	52,758
360-1799 days	258,830	151,506	473,752	122,758	78,666	97,490
More than 1800 days and undated	16,134	3,856	108,016	14,393	189,955	132,869

Exposure value for credit risk, split by industries

	Central governments or central banks	Institutions	Corporates	Retail	Secured by mortgages on immovable property	Other positions
Agriculture, forestry and fishing	-	-	81,664	8,610	-	5,062
Manufacturing	-	-	153,605	10,543	835	5,940
Electricity, gas, steam and air conditioning supply	-	-	32,424	746	-	337
Construction	-	-	23,333	4,733	297	10,413
Wholesale and retail trade; repair of motor vehicles and motorcycles	-	-	84,945	21,958	2,494	9,443
Transporting and storage	-	-	76,749	25,433	159	6,356
Accommodation and food service activities	-	-	23,838	2,919	29	493
Financial and insurance activities	623,981	297,213	105,700	194		46,957
Real estate activities	-	-	123,897	11,634	2,442	33,453
Professional, scientific and technical activities	-	-	8,229	4,223	128	2,674
Public administration and defence; compulsory social security	576,524	-	497	-	-	2,945
Private individuals	-	-	-	103,434	303,439	87,087
All other positions	-	77,408	202,797	11,168	738	175,160

Including exposure value for credit risk with SME, split by industries:

	Corporates	Retail	Secured by mortgages on immovable property
Agriculture, forestry and fishing	74,711	3,367	-
Manufacturing	48,535	9,360	352
Electricity, gas, steam and air conditioning supply	25,392	460	-
Construction	18,597	4,379	297
Wholesale and retail trade; repair of motor vehicles and motorcycles	45,694	19,936	2,486
Transporting and storage	27,510	25,129	159
Accommodation and food service activities	11,456	2,620	-
Financial and insurance activities	5,293	173	-
Real estate activities	104,945	10,846	-
Professional, scientific and technical activities	3,450	3,625	128
Public administration and defence; compulsory social security	216	-	-
All other positions	23,445	8,516	721

Delinquency structure of gross exposure value for credit risk, split by industries

	Not past due, not impaired	Not past due, impaired	Past due, not impaired			Past due, impaired	
			Less than 29 days	30-89 days	90 and more days	Less than 89 days	90 and more days
Agriculture, forestry and fishing	93,347	3,803	4,011	831	732	5,439	351
Manufacturing	184,248	4,812	1,871	359	466	60	8,839
Electricity, gas, steam and air conditioning supply	34,040	8	50	-	-	-	749
Construction	50,938	1,606	1,300	506	2,724	1,724	1,460
Wholesale and retail trade; repair of motor vehicles and motorcycles	125,286	11,543	6,001	672	750	345	2,161
Transporting and storage	115,878	6,940	3,181	690	74	136	778
Accommodation and food service activities	28,622	6	41	43	48	1	624
Financial and insurance activities	1,051,165	4,086	-	-	2	-	15
Real estate activities	168,405	22,919	3,251	449	120	23	1,051
Professional, scientific and technical activities	16,396	16	282	368	4	-	550
Public administration and defence; compulsory social security	461,162	3	86	-	-	-	-
Private individuals	538,959	20,394	19,935	7,768	5,079	2,543	20,364
All other positions	595,468	787	1,234	480	120	50	1,329

Exposure value for credit risk, split by applied risk weights

	Central governments or central banks	Institutions	Corporates	Other positions *
Applied 0% risk weight	1,036,545	529	28,390	44,350
Applied 20% risk weight	161,540	321,147	82,524	13,044
Applied 50% risk weight	2,420	48,830	116,046	1,143
Applied 100% risk weight	-	4,112	682,743	11,575
Applied 150% risk weight	-	4	7,988	-

* Other positions include exposures to „regional governments or local authorities", „public sector entities", „multilateral development banks", „claims on institutions and corporates with a short-term credit assessment", „collective investments undertakings".

Exposure value for credit risk net of value adjustments and provisions

	Central governments or central banks	Institutions	Corporates	Other positions *
Applied 0% risk weight	1,009,848	-	-	44,349
Applied 20% risk weight	161,421	321,147	82,524	12,733
Applied 50% risk weight	2,420	48,828	116,046	1,160
Applied 100% risk weight	-	4,112	788,937	11,575
Applied 150% risk weight	-	4	8,027	-

* Other positions include exposures to „regional governments or local authorities", „public sector entities", „multilateral development banks", „claims on institutions and corporates with a short-term credit assessment", „collective investments undertakings".

Impairment loss allowance calculation policy

The Management of the Group assess at each balance sheet date whether there is an objective evidence of a loan or a group of loans from customers being impaired. A loan or a group of loans and receivables from customers is impaired and impairment losses are incurred if, and only if, there is an objective evidence of an impairment as a result of one or more loss events that have occurred after the initial recognition of the loan and that loss event (or events) has had an impact such that the estimated present value of future cash flows is less than the current carrying value of the loan or a group of loans and receivables from customers, and such decrease can be reliably estimated.

Objective evidence that a loan or a group of loans and receivables from customers is potentially impaired includes the following observable data that may come to the attention of the Group:

- significant financial difficulties of the borrower;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the granting to the borrower of a concession, for economic or legal reasons relating to the borrower's financial difficulties, that the Group would not consider otherwise;
- it becomes probable that insolvency process may be initiated against the borrower, or the borrower will enter other financial reorganisation;
- the worsening of economic conditions in the market segment, where the borrower operates; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans and receivables from customers since the initial recognition of those loans and receivables, although the decrease cannot yet be identified with the individual loans in the portfolio, including:
  - adverse changes in the payment status of borrowers in the portfolio; or
  - national or local economic conditions that correlate with defaults on the loans and receivables in the portfolio.

The Group first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed loan, whether significant or not, it includes that loan in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Collectively assessed impairment losses represent an interim step pending the identification of impairment losses on individual loans in a group of loans and receivables. As soon as information is available that specifically identifies losses on individually impaired loans in a group, those loans are removed from the group. Financial assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

For loans and receivables, the amount of impairment loss is measured as the difference between the loan's carrying amount and the present value of estimated future cash flows discounted at the loan's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The calculation of the present value of the estimated future cash flows of a collateralised loan reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. The amount of the loss is recognised in the statement of income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was initially recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of the impairment loss is recognised in the statement of income, to the extent that the carrying value of the loan does not exceed what its amortised cost would have been if there was no impairment recognised at the reversal date.

When a borrower fails to make a contractually due payment of interest or principal, but the Group believes that impairment is not appropriate on the basis of the level of security/ collateral available and/ or the stage of collection of amounts owed to the Group, the carrying amount of the loan is classified as past due but not impaired.

Fully impaired loans and receivables, recovery of which may become economically unviable, may be written-off and charged against impairment allowance. They are not written-off until the necessary legal procedures have been completed and the amount of the loss is finally determined. When a loan or receivable is written-off, the claim against the borrower normally is not forgiven. Subsequent recoveries of amounts previously written-off are reported in the statement of income as other operating income.

In addition, the Group estimates collective impairment losses to cover losses inherent in the loan portfolio where there is objective evidence to suggest that it contains impaired loans, although the individual impaired loans cannot yet be identified. The collective impairment losses take account of observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans and receivables with similar credit risk characteristics, although the decrease cannot yet be identified within individual loans in the portfolio.

Future cash flows in a portfolio of loans and receivables that are collectively evaluated for impairment are estimated on the basis of historical loss experience for loans and receivables with credit risk characteristics similar to those in the portfolio. Historical loss experience is adjusted for current observable market data using the Group's experienced judgement to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

For economic or legal reasons the Group might enter into a forbearance agreement with borrowers in financial difficulties in order to ease the contractual obligation for a limited period of time. By taking into account exposure specifics, a case by case approach is practised. Generally debt forbearance will take a form of payment deferral to a later time with the amount payable and interest due re-compensated at a later date. Renegotiated loans are considered non-overdue as long as contractual payments are made on contractually due dates. Impairment assessment for renegotiated and forborne exposures also applies and such exposures are impaired depending on their recoverability assessment.

The estimation of potential impairment losses is inherently uncertain and dependent upon many factors. On an on-going basis potential issues are identified promptly as a result of individual loans being regularly monitored. Impairment losses are calculated on an individual basis with reference to expected future cash flows including those arising from the realisation of collateral. The Group uses its experienced judgement to estimate the amount of any impairment loss considering matters such as future economic conditions and the resulting trading performance of the borrower and the value of collateral, for which there may not be a readily accessible market. As a result, the impairment losses can be subject to significant variation as time progresses and the circumstances become clearer. The methodology and assumptions used for estimating both the amount and the timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. The credit quality of the loan portfolio for which the collective impairment losses are estimated is subject to uncertainties that could cause actual credit losses to differ materially from reported impairment losses. These uncertainties include factors such as international and local economic conditions, borrower specific factors, industry and market trends, interest rates, unemployment rates and other external factors. The Group uses stress testing of impairment losses to identify and quantify the impact of different adverse events on the Group's impairment losses recognised in the statement of income.

Evidence of impairment of available for sale and held to maturity securities is assessed by reference to the most up to date market valuations, market depth of the respective security, past trading performance and all other available information. The determination of whether or not objective evidence of impairment is present requires the exercise of management judgement. If the Group does not have market valuations, the evidence of impairment is assessed based on credit risk triggers (event of insolvency, any delay of payments, restructuring of debt) and individual credit risk analysis of the issuer.

Disclosure of information in relation to the compliance of institutions with the requirement for a countercyclical capital buffer

Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer.

		General credit exposures		Trading book exposures		Securitisation exposures		Own funds requirements					
Row	**Country**	**Exposure value for SA**	**Exposure value for IRB**	**Sum of long and short positions of trading book exposures for SA**	**Value of trading book exposures for internal models**	**Exposure value for SA**	**Exposure value for IRB**	**of which: General credit exposures**	**of which: Trading book exposures**	**of which: Securitisation exposures**	**Total**	**Own funds requirements weights**	**Counter-cyclical capital buffer rate**
		10	20	30	40	50	60	70	80	90	100	110	120
10	LV	1,868,515	-	-	-	-	-	69,951	-	-	69,951	0.56	0.00%
	LT	442,235	-	-	-	-	-	18,471	-	-	18,471	0.15	0.00%
	EE	171,233	-	-	-	-	-	11,573	-	-	11,573	0.09	0.00%
	US	151,484	-	-	-	-	-	4,043	-	-	4,043	0.03	0.00%
	GB	45,906	-	-	-	-	-	2,310	-	-	2,310	0.02	0.00%
	NL	96,670	-	-	-	-	-	3,069	-	-	3,069	0.02	0.00%
	CH	172,330	-	-	-	-	-	2,081	-	-	2,081	0.02	0.00%
	DE	60,171	-	-	-	-	-	1,510	-	-	1,510	0.01	0.00%
	RU	13,595	-	-	-	-	-	1,386	-	-	1,386	0.01	0.00%
	BE	18,569	-	-	-	-	-	865	-	-	865	0.01	0.00%
	AZ	11,079	-	-	-	-	-	879	-	-	879	0.01	0.00%
	IT	7,356	-	-	-	-	-	272	-	-	272	0.00	0.00%
	AU	32,554	-	-	-	-	-	653	-	-	653	0.01	0.00%
	AT	16,308	-	-	-	-	-	711	-	-	711	0.01	0.00%
	IL	3,566	-	-	-	-	-	283	-	-	283	0.00	0.00%
	SE	39,515	-	-	-	-	-	766	-	-	766	0.01	1.50%
	KN	7,385	-	-	-	-	-	591	-	-	591	0.00	0.00%
	LU	17,477	-	-	-	-	-	522	-	-	522	0.00	0.00%
	NO	24,792	-	-	-	-	-	741	-	-	741	0.01	1.50%
	FR	27,913	-	-	-	-	-	715	-	-	715	0.01	0.00%
	CA	48,998	-	-	-	-	-	889	-	-	889	0.01	0.00%
	SG	25,050	-	-	-	-	-	543	-	-	543	0.00	0.00%
	IN	9,016	-	-	-	-	-	463	-	-	463	0.00	0.00%
	FI	42,142	-	-	-	-	-	253	-	-	253	0.00	0.00%
	CL	12,303	-	-	-	-	-	423	-	-	423	0.00	0.00%
	JP	16,834	-	-	-	-	-	260	-	-	260	0.00	0.00%
	MX	5,578	-	-	-	-	-	291	-	-	291	0.00	0.00%
	HK	6,724	-	-	-	-	-	260	-	-	260	0.00	0.00%
	Other*	-	-	-	-	-	-	-	-	-	-	-	0.00%
20	**Total**	**3,395,298**	**-**	**-**	**-**	**-**	**-**	**124,774**	**-**	**-**	**124,774**		**0.02%**

* Foreign exposures with other countries, whose aggregate does not exceed 2 % of the aggregate exposures of the Group, in accordance with Commission Delegated Regulation (EU) No 1152/2014 are allocated to the Group’s home Member State.

Amount of institution-specific countercyclical capital buffer

		10
10	Total risk exposure amount	1,790,585
20	Institution specific countercyclical capital buffer rate	0.02%
30	Institution specific countercyclical capital buffer requirement	325

Counterparty credit risk

Counterparty credit risk is the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows. Group's counterparty credit risk arises from currency SPOT and currency SWAP transactions. The Group applies mark-to-market method to calculate counterparty credit risk.

As at 31 December 2016 risk exposure risk weighted amounts of the Group's counterparty credit risk was EUR 5,099 thousand.

Credit valuation adjustment (CVA)

Credit Valuation Adjustment is an adjustment to the mid-market valuation of the portfolio of transactions with a counterparty. That adjustment reflects the current market value of the credit risk of the counterparty to the institution in relation to transactions with derivatives. As at 31 December 2016 total exposure amounts for credit valuation adjustment was EUR 1,109 thousand.

ENCUMBERED AND UNENCUMBERED ASSETS

In accordance the regulation issued by FCMC based on requirements of the regulation EU 575/2013 information on encumbered and unencumbered assets should be disclosed.

A form. Assets:

		Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
		10	40	60	90
010	Total assets	22,914	22,914	3,291,845	3,293,737
030	of which: equity instruments	-	-	13,004	13,004
040	of which: debt securities	1,912	1,912	998,610	998,610
120	of which: other assets	21,002	21,002	2,280,231	2,282,123

B form. Collateral received:

		Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
		10	40
130	Collateral received by the Bank	-	-
150	of which: equity instruments	-	-
160	of which: debt securities	-	-
230	of which: other collateral	-	-
240	Own debt securities issued other than own covered bonds or ABSs	-	-

C form. Encumbered assets and collateral received, which serves as a collateral for financial liabilities:

		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
		10	30
10	Carrying amount of selected financial liabilities	22,914	22,914

LEVERAGE RATIO

Reconciliation of accounting assets and leverage ratio exposures

		Applicable Amounts
1	Total assets as per published financial statements *	3,593,744
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	(34,808)
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure according to Article 429(11) of Regulation (EU) NO. 575/2013 4 Adjustments for derivative financial instruments 5 Adjustments for securities financing transactions	-
4	Adjustments for derivative financial instruments	4,319
5	Adjustments for securities financing transaction	-
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	(152,668)
7	Other adjustments	(8,366)
8	Leverage ratio exposure **	3,402,221

* Including total balance sheet assets and such off balance sheet items as contingent liabilities and financial commitments.
** The calculation of leverage ratio includes exposures with financial sector entities in accordance with Article 429 (4) (2) of Regulation (EC) No 575/2013 which relate to the Group's investment in AAS CBL Life.

Leverage ratio common disclosure

		CRR leverage ratio exposures
	On-balance sheet exposures (excluding derivatives and SFTs)	
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	3,301,757
2	Asset amounts deducted in determining Tier 1 capital	-
3	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)**	**3,301,757**
	Derivative exposures	
4	Replacement cost associated with derivatives transactions	8,902
5	Add-on amounts for PFE associated with derivatives transactions	-
EU-5a	Exposure determined under Original Exposure Method	-
6	Empty set in the EU	-
7	Empty set in the EU	-
8	Empty set in the EU	-
9	Empty set in the EU	-
10	Empty set in the EU	-
11	**Total derivative exposures (sum of lines 4 to 5a)**	**8,902**
	Securities financing transaction exposures	
12	Empty set in the EU	-
EU-12a	SFT exposure according to Article 220 of Regulation (EU) NO. 575/2013	-
EU-12b	SFT exposure according to Article 222 of Regulation (EU) NO. 575/2013	-
13	Empty set in the EU	-
14	Empty set in the EU	-
15	Empty set in the EU	-
16	**Total securities financing transaction exposures**	**-**
	Off-balance sheet exposures	
17	Off-balance sheet exposures at gross notional amount	244,229
18	Adjustments for conversion to credit equivalent amounts	(152,667)
19	**Total off-balance sheet exposures (sum of lines 17 to 18)**	**91,562**
	Capital and Total Exposures	
20	Tier 1 capital	242,004
EU-21a	Exposures of financial sector entities according to Article 429(4) 2nd subparagraph of Regulation (EU) NO. 575/2013	
21	Total Exposures (sum of lines 3, 11, 16, 19 and 21a)	3,402,221
	Leverage Ratios	
22	End of quarter leverage ratio	7.14%
EU-22a	Leverage ratio (avg of the monthly leverage ratios over the quarter)	-
	Choice on transitional arrangements and amount of derecognised fiduciary items	
EU-23	Choice on transitional arrangements for the definition of the capital measure	(11,917)
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) NO. 575/2013	-

Split-up of on balance sheet exposures (excluding derivatives and SFTs)

		CRR leverage ratio exposures
EU-1	Total on-balance sheet exposures (excluding derivatives and SFTs), of which:	3,301,757
EU-2	Trading book exposures	-
EU-3	Banking book exposures, of which:	3,301,757
EU-4	Covered bonds	-
EU-5	Exposures treated as sovereigns	1,197,068
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	58,502
EU-7	Institutions	368,641
EU-8	Secured by mortgages of immovable properties	310,023
EU-9	Retail exposures	195,709
EU-10	Corporate	849,952
EU-11	Exposures in default	87,132
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	234,730

Free format disclosure on qualitative items

1	Description of the processes used to manage the risk of excessive leverage The Group regularly calculates leverage ratio and monitors changes in it, to manage risk of excessive leverage. The Group's leverage ratio as at 31 December 2016 was 7.14%.
2	Description of the factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers The major factors affecting the Group's leverage ratio in 2016 was increase in Tier 1 capital level due to inclusion in own funds of the audited annual net result as well as changes in the Group's total assets which was related to scale of the Group's operations.

EXPOSURES IN EQUITIES NOT INCLUDED IN THE TRADING BOOK

Carrying value and estimated fair value of the Group's investments in equity exposures, which are not included in the trading book, as at 31 December 2016 was EUR 1,964 thousand. These Group's investments in equity exposures are valued using techniques for which significant inputs are not based on observable market data. In the annual report these equity exposures are shown as level 3 estimated fair value. Additional information on the Group's investments in equities is available at AS Citadele banka annual report for 2016.

The consolidation group for regulatory purposes does not include AAS CBL Life. The Group's investment of EUR 4,269 thousand in the capital of this subsidiary is accounted at cost and is not revalued.

FINANCIAL RISKS

Market risk

Market risk is the risk that the Group will incur a loss as a result of the mark-to-market revaluation of balance sheet and off-balance sheet items caused by changes in market values of financial instruments due to changes in foreign exchange rates, interest rates and other factors.

Position risk of financial instruments is assessed and limits are set by the Group's Investment Committee (further – GIC). The decisions of the GIC are approved by the Bank's Management Board. Market risk is managed by the Group's business units and subsidiaries which can accept market risk in line with the set limits and investment restrictions of the respective portfolio. Market risk is measured, monitored and risk levels are reported by the Risk and Compliance Sector.

The Group manages market risk by developing investment guidelines for every significant portfolio, which restrict, among other things, the sensitivity against interest rate changes, the duration and credit quality profile of investments, as well as by setting individual limits for issuers and financial instruments, to keep limit volumes closely linked to the results of risk assessments. The Group places significant emphasis on managing concentration risk and applies a framework under which limits are set on risk adjusted exposures for every country and sector combination that the Group invests in. To assess position risk the Group uses sensitivity and scenario analysis, which identifies and quantifies the negative impact of adverse events on the portfolio of the Group, taking into consideration regional, sector profiles of the portfolio and credit rating risk profiles of issuers.

Currency risk

Currency risk is a risk of loss arising from fluctuations in currency exchange rates.

Currency risk management in the Group is carried out in accordance with Currency Risk Management Policy. Currency risk is assessed and decisions are made by the FMCRC. The decisions of the FMCRC are approved by the

Bank's Management Board. The FMCRC defines the acceptable currency risk level and the Group's internal limit system, as well as monitors compliance with these limits.

Day-to-day currency risk management is the responsibility of the Treasury Sector, while risk monitoring and reporting is the responsibility of the Risk and Compliance Sector.

The Group has a low risk appetite for foreign exchange risk. The Group aims to keep exposures at levels that would produce a small net impact even in periods of high volatility. Several well-known methodologies are used to measure and manage foreign exchange risk including a conservative limit for a daily value-at-risk exposure. The Group is in full compliance with the requirements of Latvian legislation.

Interest rate risk

Interest rate risk is related to the possible negative impact of changes in general interest rates on the Group's income and economic value.

Interest rate risk management in the Group is carried out in accordance with Interest Rate Risk Management Policy. Interest rate risk is assessed and decisions are taken by the Assets and Liabilities Management Committee (further – the ALCO). The decisions of the ALCO are approved by the Bank's Management Board. The ALCO sets the acceptable interest rate risk level and the Group's internal limit system, monitors the compliance with the approved limits and use of the instruments for the management of interest rate risk. Interest rate risk measurement, management and reporting are responsibilities of the Treasury Sector, while the Risk and Compliance Sector ensures proper oversight and prepares analytical reports to the ALCO and the Bank's Management Board.

The Group manages interest rate risk by using repricing gap analysis of the risk sensitive assets and liabilities, duration analysis of assets and liabilities as well as stress testing. The Group sets limits for impact of interest rate shock on economic value, net interest income and revaluation reserve. Based on the market analysis and the Group's financing structure, the ALCO sets the interest rates for customer deposits.

LIQUIDITY RISK

Liquidity risk is the risk that the Group will be unable to meet its legal payment obligations. The purpose of liquidity risk management is to ensure the availability of liquid assets to cover any possible gaps between cash inflows and outflows as well as to secure sufficient funding for lending and investment activities.

The Group manages its liquidity risk in accordance with Liquidity Risk Management Policy. The management and reporting of liquidity risk is coordinated by the Treasury Sector, and the risk is assessed and decisions are taken by the ALCO. The decisions of the ALCO are approved by the Bank's Management Board. The Risk and Compliance Sector on a monthly basis provides information to the ALCO and the Bank's Management Board about the level of the assumed risk as part of the reporting and supervision process.

Liquidity risk for the Group is assessed in each currency in which the Group has performed a significant amount of transactions. Liquidity risk limits are reviewed at least once a year and also when there are major changes to the Group's operations or external factors affecting its operations. A liquidity crisis management plan has been developed and is updated on a regular basis.

One of the crucial tools used to evaluate liquidity risk is scenario analysis. Several scenarios of different severity and duration are employed by the Group with risk tolerances defined for the outcomes of those scenarios. Furthermore, the Group has developed a system of liquidity risk limits and early warning indicators and systematically prepares cash flow forecasts which incorporate assumptions about the most likely flow of funds over the period of one year. For general assessment of existing gaps between contractual maturities of assets and liabilities without any assumptions on customer behaviour, the Group regularly analyses liquidity term structure and sets corresponding risk tolerances.

The Group's balance sheet structure is planned for at least a one-year period and is aligned with development plans for the current period. The major current and potential funding sources are regularly analysed and controlled across the Group. The Group maintains regular contact with its interbank business partners and creditors with the aim of projecting possible deadlines for repayment or prolongation of funding sources as well as absorption of excess liquidity.

The FCMC requires banks in Latvia to estimate and maintain a liquidity ratio of at least 30% and also sets individual liquidity ratio requirements based upon cash and cash equivalent assets available within a 30 day span and current liabilities of the bank due in the next 30 days. The Bank's individual liquidity ratio requirement remained stable at 40% for the last 3-year period. The Bank was in compliance with the liquidity ratio requirements issued by the FCMC and met mandatory reserve requirements defined by the Bank of Latvia. In addition to a Latvia-specific liquidity ratio, the FCMC has also introduced a minimum requirement for a Basel III proposed Liquidity Coverage Ratio (LCR) with a phase-in period ending in 2018. The corresponding minimum levels to be maintained in 2016, 2017 and 2018 are 70%, 80% and 100%, respectively. The Bank is fully compliant with current requirements and has implemented necessary measures to ensure smooth compliance with future LCR thresholds.

The following table contains the Bank's liquidity ratios calculated in accordance with the FCMC requirements:

Year	Highest	Lowest	Average	Year-end
2016	70%	57%	61%	70%

Liquidity ratio is calculated as liquid assets divided by all liabilities with remaining contractual maturity of 30 days or less. Liquid assets for the purpose of the calculation are cash, balances due from the Bank of Latvia and solvent credit institutions placed on demand and up to 30 days, and balances redeemable before maturity with insignificant contractual penalties, and investments in securities that can be sold in short time or pledged to obtain a loan.

Regulation (EU) No 575/2013 introduced the concept of LCR and net stable funding ratio (NSFR) as measurements of the Bank's and the Group's liquidity position. Since 1 October 2016 LCR is calculated according to Europian Commission Delegated Regulation (EU) No 2015/61. EU's regulations on NSFR are not yet finalised. Therefore, the Group when calculating NSFR has applied non-final legislation and guidelines published by Basel Committee on Banking Supervision.

	31/12/2016
Liquidity coverage ratio (LCR)	253%
Net stable funding ratio (NSFR)	152%

OPERATIONAL RISK

The Group has adopted the Basel Committee on Banking Supervision's definition of operational risk: the probability of incurring losses due to failure or partial failure of internal processes to comply with the requirements of the laws and binding external regulations, as well as the requirements of internal regulations, due to the acts of the Group's employees and operation of systems, irregularities in internal processes, as well as due to the acts of third parties or other external conditions.

Further operational risk is divided into the following categories: personnel risk, process risk, IT and system risk, external risk.

Operational risk is managed using an integrated and comprehensive framework of policies, methodologies, procedures and regulations for identification, analysis, mitigation, control, and reporting of operational risk. The Group's operational risk management processes are integral to all business activities and are applicable to all employees and members of the Group. The Group's aim is to ensure that each of its employees knows not just how to perform a specific transaction, but also understands the key areas where risk can arise and the processes and steps required to prevent or otherwise mitigate such risk.

The goal of the Group's operational risk management framework is to maintain the lowest possible level of risk while ensuring that any remaining risk is economically justified in light of the need to sustain the Group's performance and profit in the long term. Whether a risk is economically justified depends on an assessment of the potential losses it could cause, the probability of its occurrence, the ability to implement mitigating measures and the cost of such measures, as well as the level of risk that would remain if such mitigating measures were to be put in place.

The Group aims to avoid operational risks with a potential impact which exceeds 10% of its net annual revenue and has a higher probability of occurrence than once per ten years, or risks with unquantifiable impact which are unmanageable, irrespective of the financial gains this could bring. Each accepted risk must be economically justified and, in cases where the assessment of operational risk in monetary terms is possible, the costs of the control measures required must be commensurate with the eventual loss that could be prevented by the existence of the control system.

The Group applies following approaches for operational risk management:

- assessing operational risk in development projects: new and updated services and products are introduced only after a thorough risk assessment has been carried out;
- conducting regular operational risk-control self-assessment: the Group identifies and assesses potential operational risk events, assesses control systems which are in place, and analyses the necessary risk reduction measures;
- determining operational risk indicators: the Group uses statistical, financial, and other indicators which represent the levels of operational risk in its various activities;
- measuring, analysing, monitoring, reporting and escalating operational risk: the Group registers and analyses operational risk events, including their severity, causes and other important information in an operational risk loss and incident database;
- conducting scenario analysis and stress-testing;
- performing business continuity planning: the Group performs regular business impact analysis and has implemented a Disaster Recovery Plan;
- assigning responsibilities: the operational risk management system includes assignment of responsibilities to certain individuals; and
- documenting decisions: the Group maintains records in relation to the process undertaken to reach a particular decision or to prevent or mitigate a particular risk.

Operational risk management in the Group is carried out in accordance with Operational Risk Management Policy.

INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS

The Bank implements the internal capital adequacy assessment process pursuant to regulatory requirements by estimating individual capital charges for every significant risk type inherent to the Bank. The internally developed methodology takes into account greater number of risks than is provided for in minimum capital requirements (e.g. interest rate risk in the banking book, concentration risk, compliance risk etc.). Furthermore, to ensure sustainability even at times of distress, the Bank simulates its capital adequacy position under assumptions of an adverse macroeconomic scenario. The following summarises the assessment of the risk profile for 2017, where risk assessments represent probability and size combination of adverse deviation from the planned cost of risk. The annual internal capital adequacy assessment is conducted for a three-year period, which corresponds to the timeframe used in the annual financial and strategic planning process, thereby promoting consistent integration of financial forecasts into capital adequacy evaluation.

In 2016, the following risks were assessed as significant for which sufficient internal capital coverage was ensured:

Risk type	Exposure class	Risk assessment for 2017*	Regulatory capital requirement calculation method	Internal assessment method
Credit and concentration risks	Loan portfolio	Moderate	Standardised approach	Scenario sensitivity approach
	Bond portfolio	Low	Standardised approach	Scenario sensitivity approach
	Counterparties	Low	Standardised approach	Scenario sensitivity approach
Market risk	Position risk in non-trading bond portfolio	Moderate	-	Scenario sensitivity approach
	Currency risk	Low	CRR2013 articles 351-354	Value at risk (VaR)
Operational risk		Low	Basic indicator approach	Loss distribution approach
General interest rate risk in the banking book		Moderate	-	200bp parallel shift impact on EVE
Liquidity risk		Low	-	Integrated within reputation risk
AML and compliance risk		Low	-	Simplified approach: turnover criteria
Reputation risk		Low	-	Scenario sensitivity approach
Business model risk		Moderate	-	Scenario sensitivity approach

* on a 4-grade scale: low, moderate, elevated, high.

CONTACT DETAILS

AS Citadele banka
Republikas laukums 2A, Riga,
LV-1010, Latvia

www.citadele.lv
www.cblgroup.com

Phone: (371) 67010 000
Facsimile: (371) 67010 001

Registration number: 40103303559

Corporate Communications

E-mail: pr@citadele.lv