AS Citadele banka

Risk management and capital adequacy report (pillar 3)

for the year ended
31 December 2018

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INTRODUCTION

As stipulated in part eight of the Regulation (EU) No 575/2013, the institution shall at least annually 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 information on risk management and capital adequacy at consolidated level. Consolidated figures as of 31 December 2018 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 Group's web page.

This report is presented in thousands of Euros (EUR 000's). If not specified otherwise, all figures represent amounts as of 31 December 2018.

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 companies are included in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union.

The consolidation group as at 31 December 2018

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
OU Citadele Leasing & Factoring	Leasing	100	EE	Full
UAB Citadele faktoringas ir lizingas	Leasing	100	LT	Full
IPAS CBL Asset Management	Investment management company	100	LV	Full
AS CBL Atklātais Pensiju Fonds	Pension fund	100	LV	Full
Calenia Investments Limited	Support services	100	CY	Full
OOO Mizush Asset Management Ukraina	Investment management company	100	UA	Full
SIA Citadeles moduļi	Support services	100	LV	Full
SIA RPG interjers	Support services	100	LV	Full
SIA Hortus Land	Support services	100	LV	Full
SIA Hortus Residential	Support services	100	LV	Full
SIA Hortus RE	Support services	100	LV	Full

As per regulatory requirements AAS CBL Life, a licensed insurer, is not included in the consolidation Group for capital adequacy purposes. Instead, the carrying value of the Group's investment in AAS CBL Life constitutes a risk exposure in the Group's capital adequacy ratio calculation.

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 parent 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. For certain Group's earnings tax on capital distribution applies. For more details refer to the annual report of the Group.

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 and the recommendations of the Financial and Capital Market Commission (thereon – FCMC). 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 a special committee. The Management Board approves the composition and also regulations of this committee.

Each member of the Management Board is responsible for a 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 pursues prudent risk management that is aligned with its business ambitions 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, sustainable growth, 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 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 the 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 internal capital adequacy assessment process (ICAAP). 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, market risks and other specific risks arising predominantly from asset and off-balance sheet exposures of the Group. The Financial and Capital Markets Commission's (FCMC's) regulations require Latvian banks to maintain a total capital adequacy ratio based on financial statements prepared under IFRS as adopted by EU of 8.0% of the total risk weighted exposure amounts. The CRD IV rules also require 4.5% minimum common equity tier 1 capital ratio and 6.0% minimum tier 1 capital ratio. The FCMC has also issued a regulation which introduces "total SREP (supervisory review and evaluation process) capital requirement" (TSCR). TSCR requires capital to cover risks in addition to these covered by the regulation (EU) 575/2013. TSCR is established in a supervisory review and evaluation process (SREP) carried out by the national supervisory authority. The national supervisory authority determines TSCR on a risk-by-risk basis, using supervisory judgement, the outcome of supervisory benchmarking, ICAAP calculations, and other relevant inputs. As of 31 December 2018 based on the FCMC's assessment, an additional 2.50% capital requirement for the Group is determined to cover pillar 2 risks. This additional pillar 2 capital requirement is applicable till re-assessed requirement is announced by the FCMC. The indicative re-assessed future TSCR requirement for the Group is 2.90%, but may be changed at discretion of the FCMC and is not effective as of 31 December 2018. The Group is required to cover 56% of the additional pillar 2 capital requirements with common equity tier 1 capital, 75% with tier 1 capital and 100% with total capital.

The capital adequacy rules also establish an additional 2.50% capital conservation buffer, limiting dividend pay-out and certain other Tier 1 equity instrument buy-back. Besides this, countercyclical buffer requirements apply as well based on the risk exposure geographical distribution. The FCMC has identified the Bank as "other systemically important institution" (O-SII). The Group's O-SII capital buffer requirement set by the FCMC is 1.50% and was introduced in two steps – 0.75% capital buffer requirement become effective as at 30 June 2017 with the full buffer requirements becoming effective on 30 June 2018. The O-SII buffer requirement has to be met by common equity Tier 1 capital.

The Bank has subsidiaries, which are financial institutions, and needs to comply with the regulatory requirements both at the Bank's standalone level and at the Group's consolidated level. As at 31 December 2018, both the Group have sufficient capital to comply with the FCMC's capital adequacy requirements.

Regulatory capital requirements of the Group on 31 December 2018

	Common equity Tier 1 capital ratio	Tier 1 capital ratio	Total capital adequacy ratio
Common equity Tier 1 ratio	4.50%	4.50%	4.50%
Additional Tier 1 ratio	-	1.50%	1.50%
Additional total capital ratio	-	-	2.00%
Individual TSCR, as determined by the FCMC *	1.40%	1.88%	2.50%
Capital buffer requirements:			
Capital conservation buffer	2.50%	2.50%	2.50%
O-SII capital buffer	1.50%	1.50%	1.50%
Countercyclical capital buffer	0.11%	0.11%	0.11%
Capital requirement	**10.01%**	**11.99%**	**14.61%**

Capital adequacy ratio

	31/12/2018 Group
Common equity Tier 1 capital	
Paid up capital instruments	156,556
Retained earnings and eligible profits	136,210
Deductible other intangible assets	(4,819)
Other capital components, deductions and transitional adjustments, net	6,747
Tier 2 capital	
Eligible part of subordinated liabilities	60,000
Total own funds	**354,694**
Risk weighted exposure amounts for credit risk, counterparty credit risk and dilution risk	
Central governments or central banks	20,155
Regional governments or local authorities	736
Public sector entities	4,894
Multilateral development banks	2,549
Institutions	92,213
Corporates	602,996
Retail	263,678
Secured by mortgages on immovable property	224,489
Exposures in default	92,996
Items associated with particularly high risk	75,881
Claims on institutions and corporates with a short-term credit assessment	-
Collective investments undertakings	6,087
Equity	13,572
Other items	107,155
Total exposure amounts for position, foreign currency open position and commodities risk	
Traded debt instruments	851
Equity	-
Foreign Exchange	9,632
Commodities	-
Total exposure amounts for operational risk	245,354
Total exposure amounts for credit valuation adjustment	399
Total risk exposure amount	**1,763,637**
Total capital adequacy ratio	**20.1%**
Common equity Tier 1 capital ratio	**16.7%**

Capital adequacy calculation of the Group in accordance with the FCMC regulations (Basel III framework, Pillar I as implemented by EU and FCMC) comprises several transitional adjustments as implemented by the EU and the FCMC. Some of the transitional adjustments are expected to have a diminishing favourable impact on the Group's capital adequacy ratio for several years in the future. For 2018 and later periods additional transitional provisions apply. The regulation (EU) 2017/2395 for Capital adequacy calculation purposes permits specific proportion of IFRS 9 implementation impact to be amortised in five years period. The Group's long term regulatory capital position is planned and managed in line with these and other expected upcoming regulatory requirements.

Fully loaded capital adequacy ratio (i.e. excluding transitional adjustments)

	31/12/2018 Group
Common equity Tier 1 capital, fully loaded	288,832
Tier 2 capital	60,000
Total own funds, fully loaded	**348,832**
Total risk exposure amount, fully loaded	**1,758,524**
Total capital adequacy ratio, fully loaded	**19.8%**
Common equity Tier 1 capital ratio, fully loaded	**16.4%**

Minimum requirement for own funds and eligible liabilities (MREL) under BRRD

On 23 May 2016 the European Commission adopted the regulatory technical standards (RTS) on the criteria for determining the minimum requirement for own funds and eligible liabilities (MREL) under the bank recovery and resolution directive (BRRD). In order to ensure the effectiveness of bail-in and other resolution tools introduced by BRRD, BRRD requires that all institutions must meet an individual MREL requirement, calculated as a percentage of total liabilities and own funds and set by the relevant resolution authorities. The RTS provide for resolution authorities to allow institutions a transitional period to reach the applicable MREL requirements. The MREL requirement for each institution is comprised of a number of elements, including the required loss absorbing capacity of the institution (which, as a minimum, equals to the institution's capital requirements under CRD IV, including applicable buffers), and the level of recapitalisation needed to implement the preferred resolution strategy identified during the resolution planning process. Items eligible for inclusion in MREL include institution's own funds (within the meaning of CRD IV), along with "eligible liabilities", meaning liabilities which inter alia, are issued and fully paid up, have a maturity of at least one year (or do not give the investor a right to repayment within one year), and do not arise from derivatives.

The Single Resolution Board (SRB) determined the consolidated MREL for Citadele Group at the level of 14.26% of total liabilities and own funds (TLOF). The ratio was calculated based on the Group's financial position as at 31 December 2017. The MREL target has to be reached by 14 April 2022 after a transition period of 4 years. The existing target may be updated by the SRB in the future.

Capital instruments' main features template

		Ordinary shares	Subordinated liabilities: Publicly listed unsecured bonds	Subordinated liabilities: Publicly listed unsecured bonds
	Capital instruments' main features			
1	Issuer	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	Latvia
	Regulatory treatment			
4	Transitional CRR rules	Common Equity Tier 1	Tier 2	Tier 2
5	Post-transitional CRR rules	Common Equity Tier 1	Tier 2	Tier 2
6	Eligible at solo/(sub-)consolidated/ solo & (sub-)consolidated	Solo & consolidated	Solo & consolidated	Solo & consolidated
7	Instrument type (types to be specified by each jurisdiction)	Ordinary shares	Subordinated liabilities	Subordinated liabilities
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	EUR 156.6 million	EUR 40.0 million	EUR 20.0 million
9	Nominal amount of instrument	EUR 156.6 million	EUR 40.0 million	EUR 20.0 million
9a	Issue price	EUR 156.6 million	EUR 40.0 million	EUR 20.0 million
9b	Redemption price	-	EUR 40.0 million	EUR 20.0 million
10	Accounting classification	Shareholders' Equity	Liabilities at amortised cost	Liabilities at amortised cost
11	Original date of issuance	Various [(1)]	06/12/2016	24/11/2017
12	Perpetual or dated	Perpetual	Dated	Dated
13	Original maturity date	No Maturity	06/12/2026	24/11/2027
14	Issuer call subject to prior supervisory approval	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	-	Fixed	Fixed
18	Coupon rate and any related index	-	6.25%	5.50%
19	Existence of a dividend stopper	-	-	-
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Discretionary	Fixed	Fixed
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Discretionary	Fixed	Fixed
21	Existence of step up or other incentive to redeem	-	-	-
22	Noncumulative or cumulative	Non-cumulative	Non-cumulative	Non-cumulative
23	Convertible or non-convertible	Non-Convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	-	-	-
25	If convertible, fully or partially	-	-	-
26	If convertible, conversion rate	-	-	-
27	If convertible, mandatory or optional conversion	-	-	-
28	If convertible, specify instrument type convertible into	-	-	-
29	If convertible, specifiy issuer of inctrument it converts into	-	-	-
30	Write-down future	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
36	Non-compliant transitioned features	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.

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	136,210	26 (1) (c)
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the appropriate accounting standards)	3,711	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**	**296,477**	**Sum of lines 1 to 5.a**
	Common Equity Tier 1 (CEt1) capital: regulatory adjustments		
7	Additional value adjustments (negative amount)	(397)	34, 105
8	Intangible assets (net of related tax liability) (negative amount)	(4,819)	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)	(2,429)	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 (1) (c), 38, 48 (1) (a)*
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	-	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	5,559	481, 473a

No.	Item	Amount	Reference
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	303	472
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**(1,783)**	**Sum of lines 7 to 20.a, 21, 22, and 25.a to 27**
29	**Common Equity Tier 1 (CET1) capital**	**294,694**	**Line 6 less line 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**	**-**	**Sum of lines 30, 33 and 34**
	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)**	**294,694**	**Sum of lines 29 and 44**
	Tier 2 (T2) capital: instruments and provisions		
46	Capital instruments and the related share premium accounts	60,000	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**	**60,000**	
	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**	**60,000**	**Line 51 less line 57**
59	**Total capital (TC = T1 + T2)**	**354,694**	**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**	**1,763,637**	
	Capital ratios and buffers		
61	Common Equity Tier 1 (as a percentage of risk exposure amount)	16.7%	92 (2) (a), 465
62	Tier 1 (as a percentage of risk exposure amount)	16.7%	92 (2) (b), 465
63	Total capital (as a percentage of risk exposure amount)	20.1%	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	4.1%	CRD 128, 129, 130
65	*of which: capital conservation buffer requirement*	*2.5%*	
66	*of which: countercyclical buffer requirement*	*0.1%*	
67	*of which: systemic risk buffer requirement*	-	
67.ε	*of which: Global Systematically Important Institution (G-SII) or Other Systematically Important Institution (O-SII) buffer*	*1.5%*	*CRD 131*
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	12.2%*	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)	-	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)

* As at 31 December 2018 based on the FCMC's assessment an additional 2.50% capital requirement for the Group is determined to cover pillar 2 risks.

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. The credit risk analysis is performed prior to assuming risk transactions in order to assess whether the transactions have a level of risk acceptable to the Group. 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, limit for 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 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 (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.

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	881,518	319,939	738,267	403,810	377,323	387,380
Exposure net of value adjustments and provisions	845,043	319,154	844,184	524,682	386,038	456,416
Average exposure value in 2018*	943,057	348,756	743,199	337,831	356,816	438,249

* 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	361,419	1,146	312,743	182,558	215,437	304,177
Lithuania	377,313	1,262	105,540	204,133	64,895	23,327
Estonia	33,527	99	46,947	16,925	89,042	7,671
United States	10,425	47,682	70,486	1	186	13,364
Netherlands	12,892	46,178	39,957	-	-	-
Switzerland	29,849	43,593	5,944	12	8	5,316
Japan	-	51,663	2,481	-	-	-
Germany	12,714	7,926	25,904	-	470	12
All other countries	43,379	120,390	128,265	181	7,285	33,513

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

Gross exposure value:

	Not past due	Past due <=30 days	Past due 31-90 days	Past due more than 90 days
Latvia	1,603,578	32,916	4,131	16,912
Lithuania	782,926	11,025	6,388	6,658
Estonia	191,140	6,060	1,239	3,397
United States	142,213	-	-	-
Netherlands	99,113	-	-	-
Switzerland	85,858	-	-	-
Japan	54,154	-	-	-
Germany	47,052	-	-	-
All other countries	324,206	161	82	22,514

Risk exposure impairment allowance, split by country of residence

	Impairment allowance
Latvia	(36,159)
Lithuania	(11,061)
Estonia	(3,663)
United States	(109)
Netherlands	(95)
Switzerland	(9)
Japan	(3)
Germany	(17)
All other countries	(12,980)

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 30 days and delayed	365,291	107,439	82,608	69,475	2,250	69,557
31-90 days	82,657	39,696	25,484	10,888	3,859	7,586
91-180 days	16,710	10,114	38,007	17,295	5,549	15,892
181-360 days	26,337	30,595	111,129	35,654	10,580	35,758
361-1800 days	352,987	114,889	383,489	251,199	78,532	100,403
More than 1800 days and undated	37,536	17,206	97,550	19,299	276,553	158,184

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	3,186	-	37,698	21,236	61	23,356
Manufacturing	9,539	3	56,574	19,455	168	16,624
Electricity, gas, steam and air conditioning supply	878	-	20,622	2,795	-	1,659
Construction	1,078	46	9,439	15,629	-	14,259
Wholesale and retail trade	6,077	475	37,720	40,594	241	12,692
Transporting and storage	4,123	41	54,740	55,411	-	5,759
Accommodation and food service activities	299	2	22,468	4,348	38	1,062
Financial and insurance activities	246,106	117,221	21,515	1,416	-	14,549
Real estate activities	1,142	157	152,636	20,208	1,616	51,355
Professional, scientific and technical activities	718	-	3,318	7,339	-	539
Public administration and defence; compulsory social security	26,829	-	145	13	-	23,868
Private individuals	4	27	49	177,462	375,175	47,662
All other positions	581,539	201,967	321,343	37,904	24	173,996

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

	Corporates	Retail	Secured by mortgages on immovable property
Agriculture, forestry and fishing	32,465	3,731	61
Manufacturing	18,788	15,548	167
Electricity, gas, steam and air conditioning supply	18,309	2,447	-
Construction	7,968	10,953	-
Wholesale and retail trade; repair of motor vehicles and motorcycles	21,620	33,061	241
Transporting and storage	11,326	47,653	-
Accommodation and food service activities	15,483	2,941	38
Financial and insurance activities	932	328	-
Real estate activities	127,778	17,660	-
Professional, scientific and technical activities	2,993	6,126	-
Public administration and defence; compulsory social security	145	-	-
All other positions	36,700	26,087	24

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

	Not past due	Past due <=30 days	Past due 31-90 days	Past due more than 90 days
Agriculture, forestry and fishing	82,740	4,044	3,303	1,613
Manufacturing	102,796	2,614	527	5,135
Electricity, gas, steam and air conditioning supply	28,557	1,597	-	-
Construction	43,331	1,371	263	2,493
Wholesale and retail trade; repair of motor vehicles and motorcycles	99,530	8,071	776	1,152
Transporting and storage	113,098	6,130	571	7,007
Accommodation and food service activities	30,967	329	54	49
Financial and insurance activities	400,421	85	-	1,405
Real estate activities	255,376	946	113	956
Professional, scientific and technical activities	11,616	459	225	196
Public administration and defence; compulsory social security	131,127	-	-	-
Private individuals	679,930	20,472	5,705	26,020
All other positions	1,146,099	557	258	2,903

Exposure value for credit risk, split by applied risk weights

Applied risk weight	Central governments or central banks	Institutions	Corporates	Retail	Secured by mortgages on immovable property	All other positions
0%	784,300	8,588	-	-	-	80,620
20%	94,847	211,701	74,593	-	-	49,243
35%	-	-	-	-	229,829	-
50%	2,370	99,577	99,568	-	428	-
75%	-	-	-	403,810	12,683	-
100%	1	50	563,537	-	134,383	193,043
150%	-	23	569	-	-	60,205
250%	-	-	-	-	-	4,269

Exposure value for credit risk net of value adjustments and provisions

Applied risk weight	Central governments or central banks	Institutions	Corporates	Retail	Secured by mortgages on immovable property	All other positions
0%	747,825	7,812	-	-	-	40,392
20%	94,847	211,692	74,593	-	-	129,021
35%	-	-	-	-	233,423	-
50%	2,370	99,577	99,568	-	428	-
75%	-	-	-	524,682	12,758	-
100%	1	50	669,454	-	139,429	202,974
150%	-	23	569	-	-	79,760
250%	-	-	-	-	-	4,269

Impairment loss allowance calculation policy

The economic conditions of the markets the Group operates in may have an impact on the borrowers' ability to repay their debts. The Management of the Group considers both specific exposures and portfolio-level risks in determining the balance of impairment allowance for expected credit losses. The expected credit loss assessment is forward-

looking and is based on unbiased and probability-weighted information about past events, current conditions and forecasts of future economic conditions. Impairment allowance for expected credit losses is recognised even if no credit loss event has happened. A loan or portfolio of loans to public is impaired and impairment losses are incurred if, and only if, there is objective evidence that the estimated present value of future cash flows is less than the current carrying value of the loan or portfolio of loans to public, and it can be reliably estimated.

Loss allowances for expected credit losses on loan commitments and financial guarantee contracts are recognised as provisions. The provisioning principles for expected losses arising from off-balance sheet financial commitments and contingent liabilities are consistent with the principles and methods applied for on-balance sheet exposures. Additional considerations are applied to adjustments for expected conversion and future use patterns of the committed limits as well as the Group's performance in timely identification and termination of limits for deteriorating exposures.

Expected credit losses are recognised based on the stage in which the exposure is allocated at the reporting date. 12-month expected credit losses are recognised for Stage 1 exposures, where credit risk has not increased since initial recognition. Lifetime expected credit losses are recognised for Stage 2 exposures whose credit risk has increased significantly since initial recognition and for Stage 3 exposures which are credit impaired. Days past due is one of the main quantitative indicators used to assess the 'significant increase in credit risk' (proxy for transferring exposures from Stage 1 to Stage 2) augmented by other additional risk factors (e.g. internal credit rating grade, restructuring, industry or market conditions). Significant increase in credit risk in comparison to the initial credit risk is the criteria for transfer to Stage 2. The 'default' is defined in line with the prudential definition of the default: exposure delayed for certain amount of days or more, significant restructuring and other unlikeliness to pay indicators. The 'default' is the criteria for a transfer to Stage 3. Exposure is no longer considered to have significantly increased credit risk (transfer from Stage 2 to Stage 1) or default (transfer from Stage 3 to Stage 2) when specific time period has passed (in some instances up to 2 years) since all risk increase or default factors are no longer observed. Significant modifications and restructurings are also within risk factors for which an extended monitoring period applies. The length of the monitoring period is proportionate to the significance of the risk factor observed and restructuring measures undertaken. The models are calibrated for transfer of exposures to lower stage to happen when a significant reduction in the risk of non-performance has been observed beforehand.

The Group first assesses whether objective evidence of impairment exists individually for loans to public that are individually significant, and individually or collectively for loans 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 with similar credit risk characteristics and collectively assesses them for impairment. As soon as information is available that specifically identifies losses on individually impaired loans included in a group of loans with similar credit risk characteristics, those loans are removed from the group. 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 collective measurement of expected credit losses, the Group has selected to use EAD x PD x LGD approach, where EAD stands for exposure at default, PD – probability of default, and LGD – loss given default. To estimate probability weighted cash flows, the Group uses single scenario expected cash flow method with overlays for alternative scenarios for macroeconomic factors. The major macroeconomic factors considered are real estate price, average salary, inflation rate and unemployment rate. PDs and LGDs are derived from historic performance of the loans to public. 'Point in time' probabilities (probability of default in the current economic conditions, as opposed to economic cycle-neutral 'through the cycle' probabilities of default as often used for regulatory purposes) are used for PDs. Correspondingly, estimated PDs are expected to change through the economic cycle. For measurement of expected credit loses financial instruments are grouped on the basis of shared credit risk characteristics. The grouping considers distinct characteristics in industry, product type, collateral type and geographical location of the borrower.

A loan is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a loan is credit-impaired includes observable data about the following events:

- significant financial difficulty of the borrower;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- granting to the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- the borrower entering bankruptcy or other financial reorganisation becomes highly probable;
- the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses;
- a combination of several other events that cause a loan to become credit-impaired.

For a loan that is credit-impaired at the reporting date, but that is not a purchased or originated credit-impaired financial asset, the expected credit losses are measured as the difference between the loan's gross carrying amount and the present value of estimated future cash flows discounted at the loan's original effective interest rate. Any adjustment is recognised as an impairment gain or loss. The assessment of whether lifetime expected credit losses should be recognised is based on significant increases in the likelihood (Stage 2) or risk of a default (Stage 3) occurring since initial recognition instead of on evidence of a financial asset being credit-impaired at the reporting date or an actual default occurring. In most cases, there will be a significant increase in credit risk before a financial asset becomes credit-impaired or an actual default occurs (Stage 3), thus default (Stage 3) and credit-impaired loan

classification will be closely aligned and will indicate non-performance of the borrower or significance of forbearance measures undertaken, but classification will not necessarily equal in all cases.

For loans to public, 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, 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 absent the impairment at the reversal date.

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

For purchased or originated credit-impaired financial assets, expected credit losses are discounted using the credit-adjusted effective interest rate determined at initial recognition. For purchased or originated credit-impaired financial assets only the cumulative changes in lifetime expected credit losses since initial recognition are recognised as a loss allowance. Favourable changes in lifetime expected credit losses are recognised as an impairment gain, even if the lifetime expected credit losses are less than the amount of expected credit losses that were included in the estimated cash flows on initial recognition.

Fully impaired loans to public, 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 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 recovered written-off assets within net credit losses on financial instruments.

The estimation of impairment losses is inherently uncertain and dependent upon many factors. Two distinct approaches are applied for expected credit loss estimation – individual evaluation, mostly applied to large exposures, and collectively estimated expected credit losses for homogeneous groups of mostly smaller exposures. On an on-going basis expected credit losses are identified promptly as a result of large loan exposures being individually monitored. For these loan exposures expected credit 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 expected credit loses considering matters such as future economic conditions and the resulting trading performance of the borrower and the value of collateral. As a result, the individually assessed expected credit losses can be subject to variation as time progresses and the circumstances change or new information becomes available. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between expected credit loss estimates and actual credit loss experience. The future credit quality of the loan portfolio for which the expected credit losses are estimated collective is subject to uncertainties that could cause actual credit losses to differ from expected credit 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.

Similarly as for loans to public, the Group estimates expected credit losses to reflect changes in credit risk since initial recognition of debt securities, loans to credit institutions and central banks exposures and commitments to extend credit. Impairment provisioning requirements apply to financial assets at amortised cost, but do not apply to financial assets measured at fair value through profit or loss. For financial assets measured at fair value through other comprehensive income, the loss allowance is recognised in other comprehensive income and does not reduce the carrying amount in the balance sheet.
Impairment allowances are recognised based on forward looking information, even if no credit loss event has happened. The assessment considers broad range of information, but as most of these types of exposures are rated, it relies heavily on external credit ratings and rating agencies' reported default rates derived by calculating multi-period rating transition matrices. If unavailable for evaluation purposes, external credit ratings may be substituted by internally calculated credit quality levels. Credit risk triggers (event of insolvency, any delay of payments, restructuring of debt) and individual credit risk analysis of the issuer are also considered. The Group deems investment grade rated exposures as low credit risk, thus these are assumed no to have experienced a significant increase in credit risk. For non-investment grade exposures decrease in external credit rating by more than 3 notches since acquisition is deemed significant increase in credit risk. Expected credit losses are recognised based on the stage in which the exposure is allocated at the reporting date. 12-month expected credit losses are recognised for Stage 1 exposures, where credit risk since initial recognition has not increased significantly. Lifetime expected credit losses are recognised for Stage 2 exposures whose credit risk has increased significantly since initial recognition and Stage 3 exposures which are credit impaired. Stage 3 exposures, if any were identified, would additionally be subjected to comprehensive evaluation, including comparison to market valuations for similar exposures, analysis of market depth of the respective security, past trading performance and all other available information.

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.

Row	Country	General credit exposures		Trading book exposures		Securitisation exposures		Own funds requirements				Own funds requirements weights	Counter-cyclical capital buffer rate
		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		
		10	20	30	40	50	60	70	80	90	100	110	120
10	LV	1,377,481	-	-	-	-	-	63,415	-	-	63,415	0.53	0.00%
	LT	776,470	-	-	-	-	-	22,873	-	-	22,873	0.19	0.50%
	EE	194,211	-	-	-	-	-	11,757	-	-	11,757	0.10	0.00%
	US	142,146	-	-	-	-	-	4,435	-	-	4,435	0.04	0.00%
	NL	99,027	-	-	-	-	-	2,957	-	-	2,957	0.02	0.00%
	CH	84,721	-	-	-	-	-	1,174	-	-	1,174	0.01	0.00%
	JP	54,144	-	-	-	-	-	2,196	-	-	2,196	0.02	0.00%
	DE	47,027	-	-	-	-	-	1,468	-	-	1,468	0.01	0.00%
	CA	43,827	-	-	-	-	-	776	-	-	776	0.01	0.00%
	GB	32,147	-	-	-	-	-	1,790	-	-	1,790	0.01	1.00%
	SE	27,445	-	-	-	-	-	808	-	-	808	0.01	2.00%
	FR	24,994	-	-	-	-	-	693	-	-	693	0.01	0.00%
	FI	22,753	-	-	-	-	-	54	-	-	54	0.00	0.00%
	AU	21,640	-	-	-	-	-	488	-	-	488	0.00	0.00%
	SG	21,381	-	-	-	-	-	342	-	-	342	0.00	0.00%
	LU	16,001	-	-	-	-	-	150	-	-	150	0.00	0.00%
	NO	12,711	-	-	-	-	-	325	-	-	325	0.00	2.50%
	AT	12,135	-	-	-	-	-	530	-	-	530	0.00	0.00%
	PL	11,882	-	-	-	-	-	245	-	-	245	0.00	0.00%
	BE	9,670	-	-	-	-	-	534	-	-	534	0.00	0.00%
	CL	9,722	-	-	-	-	-	341	-	-	341	0.00	0.00%
	IN	7,994	-	-	-	-	-	411	-	-	411	0.00	0.00%
	CN	7,288	-	-	-	-	-	292	-	-	292	0.00	0.00%
	Other	51,423	-	-	-	-	-	2,539	-	-	2,539	0.02	0.00%
20	**Total**	**3,108,240**	**-**	**-**	**-**	**-**	**-**	**120,593**	**-**	**-**	**120,593**		**0.11%**

Amount of institution-specific countercyclical capital buffer

		10
10	Total risk exposure amount	1,763,637
20	Institution specific countercyclical capital buffer rate	0.11%
30	Institution specific countercyclical capital buffer requirement	1,940

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 primarily from currency derivatives transactions. The Group applies mark-to-market method to calculate counterparty credit risk. As at 31 December 2018, total risk weighted exposure amount of the Group's counterparty credit risk was EUR 3,170 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 2018, total exposure amount for credit valuation adjustment was EUR 399 thousand.

ENCUMBERED AND UNENCUMBERED ASSETS

In accordance with 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	12,514	12,514	2,998,705	2,996,274
030	Equity instruments	-	-	8,979	8,979
040	Debt securities	1,754	1,754	973,129	972,335
050	of which: covered bonds	-	-	-	-
060	of which: asset-backed securities	-	-	-	-
070	of which: issued by general governments	1,754	1,754	510,475	510,058
080	of which: issued by financial corporations	-	-	243,609	243,410
090	of which: issued by non-financial corporations	-	-	216,423	216,246
120	Other assets	10,760	10,760	2,016,597	2,014,960

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	-	-
140	Loans on demand	-	-
150	Equity instruments	-	-
160	Debt securities	-	-
170	of which: covered bonds	-	-
180	of which: asset-backed securities	-	-
190	of which: issued by general governments	-	-
200	of which: issued by financial corporations	-	-
210	of which: issued by non-financial corporations	-	-
220	Loans and advances other than loans on demand	-	-
230	Other collateral received	-	-
240	Own debt securities issued other than own covered bonds or ABSs	-	-
241	Own covered bonds and asset-backed securities issued and not yet pledged	-	-
250	Total assets, collateral received and own debt securities issued	12,514	-

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	-	-

LEVERAGE RATIO

Leverage ratio is calculated as Tier 1 capital versus the total exposure measure with the minimum requirement of 3%. No buffer requirements for O-SII banks are expected under the current regulatory framework. The exposure measure includes both non risk based on-balance sheet and off-balance sheet items calculated in accordance with the CRR. The leverage ratio and the risk-based capital adequacy ratio requirements are complementary, with the leverage ratio defining a minimum capital to total exposure requirement and the risk-based capital adequacy ratios limiting bank risk-taking.

	31/12/2018
	Group
Leverage Ratio – fully phased-in definition of Tier 1 capital	9.3%
Leverage Ratio - transitional definition of Tier 1 capital	9.5%

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)	3,007,817
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)**	**3,007,817**
	Derivative exposures	
4	Replacement cost associated with derivatives transactions	2,440
5	Add-on amounts for SFT associated with derivatives transactions	1,056
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)**	**3,496**
	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	364,205
18	Adjustments for conversion to credit equivalent amounts	(257,141)
19	**Total off-balance sheet exposures (sum of lines 17 to 18)**	**107,064**
	Capital and Total Exposures	
20	Tier 1 capital	294,694
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)	3,118,377
	Leverage Ratios	
22	End of quarter leverage ratio	9.46%
EU-22a	Leverage ratio (average 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	(7,645)
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) NO. 575/2013	-

Reconciliation of accounting assets and leverage ratio exposures

		Applicable Amounts
1	Total assets as per published financial statements	3,052,091
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	(40,941)
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	1,829
5	Adjustments for securities financing transaction	1,056
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	107,064
7	Other adjustments	(2,722)
8	Leverage ratio exposure *	3,118,377

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.

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:	3,010,257
EU-2	Trading book exposures	2,440
EU-3	Banking book exposures, of which:	3,007,817
EU-4	Covered bonds	-
EU-5	Exposures treated as sovereigns	878,563
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	38,480
EU-7	Institutions	318,179
EU-8	Secured by mortgages of immovable properties	376,762
EU-9	Retail exposures	393,957
EU-10	Corporate	696,372
EU-11	Exposures in default	86,819
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	218,686

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.
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 2018 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 2018 was EUR 2,901 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 2018 which is available at www.cblgroup.com.

The prudential consolidation group 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 (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 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 the 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 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 the Interest Rate Risk Management Policy. Interest rate risk is assessed and decisions are taken by the Assets and Liabilities Management Committee (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 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 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.

Regulation (EC) No 575/2013 introduced the concept of liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) as measurements of the Group's liquidity position. Since 1 October 2016 LCR is calculated according to Commission Delegated Regulation (EU) 2015/61. LCR minimum requirement were phased-in over a transition period. The minimum required levels were 70% for 2016, 80% for 2017 and 100% since 2018. The Group is compliant with LCR requirements. European Union's regulations on NSFR are not yet finalised.

	31/12/2018
	Group
Liquidity buffer	1,051,389
Net liquidity outflow	405,419
Liquidity coverage ratio	**259%**

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 the Operational Risk Management Policy.

INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS

The Bank implements the internal capital adequacy assessment process pursuant to the 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 compared to what minimum regulatory standards require (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 forward looking assessment of the risk profile for 2019, where assessment is based on likelihoods assigned to different adverse deviations from the baseline scenario in terms of capital impact. 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.

Within ICAAP for year 2018 the following risks were assessed as significant, for which proper internal capital was allocated:

Risk type	Exposure class	Risk assessment for 2019*	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	Low	-	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		Low	-	200bp parallel shift impact on EVE
Liquidity risk		Low	-	Integrated within reputation risk
AML and compliance risk		Moderate	-	Simplified approach: turnover criteria
Reputation risk		Low	-	Scenario sensitivity approach
Business model and strategy 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