

AS Citadele banka

# Risk management and capital adequacy report (pillar 3 disclosures)

For the nine months ended  
30 September 2021

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## INTRODUCTION

This report provides interim update on the qualitative and quantitative disclosures on the major risks of operations of AS Citadele banka and its risk management objectives, policies and information on capital adequacy as required by part eight of the Regulation (EU) No 575/2013 "On prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012", requirements of the Financial and Capital Market Commission (FCMC) and other relevant regulations.

This report should be read in conjunction with the latest annual report, the relevant quarterly financial statements, the report on remuneration policy and the statement on corporate governance as certain important information is disclosed in these reports and is not repeated in this report. These reports are available at [www.cblgroup.com](http://www.cblgroup.com).

Refer to the separate report on remuneration policy for disclosures on remuneration in accordance with the requirements of:

- Guidelines EBA/GL/2015/22 of the European Banking Authority "On sound remuneration policies under Articles 74(3) and 75(2) of Directive 2013/36/EU and disclosures under Article 450 of Regulation (EU) No 575/2013",
- Article 34.5. of the regulation No.86 of the FCMC "Rules on disclosure of the information in accordance with the part eight of the Regulation (EU) 575/2013 about materiality of the information, protected and confidential information and frequency of the disclosure of the information", and
- Regulation No.207 of the FCMC "Regulation on remuneration policy principles".

AS Citadele banka has subsidiaries, which are financial institutions, thus it needs to comply with the capital adequacy, liquidity coverage ratio (LCR), leverage ratio (LR) and other regulatory requirements both at the Bank's standalone level and at the Group's consolidated level. However, in line with the pillar 3 disclosure requirements information in the Risk report is disclosed only at the Group's consolidated level. For key information on the Bank standalone refer to the latest annual report and the relevant quarterly financial statements.

All monetary figures in this report are presented in thousands of Euros (EUR 000's). If not specified otherwise, all figures represent amounts as of period end.

## 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, while 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.

### EU LI3 – Outline of the differences in the scopes of consolidation (entity by entity)

a	b	c-g	h
Name of the entity	Method of accounting consolidation	Method of regulatory consolidation	Description of the entity
AS Citadele banka	Full consolidation	Full consolidation	Banking
Kaleido Privatbank AG	Full consolidation	Full consolidation	Banking
SIA Citadele Leasing	Full consolidation	Full consolidation	Leasing
SIA Citadele Factoring	Full consolidation	Full consolidation	Leasing and factoring
OU Citadele Factoring	Full consolidation	Full consolidation	Leasing and factoring
UAB Citadele Factoring	Full consolidation	Full consolidation	Leasing and factoring
IPAS CBL Asset Management	Full consolidation	Full consolidation	Investment management company
AS CBL Atklātais Pensiju Fonds	Full consolidation	Full consolidation	Pension fund
SIA Mobilly	Equity method	Equity method	Electronic money institution
Calenia Investments Limited (in liquidation)	Full consolidation	Full consolidation	Support services
OOO Mizush Asset Management Ukraina (in liquidation)	Full consolidation	Full consolidation	Investment management company
SIA Citadeles moduļi	Full consolidation	Full consolidation	Support services
SIA Hortus Residential	Full consolidation	Full consolidation	Support services
SIA Hortus Land (liquidated in September 2021)	Full consolidation	Full consolidation	Support services
SIA CL Insurance Broker	Full consolidation	Full consolidation	Support services
AAS CBL Life	Full consolidation	Deducted	Life insurance

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. In other jurisdictions 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 latest annual report.

## 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 "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 FCMC. The policy is reviewed and if necessary updated regularly.

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:

- During 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 considering 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 Group's operational management.

The suitability assessment of the 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 the Group operations. 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 aims 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 CRO has a direct access to the Bank's Supervisory Board. The Risk Committee, which is subordinated to the Bank's Supervisory Board, has been established in the Bank. The main task of the Risk 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 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 CRO 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).

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 is calculated in accordance with the current global standards of the bank capital adequacy (the Basel III international regulatory framework) as implemented by the European Union via a regulation (EU) 575/2013 and a directive 2013/36/EU, the Financial and Capital Markets Commission's (FCMC) rules and other relevant regulations.

Capital adequacy is a measure of sufficiency of the Group's eligible capital resources to cover credit risks, market risks, operational risk and other specific risks arising predominantly from asset and off-balance sheet exposures of the Group. The regulations require credit institutions to maintain a Total Capital adequacy ratio of 8.0% of the total risk weighted exposure amounts. The rules also require 4.5% minimum Common Equity Tier 1 capital ratio and 6.0% minimum Tier 1 capital ratio.

Total SREP capital requirement (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. The additional pillar 2 capital requirement is re-assessed annually by the FCMC. As of the period end based on the FCMC's assessment an additional 2.30% capital requirement (TSCR) for the Group and the Bank is determined to cover pillar 2 risks. As of the period end the Bank and the Group is required to cover 56% of the TSCR with Common Equity Tier 1 capital (1.29% capital requirement), 75% with Tier 1 capital (1.73% capital requirement) and 100% with Total Capital (2.30% capital requirement).

On top of the minimum capital adequacy ratios and the pillar 2 capital requirements (TSCR), the Group and the Bank must comply with the capital buffer requirements. The buffer requirements must be reached by Common Equity Tier 1 capital. The capital conservation buffer both for the Group and the Bank is set at 2.50%, limiting dividend pay-out and certain other Tier 1 equity instrument buybacks, if the buffer threshold is not exceeded.

Citadele, being identified as "other systemically important institution" (O-SII), must also comply with the O-SII capital buffer requirement set by the FCMC at 1.50%.

Countercyclical capital buffer norms at each balance sheet date are calculated based on the actual risk exposure geographical distribution and the countercyclical buffer rates applicable for each geographical location. In reaction to the Covid-19 events most European countercyclical capital buffer requirements were decreased to 0%. Therefore, based on the regional distribution of the Group's exposures the effective countercyclical capital buffer requirement of the Group has decreased to almost 0%.

The Group and the Bank applies requirements of minimum loss coverage for non-performing exposures in line with FCMC regulations for the exposures originated until 25 April 2019, and in line with a regulation (EU) 2019/630 for exposures originated starting from 26 April 2019. The minimum loss coverage calculation is mathematically simplistic "calendar based" calculation for non-performing exposures, which is constructed on the principle - the longer an exposure has been non-performing, the lower the probability for the recovery of its value. Therefore, the portion of the exposure that should be covered by provisions, impairments, other adjustments or deductions should increase with time, following a pre-defined calendar. Insufficient coverage for non-performing exposures is deductible from the regulatory capital. Due to the Group's provisioning policy and portfolio structure, the regulation of minimum loss coverage for non-performing exposures has had minor impact on the Group's capital adequacy position.

The Bank has to comply with the regulatory requirements both at the Bank's standalone level and at the Group's consolidated level. As of the period end both the Bank and the Group have sufficient capital to comply with the FCMC's capital adequacy requirements. The long-term regulatory capital position of the Group and the Bank is planned and managed in line with these and other expected upcoming regulatory requirements.

#### Regulatory capital requirements of the Group on 30 September 2021

	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 (pillar 2 capital requirement)	1.29%	1.73%	2.30%
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	0.00%	0.00%	0.00%
<b>Capital requirement</b>	<b>9.79%</b>	<b>11.73%</b>	<b>14.30%</b>

#### Capital adequacy ratio (including audited 6m 2021 profits, excluding unaudited Q3 2021 profits)

	EUR thousands	
	30/09/2021 Group	31/12/2020 Group
Common Equity Tier 1 capital		
Paid up capital instruments	156,888	156,556
Retained earnings	209,087	176,651
Regulatory deductions	(7,979)	(5,599)
Other capital components and transitional adjustments, net	10,166	13,405
Tier 2 capital		
Eligible part of subordinated liabilities	60,000	60,000
<b>Total own funds</b>	<b>428,162</b>	<b>401,013</b>
Risk weighted exposure amounts for credit risk, counterparty credit risk and dilution risk	2,121,260	1,340,639
Total exposure amounts for position, foreign currency open position and commodities risk	3,178	13,690
Total exposure amounts for operational risk	187,358	187,358
Total exposure amounts for credit valuation adjustment	3,973	933
<b>Total risk exposure amount</b>	<b>2,315,769</b>	<b>1,542,620</b>
<b>Total capital adequacy ratio</b>	<b>18.5%</b>	<b>26.0%</b>
<b>Common equity Tier 1 capital ratio</b>	<b>15.9%</b>	<b>22.1%</b>

#### Transitional adjustments applied as of 30 September 2021

Capital adequacy calculation in accordance with the EU and the FCMC regulations permits transitional adjustments. The regulatory compliance is measured based on the transitional capital adequacy ratio. For transparency purposes the fully loaded capital adequacy ratio (i.e., excluding transitional adjustments) is also disclosed. The expectation is that in the medium term the transitional capital adequacy ratio will converge with the fully loaded capital adequacy ratio, as the transitional provisions expire.

Most of the transitional provisions, if applied, allow for a favourable treatment of specific capital components or risk exposure items, resulting in a marginal improvement in the capital adequacy ratios. Application of the transitional provisions is mostly discretionary. An application decision is evaluated in the context of estimated positive impact on the capital adequacy ratio versus the resources required to develop the systems and the processes to implement each transitional provision.

The transitional provisions that the Group and the Bank has applied for the period end capital adequacy calculations:

**The regulation (EU) 2017/2395** which permits specific proportion of the IFRS 9 implementation impact to be amortised over a five-year period (starting from 2018) for capital adequacy calculation purposes.

All other transitional provisions for which the Group and the Bank is eligible are not applied as of the period end and are still in the assessment phase, implementation phase or have been decided not to be implemented.

#### Fully loaded capital adequacy ratio (i.e. excluding transitional adjustments, including audited 6m 2021 profits, excluding unaudited Q3 2021 profits)

	EUR thousands	
	30/09/2021 Group	31/12/2020 Group
Common equity Tier 1 capital, fully loaded	365,236	336,917
Tier 2 capital	60,000	60,000
<b>Total own funds, fully loaded</b>	<b>425,236</b>	<b>396,917</b>
<b>Total risk exposure amount, fully loaded</b>	<b>2,313,344</b>	<b>1,539,013</b>
<b>Total capital adequacy ratio, fully loaded</b>	<b>18.4%</b>	<b>25.8%</b>
<b>Common equity Tier 1 capital ratio, fully loaded</b>	<b>15.8%</b>	<b>21.9%</b>



## OWN FUNDS

The capital of AS Citadele banka consists of two types of instruments – ordinary shares and subordinated debt securities issued. For more information on the bondholders and shareholders of the Bank refer to the latest annual report.

### EU KM1 - Key metrics template

	a	b	c	d	e	
	30/09/2021	30/06/2021	31/03/2021	31/12/2020	30/09/2020	
<b>Available own funds (amounts)</b>						
1	Common Equity Tier 1 (CET1) capital	368,162	336,056	337,283	341,013	314,991
2	Tier 1 capital	368,162	336,056	337,283	341,013	314,991
3	Total capital	428,162	396,056	397,283	401,013	374,991
<b>Risk-weighted exposure amounts</b>						
4	Total risk-weighted exposure amount	2,315,769	2,206,291	2,261,962	1,542,620	1,687,916
<b>Capital ratios (as a percentage of risk-weighted exposure amount)</b>						
5	Common Equity Tier 1 ratio (%)	15.9%	15.2%	14.9%	22.1%	18.7%
6	Tier 1 ratio (%)	15.9%	15.2%	14.9%	22.1%	18.7%
7	Total capital ratio (%)	18.5%	18.0%	17.6%	26.0%	22.2%
<b>Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)</b>						
EU 7a	Additional CET1 SREP requirements (%)	1.3%	1.3%	1.3%	1.3%	1.3%
EU 7b	Additional AT1 SREP requirements (%)	0.4%	0.4%	0.4%	0.4%	0.4%
EU 7c	Additional T2 SREP requirements (%)	0.6%	0.6%	0.6%	0.6%	0.6%
EU 7d	Total SREP own funds requirements (%)	10.3%	10.3%	10.3%	10.3%	10.3%
<b>Combined buffer requirement (as a percentage of risk-weighted exposure amount)</b>						
8	Capital conservation buffer (%)	2.5%	2.5%	2.5%	2.5%	2.5%
EU 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	-	-	-	-	-
9	Institution specific countercyclical capital buffer (%)	0.0%	0.0%	0.0%	0.0%	0.0%
EU 9a	Systemic risk buffer (%)	-	-	-	-	-
10	Global Systemically Important Institution buffer (%)	-	-	-	-	-
EU 10a	Other Systemically Important Institution buffer	1.5%	1.5%	1.5%	1.5%	1.5%
11	Combined buffer requirement (%)	4.0%	4.0%	4.0%	4.0%	4.0%
EU 11a	Overall capital requirements (%)	14.3%	14.3%	14.3%	14.3%	14.3%
12	CET1 available after meeting the total SREP own funds requirements (%)	5.6%	4.9%	4.6%	11.8%	8.4%
<b>Leverage ratio</b>						
13	Leverage ratio total exposure measure	4,975,079	4,854,261	4,733,548	4,621,881	4,453,251
14	Leverage ratio	7.4%	6.9%	7.1%	7.4%	7.1%
<b>Additional own funds requirements to address risks of excessive leverage (as a percentage of leverage ratio total exposure amount)</b>						
EU 14a	Additional CET1 leverage ratio requirements (%)	3.0%	3.0%	3.0%	3.0%	3.0%
EU 14b	Additional AT1 leverage ratio requirements (%)	3.0%	3.0%	3.0%	3.0%	3.0%
EU 14c	Additional T2 leverage ratio requirements (%)	n/a	n/a	n/a	n/a	n/a
EU 14d	Total SREP leverage ratio requirements (%)	3.0%	3.0%	3.0%	3.0%	3.0%
EU 14e	Applicable leverage buffer	0.0%	0.0%	0.0%	0.0%	0.0%
EU 14f	Overall leverage ratio requirements (%)	3.0%	3.0%	3.0%	3.0%	3.0%
<b>Liquidity Coverage Ratio</b>						
15	Total high-quality liquid assets (HQLA) (Weighted value - average)	1,217,737	1,283,317	1,215,071	2,061,640	1,697,740
EU 16a	Cash outflows - Total weighted value	492,146	724,200	638,161	625,221	565,153
EU 16b	Cash inflows - Total weighted value	72,948	47,275	70,740	46,298	129,784
16	Total net cash outflows (adjusted value)	626,184	68,769	567,421	578,923	435,422
17	Liquidity coverage ratio (%)	194%	187%	214%	356%	390%
<b>Net Stable Funding Ratio</b>						
18	Total available stable funding	3,838,052	3,818,011	-	-	-
19	Total required stable funding	2,804,776	1,938,354	-	-	-
20	NSFR ratio (%)	137%	197%	-	-	-

EU 2017/2395, IFRS 9-FL: Comparison of institutions' own funds and capital and leverage ratios with and without the application of transitional arrangements for IFRS 9 or analogous ECLs

	30/09/2021	30/06/2021	31/03/2021	31/12/2020	30/09/2020	
<b>Available capital (amounts)</b>						
1	Common Equity Tier 1 (CET1) capital	368,162	336,056	337,283	341,013	314,991
2	Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	365,236	333,130	334,357	336,917	310,894
3	Tier 1 capital	368,162	336,056	337,283	341,013	314,991
4	Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	365,236	333,130	334,357	336,917	310,894
5	Total capital	428,162	396,056	397,283	401,013	374,991
6	Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	425,236	393,130	394,357	396,917	370,894
<b>Risk-weighted assets (amounts)</b>						
7	Total risk-weighted assets	2,315,769	2,206,291	2,261,962	1,542,620	1,687,916
8	Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	2,313,344	2,203,802	2,259,426	1,539,012	1,684,217
<b>Capital ratios</b>						
9	Common Equity Tier 1 (as a percentage of risk exposure amount)	15.9%	15.2%	14.9%	22.1%	18.7%
10	Common Equity Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	15.8%	15.1%	14.8%	21.9%	18.5%
11	Tier 1 (as a percentage of risk exposure amount)	15.9%	15.2%	14.9%	22.1%	18.7%
12	Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	15.8%	15.1%	14.8%	21.9%	18.5%
13	Total capital (as a percentage of risk exposure amount)	18.5%	18.0%	17.6%	26.0%	22.2%
14	Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	18.4%	17.8%	17.5%	25.8%	22.0%
<b>Leverage ratio</b>						
15	Leverage ratio total exposure measure	4,975,079	4,854,261	4,733,548	4,621,881	4,453,251
16	Leverage ratio	7.4%	6.9%	7.1%	7.4%	7.1%
17	Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	7.3%	6.9%	7.1%	7.3%	7.0%

EU OV1 – Overview of total risk exposure amounts

	RWAs		Minimum capital requirements	
	30/09/2021	31/12/2020	30/09/2021	
1	Credit risk (excluding CCR)	2,100,509	1,337,282	168,041
2	Of which the standardised approach	2,100,509	1,337,282	168,041
3	Of which the foundation IRB (FIRB) approach	-	-	-
4	Of which: slotting approach	-	-	-
EU 4a	Of which: equities under the simple risk weighted approach	-	-	-
5	Of which the advanced IRB (AIRB) approach	-	-	-
6	CCR	24,724	4,290	1,978
7	Of which the standardised approach	-	3,357	-
8	Of which internal model method (IMM)	-	-	-
EU 8a	Of which exposures to a CCP	-	-	-
EU 8b	Of which credit valuation adjustment - CVA	3,973	933	318
9	Of which other CCR	20,751	-	1,660
15	Settlement risk	-	-	-
16	Securitisation exposures in the non-trading book (after the cap)	-	-	-
17	Of which SEC-IRBA approach	-	-	-
18	Of which SEC-ERBA (including IAA)	-	-	-
19	Of which SEC-SA approach	-	-	-
EU 19a	Of which 1250%/ deduction	-	-	-
20	Position, foreign exchange and commodities risks (Market risk)	3,178	13,690	254
21	Of which the standardised approach	3,178	13,690	254
22	Of which IMA	-	-	-
EU 22a	Large exposures	-	-	-
23	Operational risk	187,358	187,358	14,989
EU 23a	Of which basic indicator approach	-	-	-
EU 23b	Of which standardised approach	187,358	187,358	14,989
EU 23c	Of which advanced measurement approach	-	-	-
24	Amounts below the thresholds for deduction (subject to 250% risk weight)	-	-	-
29	<b>Total</b>	<b>2,315,769</b>	<b>1,542,620</b>	<b>185,262</b>



## CREDIT RISK AND CREDIT RISK MITIGATION (CRM)

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.

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

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

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.

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 connected customers, limit for large risk exposures, limit for transactions with the Group's related parties, industry limit, limit by customer type, loan product type, collateral type, intra-group transactions. 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.

## 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.

## LEVERAGE RATIO

Leverage ratio is calculated as Tier 1 capital versus the total exposure measure. The minimum requirement is 3%. The exposure measure includes both non-risk based on-balance sheet and off-balance sheet items calculated in accordance with the capital requirements regulation. The leverage ratio and the risk-based capital adequacy ratio requirements are complementary, with the leverage ratio defining the minimum capital to total exposure requirement and the risk-based capital adequacy ratios limiting bank risk-taking.

## 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.

#### Exposures in equities not included in the trading book

None of the Group's investments in the equity exposures is included in the trading book. Information on the Group's investments in the equities, including carrying value, applied valuation techniques, fair value hierarchy level and estimated fair value, is disclosed at AS Citadele banka latest financial report which is available at [www.cblgroup.com](http://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.

#### Currency risk

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

Currency risk management in the Group is carried out in accordance with Currency Risk Management Policy. Currency risk is assessed and decisions are made by the FMCRC. The decisions of the FMCRC are approved by the Bank's Management Board. The FMCRC defines the acceptable currency risk level and the Group's internal limit system, as well as monitors compliance with these limits.

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

#### Interest rate risk

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

Interest rate risk management in the Group is carried out in accordance with Interest Rate Risk Management Policy. Interest rate risk is assessed and decisions are taken by the Assets and Liabilities Management Committee (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.

The general principles of the liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR) as measurements of the Bank's and the Group's liquidity position are defined in the Regulation (EC) No 575/2013. The Commission Delegated Regulation (EU) 2015/61 defines general LCR calculation principles in more details. The minimum LCR requirement is 100% and it represents the amount of liquidity available to cover calculated net future liquidity outflows. The Bank and the Group is compliant with LCR requirements.

**EU LIQ1 - Quantitative information of LCR**

In template "EU LIQ1" the disclosed LCR information is calculated as the simple average of months-end observations over the twelve months preceding the end of each quarter. In other LCR disclosures in this report non-average end of the month figures may be disclosed. Non-average and end of the months figures will not reconcile.

Scope of consolidation: consolidated		a	b	c	d	e	f	g	h
		Total unweighted value (average)				Total weighted value (average)			
	Quarter ending on	30/09/2021	30/06/2021	31/03/2021	31/12/2020	30/09/2021	30/06/2021	31/03/2021	31/12/2020
EU 1a	Number of data points used in the calculation of averages	12	12	12	12	12	12	12	12
<b>HIGH-QUALITY LIQUID ASSETS</b>									
1	Total high-quality liquid assets (HQLA), after application of haircuts in line with Article 9 of regulation (EU) 2015/61	n/a	n/a	n/a	n/a	1,209,409	1,533,023	1,701,381	1,831,778
<b>CASH - OUTFLOWS</b>									
2	retail deposits and deposits from small business customers, of which:	2,544,085	2,524,032	2,516,255	2,378,509	202,107	199,173	194,747	187,027
3	<i>Stable deposits</i>	1,603,429	1,472,393	1,411,656	1,350,386	80,171	73,620	70,583	67,519
4	<i>Less stable deposits</i>	740,425	684,101	677,672	670,222	95,312	88,613	88,696	88,409
5	Unsecured wholesale funding	1,029,762	916,073	891,584	866,682	448,668	380,896	374,059	366,120
6	<i>Operational deposits (all counterparties) and deposits in networks of cooperative banks</i>	152,193	151,495	142,674	130,873	37,093	36,771	34,627	31,777
7	<i>Non-operational deposits (all counterparties)</i>	877,569	764,578	748,910	735,809	411,576	344,124	339,432	334,343
8	<i>Unsecured debt</i>	-	-	-	-	-	-	-	-
9	<i>Secured wholesale funding</i>	n/a	n/a	n/a	n/a	-	-	-	-
10	Additional requirements	266,096	260,753	235,847	250,916	26,666	24,992	22,678	26,566
11	<i>Outflows related to derivative exposures and other collateral requirements</i>	2,120	1,794	2,013	2,248	2,120	1,794	2,013	2,248
12	<i>Outflows related to loss of funding on debt products</i>	-	-	-	-	-	-	-	-
13	<i>Credit and liquidity facilities</i>	263,976	258,959	233,834	248,668	24,546	23,198	20,665	24,318
14	Other contractual funding obligations	25,214	13,533	8,157	2,996	25,214	13,533	8,157	2,996
15	Other contingent funding obligations	44,884	29,070	22,945	20,759	-	1,496	-	-
16	<b>TOTAL CASH OUTFLOWS</b>	n/a	n/a	n/a	n/a	702,655	620,090	599,641	582,709
<b>CASH - INFLOWS</b>									
17	Secured lending (e.g. reverse repos)	-	-	-	-	-	-	-	-
18	Inflows from fully performing exposures	89,427	94,965	122,184	137,875	78,026	85,369	112,398	126,118
19	Other cash inflows	2,742	3,776	4,292	4,403	2,741	3,775	4,291	4,402
	(Difference between total weighted inflows and total weighted outflows)	n/a	n/a	n/a	n/a	-	-	-	-
EU-19a	arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)	-	-	-	-	-	-	-	-
EU-19b	(Excess inflows from a related specialised credit institution)	n/a	n/a	n/a	n/a	-	-	-	-
20	<b>TOTAL CASH INFLOWS</b>	92,169	98,740	126,476	142,277	80,767	89,145	116,690	130,521
EU-20a	<i>Fully exempt inflows</i>	-	-	-	-	-	-	-	-
EU-20b	<i>Inflows subject to 90% cap</i>	-	-	-	-	-	-	-	-
EU-20c	<i>Inflows subject to 75% cap</i>	92,169	98,740	126,476	142,330	80,767	89,145	116,690	130,521
<b>TOTAL ADJUSTED VALUE</b>									
21	LIQUIDITY BUFFER	n/a	n/a	n/a	n/a	1,209,409	1,533,023	1,701,381	1,831,778
22	TOTAL NET CASH OUTFLOWS	n/a	n/a	n/a	n/a	621,888	530,945	482,952	452,188
23	LIQUIDITY COVERAGE RATIO	n/a	n/a	n/a	n/a	194%	289%	352%	405%

**EU LIQB on qualitative information on LCR, which complements template EU LIQ1**

**Qualitative information**

- (a) Explanations on the main drivers of LCR results and the evolution of the contribution of inputs to the LCR's calculation over time:  
The LCR is affected by depositors' activities, that is inflows and outflows of funds for operational or economic reasons, and corresponding changes in the HQLA.
- (b) Explanations on the changes in the LCR over time:  
LCR dynamics was affected by the acquisition of UniCredit leasing portfolio in January 2021 when the prefunded amount was disbursed to the seller and an organic growth of deposit base.
- (c) Explanations on the actual concentration of funding sources:  
The Group is primarily deposit funded. Deposits are diversified among Retail and Corporate segments.
- (d) High-level description of the composition of the institution's liquidity buffer:  
Mainly comprised of central bank balances and high quality debt securities.
- (e) Derivative exposures and potential collateral calls:  
Derivatives are mainly used for currency mismatch management. Collateral pledged and received can be volatile over time depending on the underlying risk factor dynamics, mainly FX rates, but is immaterial in absolute terms due to short tenor and low gross volumes.
- (f) Currency mismatch in the LCR:  
The Group predominantly operates in EUR currency and has low levels of assets and liabilities in foreign currencies. Low currency mismatch in LCR is observed.
- (g) Other items in the LCR calculation that are not captured in the LCR disclosure template but that the institution considers relevant for its liquidity profile:  
n/a

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

Operational risk management in the Group is carried out in accordance with Operational Risk Management Policy. 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 specific transactions, but also understand 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 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