AS Citadele banka

Risk management and capital adequacy report (pillar 3 disclosures)

For the three months ended
31 March 2023

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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.

Refer to the separate report on remuneration policy for disclosures on remuneration prepared in accordance with the requirements of Articles 74(3) and 75(2) of Directive 2013/36/EU and Article 450 of Regulation (EU) No 575/2013, guidelines of European Banking Authority (including EBA/GL/2021/04), regulations issued by the supervisory authorities and other relevant rules.

AS Citadele banka has subsidiaries, which are financial institutions, thus it needs to comply with the capital adequacy, liquidity coverage ratio (LCR), net stable funding ratio (NSFR), 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 position 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
SIA Citadele Leasing	Full consolidation	Full consolidation	Leasing
Kaleido Privatbank AG (Discontinued operations held for sale)	Full consolidation	Full consolidation	Banking
SIA Citadele Factoring	Full consolidation	Full consolidation	Leasing and factoring
IPAS CBL Asset Management	Full consolidation	Full consolidation	Investment management company
UAB Citadele Factoring	Full consolidation	Full consolidation	Leasing and factoring
SIA Hortus Residential	Full consolidation	Full consolidation	Support services
AS CBL Atklātais Pensiju Fonds	Full consolidation	Full consolidation	Pension fund
OU Citadele Factoring	Full consolidation	Full consolidation	Leasing and factoring
SIA Mobilly (Investments in associates accounted for using the equity method)	Equity method	Equity method	Electronic money institution
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 "Policy on the Assessment of the Suitability of Members of the Supervisory Board, 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 supervisory authorities. 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.

For full list of directorships held by the members of Supervisory Board and Management Board please refer to the "Committees" subsection of the "Governance" section of www.cblgroup.com.

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 the risk committees represent various operations of the Group in order to balance business and risk within the respective risk committees. Annually Group defines its Risk Appetite Framework which sets acceptable risk-taking limits across all relevant risk types, considering business goals, macroeconomic environment and regulatory setting. Risk appetite limits are cascaded to all risk management strategies and implemented operationally through detailed internal regulations.

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 Management Division.

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, rules and recommendations issued by supervisory authorities 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 supervisory authority. The 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 supervisory authority. As of the period end based on the assessment of the supervisory authority an additional 2.50% own funds requirement is determined to cover Pillar 2 risks. Thus, as of the period end Citadele shall at all times meet, on a consolidated basis, a total SREP capital requirement (TSCR) of 10.5% (which includes a Pillar 2 additional own funds requirement of 2.5% to be held in the form of 56.25% of Common Equity Tier 1 (CET1) capital and 75% of Tier 1 capital, as a minimum).

On top of the minimum capital adequacy ratios and the Pillar 2 additional 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), as of period end must also comply with the O-SII capital buffer requirement set by the supervisory authority at 1.75%.

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 had decreased to almost 0%. Since then, some countries have announced planed future increases in countercyclical capital buffer levels which, after prespecified delay, one-by-one will start to become effective.

The Pillar 2 Guidance (P2G) is a bank-specific recommendation that indicates the level of capital that the supervisory authority expects banks to maintain in addition to their binding capital requirements. It serves as a buffer for banks to withstand stress. The Pillar 2 Guidance is determined as part of the Supervisory Review and Evaluation Process (SREP) and for Citadele as of period end is set at 1.5%. Unlike the Pillar 2 Requirement, the Pillar 2 Guidance is not legally binding.

The Group and the Bank applies requirements of minimum loss coverage for non-performing exposures in line with regulation (EU) 2019/630. 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 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 31 March 2023

	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%
Pillar 2 additional own funds requirement (individually determined by the supervisory authority in the SREP, P2R)	1.41%	1.88%	2.50%
Capital buffer requirements:			
Capital conservation buffer	2.50%	2.50%	2.50%
O-SII capital buffer	1.75%	1.75%	1.75%
Systemic risk buffer	0.06%	0.06%	0.06%
Countercyclical capital buffer	0.15%	0.15%	0.15%
Capital requirement	**10.37%**	**12.34%**	**14.96%**
Pillar 2 Guidance (P2G)	1.50%	1.50%	1.50%
Non-legally binding capital requirement with Pillar 2 Guidance	**11.87%**	**13.84%**	**16.46%**

Capital adequacy ratio (excluding unaudited net result for the period and EUR 20.0 million proposed dividends)

	EUR thousands	
	31/03/2023 Group	31/12/2022 Group
Common equity Tier 1 capital		
Paid up capital instruments and share premium	157,702	157,702
Retained earnings	273,080	273,080
Proposed dividends	(20,000)	(20,000)
Regulatory deductions	(23,956)	(26,588)
Other capital components and transitional adjustments, net	3,342	4,364
Tier 2 capital		
Eligible part of subordinated liabilities	58,609	59,595
Total own funds	**448,777**	**448,153**
Risk weighted exposure amounts for credit risk, counterparty credit risk and dilution risk	2,042,313	2,080,113
Total exposure amounts for position, foreign currency open position and commodities risk	2,278	9,944
Total exposure amounts for operational risk	237,799	237,799
Total exposure amounts for credit valuation adjustment	1,008	1,570
Total risk exposure amount	**2,283,398**	**2,329,426**
Common equity Tier 1 capital ratio	**17.1%**	**16.7%**
Total capital adequacy ratio	**19.7%**	**19.2%**

Transitional adjustments applied

As of 31 March 2023, no transitional provisions were applied in capital adequacy calculation. Fully loaded capital adequacy ratio equals transitional capital adequacy ratio as of the period end.

As of 31 December 2022, the transitional provisions that the Group and the Bank applied for the period end capital adequacy calculations were: ***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.

Fully loaded capital adequacy ratio (i.e. excluding transitional adjustments, excluding net result for the period and EUR 20.0 million proposed dividends)

	EUR thousands	
	31/03/2023 Group	31/12/2022 Group
Common equity Tier 1 capital, fully loaded	390,168	387,095
Tier 2 capital	58,609	59,595
Total own funds, fully loaded	**448,777**	**446,690**
Total risk exposure amount, fully loaded	**2,283,398**	**2,328,275**
Common equity Tier 1 capital ratio, fully loaded	**17.1%**	**16.6%**
Total capital adequacy ratio, fully loaded	**19.7%**	**19.2%**

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 (excluding unaudited profits)

		a	b	c	d	e
		31/03/2023	**31/12/2022**	**30/09/2022**	**30/06/2022**	**31/03/2022**
	Available own funds (amounts)					
1	Common Equity Tier 1 (CET1) capital	390,168	388,558	372,603	377,920	382,189
2	Tier 1 capital	390,168	388,558	372,603	377,920	382,189
3	Total capital	448,777	448,153	432,603	437,920	442,189
	Risk-weighted exposure amounts					
4	Total risk-weighted exposure amount	2,283,398	2,329,426	2,559,276	2,544,564	2,423,670
	Capital ratios (as a percentage of risk-weighted exposure amount)					
5	Common Equity Tier 1 ratio (%)	17.1%	16.7%	14.6%	14.9%	15.8%
6	Tier 1 ratio (%)	17.1%	16.7%	14.6%	14.9%	15.8%
7	Total capital ratio (%)	19.7%	19.2%	16.9%	17.2%	18.2%
	Additional own funds requirements to address risks other than the risk of excessive leverage (as a percentage of risk-weighted exposure amount)					
EU 7a	Additional own funds requirements to address risks other than the risk of excessive leverage (%)	2.5%	2.5%	2.5%	2.5%	2.5%
EU 7b	of which: to be made up of CET1 capital (percentage points)	1.4%	1.4%	1.4%	1.4%	1.4%
EU 7c	of which: to be made up of Tier 1 capital (percentage points)	1.9%	1.9%	1.9%	1.9%	1.9%
EU 7d	Total SREP own funds requirements (%)	10.5%	10.5%	10.5%	10.5%	10.5%
	Combined buffer requirement (as a percentage of risk-weighted exposure amount)					
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 (%)	0.2%	0.2%	0.0%	0.0%	0.0%
EU 9a	Systemic risk buffer (%)	0.1%	0.1%	-	-	-
10	Global Systemically Important Institution buffer (%)	-	-	-	-	-
EU 10a	Other Systemically Important Institution buffer	1.8%	1.5%	1.5%	1.5%	1.5%
11	Combined buffer requirement (%)	4.5%	4.2%	4%	4%	4%
EU 11a	Overall capital requirements (%)	15.0%	14.7%	14.5%	14.5%	14.5%
12	CET1 available after meeting the total SREP own funds requirements (%)	9.2%	8.7%	6.4%	6.7%	7.7%
	Leverage ratio					
13	Total exposure measure	5,199,255	5,435,700	5,203,988	5,129,303	5,141,487
14	Leverage ratio (%)	7.5%	7.1%	7.2%	7.4%	7.4%
	Additional own funds requirements to address the risk of excessive leverage (as a percentage of total exposure measure)					
EU 14a	Additional own funds requirements to address the risk of excessive leverage (%)	0.0%	0.0%	0.0%	0.0%	0.0%
EU 14b	of which: to be made up of CET1 capital (percentage points)	0.0%	0.0%	0.0%	0.0%	0.0%
EU 14c	Total SREP leverage ratio requirements (%)	3.0%	3.0%	3.0%	3.0%	3.0%
	Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure measure)					
EU 14d	Leverage ratio buffer requirement (%)	0.0%	0.0%	0.0%	0.0%	0.0%
EU 14e	Overall leverage ratio requirements (%)	3.0%	3.0%	3.0%	3.0%	3.0%
	Liquidity Coverage Ratio					
15	Total high-quality liquid assets (HQLA) (Weighted value - average)	1,132,958	1,104,523	1,135,324	1,169,319	1,211,800
EU 16a	Cash outflows - Total weighted value	727,296	656,268	654,770	665,604	672,942
EU 16b	Cash inflows - Total weighted value	73,862	45,945	52,268	59,611	64,729
16	Total net cash outflows (adjusted value)	653,434	610,323	602,502	605,993	608,213
17	Liquidity coverage ratio (%)	173%	181%	188%	193%	199%
	Net Stable Funding Ratio					
18	Total available stable funding	3,790,678	3,763,818	3,835,856	3,781,872	3,771,886
19	Total required stable funding	2,692,252	2,844,055	2,909,299	2,826,367	2,123,712
20	NSFR ratio (%)	141%	132%	132%	134%	178%

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

		31/03/2023	31/12/2022	30/09/2022	30/06/2022	31/03/2022
	Available capital (amounts)					
1	Common Equity Tier 1 (CET1) capital	390,168	388,558	372,603	377,920	382,189
2	Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	390,168	387,095	371,140	376,457	380,726
3	Tier 1 capital	390,168	388,558	372,603	377,920	382,189
4	Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	390,168	387,095	371,140	376,457	380,726
5	Total capital	448,777	448,153	432,603	437,920	442,189
6	Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	448,777	446,690	431,140	436,457	440,726
	Risk-weighted assets (amounts)					
7	Total risk-weighted assets	2,283,398	2,329,426	2,559,276	2,536,808	2,423,264
8	Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	2,283,398	2,328,275	2,558,108	2,535,642	2,422,069
	Capital ratios					
9	Common Equity Tier 1 (as a percentage of risk exposure amount)	17.1%	16.7%	14.6%	14.9%	15.8%
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	17.1%	16.6%	14.5%	14.8%	15.7%
11	Tier 1 (as a percentage of risk exposure amount)	17.1%	16.7%	14.6%	14.9%	15.8%
12	Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	17.1%	16.6%	14.5%	14.8%	15.7%
13	Total capital (as a percentage of risk exposure amount)	19.7%	19.2%	16.9%	17.3%	18.2%
14	Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	19.7%	19.2%	16.9%	17.2%	18.2%
	Leverage ratio					
15	Leverage ratio total exposure measure	5,199,255	5,435,700	5,203,988	5,129,303	5,140,820
16	Leverage ratio	7.5%	7.1%	7.2%	7.4%	7.4%
17	Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	7.5%	7.1%	7.1%	7.3%	7.4%

EU OV1 – Overview of total risk exposure amounts

		RWAs		Minimum capital requirements
		31/03/2023	31/12/2022	31/03/2023
1	Credit risk (excluding CCR)	2,038,705	2,074,211	163,097
2	*Of which the standardised approach*	*2,038,705*	*2,074,211*	*163,097*
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	*4,616*	*7,472*	*369*
7	*Of which the standardised approach*	-	-	-
8	*Of which internal model method (IMM)*	-	-	-
EU 8a	*Of which exposures to a CCP*	-	-	-
EU 8b	*Of which credit valuation adjustment - CVA*	*1,009*	*1,570*	*81*
9	*Of which other CCR*	*3,607*	*5,902*	*289*
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)	*2,278*	9,944	*182*
21	*Of which the standardised approach*	*2,278*	*9,944*	*182*
22	*Of which IMA*	-	-	-
EU 22a	Large exposures	-	-	-
23	Operational risk	237,799	237,799	19,024
EU 23a	*Of which basic indicator approach*	-	-	-
EU 23b	*Of which standardised approach*	*237,799*	*237,799*	*19,024*
EU 23c	*Of which advanced measurement approach*	-	-	-
24	**Amounts below the thresholds for deduction (subject to 250% risk weight)**	-	-	-
29	**Total**	**2,283,398**	**2,329,426**	**182,672**

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 the credit risk management is to ensure a sound, sustainable and diversified loan and securities portfolios, which generates returns that correspond to the assumed level of risk and are characterized by high resilience against external shocks.

Credit risk management is based on an adequate assessment of a credit risk and a proper decision-making in relation to such risk. The lending decision is based on repayment capacity of the borrower and an additional alternative recovery option in case of default or material deterioration of the borrower's risk profile.

In cases when significant risk is to be undertaken, the credit risk analysis is performed by independent units of the Risk Division. The credit risk analysis consists of risk identification, PD calculation, an assessment of customer's creditworthiness and collateral quality and liquidity. The analysis of a legal entity's creditworthiness includes risk identification and an assessment of the shareholder structure and management, industry and peers, business model and project financed as well as an analysis of its credit history and current and forecasted financial situation and its sensitivity to key risk drivers and analysis of ESG factors. The assessment of a private individual's creditworthiness consists of the credit history and affordability analysis. For significant exposures decision on loan origination is 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 or performs internal counterparty financial analysis, if external rating is not assigned, 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, the client's financial position, early warning indicators, payment discipline and client's ability to meet contractual obligations are being regularly evaluated and monitored to timely identify credit quality deterioration and apply appropriate classification.

The Group monitors its loan portfolio and securities portfolio and regularly assesses its structure, quality, concentration levels, portfolio performance trends and overall 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, control of compliance with credit risk concentration limits. Credit risk identification, monitoring and reporting is the responsibility of the Risk Management Division.

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 foreign exchange risk. Risk appetite for the open foreign exchange position is low, and the Group executes counterparty risk assessment and accepts only counterparties which are within its risk appetite limits.

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 Simplified Standardised Approach (Simplified SA CCR) 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.

The position risk of financial instruments is managed through diversification by country, sector, industry and elaborate limit control. Issuers are internally risk graded. The exposure level limits, after in depth analysis, are set by the FMCRC, observing concentration risk levels set in the Group's Risk Strategy and other rules set by the Group Investment Committee (GIC) and specified in the Risk Strategy. The decisions of GIC and FMCRC are approved by the Management Board

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.

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 and limits set in the Group's Risk Appetite Framework and Risk Strategy. FMCRC oversees and assess currency risk level within the Group, monitors compliance and the fulfilment of the limits, and sets limits for individual dealing desks within the overall risk limits. The decisions of the FMCRC are approved by the Bank's Management Board.

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

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 and sets its internal limits more prudently than the regulatory limits.

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. Acceptable interest rate risk level accompanied with the relevant limits is defined in the Group's Risk appetite framework and Risk strategy, ALCO 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 Division, while the Risk Management Division 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. Group sets limits for the 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 Division, 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 Management Division on a monthly basis provides information to the ALCO and the Bank's Management Board and Supervisory 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) as measurements of the Bank's and the Group's liquidity position is 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 non-average end of the month figures may be disclosed. Non-average and end of the month figures will not reconcile.

		a	b	c	d	e	f	g	h
	Scope of consolidation: consolidated	Total unweighted value (average)				Total weighted value (average)			
EU 1a	Quarter ending on	**31/03/2023**	**31/12/2022**	**30/09/2022**	**30/06/2022**	**31/03/2023**	**31/12/2022**	**30/09/2022**	**30/06/2022**
EU 1b	Number of data points used in the calculation of averages	12	12	12	12	12	12	12	12
HIGH-QUALITY LIQUID ASSETS									
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	1,132,958	1,104,523	1,135,324	1,169,319
CASH - OUTFLOWS									
2	retail deposits and deposits from small business customers, of which:	2,656,968	2,631,428	2,608,535	2,582,673	193,461	192,133	193,520	196,149
3	*Stable deposits*	1,697,493	1,696,134	1,682,864	1,660,166	84,875	84,807	84,143	83,008
4	*Less stable deposits*	770,238	766,109	765,244	757,096	98,375	97,723	98,017	97,151
5	Unsecured wholesale funding	1,002,440	909,130	910,598	936,907	464,816	419,672	417,894	424,775
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	95,058	92,176	101,688	117,340	22,640	21,969	24,376	28,340
7	*Non-operational deposits (all counterparties)*	906,891	816,463	808,792	819,449	441,685	397,212	393,400	396,317
8	*Unsecured debt*	491	491	118	118	-	-	-	-
9	*Secured wholesale funding*	n/a	n/a	n/a	n/a	-	-	-	-
10	Additional requirements	357,148	350,656	352,132	331,967	57,283	35,465	35,180	32,715
11	*Outflows related to derivative exposures and other collateral requirements*	29,332	6,454	4,763	3,283	29,332	6,454	4,763	3,283
12	*Outflows related to loss of funding on debt products*	-	-	-	-	-	-	-	-
13	*Credit and liquidity facilities*	327,816	344,202	347,370	328,684	27,951	29,010	30,417	29,432
14	Other contractual funding obligations	550	458	2,478	8,685	550	458	2,478	8,685
15	Other contingent funding obligations	226,975	173,821	122,090	70,052	11,187	8,540	5,698	3,280
16	TOTAL CASH OUTFLOWS	n/a	n/a	n/a	n/a	727,296	656,268	654,770	665,604
CASH - INFLOWS									
17	Secured lending (e.g. reverse repos)	-	-	-	-	-	-	-	-
18	Inflows from fully performing exposures	63,827	56,652	62,932	69,281	48,009	41,388	47,881	54,997
19	Other cash inflows	25,854	4,557	4,387	4,614	25,854	4,556	4,386	4,613
EU-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)	n/a	n/a	n/a	n/a	-	-	-	-
EU-19b	(Excess inflows from a related specialised credit institution)	n/a	n/a	n/a	n/a	-	-	-	-
20	TOTAL CASH INFLOWS	89,680	61,210	67,319	73,895	73,862	45,945	52,268	59,611
EU-20a	*Fully exempt inflows*	-	-	-	-	-	-	-	-
EU-20b	*Inflows subject to 90% cap*	-	-	-	-	-	-	-	-
EU-20c	*Inflows subject to 75% cap*	89,680	61,210	67,319	73,895	73,862	45,945	52,268	59,611
TOTAL ADJUSTED VALUE									
21	LIQUIDITY BUFFER	n/a	n/a	n/a	n/a	1,132,958	1,104,523	1,135,324	1,169,319
22	TOTAL NET CASH OUTFLOWS	n/a	n/a	n/a	n/a	653,434	610,323	602,502	605,993
23	LIQUIDITY COVERAGE RATIO	n/a	n/a	n/a	n/a	173%	181%	188%	193%

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 are mainly affected by developments in the deposit base and corresponding actions taken by the management to manage liquidity position accordingly.
(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 management of the open currency position. Collateral pledged and received can be volatile over time and depends on the underlying risk factor dynamics, mainly FX rates, but for the Group is immaterial in absolute terms due to short maturity 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 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 low level of risk while ensuring that any residual risk is economically justified in light of the need to sustain the Group's performance and profit in the long term.

The Group aims to avoid operational risks with a potential impact which exceeds 1 bp of CET1 capital and has a higher probability of occurrence than once per five 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;
- Measuring 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 and sensitivity analysis and stress-testing;
- Performing business continuity planning: the Group performs regular business impact analysis and has implemented a Disaster Recovery Plan;
- Assigning responsibilities: the operational risk management system includes assignment of responsibilities to certain individuals; and
- Documenting decisions: the Group maintains records in relation to the process undertaken to reach a particular decision or to prevent or mitigate a particular risk.

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