AS Citadele banka

Interim financial report

for the six months period ended 30 June 2017

Citadele

KEY FIGURES

EUR millions	Group			Bank		
	6m 2017	**6m 2016**	**Change**	**6m 2017**	**6m 2016**	**Change**
Net interest income	36.2	31.1	16%	27.1	23.6	15%
Net commission and fee income	19.3	18.3	5%	12.1	13.1	(7%)
Operating income[(1)]	64.5	70.6	(9%)	47.6	55.9	(15%)
Impairment charges and reversals, net	(6.4)	(5.1)	26%	(6.7)	(5.6)	20%
Net profit	15.0	25.4	(41%)	10.3	20.6	(50%)
Return on average assets (ROA)[(2)]	0.90%	1.66%	(0.76pp)	0.79%	1.68%	(0.89pp)
Return on average equity (ROE)[(3)]	11.5%	22.1%	(10.6pp)	8.4%	19.0%	(10.6pp)
Cost to income ratio (CIR)[(4)]	64.5%	55.8%	8.7pp	62.4%	52.5%	10.0pp
Cost of risk ratio (COR)[(5)]	1.1%	0.9%	0.2pp	1.2%	1.0%	0.2pp
Adjusted for major one-time items[(6)]:						
Net profit	15.0	14.0	7%	10.3	9.3	11%
Return on average assets (ROA)[(2)]	0.90%	0.92%	(0.02pp)	0.79%	0.75%	0.04pp
Return on average equity (ROE)[(3)]	11.5%	12.2%	(0.7pp)	8.4%	8.6%	(0.1pp)

EUR millions	Group			Bank		
	6m 2017	**12m 2016**	**Change**	**6m 2017**	**12m 2016**	**Change**
Total assets	3,291	3,350	(2%)	2,550	2,630	(3%)
Loans to customers	1,323	1,241	7%	1,071	1,009	6%
Deposits from customers	2,874	2,919	(2%)	2,141	2,149	(0%)
Shareholders' equity	270	254	6%	249	238	5%
Loan-to-deposit ratio[(7)]	46%	42%	4pp	50%	47%	3pp
Total capital adequacy ratio (CAR)	16.7%	16.5%	0.2pp	19.6%	19.0%	0.6pp
Common equity Tier 1 capital ratio (CET1)	13.8%	13.5%	0.3pp	16.0%	15.4%	0.6pp

(1) Operating income consists of the following income statement items: net interest income, net commission and fee income, net gain on transactions with financial instruments and other income.
(2) Return on average assets (ROA) is calculated as annualised net profit for the relevant period divided by the average of total assets at the beginning and the end of the period.
(3) Return on average equity (ROE) is calculated as annualised net profit for the relevant period divided by the average of total equity at the beginning and the end of the period.
(4) Cost to income ratio (CIR) is calculated as administrative expense plus amortization and depreciation plus other expense divided by operating income.
(5) Cost of risk ratio (COR) is calculated as the sum of net collective and specific loans' impairment charges, net provisions for off-balance sheet credit risk products, and recovered written-off assets divided by the average of gross loans at the beginning and the end of the period. The definition was adjusted and comparatives for 2016 have been updated accordingly.
(6) 2016 adjusted for one-time income in the amount of EUR 11.3 million due to sale of Citadele's share in Visa Europe to Visa Inc. (the Group and the Bank).
(7) Loan to deposit ratio is calculated as the carrying value of loans to customers divided by deposits from customers at the end of the relevant period.

CONTENTS

Rounding and Percentages

Some numerical figures included in these financial statements have been subject to rounding adjustments. Accordingly, numerical figures shown for the same category presented in different tables may vary slightly, and numerical figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

In these financial statements, certain percentage figures have been included for convenience purposes in comparing changes in financial and other data over time. However, certain percentages may not sum to 100% due to rounding.

LETTER FROM THE MANAGEMENT

FINANCIAL PERFORMANCE

In the first six months of the year, Citadele Group continued to demonstrate strong financial performance by growing its customer base across core business segments, ensuring a healthy increase in its capital base, as well as showing improvements in the Group's asset quality metrics.

The Group's **net profit** for the first six months of the year was EUR 15.0 million (Bank: EUR 10.3 million) compared to EUR 25.4 million (Bank: EUR 20.6 million) during the same period prior year, which included a EUR 11.3 million gain on the disposal of Citadele's shares in Visa Europe to Visa Inc. Excluding the one-time item from Visa, the prior year's net profit was EUR 14.0 million (Bank: EUR 9.3 million). Furthermore, the Group's operating profit demonstrated a healthy 7% growth rate year over year, driven by solid growths in net interest income and net commission income lines.

The Group's net profit numbers for the first six months of the year resulted in 11.5% **ROE** and 0.90% **ROA** (Bank: 8.4% ROE and 0.79% ROA) compared to 22.1% ROE and 1.66% ROA (Bank: 19.0% ROE and 1.68% ROA) during the same period in 2016. Excluding the gain from the sale of Citadele's shares in Visa, the Group delivered 12.1% ROE and 0.92% ROA (Bank: 8.5% ROE and 0.75% ROA) in the respective period prior year.

The Group's **net loan portfolio** increased by 8% to EUR 1,323 million in comparison to June 2016 with the consumer loan book in Latvia together with Estonian branch operations demonstrating the highest loan portfolio growth rates. Lending to MSMEs and Corporates also saw strong growth in the first half of 2017.

The Group's **asset quality** continued to improve with the NPL ratio decreasing to 9.3% as compared to 9.6% in June 2016. Similarly, the 90-days-past-due ratio continued to improve, reaching 4.5% as compared to 5.3% in June 2016. Cost of risk for the loan portfolio resulted in a slight increase, driven primarily by the continuous change in portfolio mix towards higher-yielding products in the Retail segment.

Net interest income increased by 16% to EUR 36.2 million (Bank: 15% to EUR 27.1 million) as a result of the growth in the size and yield of the loan portfolio. This was primarily driven by the increase in the size of the consumer, MSME and corporate loan book.

The Group's **net commission income** grew by 5% to EUR 19.3 million (Bank: -7% to EUR 12.1 million). The growth in the Group's net commission income was driven primarily by a growing Retail customer base, which positively impacted revenues received from payment cards and payment transfers. The decrease of net commission income at the Bank level was primarily due to the separation of the cash handling business into a separate legal entity.

Operating expense increased by 6% (Bank: 1%), which was driven by the Group's continuous investment into the size and development of its personnel, and the strengthening of the Group's information systems. The number of the Group's active employees decreased to 1,641 at the end of June 2017 (Bank: 1,138), compared to 1,666 at the end of June 2016 (Bank: 1,299). The decrease in the number of employees in the Bank was driven primarily by the transfer of employees from the Bank to a separate group company CBL Cash Logistics.

The Group's **liquidity** and **capital** position remained strong: the loan-to-deposit ratio remained at a prudent level of 46%, while Group's capital adequacy ratio continued to improve to reach 16.7% (Bank: 19.6%) by the end of June 2017. This was an increase of 4.2pp (Bank: 5.9pp) compared to June 2016. The capital adequacy ratio for June 2017 excludes the profit generated by the Group in the first half of 2017.

PRODUCT AND SERVICE IMPROVEMENTS

In the first half of 2017, Citadele Group continued to develop new offers, upgrade customer service and attract new customers among private individuals as well as MSMEs and Corporates.

Since the very start of the year, Citadele in Latvia began issuing contactless payment cards. In order to create a suitable infrastructure in the country for contactless payments, Citadele has installed more than 5,000 contactless payment terminals throughout Latvia. With that, more than 50% of Citadele card terminals support contactless payments.

In April 2017, Citadele Bank signed an agreement for a long-term partnership with global payments company Visa. The agreement anticipates a close cooperation in developing new and innovative card and other payment products and services that will be introduced across all three Baltic States over the next six years. The first joint product developed by Visa and Citadele is a new brand of credit card with three card types: X Card, X Platinum and X Infinite for different client segments.

Citadele Bank was also the first bank in the Baltics to introduce mobile payments using NFC. From April 2017, Citadele's mobile payment services were available for beta testing by Citadele employees and selected customer groups in order to ensure that the mobile payment solution was easy-to-use and applicable in different, everyday payment situations. Payments using mobile phones were made available to people who use smartphones with an Android operating system (*Samsung, HTC, Huawei* etc.), representing around 80% of all phone users in Latvia. For users of smartphones with other operating systems, Citadele plans to offer alternative mobile payment solutions - bracelets and stickers with *NFC* (*near-field communication*) technology. Currently, mobile payments using NFC technology are possible in over 8,000 places in Latvia where contactless payments are accepted. It is expected that by 2020 every payment terminal in Latvia will be fitted with contactless payment function.

Citadele Bank in Latvia continues to actively invest in improvements to its mobile application. Customers in Latvia are making 10 times more payments on the Bank's app than a year ago. This year, with the widening of its range of communication channels, the Bank began offering mortgage consultations in Latvia over Skype, and introduced WhatsApp and iMessage as communications channels with customers.

MOODY'S UPGRADE AND OTHER RECOGNITIONS

On 19 April 2017, Moody's Investors Service (Moody's) increased Citadele's long-term credit rating by two notches (from B1 to Ba2), and maintained positive outlook. This upgrade reflected the Group's implemented strategy to develop and grow its business across the Baltic States, as well as the Group's improved capital levels and asset quality. Moody's also positively valued the Group's rapid development over the last year.

In the 1st quarter of 2017, Citadele's operations in Latvia and Lithuania received the highest rating from the customer service research firm Dive, which undertakes an annual review of the customer service of Baltic banks. Both in Latvia and in Lithuania, Citadele was recognized as the bank with the best customer service. This represented the second year in a row that Citadele has received this award in Lithuania.

In March 2017, for the second year running, international investment fund research company Lipper recognized CBL Eastern European Bond Fund R Acc USD as the best fund in 2016 in terms of returns and risks in the European Emerging Markets Bond's category over a three and five year period.

DEVELOPMENT IN LENDING

In the first half of 2017, Citadele Group actively served and provided funds to private individuals and businesses across all three Baltic States.

Citadele Group's net loan portfolio continued to grow, reaching EUR 1,323 million, which was a growth of 8% compared to June 2016. The amount of new loans granted by the Group's banking entities in the first half of 2017 was EUR 253 million, a 27% increase compared to the same period in 2016.

For private individuals, the amount of new loans granted by the Group's banking entities in the first half of 2017 was EUR 68 million, a 7% increase compared to the same period in 2016. For MSMEs and Corporates the amount of new loans granted in the first half of 2017 was EUR 185 million, a 37% increase compared to the same period in 2016.

Client deposits in the Group reached EUR 2,874 million, showing an increase of 5% in comparison to June 2016.

In Latvia, the net loan portfolio continued to grow, reaching EUR 960 million, which is a growth of 4% compared to June 2016. The amount of new loans granted by the Bank in the first half of 2017 was EUR 139.6 million, which was a 30% increase compared to the same period in 2016.

For private individuals, the amount of newly granted loans in the first half of 2017 was EUR 48.3 million, which was a 3% decrease compared to the same period in 2016. For MSMEs and Corporates the amount of newly granted loans in the first half of 2017 was EUR 91.3 million, which was a 58% increase compared to the same period in 2016.

Client deposits in Latvia have remained stable at EUR 1,870 million in comparison to June 2016.

In Lithuania, the net loan portfolio continued to grow, reaching EUR 298 million, which was a growth of 12% compared to June 2016. The amount of new loans granted by the bank in the first half of 2017 was EUR 71.8 million, which was a 5% increase compared to the same period in 2016.

For private individuals the amount of newly granted loans in the first half of 2017 was EUR 5.6 million, which was a 60% increase compared to the same period in 2016. For MSMEs and Corporates the amount of newly granted loans in the first half of 2017 was EUR 66.2 million which was a 2% increase compared to the same period in 2016.

Client deposits in Lithuania reached EUR 406 million, which was an increase of 17% compared to June 2016.

In Estonia, the net loan portfolio continued to grow, reaching EUR 111 million, which was a growth of 24% compared to June 2016. The amount of new loans granted by the bank in the first half of 2017 was EUR 41.2 million, which was an 80% increase compared with the same period in 2016.

For private individuals the amount of newly granted loans in the first half of 2017 was EUR 14.1 million, which was a 33% increase compared with the same period in 2016. For MSMEs and Corporates the amount of newly granted loans in the first half of 2017 was EUR 27.1 million, which was a 122% increase compared with the same period in 2016.

Client deposits in Estonia reached EUR 222 million, which was an increase of 17% compared to June 2016.

The Group’s **leasing entities** showed a steady growth in their net leasing portfolios, reaching EUR 155 million across the Baltic States. This represented a 5% growth compared to June 2016, driven primarily by Latvia and Lithuania. The net leasing portfolio in Latvia grew by 11% compared to June 2016, reaching EUR 73 million. In Lithuania the net leasing portfolio grew by 21%, compared to June 2016, reaching EUR 55 million.

OTHER EVENTS

In April, Citadele signed a deal to sell its cash handling operations provided by its subsidiary CBL Cash Logistics to Lithuanian Eurocash1. After receiving all necessary approvals, the deal was closed on 1 August 2017.

Guntis Beļavskis	Klāvs Vasks
Chairman of the Management Board	Member of the Supervisory Board

Riga,
25 August 2017

CORPORATE GOVERNANCE

AS Citadele banka ("the Bank" or "Citadele bank" or "Citadele") is the parent company of Citadele Group ("the Group"). Citadele bank is a joint stock company. 75% plus one share in Citadele bank is owned by a consortium of international investors led by Ripplewood Advisors LLC. The European Bank for Reconstruction and Development (EBRD) owns 25% minus one share.

The Supervisory Board of the Bank:

Name	Current Position	Date of first appointment
Timothy Clark Collins	Chairman of the Supervisory Board	20 April 2015
Elizabeth Critchley	Deputy chairperson of the Supervisory Board	20 April 2015
James Laurence Balsillie	Member of the Supervisory Board	20 April 2015
Dhananjaya Dvivedi	Member of the Supervisory Board	20 April 2015
Lawrence Neal Lavine	Member of the Supervisory Board	20 April 2015
Klāvs Vasks	Member of the Supervisory Board	30 June 2010
Nicholas Haag	Member of the Supervisory Board	19 December 2016
Karina Saroukhanian	Member of the Supervisory Board	19 December 2016
Catherine Margaret Ashton	Member of the Supervisory Board	3 May 2017

David Shuman, a former member of the Supervisory Board, resigned on 1 February 2017. On 3 May 2017, after receiving Financial and Capital Market Commission's approval, Catherine Margaret Ashton was appointed as a Member of the Supervisory Board.

The Management Board of the Bank:

Name	Current position	Responsibility
Guntis Beļavskis	Chairman of the Management Board, per procura	Chief Executive Officer
Valters Ābele	Member of the Management Board, per procura	Chief Risk Officer
Kaspars Cikmačs	Member of the Management Board	Chief Operations Officer
Santa Purgaile	Member of the Management Board	Chief Commercial Officer Corporate
Vladislavs Mironovs	Member of the Management Board	Chief Commercial Officer Retail

In the reporting period, there were no changes in the Management Board of the Bank. Subsequent to period end, on 1 August 2017 after receiving Financial and Capital Market Commission's approval, Uldis Upenieks (Chief Compliance Officer) and Slavomir Mizak (Chief Technology Officer) were appointed as new Members of the Management Board.

STATEMENT OF THE MANAGEMENT'S RESPONSIBILITY

The Management of AS Citadele banka (hereinafter – the Bank) is responsible for the preparation of the condensed interim financial statements of the Bank as well as for the preparation of the condensed interim consolidated financial statements of the Bank and its subsidiaries (hereinafter – the Group).

The condensed interim financial statements set out on pages 9 to 41 are prepared in accordance with the source documents and present fairly the financial position of the Bank and the Group as at 30 June 2017 and 31 December 2016 and the results of their operations, changes in shareholders' equity and cash flows for the six months periods ended 30 June 2017 and 30 June 2016. The management report set out on pages 4 to 7 presents fairly the financial results of the reporting period and future prospects of the Bank and the Group.

The condensed interim financial statements are prepared on a going concern basis in accordance with IAS 34 Interim Financial Reporting as adopted by the European Union. Appropriate accounting policies have been applied on a consistent basis. Prudent and reasonable judgments and estimates have been made by the Management in the preparation of the financial statements.

The Management of AS Citadele banka is responsible for the maintenance of proper accounting records, the safeguarding of the Group's assets and the prevention and detection of fraud and other irregularities in the Group. They are also responsible for operating the Bank in compliance with the Law on Credit Institutions, regulations of the Financial and Capital Market Commission and other legislation of the Republic of Latvia applicable for credit institutions.

Guntis Beļavskis Chairman of the Management Board	Klāvs Vasks Member of the Supervisory Board

Riga,
25 August 2017

INCOME STATEMENTS

	Notes	Jan-Jun 2017 Group	Jan-Jun 2016 Group	Jan-Jun 2017 Bank	Jan-Jun 2016 Bank
		EUR 000's			
Interest income	4	46,097	40,233	35,394	31,573
Interest expense	4	(9,858)	(9,100)	(8,310)	(7,950)
Net interest income		**36,239**	**31,133**	**27,084**	**23,623**
Commission and fee income		28,664	26,498	20,744	20,183
Commission and fee expense		(9,383)	(8,208)	(8,631)	(7,114)
Net commission and fee income		**19,281**	**18,290**	**12,113**	**13,069**
Gain on transactions with financial instruments, net	5	7,591	19,889	6,756	17,793
Other income		1,358	1,260	1,690	1,427
Other expense		(679)	(425)	(277)	(85)
Administrative expenses		(38,337)	(36,633)	(28,192)	(28,162)
Amortisation and depreciation charge		(2,548)	(2,296)	(1,269)	(1,089)
Impairment charges and reversals, net	6	(6,437)	(5,110)	(6,674)	(5,583)
Profit before taxation		**16,468**	**26,108**	**11,231**	**20,993**
Corporate income tax		(1,446)	(755)	(975)	(394)
Net profit for the period		**15,022**	**25,353**	**10,256**	**20,599**
Basic earnings per share in EUR		0.10	0.16	0.07	0.13
Weighted average number of shares outstanding during the period in thousands	13	156,556	156,556	156,556	156,556

The notes on pages 14 to 41 are an integral part of these financial statements.

The financial statements on pages 9 to 41 have been approved and authorised for issue by the Management Board and the Supervisory Board and signed on their behalf by:

Guntis Beļavskis
Chairman of the Management Board

Klāvs Vasks
Member of the Supervisory Board

STATEMENTS OF COMPREHENSIVE INCOME

	EUR 000's			
	Jan-Jun 2017 Group	Jan-Jun 2016 Group	Jan-Jun 2017 Bank	Jan-Jun 2016 Bank
Net profit for the period	**15,022**	**25,353**	**10,256**	**20,599**
Other comprehensive income items that are or may be reclassified to profit or loss:				
Fair value revaluation reserve				
Fair value revaluation reserve charged to statement of income	(232)	(12,728)	(214)	(12,087)
Change in fair value and amortisation	1,429	7,826	1,147	6,279
Deferred income tax charged / (credited) directly to equity	(97)	(291)	(56)	(155)
Other reserves				
Foreign exchange revaluation and other reserves	(374)	(51)	-	-
Other comprehensive income / (loss) for the period	**726**	**(5,244)**	**877**	**(5,963)**
Total comprehensive income for the period	**15,748**	**20,109**	**11,133**	**14,636**

The notes on pages 14 to 41 are an integral part of these financial statements.

BALANCE SHEETS

	Notes	30/06/2017 Group	31/12/2016 Group	30/06/2017 Bank	31/12/2016 Bank
		EUR 000's			
Assets					
Cash and balances with central banks		689,285	799,198	578,576	647,606
Balances due from credit institutions		139,679	141,691	105,447	154,419
Securities held for trading:					
- fixed income	7	7,446	7,699	-	-
- shares and other non-fixed income	7	5,683	5,786	-	-
Derivative financial instruments		3,465	4,583	3,770	4,710
Financial assets designated at fair value through profit or loss:					
- fixed income	7	129,320	110,337	-	-
- shares and other non-fixed income	7	23,750	22,989	-	-
Available for sale securities:					
- fixed income	7	833,887	890,185	647,234	681,946
- shares and other non-fixed income	7	8,438	13,004	8,421	12,988
Loans and receivables from customers	8	1,323,113	1,240,516	1,070,976	1,008,506
Property and equipment		43,416	43,947	4,632	4,968
Intangible assets		3,082	3,075	2,801	2,762
Investments in subsidiaries	9	-	-	61,924	61,884
Current income tax assets		243	135	-	-
Deferred income tax assets	19	25,629	26,301	24,240	24,685
Other assets		54,147	40,069	41,521	25,136
Total assets		**3,290,583**	**3,349,515**	**2,549,542**	**2,629,610**
Liabilities					
Derivative financial instruments		6,057	1,817	6,105	1,923
Financial liabilities designated at fair value through profit or loss	10	36,146	39,678	-	-
Balances due to credit institutions and central banks		18,424	13,346	78,118	129,930
Deposits from customers	11	2,873,772	2,918,892	2,141,482	2,149,223
Current income tax liabilities		1,104	581	572	-
Deferred income tax liabilities		137	136	-	-
Other liabilities		26,053	26,224	15,086	15,789
Subordinated liabilities	12	58,909	94,608	58,909	94,608
Total liabilities		**3,020,602**	**3,095,282**	**2,300,272**	**2,391,473**
Equity					
Share capital	13	156,556	156,556	156,556	156,556
Reserves		2,565	1,552	1,887	1,010
Retained earnings		110,860	96,125	90,827	80,571
Total equity		**269,981**	**254,233**	**249,270**	**238,137**
Total liabilities and equity		**3,290,583**	**3,349,515**	**2,549,542**	**2,629,610**
Off-balance sheet items					
Contingent liabilities		28,437	28,204	24,079	22,997
Financial commitments		221,322	216,025	258,614	243,452

The notes on pages 14 to 41 are an integral part of these financial statements.

The financial statements on pages 9 to 41 have been approved and authorised for issue by the Management Board and the Supervisory Board and signed on their behalf by:

Guntis Beļavskis
Chairman of the Management Board

Klāvs Vasks
Member of the Supervisory Board

STATEMENTS OF CHANGES IN EQUITY

Changes in the Group's equity:

	EUR 000's						
	Attributable to equity holders of the Bank						
	Issued Share capital	Securities fair value revaluation reserve	Foreign currency retranslation	Other reser -ves	Restruc-turing reserve	Retained earnings	Total equity
Balance as at 31/12/2015	**156,556**	**8,116**	**3,829**	**271**	**(4,651)**	**55,650**	**219,771**
Total comprehensive income for the period							
Net profit for the period	-	-	-	-	-	25,353	25,353
Other comprehensive income / (loss) for the period	-	(5,193)	(51)	-	-	-	(5,244)
Transactions with shareholders							
Transfer to reserves	-	-	-	170	-	(170)	-
Balance as at 30/06/2016	**156,556**	**2,923**	**3,778**	**441**	**(4,651)**	**80,833**	**239,880**
Balance as at 31/12/2016	**156,556**	**1,695**	**4,024**	**515**	**(4,682)**	**96,125**	**254,233**
Total comprehensive income for the period							
Net profit for the period	-	-	-	-	-	15,022	15,022
Other comprehensive income / (loss) for the period	-	1,100	(374)	-	-	-	726
Transactions with shareholders							
Transfer to reserves	-	-	-	287	-	(287)	-
Balance as at 30/06/2017	**156,556**	**2,795**	**3,650**	**802**	**(4,682)**	**110,860**	**269,981**

Changes in the Bank's equity:

	EUR 000's			
	Attributable to equity holders of the Bank			
	Issued share capital	Securities fair value revaluation reserve	Retained earnings	Total equity
Balance as at 31/12/2015	**156,556**	**8,293**	**44,293**	**209,142**
Total comprehensive income for the period				
Net profit for the period	-	-	20,599	20,599
Other comprehensive income / (loss) for the period	-	(5,963)	-	(5,963)
Balance as at 30/06/2016	**156,556**	**2,330**	**64,892**	**223,778**
Balance as at 31/12/2016	**156,556**	**1,010**	**80,571**	**238,137**
Total comprehensive income for the period				
Net profit for the period	-	-	10,256	10,256
Other comprehensive income / (loss) for the period	-	877	-	877
Balance as at 30/06/2017	**156,556**	**1,887**	**90,827**	**249,270**

The notes on pages 14 to 41 are an integral part of these financial statements.

The financial statements on pages 9 to 41 have been approved and authorised for issue by the Management Board and the Supervisory Board and signed on their behalf by:

Guntis Belavskis
Chairman of the Management Board

Klāvs Vasks
Member of the Supervisory Board

STATEMENTS OF CASH FLOWS

	Notes	Jan-Jun 2017 Group	Jan-Jun 2016 Group	Jan-Jun 2017 Bank	Jan-Jun 2016 Bank
		EUR 000's			
Cash flows from operating activities					
Profit before tax		16,468	26,108	11,231	20,993
Amortisation of intangible assets and depreciation of property and equipment		2,548	2,296	1,269	1,089
Change in impairment allowances and other provisions	6	6,437	5,110	6,674	5,583
Interest income	4	(46,097)	(40,233)	(35,394)	(31,573)
Interest expense	4	9,858	9,100	8,310	7,950
Other non-cash items *		47,379	2,175	37,356	499
Cash flows before changes in assets and liabilities		**36,593**	**4,556**	**29,446**	**4,541**
Change in derivative financial instruments		5,358	2,299	5,122	2,941
(Increase) / decrease in other assets		(14,569)	(2,074)	(16,734)	(1,317)
Increase / (decrease) in other liabilities		(171)	(3,282)	(703)	(3,628)
(Increase) / decrease in trading investments and items designated at fair value through profit or loss		(22,920)	(8,831)	-	-
(Increase) / decrease in balances due from credit institutions		(3,338)	7,832	(75)	7,803
(Increase) / decrease in loans and receivables from customers		(89,843)	(65,512)	(68,726)	(35,763)
Increase / (decrease) in balances due to credit institutions and central banks		(1,137)	(23,070)	(55,523)	277
Increase / (decrease) in deposits from customers		(44,595)	164,526	(7,175)	61,141
Cash generated from / (used in) operating activities before interest and corporate income tax		**(134,622)**	**76,444**	**(114,368)**	**35,995**
Interest received during the period		45,791	40,330	35,068	31,841
Interest paid during the period		(11,363)	(9,188)	(9,887)	(8,204)
Corporate income tax paid during the period		(396)	(152)	(14)	(14)
Net cash flows from / (used in) operating activities		**(100,590)**	**107,434**	**(89,201)**	**59,618**
Cash flows from investing activities					
Purchase of property, equipment and intangible assets		(1,362)	(2,689)	(1,215)	(2,026)
Proceeds from disposal of property and equipment		38	50	13	14
Purchase of held to maturity securities		-	(181,579)	-	(181,299)
Proceeds from held to maturity securities		-	173,151	-	165,896
Purchase of available for sale securities		(267,526)	(388,991)	(229,971)	(292,178)
Cash inflows from available for sale securities		283,724	290,829	234,133	212,960
Proceeds from sale or investments in subsidiaries, net		-	-	162	(350)
Net cash flows from / (used in) investing activities		**14,874**	**(109,229)**	**3,122**	**(96,983)**
Cash flows from financing activities					
Issued / (repaid) of subordinated liabilities		(35,708)	-	(35,708)	-
Net cash flows from / (used in) financing activities		**(35,708)**	**-**	**(35,708)**	**-**
Net cash flows for the period		**(121,424)**	**(1,795)**	**(121,787)**	**(37,365)**
Cash and cash equivalents at the beginning of the period		**935,434**	**709,641**	**784,180**	**617,316**
Cash and cash equivalents at the end of the period	14	**814,010**	**707,846**	**662,393**	**579,951**

* Other non-cash items from operating activities in the 6 month period ended 30 June 2017 mostly relate to foreign exchange revaluation of securities investment.

The notes on pages 14 to 41 are an integral part of these financial statements.

The financial statements on pages 9 to 41 on have been approved and authorised for issue by the Management Board and the Supervisory Board and signed on their behalf by:

Guntis Beļavskis
Chairman of the Management Board

Klāvs Vasks
Member of the Supervisory Board

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

If not mentioned otherwise, referral to the Group's policies and procedures should be also considered as referral to the respective Bank's policies and procedures. Figures in parenthesis represent amounts as of 31 December 2016 or for the six month period ended 30 June 2016, unless stated otherwise.

NOTE 1. AUTHORISATION OF THE FINANCIAL STATEMENTS

These interim condensed financial statements have been authorised for issuance by the Management Board on 18 August 2017 and the Supervisory Board on 25 August 2017 and comprise the financial information of AS Citadele banka (hereinafter – the Bank) and its subsidiaries (together – the Group).

NOTE 2. GENERAL INFORMATION

The Bank was registered as a joint stock company on 30 June 2010. The Bank commenced its operations on 1 August 2010.

The Bank's head office is located in Riga, Latvia. The legal address of the Bank is Republikas laukums 2a, Riga, LV-1010. As of 30 June 2017, the Bank was operating a total of 33 (2016: 35) branches and client service centres in Riga and throughout Latvia. The Bank has 1 (2016: 2) foreign branch in Tallinn (Estonia). The Bank owns directly and indirectly 23 (2016: 25) subsidiaries, which operate in various financial markets sectors. The Bank is the parent company of the Group.

The Group's main areas of operation include accepting deposits from customers, granting short-term and long-term loans to a wide range of customers, servicing cards, providing finance leases, and foreign exchange transactions. The Group also offers its clients trust management and private banking services, local and international payments, as well as a wide range of other financial services.

As at 30 June 2017, the Group had 1,635 (2016: 1,666) and the Bank had 1,129 (2016: 1,299) full time equivalent active employees.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of preparation

These interim condensed financial statements are prepared in accordance with International Accounting Standard (IAS) 34, Interim Financial Reporting as adopted by EU on a going concern basis. Selected explanatory notes are included to explain events and transactions that are significant to an understanding of changes in financial position and performance of the Group and Bank since the last annual consolidated and Bank financial statements for the year ended 31 December 2016. They do not include all the information required for a complete set of financial statements prepared in accordance with IFRS as adopted by European Union. These interim condensed financial statements should be read in conjunction with the 2016 annual financial statements for the Group and the Bank.

The accounting policies used in the preparation of the interim financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2016, which have been prepared in accordance with IFRS as adopted by EU.

b) Adoption of new or revised standards and interpretations

Certain new standards, amendments to standards and interpretations have been published that become endorsed for the accounting periods beginning after 1 January 2017 or are not yet effective in the EU and have not been applied in preparing these consolidated financial statements. Those which may have significant potential effect to the Group are set out below. The Group does not plan to adopt any of these standards early.

IFRS 9 – Financial Instruments (replaces IAS 39)

Effective for annual periods beginning on or after 1 January 2018; to be applied retrospectively with some exemptions. The restatement of prior periods is not required, and is permitted only if information is available without the use of hindsight. Early application is permitted. As of issuance of these interim condensed financial statements, the Group is in the process of developing the necessary processes, systems, models and capabilities for the implementation of IFRS 9. These are expected to be evolving until the initial application of IFRS 9. The Group has started an internal implementation project. The team is dealing with direct accounting and presentation aspects of the new standard as well as related aspects like IT requirements, necessary procedures and instructions as well as development of relevant expected credit loss models. The project is Group wide. External competence is attracted where and when deemed necessary. The Group is in the final stage of the IFRS 9 implementation impact assessment. Certain system and process gaps have been identified and work is ongoing to address these on time. The Group is also working on model and IT system development and process update, followed by final documentation, instructions, employee training and subsequently testing and validation of the systems, processes and models. The Group leverages on existing definitions, processes, systems, models and data used for regulatory and risk management purposes in order to implement IFRS 9 impairment requirements, although in many areas new models and revisions to the existing models are developed. The Group has identified that the collection of sufficient historical data to support forward looking impairment models could require substantial resources.

The Group has assessed assets and liabilities, which currently are accounted at amortised cost, and which relate to the major products for 'solely payment of principal and interest (SPPI)' principle for amortised cost classification under the new standard. Based on SPPI assessment and preliminary re-assessment of business models, the impact of the change in classification and measurement requirements would not affect the Group' loans significantly if the new standard was implemented early as at the period end. For security exposures, implementation of the new standard would permit amortised cost classification for certain security classes which currently are classified as available for sale. Part of financial assets designated at fair value through profit or loss would need to be reclassified to fair value through other comprehensive income category. After reclassification this would impact the way revaluation gains are recognised in comprehensive income versus the current regime for the reclassified assets.

For measurement of expected credit losses, the Group intends to use EAD x PD x LGD approach, where EAD stands for exposure at default, PD – probability of default, and LGD – loss given default. To estimate probability weighted cash flows, the Group plans to use single scenario expected cash flow method with overlays for alternative scenarios. New impairment assessment models are being developed for both lifetime expected credit loss calculation and also for 12-months expected credit loss calculations. Model validation is planned to include reviews of input data, underlying assumptions used for expected credit loss estimation, and review of model outputs by comparing them to back-testing results. Back-testing is planned to be performed by comparing the actual historical performance of portfolio to the expected credit loss estimation results as per developed models. It is expected that 30 days past due will be one of the main quantitative indicators intended to be used to assess the "significant increase in credit risk" (proxy for transferring from stage 1 to stage 2) augmented by other additional risk factors (e.g. payment discipline, internal credit rating grade, watch-list, restructuring, industry or market conditions, collateral). Significant increase in credit risk in comparison to the initial credit risk is expected to be the criteria for transfer between impairment stages. The 'default' is expected to be defined in line with the prudential definition of the default: exposure delayed 90 and more days, significant restructuring, insolvency or bankruptcy or similar legal proceedings started and other unlikeliness to pay indicators. The Group plans to have a parallel run of expected credit loss model for the fourth quarter of 2017.

IFRS 16 – Leases (replaces IAS 17, IFRIC 4, SIC-15, SIC-27)

Effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted if the entity also applies IFRS 15. The new standard establishes principles for the recognition, measurement, presentation and disclosure of leases in a way that is different to the currently applied accounting treatment. For qualifying lease assets, upon lease commencement, a lessee has to recognise a right-of-use asset and a lease liability. The right-of-use asset is initially measured at the amount of the lease liability plus any initial direct costs. Subsequently the right-of-use asset is measured using a cost model, unless specific other conditions persists. A right-of-use asset is measured at cost less any accumulated depreciation and impairment. The lease liability is initially measured as a discounted value of payments agreed over the lease term.

A discount rate which discounts future payments to estimated present value is applied.

For lessors classification of lease as an operating lease or a finance lease remains; therefore, the Group as a lessor estimates no significant direct effect form the new standard if it was early implemented as at the period end.

For the Group as a lessee the major class of current operating lease contracts which would likely qualify for right-of-use asset are rent agreements for branch network and certain other premises used for operating needs. Most of the contracts may be early terminated. The amount of right-of-use asset and corresponding lease liability which would be recognised if the new standard was early adopted is still being evaluated by the Group.

IFRS 15 – Revenue from contracts with customers

Effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted. The new Standard provides a framework that replaces existing revenue recognition guidance in IFRS. Entities will adopt a five-step model to determine when to recognise revenue, and at what amount. The new model specifies that revenue should be recognised when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised 1) over time, in a manner that depicts the entity's performance; or 2) at a point in time, when control of the goods or services is transferred to the customer. IFRS 15 also establishes the principles that an entity shall apply to provide qualitative and quantitative disclosures which provide useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer.

Based on initial assessment of the potential impact of IFRS 15 on the Group's financial statements, management does not expect that the new standard, when initially applied, will have material impact on the Group's financial statements. The timing and measurement of the Group's revenues are not expected to change under IFRS 15 because of the nature of the Group's operations and the types of revenues it earns.

c) Functional and Presentation Currency

The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The functional currency of the Bank, its Latvian, Lithuanian, and Estonian subsidiaries, and the Group's presentation currency, is the official currency of the Republic of Latvia, Euro ("EUR"). The accompanying financial statements are presented in thousands of Euros (EUR 000's).

d) Going Concern

Having reassessed the main risks, the Management considers it appropriate to adopt going concern basis of accounting in preparing these interim financial statements; there are no material uncertainties with regard to applying going concern basis of accounting.

e) Use of estimates in the preparation of financial statements

In preparing these condensed interim financial statements, significant judgements made by the management in applying the accounting policies and the key sources of estimation uncertainty were similar to those applicable to the financial statements as at and for the year ended 31 December 2016 (evaluation of impairment for financial and non-financial asset, estimating future periods' taxable profits and applicable tax regime for deferred tax asset assessment and determination of the control of investees for consolidation purposes). Subsequent to the period end, amendments to the Latvian tax legislations that might have a significant impact on the Group's and the Bank's financials were enacted. For more details refer to Note 19 (*Events after the Balance Sheet Date*)

Interim period income tax is accrued based on the estimated tax rate that would be applicable to the expected total annual earnings. As 2016 earnings included a non-taxable gain of EUR 11.3 million from sale of Citadele's share in Visa Europe to Visa Inc., the effective tax rate for the 6 month period ended 30 June 2016 is lower than for the same period in 2017.

The Bank continued to monitor it's and the Group's loan portfolios and reassess impairment on a periodic basis in normal course of business. For details on changes in impairment please refer to Note 6 (*Impairment Charges and Reversals, net*).

NOTE 4. INTEREST INCOME AND EXPENSE

	EUR 000's			
	Jan-Jun 2017 Group	**Jan-Jun 2016 Group**	**Jan-Jun 2017 Bank**	**Jan-Jun 2016 Bank**
Interest income on:				
- financial assets measured at amortised cost:	40,024	35,649	31,452	28,444
- loans and receivables from customers	*39,531*	*34,030*	30,994	*27,255*
- balances due from credit institutions and central banks	*493*	*397*	458	*347*
- held to maturity securities	-	*1,222*	-	*842*
- available for sale securities	5,227	3,972	3,942	3,129
- held for trading securities	99	127	-	-
- financial assets designated at fair value through profit or loss	747	485	-	-
Total interest income	**46,097**	**40,233**	**35,394**	**31,573**
Interest expense on:				
- financial liabilities measured at amortised cost:	(9,722)	(8,933)	(8,310)	(7,950)
- deposits from customers	*(5,370)*	*(5,134)*	(3,843)	*(4,068)*
- subordinated liabilities	*(2,044)*	*(2,005)*	(2,044)	*(2,005)*
- balances due to credit institutions and central banks	*(1,379)*	*(984)*	(1,494)	*(1,067)*
- other interest expense	*(929)*	*(810)*	(929)	*(810)*
- interest expense on financial liabilities designated at fair value through profit or loss	(136)	(167)	-	-
Total interest expense	**(9,858)**	**(9,100)**	**(8,310)**	**(7,950)**
Net interest income	**36,239**	**31,133**	**27,084**	**23,623**

Effective interest rate on some high quality liquid assets is negative, in particular certain central bank, central government and credit institution exposures. As the interest resulting from a negative effective interest rate on financial assets reflects an outflow of economic benefits, this is presented as interest expense.

NOTE 5. GAIN ON TRANSACTIONS WITH FINANCIAL INSTRUMENTS, NET

	EUR 000's			
	Jan-Jun 2017 Group	Jan-Jun 2016 Group	Jan-Jun 2017 Bank	Jan-Jun 2016 Bank
Gain from foreign exchange trading and revaluation of open positions, net	7,446	6,057	6,542	5,428
Gain / (loss) from disposal of available for sale securities, net	232	12,728	214	12,087
Gain / (loss) from trading and revaluation of securities and derivatives held for trading purposes, net	143	580	-	278
Gain / (loss) on financial assets and financial liabilities designated at fair value through profit or loss	(230)	524	-	-
Gain on transactions with financial instruments, net	**7,591**	**19,889**	**6,756**	**17,793**

In 2016 a gain of EUR 11.3 million was recognised on the disposal of Citadele's available for sale shares in Visa Europe to Visa Inc. The consideration included a cash transfer of EUR 9.0 million, deferred cash payment of EUR 0.8 million, and an equity interest in Visa Inc. For more information on valuation of preference stocks in Visa Inc. which were received as part of the consideration refer to the Note 15 (*Fair values of financial assets and liabilities*).

NOTE 6. IMPAIRMENT CHARGES AND REVERSALS, NET

Total net impairment allowance charged to statement of income:

	EUR 000's			
	Jan-Jun 2017 Group	Jan-Jun 2016 Group	Jan-Jun 2017 Bank	Jan-Jun 2016 Bank
Loans – specifically assessed impairment	(4,797)	(3,269)	(4,453)	(3,149)
Loans – collectively assessed impairment	(2,795)	(2,952)	(2,311)	(2,664)
Available for sale securities	-	109	-	109
Other financial and non-financial assets	757	505	(182)	(286)
Recovered written-off assets	398	497	272	407
Total impairment allowance and provisions charged to income statement, net	**(6,437)**	**(5,110)**	**(6,674)**	**(5,583)**

Fully impaired assets, recovery of which may become economically unviable, may be written-off. When a loan is written-off, the claim against the borrower normally is not forgiven. From time to time previously written-off assets are recovered due to repayment, sale of pool of overdue assets to companies specialising in recoveries of balances in arrears or as a result of other resolution. Such recoveries are reported as recovered written-off assets.

Change in allowances for impairment of loans and receivables:

	EUR 000's			
	Jan-Jun 2017 Group	Jan-Jun 2016 Group	Jan-Jun 2017 Bank	Jan-Jun 2016 Bank
Total impairment allowance at the beginning of the period:	**82,529**	**90,175**	**70,672**	**73,662**
- loans – specifically assessed impairment	56,670	67,751	48,743	55,135
- loans – collectively assessed impairment	25,859	22,424	21,929	18,527
Charge:	**13,741**	**13,486**	**10,659**	**11,588**
- loans – specifically assessed impairment	7,795	8,825	5,958	7,813
- loans – collectively assessed impairment	5,946	4,661	4,701	3,775
Release:	**(6,149)**	**(7,265)**	**(3,895)**	**(5,775)**
- loans – specifically assessed impairment	(2,998)	(5,556)	(1,505)	(4,664)
- loans – collectively assessed impairment	(3,151)	(1,709)	(2,390)	(1,111)
Allowance charged to the statement of income, net:	**7,592**	**6,221**	**6,764**	**5,813**
- loans – specifically assessed impairment	4,797	3,269	4,453	3,149
- loans – collectively assessed impairment	2,795	2,952	2,311	2,664
Change of allowance due to write-offs	**(6,610)**	**(4,661)**	**(5,526)**	**(3,084)**
Effect of changes in currency exchange rates:	**(333)**	**(50)**	**(332)**	**(52)**
- loans – specifically assessed impairment	(333)	(52)	(332)	(52)
- loans – collectively assessed impairment	-	2	-	-
Total impairment allowance at the end of the period:	**83,178**	**91,685**	**71,578**	**76,339**
- loans – specifically assessed impairment	54,524	66,307	47,338	55,148
- loans – collectively assessed impairment	28,654	25,378	24,240	21,191

During the ordinary course of business the recoverability of some loans deteriorates while for others it improves; some loans which cannot be recovered are written-off. Loan write-offs directly decrease specifically assessed accumulated impairment allowance. Change in charges for collectively assessed impairment allowance in the reporting period represents a growth in the Bank's and the Group's lending business, particularly retail segment, and related increase in past due individually unimpaired loan balances.

Change in impairment of other assets:

	EUR 000's			
	Jan-Jun 2017 Group	**Jan-Jun 2016 Group**	**Jan-Jun 2017 Bank**	**Jan-Jun 2016 Bank**
Total impairment allowance at the beginning of the period:	**16,123**	**25,921**	**54,125**	**61,441**
- available for sale securities	1,640	6,924	1,640	6,924
- due from credit institutions	981	950	981	950
- other financial and non-financial assets	13,502	18,047	51,504	53,567
Charge:	**372**	**607**	**275**	**286**
- other financial and non-financial assets	372	607	275	286
Release:	**(1,129)**	**(1,221)**	**(93)**	**(109)**
- available for sale securities	-	(109)	-	(109)
- other financial and non-financial assets	(1,129)	(1,112)	(93)	-
Allowance charged to the statement of income, net:	**(757)**	**(614)**	**182**	**177**
- available for sale securities	-	(109)	-	(109)
- other financial and non-financial assets	(757)	(505)	182	286
Change of allowance due to write-offs:	**(1,553)**	**(5,473)**	**(1,123)**	**(5,174)**
- available for sale securities	-	(5,044)	-	(5,044)
- due from credit institutions	(981)	-	(981)	-
- other financial and non-financial assets	(572)	(429)	(142)	(130)
Effect of changes in currency exchange rates:	**(84)**	**(111)**	**(75)**	**(104)**
- available for sale securities	(75)	(86)	(75)	(86)
- due from credit institutions	-	(18)	-	(18)
- other financial and non-financial assets	(9)	(7)	-	-
Total impairment allowance at the end of the period:	**13,729**	**19,723**	**53,109**	**56,340**
- available for sale securities	1,565	1,685	1,565	1,685
- due from credit institutions	-	932	-	932
- other financial and non-financial assets	12,164	17,106	51,544	53,723

Changes in impairment allowance of non-financial assets consist mostly of changes in impairment for property and equipment, mainly relating to the reduction in impairment allowance for the Citadele's headquarters building. Based on the re-estimate of the fair value a reversal of impairment took place.

NOTE 7. FIXED AND NON-FIXED INCOME SECURITIES

The Group's fixed income securities by issuers profile and classification:

	EUR 000's 30/06/2017				
	Government bonds	**Municipality bonds**	**Credit institution bonds**	**Corporate and other bonds**	**Total**
Held for trading	1,016	3,327	-	3,103	7,446
Financial assets designated at fair value through profit or loss	22,217	1,318	40,996	64,789	129,320
Available for sale	377,387	-	196,139	260,361	833,887
Total fixed income securities	**400,620**	**4,645**	**237,135**	**328,253**	**970,653**

	EUR 000's 31/12/2016				
	Government bonds	**Municipality bonds**	**Credit institution bonds**	**Corporate and other bonds**	**Total**
Held for trading	795	3,610	-	3,294	7,699
Financial assets designated at fair value through profit or loss	19,839	1,434	39,828	49,236	110,337
Available for sale	399,312	-	216,989	273,884	890,185
Total fixed income securities	**419,946**	**5,044**	**256,817**	**326,414**	**1,008,221**

The Bank's fixed income securities by issuers profile and classification:

	EUR 000's 30/06/2017				
	Government bonds	Municipality bonds	Credit institution bonds	Corporate and other bonds	Total
Available for sale	291,941	-	139,174	216,119	647,234
Total fixed income securities	**291,941**	**-**	**139,174**	**216,119**	**647,234**

	EUR 000's 31/12/2016				
	Government bonds	Municipality bonds	Credit institution bonds	Corporate and other bonds	Total
Available for sale	317,385	-	141,654	222,907	681,946
Total fixed income securities	**317,385**	**-**	**141,654**	**222,907**	**681,946**

As at 30 June 2017, there are no Group's or Bank's fixed-income securities on which payments are past due or which were restructured during the reporting period (2016: EUR nil). In the six month period ended 30 June 2017 no fixed income securities were impaired (2016: nil). The above tables represent the maximum credit risk exposure to the Group and the Bank from fixed income securities.

The Group's fixed income securities, shares and other non-fixed income securities by issuer's country, net:

	EUR 000's 30/06/2017			EUR 000's 31/12/2016		
	Government bonds	Other securities	Total	Government bonds	Other securities	Total
Latvia	229,250	8,019	237,269	253,580	7,847	261,427
Lithuania	100,927	-	100,927	72,665	-	72,665
United States	9,797	71,185	80,982	10,592	76,794	87,386
Netherlands	-	70,850	70,850	4,992	83,783	88,775
Germany	7,178	43,068	50,246	7,181	37,995	45,176
United Kingdom	-	41,979	41,979	-	40,868	40,868
Canada	2,225	37,364	39,589	6,105	42,867	48,972
Singapore	-	31,833	31,833	-	28,947	28,947
France	10,167	20,557	30,724	9,722	18,192	27,914
Australia	-	28,170	28,170	-	28,127	28,127
Sweden	7,570	19,093	26,663	11,797	26,041	37,838
Finland	12,365	14,160	26,525	15,871	14,943	30,814
Multilateral development banks	-	58,346	58,346	-	52,439	52,439
Other countries*	21,141	127,560	148,701	27,441	131,395	158,836
Total fixed income securities and shares, net	**400,620**	**572,184**	**972,804**	**419,946**	**590,238**	**1,010,184**
Investments in managed funds**	-	35,720	35,720	-	39,816	39,816
Total securities, net	**400,620**	**607,904**	**1,008,524**	**419,946**	**630,054**	**1,050,000**

Bank's fixed income securities, shares and other non-fixed income securities by issuer's country, net:

	EUR 000's 30/06/2017			EUR 000's 31/12/2016		
	Government bonds	Other securities	Total	Government bonds	Other securities	Total
Latvia	223,561	3,969	227,530	240,367	3,511	243,878
United States	6,289	36,593	42,882	8,680	47,936	56,616
Netherlands	-	39,238	39,238	4,992	47,868	52,860
Lithuania	38,156	-	38,156	25,948	-	25,948
Germany	1,013	34,243	35,256	7,181	25,177	32,358
Singapore	-	30,254	30,254	-	27,202	27,202
United Kingdom	-	25,349	25,349	-	26,235	26,235
Multilateral development banks	-	40,093	40,093	-	40,710	40,710
Other countries*	22,922	147,689	170,611	30,217	147,869	178,086
Total fixed income securities and shares, net	**291,941**	**357,428**	**649,369**	**317,385**	**366,508**	**683,893**
Investments in managed funds**	-	6,286	6,286	-	11,041	11,041
Total securities, net	**291,941**	**363,714**	**655,655**	**317,385**	**377,549**	**694,934**

* Largest Group's and Bank's exposure to a single country within this group as at period end is EUR 20,581 thousand and EUR 22,761 thousand respectively (2016: EUR 24,676 thousand and EUR 28,703 thousand).

** Investments in managed funds are not presented by their issuer's country but shown separately.

All fixed income securities as at 30 June 2017 and 31 December 2016 are listed.

The Group's shares and other non-fixed income securities by issuers profile and classification:

	EUR 000's							
	30/06/2017				31/12/2016			
	Foreign equities	Latvian equities	Mutual investment funds	Total	Foreign equities	Latvian equities	Mutual investment funds	Total
Held for trading	-	-	5,683	5,683	-	-	5,786	5,786
Financial assets designated at fair value through profit or loss	-	-	23,750	23,750	-	-	22,989	22,989
Available for sale	2,027	124	6,287	8,438	1,839	124	11,041	13,004
Total non-fixed income securities, net	**2,027**	**124**	**35,720**	**37,871**	**1,839**	**124**	**39,816**	**41,779**

All exposures in mutual investment funds which are classified as financial assets designated at fair value through profit or loss are unit-linked insurance plan assets. According to unit-linked investment contract terms, the risk associated with the investments made by the insurance underwriter is fully attributable to the counterparty entering the insurance agreement and not the underwriter. As at 30 June 2017 EUR 23,750 thousand (2016: EUR 22,989 thousand) of financial assets designated at fair value through profit or loss relate to this.

The Bank's shares and other non-fixed income securities by issuers profile and classification:

	EUR 000's							
	30/06/2017				31/12/2016			
	Foreign equities	Latvian equities	Mutual investment funds	Total	Foreign equities	Latvian equities	Mutual investment funds	Total
Available for sale	2,011	124	6,286	8,421	1,823	124	11,041	12,988
Total non-fixed income securities, net	**2,011**	**124**	**6,286**	**8,421**	**1,823**	**124**	**11,041**	**12,988**

Investments in mutual funds are not analysed by their ultimate issuer and are classified as non-fixed income securities.

There are no off-balance sheet commitments bearing credit risk that are related to the issuers of the above securities. Further, no payments on the above instruments are past due. As at 30 June 2017, the carrying amount of the Group's and Bank's securities, which were impaired, but not past due, amounted to EUR 0 thousand (2016: EUR 0 thousand).

As at 30 June 2017 the Bank and Group has investments in mutual investment funds with carrying amount of EUR 6.3 million (2016: EUR 6.1 million) and EUR 20.7 million (2016: EUR 20.7 million) which are managed by IPAS CBL Asset Management or its subsidiaries. EUR 12.5 million of these Group's investments relate to unit-linked contracts where the risk associated with the investments made is fully attributable to the counterparty entering the insurance agreement and not the underwriter (2016: EUR 12.5 million).

These exposures have been acquired only with investment intentions.

NOTE 8. LOANS AND RECEIVABLES FROM CUSTOMERS

Group's loan portfolio by overdue days:

	EUR 000's					
	30/06/2017			31/12/2016		
	Gross Loans	Impairment allowance	Net carrying amount	Gross loans	Impairment allowance	Net carrying amount
Not past due – not impaired	1,219,026	-	1,219,026	1,143,363	-	1,143,363
Not past due – impaired	50,196	(21,921)	28,275	72,647	(24,406)	48,241
Total not past due loans	**1,269,222**	**(21,921)**	**1,247,301**	**1,216,010**	**(24,406)**	**1,191,604**
Past due loans - not impaired						
Delayed days:						
=< 29	41,953	-	41,953	36,461	-	36,461
30-59	9,672	-	9,672	8,453	-	8,453
60-89	4,337	-	4,337	3,544	-	3,544
90 and more	10,128	-	10,128	10,122	-	10,122
Total past due loans - not impaired	**66,090**	**-**	**66,090**	**58,580**	**-**	**58,580**
Past due loans – impaired						
Delayed days:						
=< 89	17,711	(6,471)	11,240	10,320	(5,159)	5,161
90 and more	53,268	(26,132)	27,136	38,135	(27,105)	11,030
Total past due loans - impaired	**70,979**	**(32,603)**	**38,376**	**48,455**	**(32,264)**	**16,191**
Total loans and receivables from customers	**1,406,291**	**(54,524)**	**1,351,767**	**1,323,045**	**(56,670)**	**1,266,375**
Collective impairment allowance		(28,654)	(28,654)		(25,859)	(25,859)
Total net loans and receivables from customers			**1,323,113**			**1,240,516**

Bank's loan portfolio by overdue days:

	EUR 000's					
	30/06/2017			31/12/2016		
	Gross loans	Impairment allowance	Net carrying amount	Gross loans	Impairment allowance	Net carrying amount
Not past due – not impaired	998,323	-	998,323	940,768	-	940,768
Not past due – impaired	47,242	(19,371)	27,871	73,930	(21,923)	52,007
Total not past due loans	**1,045,565**	**(19,371)**	**1,026,194**	**1,014,698**	**(21,923)**	**992,775**
Past due loans - not impaired						
Delayed days:						
=< 29	21,740	-	21,740	14,628	-	14,628
30-59	3,121	-	3,121	3,216	-	3,216
60-89	2,420	-	2,420	1,970	-	1,970
90 and more	6,863	-	6,863	5,774	-	5,774
Total past due loans - not impaired	**34,144**	**-**	**34,144**	**25,588**	**-**	**25,588**
Past due loans – impaired						
Delayed days:						
=< 89	15,449	(5,601)	9,848	7,938	(3,997)	3,941
90 and more	47,396	(22,366)	25,030	30,954	(22,823)	8,131
Total past due loans – impaired	**62,845**	**(27,967)**	**34,878**	**38,892**	**(26,820)**	**12,072**
Total loans and receivables from customers	**1,142,554**	**(47,338)**	**1,095,216**	**1,079,178**	**(48,743)**	**1,030,435**
Collective impairment allowance		(24,240)	(24,240)		(21,929)	(21,929)
Total net loans and receivables from customers			**1,070,976**			**1,008,506**

All Group's loan portfolio exposures, which are not specifically impaired, are collectively evaluated for impairment, including those which are past due.

Certain loan portfolio's financial ratios

	EUR 000's			
	30/06/2017 Group	31/12/2016 Group	30/06/2017 Bank	31/12/2016 Bank
Non-performing loans ratio[1)]	9.3%	9.9%	10.2%	11.0%
Non-performing loans coverage ratio[2)]	63.3%	62.9%	61.2%	59.6%
90 days past due ratio[3)]	4.5%	3.6%	4.7%	3.4%
90 days past due coverage ratio[4)]	131%	171%	132%	192%

1) Non-performing loans ratio is calculated as non-performing loans divided by total gross loans and receivables from customers as at the end of the relevant period. Non-performing loans are defined as total gross loans and receivables from customers that are 90 days or more overdue or that are specifically impaired as at the end of the relevant period.

2) Non-performing loans coverage ratio is calculated as total allowance for impairment for loans and receivables from customers at the end of the relevant period, divided by gross non-performing loans, as at the end of the relevant period.

3) 90 days past due ratio is calculated as gross loans and receivables from customers that are 90 or more days overdue divided by total gross loans and receivables from customers as at the end of the relevant period.

4) 90 days past due coverage ratio is calculated as total allowance for loan impairment, divided by total gross loans and receivables from customers that are 90 or more days overdue, each as at the end of the relevant period.

In the reporting period the Group and the Bank has written-off certain fully impaired loan balances. For details see Note 6 (*Impairment Charges and Reversals, net*). Write-off had some positive impact on non-performing loans and past due ratios, and negative impact on non-performing loans coverage and past due coverage ratios.

NOTE 9. INVESTMENTS IN SUBSIDIARIES

Changes in the Bank's investments in subsidiaries:

	EUR 000's	
	Jan-Jun 2017	Jan-Jun 2016
Balance at the beginning of the period, net	**61,884**	**61,580**
Equity investments in existing subsidiaries	-	350
Sale of subsidiary	(2)	-
Impairment, net	42	(5)
Balance at the end of the period, net	**61,924**	**61,925**

On 17 February 2017, AS Citadele banka sold its subsidiary SIA Hortus MD. The subsidiary was a part of businesses managing the Group's repossessed assets. The whole company was sold as the client was acquiring the real estate portfolio of the particular subsidiary in its entirety. The carrying amount of the real estate sold was EUR 569 thousand. The Bank recognised EUR 162 thousand sales gain on the disposal of the subsidiary.

Based on the forecasted performance of the repossessed asset management companies and SIA CBL Cash Logistics, share capital impairment levels were re-adjusted for some of these subsidiaries by (net) EUR 42 thousand in the six months period ended 30 June 2017 (2016: EUR -5 thousand). As at 30 June 2017 total Bank's gross investment in subsidiaries is EUR 111,677 thousand (2016: EUR 111,680 thousand).

Carrying value of investment in AB Citadele (100% owned banking subsidiary of the Bank) is based on a model where expected free equity distributable to shareholders is estimated. The key assumptions of the model are discount rate (14.0%), minimum target capital adequacy ratio and future profitability of the operations of the entity. The management has assessed the model's inputs and concluded that there are no circumstances that require changes to these inputs.

NOTE 10. FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

Movement in the Group's financial liabilities designed at fair value through profit or loss:

	EUR 000's			
	Jan-Jun 2017 Unit-linked	Jan-Jun 2017 Other	Jan-Jun 2016 Unit-linked	Jan-Jun 2016 Other
Balance as at the beginning of the period	**23,064**	**16,614**	**19,341**	**14,574**
Premiums received	1,879	1,300	1,683	1,325
Commissions and risk charges	(173)	(138)	(145)	(137)
Paid to policyholders	(1,301)	(5,495)	(1,094)	(366)
Other	892	44	313	126
Currency revaluation result	(532)	(8)	(87)	(2)
Balance as at the end of the period	**23,829**	**12,317**	**20,011**	**15,520**

All unit-linked insurance plan liabilities are covered by financial assets designated at fair value through profit or loss. According to unit-linked investment contract terms, the risk associated with the investments made by the insurance underwriter is fully attributable to the counterparty entering the insurance agreement and not the underwriter.

In the six months period ended 30 June 2017 from financial liabilities designated at fair value through profit or loss which are not unit-linked the Group has recognised net revaluation result of EUR +94 thousand in the statement of income (2016: EUR +43 thousand). Most of the insurance business the Group is involved in relates to investment contracts rather than insurance risk; therefore, premiums received are recognised as liabilities of the Group since settlement in due course is expected. The amount of insurance risk generated by the Group currently is immaterial and, therefore, not further disclosed in detail in these financial statements.

NOTE 11. DEPOSITS FROM CUSTOMERS

Deposits from customers according to customer profile:

	EUR 000's			
	30/06/2017 Group	31/12/2016 Group	30/06/2017 Bank	31/12/2016 Bank
Privately held companies	1,123,444	1,286,817	756,792	823,390
Private individuals	1,285,348	1,206,807	931,004	903,822
Financial institutions	248,342	253,656	261,122	268,083
State and municipality owned enterprises	154,175	116,199	151,553	113,999
Municipalities	23,259	18,757	23,246	18,757
Public and religious institutions	15,527	18,469	13,641	16,466
Government	23,677	18,187	4,124	4,706
Total deposits from customers	**2,873,772**	**2,918,892**	**2,141,482**	**2,149,223**

Deposits from customers according to contractual maturity:

	EUR 000's			
	30/06/2017 Group	31/12/2016 Group	30/06/2017 Bank	31/12/2016 Bank
Demand deposits	2,122,275	2,113,175	1,639,556	1,641,388
Term deposits:				
due within 1 month	154,057	108,566	105,581	67,654
due within 2-3 months	112,743	174,183	68,513	86,599
due within 4-6 months	152,142	138,396	93,096	84,027
due within 7-12 months	175,661	229,387	99,811	148,746
due within 2-5 years	147,002	146,262	127,308	115,420
due in more than 5 years	9,892	8,923	7,617	5,389
Total term deposits	751,497	805,717	501,926	507,835
Total deposits from customers	**2,873,772**	**2,918,892**	**2,141,482**	**2,149,223**

NOTE 12. SUBORDINATED LIABILITIES

Details of the Group's and the Bank's subordinated liabilities:

Debt issuance programme or counterparty	Currency	Interest rate	Maturity date	Principal (EUR 000's)	Amortised cost (EUR 000's) 30/06/2017	Amortised cost (EUR 000's) 31/12/2016
Publicly listed unsecured subordinated bonds	EUR	6.25%	06/12/2026	40,000	39,902	39,901
Privatisation Agency	-	-	-	-	-	35,688
EBRD	EUR	8.30%	08/08/2020	18,400	19,007	19,019
					58,909	**94,608**

On 4 January 2017, AS Citadele banka made an early repayment of the EUR 34.7 million subordinated loan outstanding and the accrued interest of EUR 0.98 million to the State Joint Stock Company Privatisation agency. This was made possible by previously issued subordinated bonds in the amount of EUR 40 million. According to the subordinated bond prospectus, the aim of the issuance, among others, was an early repayment of the outstanding amount of subordinated debt to SJSC Privatisation agency. The remaining proceeds from the issuance were used to strengthen the overall capital of AS Citadele banka and to facilitate the execution of the Bank's growth strategy across the Baltics.

NOTE 13. SHARE CAPITAL

As at 30 June 2017, the Bank's registered and paid-in share capital was EUR 156,555,796 (2016: EUR 156,555,796). All shares as at 30 June 2017 and 31 December 2016 were issued and fully paid and the Bank did not possess any of its own shares. No dividends were proposed and paid during the six months period ended 30 June 2017 and 2016.

Bank's shareholders as at 30 June 2017 and 31 December 2016:

	30/06/2017		31/12/2016	
	Paid-in share capital (EUR)	Total shares with voting rights	Paid-in share capital (EUR)	Total shares with voting rights
European Bank for Reconstruction and Development	39,138,948	39,138,948	39,138,948	39,138,948
RA Citadele Holdings LLC[1]	35,082,302	35,082,302	35,082,302	35,082,302
Delan S.à.r.l.[2]	15,597,160	15,597,160	15,597,160	15,597,160
EMS LB LLC[3]	13,864,142	13,864,142	13,864,142	13,864,142
NNS Luxembourg Investments S.à.r.l.[4]	13,864,142	13,864,142	13,864,142	13,864,142
Amolino Holdings Inc.[5]	13,863,987	13,863,987	13,863,987	13,863,987
Shuco LLC[6]	10,998,979	10,998,979	10,998,979	10,998,979
Other shareholders	14,146,136	14,146,136	14,146,136	14,146,136
Total	**156,555,796**	**156,555,796**	**156,555,796**	**156,555,796**

[1] RA Citadele Holdings LLC (United States) is a wholly owned subsidiary of Ripplewood Advisors LLC and is beneficially owned by Mr Timothy Collins
[2] Delan S.à.r.l. is beneficially owned by the Baupost Group LLC
[3] EMS LB LLC is beneficially owned by Mr Edmond M. Safra
[4] NNS Luxembourg Investments S.à.r.l. is beneficially owned by Mr Nassef O. Sawiris
[5] Amolino Holdings Inc. is beneficially owned by Mr James L. Balsilie
[6] Shuco LLC is beneficially owned by Mr Stanley S. Shuman

All shares other than these owned by European Bank for Reconstruction and Development and RA Citadele Holdings LLC are owned by an international consortium of twelve investors led by Ripplewood Advisors LLC.

NOTE 14. CASH AND CASH EQUIVALENTS

The table below provides a breakdown of cash and cash equivalents as at 30 June 2017 and 31 December 2016:

	EUR 000's			
	30/06/2017 Group	31/12/2016 Group	30/06/2017 Bank	31/12/2016 Bank
Cash and balances with central banks	689,285	799,198	578,576	647,606
Balances with other credit institutions*	133,501	138,797	104,855	153,870
Demand balances due to other credit institutions	(8,776)	(2,561)	(21,038)	(17,296)
Total cash and cash equivalents	**814,010**	**935,434**	**662,393**	**784,180**

* Only facilities with initial agreement term of 3 months or less.

NOTE 15. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the price that would be received for an asset sold or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

For illiquid financial assets and liabilities, including loans and advances to customers, there are no active markets. Accordingly, fair value for these has been estimated using appropriate valuation techniques. The methods used to determine the fair value of balance sheet items are as follows:

Cash and demand deposits with central banks

The fair value of cash and balances with central banks is their carrying amount as these balances may be withdrawn without notice.

Balances due from credit institutions and balances due to credit institutions and central banks

The fair value of on-demand balances with credit institutions is their carrying amount as these balances may be withdrawn without notice. The fair value of overnight placements is their carrying amount. The fair value of other amounts due from banks is calculated by discounting expected cash flows using current market rates. The carrying value is a close representation of fair value due to short-term maturity profiles and low interest rates

Loans and receivables from customers

The fair value of loans and advances to customers is calculated by discounting expected future cash flows. The discount rates consist of money market rates as at the end of the reporting period and credit margins, which are adjusted for current market conditions. If all the Bank's assumed discount rates would change by 10%, the fair value of the loan portfolio would change by EUR 12.7 million (2016: EUR 11.4 million).

Available for sale securities

Most available for sale securities are valued using unadjusted quoted prices in active markets.

Investments in available for sale securities include Citadele's equity interest in Visa Inc. which has been valued by reference to consideration, which is contingent upon future events. The valuation is dependent on exchange rate, Visa Inc. stock price and preferred stocks' conversion ratio as well as liquidity discount of 50%. The Level 3 presented preference stocks in Visa Inc. are part of consideration received for the sale of Citadele's share in Visa Europe to Visa Inc.

Derivatives

Derivatives are valued using techniques based on observable market data.

Customer deposits

The fair value of customer deposits repayable on demand is their carrying amount. The fair value of other deposits is calculated by discounting expected cash flows using average market interest rates close to or at the period-end. If all the assumed discount rates would change by 10%, the fair value of the deposit portfolio would change by EUR 0.14 million (2016: EUR 0.14 million).

Subordinated liabilities

The fair value of publically listed unsecured subordinated bonds is estimated based on the quoted prices. The fair value of unlisted subordinated borrowing from EBRD is estimated by discounting expected future cash with the yield of the publically listed unsecured subordinated bonds. The fair value of subordinated borrowing from Privatisation Agency as at 31 December 2016 is estimated as its carrying amount as before year end an early payment which took place in the beginning of January 2017 was agreed.

Financial liabilities designated at fair value through profit or loss

The fair value of unit-linked investment contract liabilities is their notional amount which equals fair value of unit-linked insurance plan assets. The fair value of other financial liabilities designated at fair value through profit is calculated by discounting expected cash flows using current effective borrowing rates. If the assumed discount rates would change by 10%, the fair value of the portfolio would change by EUR +/-7 thousand (2016: EUR 7 thousand and EUR -6 thousand respectively).

Fair value hierarchy

Quoted market prices (Level 1)
Financial instruments are valued using unadjusted quoted prices in active markets.

Valuation technique - observable market inputs (Level 2)
Financial instruments are valued using techniques based on observable market data. In some instances, valuations received from independent third party are used.

Valuation technique - non-market observable inputs (Level 3)
Financial instruments are valued using techniques for which significant inputs are not based on observable market data.

Fair values of Group's financial assets and liabilities as at 30 June 2017.

	Carrying value	Total fair value	Fair value hierarchy (where applicable): Quoted market prices	Valuation technique - observable inputs	Valuation technique – non-market observable inputs
Held for trading securities	13,129	13,129	13,129	-	-
Financial assets designated at fair value through profit or loss	153,070	153,070	153,070	-	-
Derivatives	3,465	3,465	-	3,465	-
Available for sale securities	842,325	842,325	840,174	-	2,151
Financial assets not measured at fair value:					
Cash and deposits with central banks	689,285	689,285	-	-	-
Balances due from credit institution	139,679	139,679	-	-	-
Loans and receivables from customers	1,323,113	1,324,777	-	-	1,324,777
Total assets	**3,164,066**	**3,165,730**	**1,006,373**	**3,465**	**1,326,928**
Derivatives	6,057	6,057	-	6,057	-
Financial liabilities designated at fair value through profit or loss	36,146	36,146	23,829	-	12,317
Financial liabilities not measured at fair value:					
Balances due to credit institutions and central banks	18,424	18,424	-	-	-
Customer deposits	2,873,772	2,875,878	-	-	2,875,878
Subordinated liabilities	58,909	60,519	-	60,519	-
Total liabilities	**2,993,308**	**2,997,024**	**23,829**	**66,576**	**2,888,195**

Fair values of Group's financial assets and liabilities as at 31 December 2016.

	Carrying value	Total fair value	Fair value hierarchy (where applicable): Quoted market prices	Valuation technique - observable inputs	Valuation technique – non-market observable inputs
Held for trading securities	13,485	13,485	13,485	-	-
Financial assets designated at fair value through profit or loss	133,326	133,326	133,326	-	-
Derivatives	4,583	4,583	-	4,583	-
Available for sale securities	903,189	903,189	901,225	-	1,964
Financial assets not measured at fair value:					
Cash and deposits with central banks	799,198	799,198	-	-	-
Balances due from credit institution	141,691	141,691	-	-	-
Loans and receivables from customers	1,240,516	1,242,408	-	-	1,242,408
Total assets	**3,235,988**	**3,237,880**	**1,048,036**	**4,583**	**1,244,372**
Derivatives	1,817	1,817	-	1,817	-
Financial liabilities designated at fair value through profit or loss	39,678	39,678	23,064	-	16,614
Financial liabilities not measured at fair value:					
Balances due to credit institutions and central banks	13,346	13,346	-	-	-
Customer deposits	2,918,892	2,921,555	-	-	2,921,555
Subordinated liabilities	94,608	95,869	-	95,869	-
Total liabilities	**3,068,341**	**3,072,265**	**23,064**	**97,686**	**2,938,169**

Fair values of Bank's financial assets and liabilities as at 30 June 2017.

	Carrying value	Total fair value	Fair value hierarchy (where applicable): Quoted market prices	Valuation technique - observable inputs	Valuation technique – non-market observable inputs
Derivatives	3,770	3,770	-	3,770	-
Available for sale securities	655,655	655,655	653,520	-	2,135
Financial assets not measured at fair value:					
Cash and deposits with central banks	578,576	578,576	-	-	-
Balances due from credit institution	105,447	105,447	-	-	-
Loans and receivables from customers	1,070,976	1,063,928	-	-	1,063,928
Total assets	**2,414,424**	**2,407,376**	**653,520**	**3,770**	**1,066,063**
Derivatives	6,105	6,105	-	6,105	-
Financial liabilities not measured at fair value:					
Balances due to credit institutions and central banks	78,118	78,118	-	-	-
Customer deposits	2,141,482	2,144,055	-	-	2,144,055
Subordinated liabilities	58,909	60,519	-	60,519	-
Total liabilities	**2,284,614**	**2,288,797**	**-**	**66,624**	**2,144,055**

Fair values of Bank's financial assets and liabilities as at 31 December 2016.

	Carrying value	Total fair value	Fair value hierarchy (where applicable): Quoted market prices	Valuation technique - observable inputs	Valuation technique – non-market observable inputs
Derivatives	4,710	4,710	-	4,710	-
Available for sale securities	694,934	694,934	692,987	-	1,947
Financial assets not measured at fair value:					
Cash and deposits with central banks	647,606	647,606	-	-	-
Balances due from credit institution	154,419	154,419	-	-	-
Loans and receivables from customers	1,008,506	1,001,445	-	-	1,001,445
Total assets	**2,510,175**	**2,503,114**	**692,987**	**4,710**	**1,003,392**
Derivatives	1,923	1,923	-	1,923	-
Financial liabilities not measured at fair value:					
Balances due to credit institutions and central banks	129,930	129,930	-	-	-
Customer deposits	2,149,223	2,152,315	-	-	2,152,315
Subordinated liabilities	94,608	95,869	-	95,869	-
Total liabilities	**2,375,684**	**2,380,037**	**-**	**97,792**	**2,152,315**

Changes in fair value of available for sale securities and derivatives categorised as Level 3

	EUR 000's			
	Jan-Jun 2017 Group	**Jan-Jun 2016 Group**	**Jan-Jun 2017 Bank**	**Jan-Jun 2016 Bank**
As at the beginning of the period, net	**1,964**	**10,446**	**1,947**	**10,429**
Other comprehensive income				
Revaluation gain in other comprehensive income	*187*	*2,887*	*188*	*2,887*
Impairment charges, net	-	109	-	109
Gain in income statement on derivatives	-	649	-	649
Settlement on derivatives	-	(372)	-	(372)
Settlement on non-fixed income securities	-	(12,349)	-	(12,349)
Additions	-	1,598	-	1,598
As at the end of the period, net	**2,151**	**2,968**	**2,135**	**2,951**

Fair value of available for sale securities for which fair value is calculated based on non-market observable inputs is categorised as Level 3 as these shares and investments in mutual investment funds are not listed on an exchange and there are insufficient recent observable transactions on the market.

NOTE 16. SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Management board of the Bank is the chief operating decision maker.

The internal reporting of operating segments is continually evolving with changing business objectives and developments in markets in which the Group operates. Recently the Management has revisited allocation of some costs among the segments. These updates are fully implemented in this segment disclosure; comparatives for prior period have been recalculated by applying the up to date principles, thus these reflect the current segment measurement approach.

All transactions between business segments are carried on an arm's length basis. The calculation of the net interest income of each business is performed by applying internal transfer rates to both the asset and the liability entries. Internal transfer rates take into account various components: maturity, currency and timing of the transaction, as well as mandatory charges. These rates do not contain the cost of capital component. Income and expenses are reported in the segments by originating unit and at estimated market prices. Both direct and indirect expenses are allocated to the business segments, including non-recurring items and those items for which there is no clearly defined link to the business. Operating expenses are attributed to the individual segments on the basis of cost causation. The indirect expenses arising in connection with internal services are charged to the users of the services and credited to the segments performing the service. The provision of intra-group services is charged at estimated market prices or at full cost. The inter-segment revenues are defined as internal interest income and expense related to the funding of the operating segments.

Main business segments of the Group are:

Retail

Retail segment services private individuals and small and medium-sized companies in Latvia. It provides full banking and advisory services through branches, internet bank and mobile bank.

Corporate

Corporate segment services customers with either yearly turnover above EUR 7 million, total assets above EUR 15 million or total risk exposure with Citadele Group above EUR 2 million and those with needs of complex financing solutions.

Private Capital Management (PCM)

PCM provides private banking, advisory and transaction services to local and foreign high net-worth individuals and foreign companies.

Estonia

Estonia segment provides banking services to companies and individuals in Estonia.

Lithuania

Lithuania segment provides banking services to companies and individuals in Lithuania. It approximates to operations of AB Citadele bankas (Lithuania).

Switzerland

Switzerland segment provides private banking services to high-net worth individuals outside Latvia, Lithuania and Estonia. This segment comprises operations of AP Anlage & Privatbank AG.

Asset Management

Asset Management segment provides investment, wealth management, life insurance and advisory services to companies and individuals.

Leasing

Leasing segment provides finance lease, operating lease and factoring services to companies and individuals in Latvia, Lithuania and Estonia.

Other

Other segment includes operations which support business units within specific areas of expertise and results of other subsidiaries who offer non-banking services. The major function in the banking group contributing to this segment is treasury. In the second half of 2016 cash collection operations were transferred from the Bank into a separate subsidiary; as a result of this net commission and fee income and other expenditure related to these operations in the segment reporting in 2017 are presented within other business lines.

For the six months period ended 30/06/2017 and as at 30/06/2017
EUR '000

	Banking							Other business lines			Eliminations, consolidation adjustments	Group, consolidated
	Retail	Corporate	PCM	Estonia	Other	Lithuania	Switzerland	Asset management	Leasing	Other		
Net interest income	15,029	5,890	2,397	1,988	1,780	5,930	1,188	(11)	2,660	(675)	63	36,239
Net commission and fee income	4,580	1,454	5,436	782	(139)	1,229	1,682	2,757	33	1,520	(53)	19,281
Gain on transactions with financial instruments, net	528	212	2,309	346	3,361	546	304	114	28	-	(157)	7,591
Other income	106	12	36	5	1,532	354	-	113	164	2,844	(3,808)	1,358
Operating income	**20,243**	**7,568**	**10,178**	**3,121**	**6,534**	**8,059**	**3,174**	**2,973**	**2,885**	**3,689**	**(3,955)**	**64,469**
Administrative and other expense	(16,016)	(2,427)	(4,913)	(2,428)	(2,685)	(5,733)	(2,301)	(1,768)	(1,554)	(2,920)	3,729	(39,016)
Amortisation and depreciation charge	(247)	(5)	(12)	(64)	(942)	(20)	(27)	(21)	(108)	(1,116)	14	(2,548)
Impairment charges and reversals, net	(3,176)	(1,462)	13	(973)	(1,077)	(1,234)	-	(69)	448	1,055	38	(6,437)
Segment result	**804**	**3,674**	**5,266**	**(344)**	**1,830**	**1,072**	**846**	**1,115**	**1,671**	**708**	**(174)**	**16,468**
of which internal transactions	490	(739)	2,830	124	(1,986)	1,076	431	(717)	(2,757)	1,248	-	-
Segment assets	430,304	332,550	39,337	111,830	1,635,520	491,682	296,808	55,827	159,436	46,363	(309,074)	3,290,583
Segment liabilities	695,062	337,909	817,847	223,261	226,193	441,037	275,243	39,677	150,461	54,209	(240,297)	3,020,602

For the six months period ended 30/06/2016 and as at 31/12/2016
EUR '000

	Banking							Other business lines			Eliminations, consolidation adjustments	Group, consolidated
	Retail	Corporate	PCM	Estonia	Other	Lithuania	Switzerland	Asset management	Leasing	Other		
Net interest income	12,086	5,818	2,979	1,776	964	4,610	1,025	13	2,520	(681)	23	31,133
Net commission and fee income	3,334	1,438	5,457	700	2,140	1,122	1,599	2,504	15	(1)	(18)	18,290
Gain on transactions with financial instruments, net	462	148	1,966	515	3,372	947	813	327	2	-	7	8,559
Other income	70	23	31	2	1,300	299	-	72	127	3,079	(3,743)	1,260
Operating income	**15,952**	**7,427**	**10,433**	**2,993**	**7,776**	**6,978**	**3,437**	**2,916**	**2,664**	**2,397**	**(3,731)**	**59,242**
Administrative and other expense	(14,076)	(2,639)	(5,670)	(2,005)	(3,857)	(5,175)	(2,352)	(1,754)	(1,782)	(1,480)	3,732	(37,058)
Amortisation and depreciation charge	(215)	(3)	(8)	(16)	(846)	(39)	(46)	(18)	(67)	(1,038)	-	(2,296)
Impairment charges and reversals, net	(2,031)	(3,011)	34	(380)	(195)	(412)	-	(77)	(254)	1,007	209	(5,110)
Segment result (excl. Visa*)	**(370)**	**1,774**	**4,789**	**592**	**2,878**	**1,352**	**1,039**	**1,067**	**561**	**886**	**210**	**14,778**
Gain on transactions with financial instruments, net	-	-	-	-	11,330	-	-	-	-	-	-	11,330
Segment result (incl. Visa*)	**(370)**	**1,774**	**4,789**	**592**	**14,208**	**1,352**	**1,039**	**1,067**	**561**	**886**	**210**	**26,108**
of which internal transactions	837	(1,018)	3,704	488	(2,515)	634	537	(786)	(2,878)	997	-	-
Segment assets	407,514	301,491	40,472	96,726	1,783,407	503,072	315,445	58,237	157,044	47,677	(361,570)	3,349,515
Segment liabilities	661,805	281,339	921,786	226,899	299,644	453,624	294,152	43,093	149,731	56,295	(293,086)	3,095,282

* Result for the six month period ended 30 June 2016 adjusted for one-time income in the amount of EUR 11.3 million due to sale of Citadele's share in Visa Europe to Visa Inc.

NOTE 17. RELATED PARTIES

Related parties are defined as shareholders who have significant influence over the Group, members of the Supervisory Board and Management Board, key Management personnel, their close relatives and companies in which they have a controlling interest as well as the Group's subsidiaries and associated companies. For the purpose of this disclosure, the key management of the Group's companies and the Bank and their related companies are stated in one line. All transactions with related parties were made on terms equivalent to those that prevail in arm's length transactions. Outstanding balances and terms of the Group's and the Bank's transactions in this note are shown with related parties which were related parties at respective dates.

The Group's and the Bank's assets and liabilities from transactions with related parties:

	EUR 000's			
	30/06/2017 Group	**31/12/2016 Group**	**30/06/2017 Bank**	**31/12/2016 Bank**
Credit exposures to other related parties, net				
Loans and receivables from customers and balances due from credit institutions, net				
- Management	59	66	38	39
- Consolidated subsidiaries	-	-	155,954	205,493
Investments in subsidiaries, net	-	-	61,924	61,884
Derivatives with subsidiaries	-	-	354	127
Other assets	-	-	556	655
Financial commitments and guarantees outstanding	113	103	89,765	73,459
Credit exposures to related parties, net	**172**	**169**	**308,591**	**341,657**
Liabilities to other related parties				
Deposits from customers and balances due to credit institutions				
- Management	923	813	595	532
- Consolidated subsidiaries	-	-	27,641	33,706
Subordinated liabilities (EBRD)	19,007	19,019	19,007	19,019
Derivatives with subsidiaries	-	-	47	105
Other liabilities	112	97	95	107
Liabilities to related parties	**20,042**	**19,929**	**47,385**	**53,469**

As at 30 June 2017 a specific impairment allowance of EUR 1,052 thousand (EUR 781 thousand) was recognised on loans and receivables from consolidated subsidiaries which are engaged in managing properties that are bought in auctions as a result of foreclosure processes undertaken by the Group. The ultimate recoverability of the loans issued to these subsidiaries depends on the holding period and sales price of the properties in the portfolio. For information on investments in subsidiaries refer to Note 9 (*Investments in Subsidiaries*).

The Group's and the Bank's operating income and expenses from transactions with related parties:

	EUR 000's			
	Jan-Jun 2017 Group	**Jan-Jun 2016 Group**	**Jan-Jun 2017 Bank**	**Jan-Jun 2016 Bank**
Interest income				
- Management	2	5	1	3
- Consolidated subsidiaries	-	-	1,728	1,848
Interest expense				
- Management	(1)	(1)	-	-
- Subordinated liabilities (ERAB)	(768)	(789)	(768)	(789)
- Consolidated subsidiaries	-	-	(184)	(549)
Commission and fee income	2	7	737	756
Commission and fee expense	(1)	(2)	(489)	(112)
Gain on transactions with financial instruments, net	-	-	242	60
Other income	-	-	1,277	1,124

Group's management's remuneration for the six months period ended 30 June 2017 was EUR 1.54 million (2016: EUR 1.58 million). During the reporting period the Group's and the Bank's other administrative expense with related parties amounted to EUR 1.2 million and EUR 2.9 million, respectively (2016: EUR 1.0 million and EUR 2.7 million). This mostly relates to rent and utility fees paid to the Group's companies and Advisory Services Agreement fee. The Bank has entered into the Advisory Services Agreement with Ripplewood Advisors LLC, where Ripplewood is paid EUR 2 million per annum for the services provided to the Bank. These advisory services include business plan development, strategic analysis, capital allocation, risk advisory, operating efficiency, human resource management, and other services.

NOTE 18. RISK MANAGEMENT

The Group's risk management objectives and policies are consistent with that disclosed in the consolidated financial statements as at and for the year ended 31 December 2016. Sensitivity to changes in interest rates and susceptibility to foreign exchange rate volatility was at a similar level as compared to the year ended 31 December 2016.

Credit risk

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

In the tables below estimated fair value of loan collateral is presented separately for those assets where collateral and other credit enhancements exceed carrying value of the asset (LTV < 100%) and those assets where collateral and other credit enhancements are equal to or less than the carrying value of the asset (LTV ≥ 100%).

The Group:

	EUR 000's							
	30/06/2017				31/12/2016			
	LTV < 100%		LTV ≥ 100% and unsecured		LTV < 100%		LTV ≥ 100% and unsecured	
	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral
Regular loans	755,644	1,614,246	212,205	115,268	720,833	1,549,788	195,726	112,849
Utilised credit lines and overdraft facilities	109,615	245,737	42,907	19,154	104,716	240,174	19,193	4,143
Finance leases	142,934	145,685	3,557	3,557	141,860	145,217	402	402
Debit balances on cards	212	1,125	46,954	3	218	1,396	46,359	1
Factoring	4,585	5,125	806	-	5,863	6,379	1,434	-
Due from investment counterparties	390	765	3,304	-	644	1,368	3,268	-
Total net loans	**1,013,380**	**2,012,683**	**309,733**	**137,982**	**974,134**	**1,944,322**	**266,382**	**117,395**

The Bank:

	EUR 000's							
	30/06/2017				31/12/2016			
	LTV < 100%		LTV ≥ 100% and unsecured		LTV < 100%		LTV ≥ 100% and unsecured	
	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral
Regular loans	584,200	1,179,686	173,202	100,391	556,857	1,139,971	158,612	97,781
Utilised credit lines and overdraft facilities	87,114	166,328	33,900	17,861	87,012	178,596	9,743	2,621
Debit balances on cards	191	1,064	42,513	3	191	1,332	41,721	-
Due from investment counterparties	391	765	2,734	-	644	1,368	2,647	-
Loans to subsidiaries	-	-	146,731	39,286	-	-	151,079	43,218
Total net loans	**671,896**	**1,347,843**	**399,080**	**157,541**	**644,704**	**1,321,267**	**363,802**	**143,620**

For loans that are not development projects, collateral value is determined using both estimated fair value of the real estate and 50% of all assets, excluding fixed assets, under commercial pledge. For development projects future loan-to-value ratio is used. Mostly, loans falling into categories "regular loans" and "utilised credit lines" are secured by collateral or commercial pledges. In general, card loans are granted to clients on a basis of their cash flows' assessment and no collateral is required in most cases. Similarly consumer lending products, which are presented as regular loans, are unsecured and granted based on client's credit assessment. Finance leases are secured by the respective property leased out as are factoring balances, which in certain cases are insured instead. Insurance coverage is not considered collateral for purposes of this disclosure.

Group's fixed income securities portfolio quality:

	EUR 000's			
	30/06/2017			
	Held for trading	Financial assets designated at fair value through profit or loss	Available for sale	Total
Investment grade:				
AAA/Aaa	-	23,141	133,902	157,043
AA/Aa	-	47,796	177,797	225,593
A	4,436	32,466	450,619	487,521
BBB/Baa	3,010	24,904	68,236	96,150
Other lower ratings	-	1,013	3,333	4,346
Total fixed income securities	**7,446**	**129,320**	**833,887**	**970,653**

	EUR 000's			
	31/12/2016			
	Held for trading	Financial assets designated at fair value through profit or loss	Available for sale	Total
Investment grade:				
AAA/Aaa	-	22,982	156,122	179,104
AA/Aa	-	42,533	216,856	259,389
A	4,736	30,343	436,997	472,076
BBB/Baa	2,963	13,470	75,379	91,812
Other lower ratings	-	1,009	4,831	5,840
Total fixed income securities	**7,699**	**110,337**	**890,185**	**1,008,221**

Bank's available for sales fixed income securities portfolio quality:

	EUR 000's	
	30/06/2017 Bank	31/12/2016 Bank
Investment grade:		
AAA/Aaa	114,292	132,114
AA/Aa	119,096	135,990
A	360,363	355,112
BBB/Baa	51,263	55,374
Other lower ratings	2,220	3,356
Total net fixed income securities	**647,234**	**681,946**

Credit quality of due from credit institutions balances:

	EUR 000's			
	30/06/2017 Group	31/12/2016 Group	30/06/2017 Bank	31/12/2016 Bank
Investment grade:				
AA/Aa	32,157	29,006	9,522	5,463
A	76,628	82,841	69,046	78,768
BBB/Baa	12,943	14,637	7,084	8,322
Other lower ratings	9,404	7,042	9,365	6,854
Not rated Baltic registered credit institutions	3,675	3,437	960	572
Citadele Group's banks	-	-	9,223	54,414
Other not rated credit institutions	4,872	4,728	247	26
Total balances due from credit institutions, net	**139,679**	**141,691**	**105,447**	**154,419**

GEOGRAPHICAL PROFILE

The carrying amount of the Group's assets, liabilities and memorandum items by geographical profile. The grouping is done based on information about the reported residence of the respective counterparties:

	30/06/2017, EUR 000's						
	Latvia	**Lithuania**	**Estonia**	**Other EU countries**	**CIS countries**	**Other countries**	**Total**
Assets							
Cash and balances with central banks	544,492	24,047	34,084	-	-	86,662	689,285
Balances due from credit institutions	2,961	1,557	-	71,722	8,767	54,672	139,679
Securities held for trading	5,906	-	1,137	5,530	-	556	13,129
Financial assets designated at fair value through profit or loss	12,513	-	-	86,011	-	54,546	153,070
Available for sale securities	239,505	100,927	8,123	219,114	-	274,656	842,325
Loans and receivables from customers	808,412	332,176	139,577	15,384	16,299	11,265	1,323,113
Derivative financial instruments	2,050	-	-	1,284	26	105	3,465
Other assets	104,068	5,986	3,480	12,228	92	663	126,517
Total assets	**1,719,907**	**464,693**	**186,401**	**411,273**	**25,184**	**483,125**	**3,290,583**
Liabilities							
Financial liabilities designated at fair value through profit or loss	28,243	199	-	80	7,571	53	36,146
Balances due to credit institutions and central banks	17,880	496	36	-	6	6	18,424
Deposits from customers	1,314,631	336,045	106,654	349,919	261,588	504,935	2,873,772
Subordinated liabilities	39,902	-	-	19,007	-	-	58,909
Derivative financial instruments	1,478	-	-	3,653	3	923	6,057
Other liabilities	19,923	4,119	1,468	17	57	1,710	27,294
Total liabilities	**1,422,057**	**340,859**	**108,158**	**372,676**	**269,225**	**507,627**	**3,020,602**
Off-balance sheet items							
Contingent liabilities	21,442	2,898	332	850	809	2,106	28,437
Financial commitments	164,399	42,257	12,546	184	574	1,362	221,322

For additional information on geographical distribution of securities exposures please refer to Note 7 (*Fixed and Non-fixed Income Securities*). EUR 86.7 million of Group's cash and deposit with central banks balances presented as "Other countries" is with Swiss National Bank (2016: EUR 111.7 million). From Group's balances due from credit institutions presented as "Other countries" EUR 40.5 million are with Swiss credit institutions (2016: EUR 32.5 million) and EUR 9.8 million with United States registered credit institutions (2016: EUR 58.5 million).

	31/12/2016, EUR 000's						
	Latvia	**Lithuania**	**Estonia**	**Other EU countries**	**CIS countries**	**Other countries**	**Total**
Assets							
Cash and balances with central banks	619,913	39,912	27,694	-	-	111,679	799,198
Balances due from credit institutions	2,839	760	14	24,490	7,961	105,627	141,691
Securities held for trading	6,430	-	1,128	5,374	-	553	13,485
Financial assets designated at fair value through profit or loss	12,496	-	-	73,939	-	46,891	133,326
Available for sale securities	263,239	72,665	4,165	274,458	-	288,662	903,189
Loans and receivables from customers	764,050	294,417	135,033	13,753	17,570	15,693	1,240,516
Derivative financial instruments	2,434	-	-	1,603	8	538	4,583
Other assets	90,656	5,561	2,202	13,152	105	1,851	113,527
Total assets	**1,762,057**	**413,315**	**170,236**	**406,769**	**25,644**	**571,494**	**3,349,515**
Liabilities							
Financial liabilities designated at fair value through profit or loss	32,374	-	-	364	6,940	-	39,678
Balances due to credit institutions and central banks	11,147	2,150	36	-	7	6	13,346
Deposits from customers	1,271,334	319,966	100,877	391,069	234,744	600,902	2,918,892
Subordinated liabilities	75,589	-	-	19,019	-	-	94,608
Derivative financial instruments	674	-	-	536	52	555	1,817
Other liabilities	20,545	3,572	873	183	59	1,709	26,941
Total liabilities	**1,411,663**	**325,688**	**101,786**	**411,171**	**241,802**	**603,172**	**3,095,282**
Off-balance sheet items							
Contingent liabilities	17,594	6,184	307	894	850	2,375	28,204
Financial commitments	151,379	49,626	11,925	1,046	930	1,119	216,025

The carrying amount of the Bank's assets, liabilities and memorandum items by geographical profile. The grouping is done based on information about the reported residence of the respective counterparties:

	30/06/2017, EUR 000's						
	Latvia	**Lithuania**	**Estonia**	**Other EU countries**	**CIS countries**	**Other countries**	**Total**
Assets							
Cash and balances with central banks	544,492	-	34,084	-	-	-	578,576
Balances due from credit institutions	1,499	346	-	60,577	8,722	34,303	105,447
Available for sale securities	233,817	38,155	8,123	168,852	-	206,708	655,655
Loans and receivables from customers	857,713	39,463	134,443	12,017	16,179	11,161	1,070,976
Derivative financial instruments	2,050	2	-	1,284	26	408	3,770
Other assets	66,619	40,032	2,401	12,218	20	13,828	135,118
Total assets	**1,706,190**	**117,998**	**179,051**	**254,948**	**24,947**	**266,408**	**2,549,542**
Liabilities							
Balances due to credit institutions and central banks	17,880	8,177	36	-	6	52,019	78,118
Deposits from customers	1,322,857	1,858	107,658	212,603	143,941	352,565	2,141,482
Subordinated liabilities	39,902	-	-	19,007	-	-	58,909
Derivative financial instruments	1,478	8	-	3,653	3	963	6,105
Other liabilities	15,022	-	568	17	10	41	15,658
Total liabilities	**1,397,139**	**10,043**	**108,262**	**235,280**	**143,960**	**405,588**	**2,300,272**
Off-balance sheet items							
Contingent liabilities	21,409	12	332	296	409	1,621	24,079
Financial commitments	224,961	540	31,472	183	574	884	258,614

For additional information on geographical distribution of securities exposures please refer to Note 7 (*Fixed and Non-fixed Income Securities*). From Bank's balances due from credit institutions presented as "Other countries" EUR 20.7 million are with Swiss credit institutions (2016: EUR 55.8 million) and EUR 9.3 million with United States registered credit institutions (2016: EUR 58.0 million).

	31/12/2016, EUR 000's						
	Latvia	**Lithuania**	**Estonia**	**Other EU countries**	**CIS countries**	**Other countries**	**Total**
Assets							
Cash and balances with central banks	619,913	-	27,693	-	-	-	647,606
Balances due from credit institutions	558	65	-	17,490	7,767	128,539	154,419
Available for sale securities	250,026	25,948	4,165	207,485	-	207,310	694,934
Loans and receivables from customers	815,605	23,322	131,339	9,763	16,806	11,671	1,008,506
Derivative financial instruments	2,434	29	-	1,603	8	636	4,710
Other assets	51,077	40,031	1,312	13,143	27	13,845	119,435
Total assets	**1,739,613**	**89,395**	**164,509**	**249,484**	**24,608**	**362,001**	**2,629,610**
Liabilities							
Balances due to credit institutions and central banks	11,147	15,836	36	-	6	102,905	129,930
Deposits from customers	1,280,461	4,987	103,615	238,815	149,935	371,410	2,149,223
Subordinated liabilities	75,589	-	-	19,019	-	-	94,608
Derivative financial instruments	674	4	-	536	52	657	1,923
Other liabilities	15,315	3	272	111	10	78	15,789
Total liabilities	**1,383,186**	**20,830**	**103,923**	**258,481**	**150,003**	**475,050**	**2,391,473**
Off-balance sheet items							
Contingent liabilities	17,573	2,677	307	315	443	1,682	22,997
Financial commitments	181,823	16,665	43,122	279	930	633	243,452

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.

The carrying amount of assets, liabilities and memorandum items by currency profile:

	Group as at 30/06/2017, EUR 000's					
	EUR	**USD**	**CHF**	**RUB**	**Other**	**Total**
Assets						
Cash and balances with central banks	593,049	3,650	86,915	121	5,550	689,285
Balances due from credit institutions	29,852	66,507	7,686	7,069	28,565	139,679
Securities held for trading	13,067	62	-	-	-	13,129
Financial assets designated at fair value through profit or loss	68,903	67,123	12,384	-	4,660	153,070
Available for sale securities	388,685	436,314	-	-	17,326	842,325
Loans and receivables from customers	1,290,070	32,601	1	300	141	1,323,113
Derivative financial instruments	3,416	-	49	-	-	3,465
Other assets	97,262	11,831	660	36	16,728	126,517
Total assets	**2,484,304**	**618,088**	**107,695**	**7,526**	**72,970**	**3,290,583**
Liabilities						
Financial liabilities designated at fair value through profit or loss	28,401	7,745	-	-	-	36,146
Balances due to credit institutions and central banks	6,205	9,476	-	1,595	1,148	18,424
Deposits from customers	1,963,656	805,378	18,293	15,961	70,484	2,873,772
Subordinated liabilities	58,909	-	-	-	-	58,909
Derivative financial instruments	6,057	-	-	-	-	6,057
Other liabilities	23,529	1,978	1,594	80	113	27,294
Total liabilities	**2,086,757**	**824,577**	**19,887**	**17,636**	**71,745**	**3,020,602**
Equity	269,481	502	-	-	(2)	269,981
Total liabilities and equity	**2,356,238**	**825,079**	**19,887**	**17,636**	**71,743**	**3,290,583**
Net long/ (short) position for balance sheet items	128,066	(206,991)	87,808	(10,110)	1,227	-
Off-balance sheet claims arising from foreign exchange						
Spot exchange contracts	(6,325)	10,744	(2,398)	50	(2,080)	(9)
Forward foreign exchange contracts	5,044	(44)	-	-	(5,037)	(37)
Swap exchange contracts	(137,261)	195,527	(78,851)	10,352	7,818	(2,415)
Net long/ (short) positions on foreign exchange	*(138,542)*	*206,227*	*(81,249)*	*10,402*	*701*	*(2,461)*
Net long/ (short) total position	**(10,476)**	**(764)**	**6,559**	**292**	**1,928**	**(2,461)**

	Group as at 31/12/2016, EUR 000's					
	EUR	USD	CHF	RUB	Other	Total
Assets						
Cash and balances with central banks	679,086	3,482	111,946	236	4,448	799,198
Balances due from credit institutions	20,292	78,664	7,420	7,000	28,315	141,691
Securities held for trading	13,016	469	-	-	-	13,485
Financial assets designated at fair value through profit or loss	54,278	61,272	13,626	-	4,150	133,326
Available for sale securities	317,924	566,254	-	-	19,011	903,189
Loans and receivables from customers	1,199,101	40,964	-	297	154	1,240,516
Derivative financial instruments	4,583	-	-	-	-	4,583
Other assets	100,035	12,854	364	50	224	113,527
Total assets	**2,388,315**	**763,959**	**133,356**	**7,583**	**56,302**	**3,349,515**
Liabilities						
Financial liabilities designated at fair value through profit or loss	32,361	7,317	-	-	-	39,678
Balances due to credit institutions and central banks	3,495	8,690	-	6	1,155	13,346
Deposits from customers	1,914,413	907,458	19,573	16,620	60,828	2,918,892
Subordinated liabilities	94,608	-	-	-	-	94,608
Derivative financial instruments	1,817	-	-	-	-	1,817
Other liabilities	22,947	1,898	1,591	242	263	26,941
Total liabilities	**2,069,641**	**925,363**	**21,164**	**16,868**	**62,246**	**3,095,282**
Equity	255,614	(1,364)	-	-	(17)	254,233
Total liabilities and equity	**2,325,255**	**923,999**	**21,164**	**16,868**	**62,229**	**3,349,515**
Net long/ (short) position for balance sheet items	63,060	(160,040)	112,192	(9,285)	(5,927)	-
Off-balance sheet claims arising from foreign exchange						
Spot exchange contracts	2,292	1,460	362	(39)	(4,081)	(6)
Forward foreign exchange contracts	(526)	553	-	-	-	27
Swap exchange contracts	(69,321)	156,506	(106,224)	9,338	12,563	2,862
Net long/ (short) positions on foreign exchange	*(67,555)*	*158,519*	*(105,862)*	*9,299*	*8,482*	*2,883*
Net long/ (short) total position	**(4,495)**	**(1,521)**	**6,330**	**14**	**2,555**	**2,883**

	Bank as at 30/06/2017, EUR 000's					
	EUR	USD	CHF	RUB	Other	Total
Assets						
Cash and balances with central banks	570,222	3,109	210	121	4,914	578,576
Balances due from credit institutions	14,557	47,931	9,289	7,032	26,638	105,447
Available for sale securities	309,309	329,021	-	-	17,325	655,655
Loans and receivables from customers	1,040,624	29,910	-	300	142	1,070,976
Derivative financial instruments	3,770	-	-	-	-	3,770
Other assets	92,795	11,782	13,839	3	16,699	135,118
Total assets	**2,031,277**	**421,753**	**23,338**	**7,456**	**65,718**	**2,549,542**
Liabilities						
Balances due to credit institutions and central banks	14,904	55,751	182	2,101	5,180	78,118
Deposits from customers	1,532,407	531,505	3,484	13,534	60,552	2,141,482
Subordinated liabilities	58,909	-	-	-	-	58,909
Derivative financial instruments	6,105	-	-	-	-	6,105
Other liabilities	13,636	1,839	5	74	104	15,658
Total liabilities	**1,625,961**	**589,095**	**3,671**	**15,709**	**65,836**	**2,300,272**
Equity	249,082	190	-	-	(2)	249,270
Total liabilities and equity	**1,875,043**	**589,285**	**3,671**	**15,709**	**65,834**	**2,549,542**
Net long/ (short) position for balance sheet items	**156,234**	**(167,532)**	**19,667**	**(8,253)**	**(116)**	**-**
Off-balance sheet claims arising from foreign exchange						
Spot exchange contracts	(5,604)	10,043	(2,398)	56	(2,104)	(7)
Forward foreign exchange contracts	5,050	(50)	-	-	(5,037)	(37)
Swap exchange contracts	(157,790)	157,831	(17,270)	8,433	6,635	(2,161)
Net long/ (short) positions on foreign exchange	*(158,344)*	*167,824*	*(19,668)*	*8,489*	*(506)*	*(2,205)*
Net long/ (short) total position	**(2,110)**	**292**	**(1)**	**236**	**(622)**	**(2,205)**

	Bank as at 31/12/2016, EUR 000's					
	EUR	USD	CHF	RUB	Other	Total
Assets						
Cash and balances with central banks	640,495	3,030	240	236	3,605	647,606
Balances due from credit institutions	5,620	60,891	55,063	6,816	26,029	154,419
Available for sale securities	255,171	420,752	-	-	19,011	694,934
Loans and receivables from customers	973,264	34,676	-	297	269	1,008,506
Derivative financial instruments	4,710	-	-	-	-	4,710
Other assets	94,052	11,374	13,807	5	197	119,435
Total assets	**1,973,312**	**530,723**	**69,110**	**7,354**	**49,111**	**2,629,610**
Liabilities						
Balances due to credit institutions and central banks	13,818	106,009	765	688	8,650	129,930
Deposits from customers	1,489,816	589,621	6,477	15,230	48,079	2,149,223
Subordinated liabilities	94,608	-	-	-	-	94,608
Derivative financial instruments	1,923	-	-	-	-	1,923
Other liabilities	13,725	1,734	5	78	247	15,789
Total liabilities	**1,613,890**	**697,364**	**7,247**	**15,996**	**56,976**	**2,391,473**
Equity	239,506	(1,352)	-	-	(17)	238,137
Total liabilities and equity	**1,853,396**	**696,012**	**7,247**	**15,996**	**56,959**	**2,629,610**
Net long/ (short) position for balance sheet items	**119,916**	**(165,289)**	**61,863**	**(8,642)**	**(7,848)**	**-**
Off-balance sheet claims arising from foreign exchange						
Spot exchange contracts	2,700	938	362	100	(4,103)	(3)
Forward foreign exchange contracts	(526)	553	-	-	-	27
Swap exchange contracts	(117,821)	162,585	(62,265)	8,520	11,863	2,882
Net long/ (short) positions on foreign exchange	*(115,647)*	*164,076*	*(61,903)*	*8,620*	*7,760*	*2,906*
Net long/ (short) total position	**4,269**	**(1,213)**	**(40)**	**(22)**	**(88)**	**2,906**

The investment in the Group's Swiss subsidiary AP Anlage & Privatbank AG, which is carried at cost, is shown as a CHF exposure, as the recoverability of this asset will ultimately depend on the Swiss currency's performance. As a result during the reporting period a revaluation result from changes in CHF exchange rate were recognised in Group's other comprehensive income.

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.

Assets, liabilities and off-balance sheet items by contractual maturity

	Group as at 30/06/2017, EUR 000's						
	Within 1 month	2-3 months	4-6 months	7-12 months	2-5 years	Over 5 years and undated	Total
Assets							
Cash and balances with central banks	689,285	-	-	-	-	-	689,285
Balances due from credit institutions	135,202	3,002	170	-	526	779	139,679
Securities held for trading	-	-	462	313	3,758	8,596	13,129
Financial assets designated at fair value through profit or loss	1,763	2,296	10,854	45,290	54,981	37,886	153,070
Available for sale securities	5,040	34,823	56,122	169,102	535,650	41,588	842,325
Loans and receivables from customers	82,448	50,371	104,816	168,345	609,585	307,548	1,323,113
Derivative financial instruments	3,160	305	-	-	-	-	3,465
Other assets	29,920	620	460	926	403	94,188	126,517
Total assets	**946,818**	**91,417**	**172,884**	**383,976**	**1,204,903**	**490,585**	**3,290,583**
Liabilities							
Financial liabilities designated at fair value through profit or loss	260	1,350	2,939	4,858	21,980	4,759	36,146
Balances due to credit institutions and central banks	16,928	1,496	-	-	-	-	18,424
Deposits from customers	2,276,332	112,743	152,142	175,661	147,002	9,892	2,873,772
Subordinated liabilities	-	599	164	-	18,272	39,874	58,909
Derivative financial instruments	4,530	1,385	142	-	-	-	6,057
Other liabilities	20,777	270	915	1,075	1,766	2,491	27,294
Total liabilities	**2,318,827**	**117,843**	**156,302**	**181,594**	**189,020**	**57,016**	**3,020,602**
Equity	-	-	-	-	-	269,981	269,981
Total liabilities and equity	**2,318,827**	**117,843**	**156,302**	**181,594**	**189,020**	**326,997**	**3,290,583**
Net balance sheet position – long/ (short)	(1,372,009)	(26,426)	16,582	202,382	1,015,883	163,588	-
Off-balance sheet items							
Contingent liabilities	28,437	-	-	-	-	-	28,437
Financial commitments	221,322	-	-	-	-	-	221,322

	Group as at 31/12/2016, EUR 000's						
	Within 1 month	2-3 months	4-6 months	7-12 months	2-5 years	Over 5 years and undated	Total
Assets							
Cash and balances with central banks	799,198	-	-	-	-	-	799,198
Balances due from credit institutions	140,416	390	-	366	519	-	141,691
Securities held for trading	806	208	-	462	3,563	8,446	13,485
Financial assets designated at fair value through profit or loss	499	4,156	8,309	14,387	76,351	29,624	133,326
Available for sale securities	30,003	151,019	42,252	112,782	528,008	39,125	903,189
Loans and receivables from customers	52,780	60,297	87,260	193,236	557,331	289,612	1,240,516
Derivative financial instruments	1,766	2,705	112	-	-	-	4,583
Other assets	10,831	278	2,138	1,346	436	98,498	113,527
Total assets	**1,036,299**	**219,053**	**140,071**	**322,579**	**1,166,208**	**465,305**	**3,349,515**
Liabilities							
Financial liabilities designated at fair value through profit or loss	306	5,457	1,540	4,481	22,365	5,529	39,678
Balances due to credit institutions and central banks	12,516	690	140	-	-	-	13,346
Deposits from customers	2,221,741	174,183	138,396	229,387	146,262	8,923	2,918,892
Subordinated liabilities	35,688	619	179	-	18,400	39,722	94,608
Derivative financial instruments	1,614	122	81	-	-	-	1,817
Other liabilities	21,404	466	1,237	588	521	2,725	26,941
Total liabilities	**2,293,269**	**181,537**	**141,573**	**234,456**	**187,548**	**56,899**	**3,095,282**
Equity	-	-	-	-	-	254,233	254,233
Total liabilities and equity	**2,293,269**	**181,537**	**141,573**	**234,456**	**187,548**	**311,132**	**3,349,515**
Net balance sheet position – long/ (short)	(1,256,970)	37,516	(1,502)	88,123	978,660	154,173	-
Off-balance sheet items							
Contingent liabilities	28,204	-	-	-	-	-	28,204
Financial commitments	216,025	-	-	-	-	-	216,025

All Bank's and Group's subordinated liabilities payable are shown as per contractual terms effective as at period end. Early repayment of a subordinated funding from Privatisation Agency in the amount of EUR 34.7 million was agreed before 31 December 2016 and in 2017 repaid before initial maturity. For more details refer to Note 12 (*Subordinated Liabilities).*

	Bank as at 30/06/2017, EUR 000's						
	Within 1 month	2-3 months	4-6 months	7-12 months	2-5 years	Over 5 years and undated	Total
Assets							
Cash and balances with central banks	578,576	-	-	-	-	-	578,576
Balances due from credit institutions	105,277	-	170	-	-	-	105,447
Available for sale securities	4,154	32,229	48,352	143,311	389,539	38,070	655,655
Loans and receivables from customers	63,311	32,894	73,339	209,219	416,031	276,182	1,070,976
Derivative financial instruments	3,465	305	-	-	-	-	3,770
Other assets	26,859	-	-	-	-	108,259	135,118
Total assets	**781,642**	**65,428**	**121,861**	**352,530**	**805,570**	**422,511**	**2,549,542**
Liabilities							
Balances due to credit institutions and central banks	47,979	12,686	10,733	5,842	878	-	78,118
Deposits from customers	1,745,137	68,513	93,096	99,811	127,308	7,617	2,141,482
Subordinated liabilities	-	599	164	-	18,272	39,874	58,909
Derivative financial instruments	4,578	1,385	142	-	-	-	6,105
Other liabilities	14,414	-	-	572	-	672	15,658
Total liabilities	**1,812,108**	**83,183**	**104,135**	**106,225**	**146,458**	**48,163**	**2,300,272**
Equity	-	-	-	-	-	249,270	249,270
Total liabilities and equity	**1,812,108**	**83,183**	**104,135**	**106,225**	**146,458**	**297,433**	**2,549,542**
Net balance sheet position – long/ (short)	(1,030,466)	(17,755)	17,726	246,305	659,112	125,078	-
Off-balance sheet items							
Contingent liabilities	24,079	-	-	-	-	-	24,079
Financial commitments	258,614	-	-	-	-	-	258,614

	Bank as at 31/12/2016, EUR 000's						
	Within 1 month	2-3 months	4-6 months	7-12 months	2-5 years	Over 5 years and undated	Total
Assets							
Cash and balances with central banks	647,606	-	-	-	-	-	647,606
Balances due from credit institutions	154,419	-	-	-	-	-	154,419
Available for sale securities	29,497	141,108	20,965	92,826	377,949	32,589	694,934
Loans and receivables from customers	27,994	133,544	59,989	149,567	379,533	257,879	1,008,506
Derivative financial instruments	1,892	2,706	112	-	-	-	4,710
Other assets	7,894	-	-	-	-	111,541	119,435
Total assets	**869,302**	**277,358**	**81,066**	**242,393**	**757,482**	**402,009**	**2,629,610**
Liabilities							
Balances due to credit institutions and central banks	44,666	60,282	17,068	4,477	3,437	-	129,930
Deposits from customers	1,709,041	86,599	84,028	148,746	115,420	5,389	2,149,223
Subordinated liabilities	35,688	619	179	-	18,400	39,722	94,608
Derivative financial instruments	1,720	122	81	-	-	-	1,923
Other liabilities	14,966	-	-	-	-	823	15,789
Total liabilities	**1,806,081**	**147,622**	**101,356**	**153,223**	**137,257**	**45,934**	**2,391,473**
Equity	-	-	-	-	-	238,137	238,137
Total liabilities and equity	**1,806,081**	**147,622**	**101,356**	**153,223**	**137,257**	**284,071**	**2,629,610**
Net balance sheet position – long/ (short)	(936,779)	129,736	(20,290)	89,170	620,225	117,938	-
Off-balance sheet items							
Contingent liabilities	22,997	-	-	-	-	-	22,997
Financial commitments	243,452	-	-	-	-	-	243,452

Capital management

Capital adequacy ratios in these financial statements are calculated in accordance with the CRD IV package which transposes – via a regulation (EU) 575/2013 and a directive 2013/36/EU – the current global standards on bank capital (the Basel III agreement) into EU law.

Capital adequacy refers to the sufficiency of the Group's capital resources to cover credit risks, market risks and other specific risks arising predominantly from asset and off-balance sheet exposures of the Group. The Financial and Capital Markets Commission's (FCMC's) regulations require Latvian banks to maintain a total capital adequacy ratio based on financial statements prepared under IFRS as adopted by EU of 8.0% of the total risk weighted exposure amounts. The CRD IV rules also require 4.5% minimum common equity Tier 1 capital ratio and 6.0% minimum Tier 1 capital ratio. Additionally a 2.5% capital conservation buffer is established, limiting dividend pay-out and certain other Tier 1 equity instrument buy-back. Besides this, countercyclical buffer norms apply as well based on the risk exposure by geographical distribution. The FCMC has also calculated the Bank's individual capital adequacy ratio based on the FCMC policies and guidelines. The 2016 results of the calculation indicated that the minimum capital adequacy ratio that corresponds to the Bank's business model should be at least 10.9% (sum of minimum capital adequacy ratio of 8.0%, capital conservation buffer of 2.5% and individual capital buffer, as determined by FCMC, of 0.4%). The same ratio is applicable as at 30 June 2017. The 0.4% individual capital buffer is related to the business with non-Baltic customers of the Bank. FCMC has also identified the Bank as "other systemically important institution" (O-SII). The Bank's O-SII capital buffer requirement set by the FCMC is 1.5%; however, it is introduced in two steps – 0.75% capital buffer requirement become effective as at 30 June 2017, while the compliance with the full buffer requirements will have to be ensured as of 30 June 2018. The O-SII buffer requirement has to be met by common equity Tier 1 capital.

Recently the FCMC has issued a regulation which introduces "total SREP capital requirement" (TSCR) concept. TSCR concept implies increase in capital requirements to cover risks in addition to these covered by the regulation (EU) 575/2013.

The Bank has subsidiaries, which are financial institutions, and needs to comply with the regulatory requirements both at the Bank's standalone level and at the Group's consolidated level. As at 30 June 2017, both the Bank and the Group have sufficient capital to comply with the FCMC's capital adequacy requirements.

The Bank's and the Group's minimum capital requirements as at 30 June 2017:

	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%
Capital buffer requirements:			
Capital conservation buffer	2.50%	2.50%	2.50%
Countercyclical capital buffer	0.02%	0.02%	0.02%
O-SII capital buffer	0.75%	0.75%	0.75%
Individual capital buffer, as determined by the FCMC	-	-	0.4%
Capital requirement	**7.77%**	**9.27%**	**11.67%**

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

	EUR 000's			
	30/06/2017 Group*	**31/12/2016 Group***	**30/06/2017 Bank**	**31/12/2016 Bank**
Common equity Tier 1 capital				
Paid up capital instruments	156,556	156,556	156,556	156,556
Retained earnings and eligible profits	95,281	95,568	80,571	80,571
Deductible other intangible assets	(3,065)	(3,052)	(2,801)	(2,762)
Other capital components, deductions and transitional adjustments, net	(6,126)	(7,069)	(5,376)	(5,221)
Tier 2 capital				
Eligible part of subordinated liabilities	51,431	53,254	51,431	53,254
Total own funds	**294,077**	**295,257**	**280,381**	**282,398**
Risk weighted exposure amounts for credit risk, counterparty credit risk and dilution risk	1,521,493	1,556,442	1,246,323	1,302,112
Total exposure amounts for position, foreign currency open position and commodities risk	10,731	9,894	3,314	4,598
Total exposure amounts for operational risk	223,140	223,140	177,374	177,374
Total exposure amounts for credit valuation adjustment	1,519	1,109	1,494	1,109
Total risk exposure amount	**1,756,883**	**1,790,585**	**1,428,505**	**1,485,193**
Total capital adequacy ratio	**16.7%**	**16.5%**	**19.6%**	**19.0%**
Common equity Tier 1 capital ratio	**13.8%**	**13.5%**	**16.0%**	**15.4%**

* The consolidation Group for regulatory purposes is different from the consolidation Group for accounting purposes. As per regulatory requirements AAS CBL Life, a licensed insurer, is not included in the consolidation group for capital adequacy purposes.

Consequently, it is excluded from own funds calculation and individual assets of AAS CBL Life are not included as risk exposures in the Group's capital adequacy calculation. Instead, the carrying value of the Group's investment in AAS CBL Life constitutes a risk exposure in the Group's capital adequacy ratio calculation.

Capital adequacy calculation of the Bank and the Group in accordance with the FCMC regulations comprises several transitional adjustments as implemented by the EU and the FCMC. Some of the transitional adjustments are expected to have a diminishing favourable impact on the Bank's and the Group's capital adequacy ratio for several years in the future. The Bank's and the Group's fully loaded (i.e. excluding any transitional adjustments) capital adequacy ratio:

	EUR 000's			
	30/06/2017 Group	**31/12/2016 Group**	**30/06/2017 Bank**	**31/12/2016 Bank**
Common equity Tier 1 capital, fully loaded	229,302	227,027	215,609	213,418
Tier 2 capital	51,431	53,254	51,431	53,254
Total own funds, fully loaded	**280,733**	**280,281**	**267,040**	**266,672**
Total risk exposure amount, fully loaded	**1,756,883**	**1,790,585**	**1,428,505**	**1,485,193**
Total capital adequacy ratio, fully loaded	**16.0%**	**15.7%**	**18.7%**	**18.0%**
Common equity Tier 1 capital ratio, fully loaded	**13.1%**	**12.7%**	**15.1%**	**14.4%**

NOTE 19. EVENTS AFTER THE BALANCE SHEET DATE

Sale of the wholly owned subsidiary SIA CBL Cash Logistics

On 1 August 2017, subsequent to the period end, AS Citadele banka sold its wholly owned subsidiary SIA CBL Cash Logistics. The sale resulted in a complete de-recognition of the investment and since that date transactions of this entity will be excluded from the Group's financial statements. The consideration received exceeded the net book value of the investment in this entity as at 30 June 2017.

Amendments to the Latvian tax legislation

On 28 July 2017, Latvian parliament passed amendments to the Latvian tax legislations that might have a significant impact on the Group's and the Bank's key financial figures. These amendments become effective for tax periods beginning on or after 1 January 2018; for specific items transitional provisions apply. The amendments concern corporate income tax regime and certain other taxes in Latvia.

Currently corporate income tax in Latvia is payable on taxable profits and the taxable profits may be partially offset by tax loss carry forward from previous tax periods. The new regime introduces a concept where corporate income tax is payable only on dividend pay-outs (irrespective of profits in the particular period) and certain expenses which for tax purposes are considered earnings distributions (e.g. non-business expenses and representative expenses that exceed specific threshold).

The Group and the Bank as at 30 June 2017 has EUR 24.3 million deferred tax assets recognised within Latvian jurisdiction. Management expects that part of the recognised deferred tax assets will be used by the end of 2017 and part of the recognised deferred tax assets might be used in the 5 year transition period when tax on dividend pay-outs may be offset by previous period tax loss carried forward. The remainder will be expensed as write downs if the recoverability of the tax assets becomes doubtful. Due to the Latvian tax regime changes, the Group and the Bank is currently in the process of assessing options available for the future management of the deferred tax assets and evaluating the amount of deferred tax assets that could be utilised under the new tax regime.

The tax assets in other Group's jurisdictions remain unaffected by the changes in the Latvian tax regime.

The Group's and the Bank's planned long term regulatory capital position will not be affected significantly by the changes in the Latvian tax regime, as current plans were in accordance with guideline (EU) 2017/697 of the European Central Bank to national competent authorities which already required exclusion of 80% of the deferred tax assets that rely on future profitability starting from 1 January 2018 and 100% exclusion starting from 1 January 2019. As at 30 June 2017, according to the regulation's (EU) 575/2013 transitional rules and in line with national discretions, 30% of the deferred tax assets that rely on future profitability are excluded from the regulatory capital.

KPMG Baltics SIA
Vesetas iela 7
Riga, LV-1013
Latvia

Telephone +371 67038000
Telefax +371 67038002
kpmg.com/lv

Independent Auditors' Report
To the Shareholders of AS "Citadele banka"

Our Opinion on the Condensed Interim Separate and Consolidated Financial Information

We have audited the condensed interim separate and consolidated financial information of AS "Citadele banka" ("the Bank") and its subsidiaries ("the Group") set out on pages 9 to 41 and which comprises the condensed interim separate and consolidated balance sheet as at 30 June 2017, the condensed interim separate and consolidated statements of income and comprehensive income, changes in equity and cash flows for the six month period then ended, and notes to the condensed interim separate and consolidated financial information, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying condensed interim separate and consolidated financial information has been prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting* as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Condensed Interim Separate and Consolidated Financial Information* section of our report.

We are independent of the Bank and Group in accordance with the ethical requirements that are relevant to our audit of the condensed interim separate and consolidated financial information in Republic of Latvia, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Reporting on Other Information

The Bank's and Group's management is responsible for the other information. The other information comprises the Key Figures, Management report and Statement of the Management's Responsibility set out on page 2 and from page 4 to page 8 of the Interim financial report, but does not include the condensed interim separate and consolidated financial information and our auditors' report thereon.

Our opinion on the condensed interim separate and financial information does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the condensed interim separate and consolidated financial information, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the condensed interim separate and consolidated financial information or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed and in light of the knowledge and understanding of the Bank, Group and their environment obtained in the course of our audit, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Condensed Interim Separate and Consolidated Financial Information

Management is responsible for the preparation and presentation of the condensed interim separate and consolidated financial information in accordance with IAS 34 *Interim Financial Reporting* as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of condensed interim separate and consolidated financial information that are free from material misstatement, whether due to fraud or error.

In preparing the condensed interim separate and consolidated financial information, management is responsible for assessing the Bank's and Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank and Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's and Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Condensed Interim Separate and Consolidated Financial Information

Our objectives are to obtain reasonable assurance about whether the interim condensed separate and consolidated financial information as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this condensed interim separate and consolidated financial information.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the condensed interim separate and consolidated financial information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's and Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's and Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the condensed interim separate and consolidated financial information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank and Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the condensed interim and consolidated financial information, including the disclosures, and whether the condensed interim separate and consolidated financial information represent the underlying transactions and events in accordance with requirements of IAS 34 *Interim Financial Reporting* as adopted by the European Union.

- Obtain sufficient appropriate audit evidence regarding the interim financial information of the entities or business activities within the Group to express an opinion on the condensed interim consolidated financial information. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG Baltics SIA
Licence No. 55

Ondrej Fikrle
Partner pp KPMG Baltics SIA
Riga, Latvia
25 August 2017

CONTACT DETAILS

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

www.citadele.lv
www.cblgroup.com

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

Registration number: 40103303559

Corporate Communications

E-mail: pr@citadele.lv