

AS Citadele banka

Interim financial report

for the six month period
ended 30 June 2016



Citadele

KEY FIGURES

EUR millions	Group			Bank		
	H1 2016	H1 2015	Change	H1 2016	H1 2015	Change
Net interest income	31.1	29.5	5%	23.6	23.7	(0%)
Net commission and fee income	18.3	17.2	6%	13.1	12.3	6%
Operating income ⁽¹⁾	70.6	54.6	29%	55.9	41.3	35%
Impairment charge and reversals, net	(5.1)	(3.1)	66%	(5.6)	(4.4)	27%
Net profit	25.4	14.9	70%	20.6	10.1	104%
Return on average assets (ROA) ⁽²⁾	1.66%	1.06%	0.6pp	1.68%	0.88%	0.8pp
Return on average equity (ROE) ⁽³⁾	22.1%	15.7%	6.4pp	19.0%	11.0%	8.0pp
Cost to income ratio (CIR) ⁽⁴⁾	55.8%	64.4%	(8.6pp)	52.5%	62.3%	(9.8pp)
Cost of risk ratio (COR) ⁽⁵⁾	1.0%	0.9%	0.2pp	1.2%	1.1%	0.1pp

Adjusted for VISA income⁽⁷⁾:

Net profit	14.0	14.9	(6%)	9.3	10.1	(8%)
Return on average assets (ROA) ⁽²⁾	0.92%	1.06%	(0.14pp)	0.75%	0.88%	(0.12pp)
Return on average equity (ROE) ⁽³⁾	12.2%	15.7%	(3.51pp)	8.6%	11.0%	(2.44pp)

EUR millions	Group			Bank		
	H1 2016	2015	Change	H1 2016	2015	Change
Total assets	3,140	2,960	6%	2,506	2,409	4%
Loans to customers	1,231	1,172	5%	1,013	983	3%
Deposits from customers	2,748	2,583	6%	2,098	2,037	3%
Shareholders' equity	240	220	9%	224	209	7%
Loan-to-deposit ratio ⁽⁶⁾	45%	45%	(1pp)	48%	48%	0pp

- (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 net collective and specific loans impairment charges divided by the average of net loans at the beginning and the end of the period.
- (6) Loan-to-deposit ratio is calculated as the carrying value of loans and receivables from customers divided by deposits from customers at the end of the relevant period.
- (7) One-time income recognised in the statement of income of 2016 in amount of EUR 11.3 million due to sale of Citadele's share in Visa Europe to Visa Inc.

CONTENTS

Management Report

Letter from the Management Board	4
Corporate Governance	6

Condensed Interim Financial Statements:

Condensed Interim Statement of Income	7
Condensed Interim Statement of Comprehensive Income	8
Condensed Interim Balance Sheet	9
Condensed Interim Statement of Changes in Equity	10
Condensed Interim Statement of Cash Flows	11
Notes to the Condensed Interim Financial Statements	12

Auditors' Report	35
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Contact Details	37
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Rounding and Percentages

Some numerical figures included in this financial report 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 BOARD

FINANCIAL PERFORMANCE

In the first six months of the year, the Group reported a **net profit** of EUR 25.4 million, which was a 70% increase compared to the same period in 2015 when the Group earned EUR 14.9 million. In the reporting period a gain of EUR 11.3 million was recognised on the disposal of Citadele's shares in Visa Europe to Visa Inc. Consequently, the Group achieved excellent profitability ratios: 22.1% ROE and 1.66% ROA (Bank: 19.0% ROE and 1.68% ROA). Even when disregarding the one-time gain, the Group's operating income increased by 9%, reflecting growth in the core business.

Group's **net loan portfolio** increased to EUR 1,231 million (+14% compared to June 2015), with Estonian and Baltic leasing segment portfolios demonstrating the highest growth rates. Thanks to the new business strategy, Citadele's loan portfolio growth was also significantly higher than the banking sector – total loans in Latvia increased by only 2.4% in the first half of 2016, according to Financial and Capital Markets Commission data.

Group's **net interest income** reached EUR 31.1 million (Bank: EUR 23.6 million), which was a 5% increase compared to the same period in 2015. This demonstrated that the Group's strategy to increase the loan portfolio in all key segments in all three home markets – Latvia, Lithuania and Estonia – is yielding results despite an environment of declining market rates and bond yields.

Net commission income for the Group grew by 6% up to EUR 18.3 million (Bank: EUR 13.1 million). The increase was mostly driven by an increase in income from payment transfers as well as payment cards where the Group benefited from strong growth in its merchant business and its customer base.

Group's **administrative expense** increased by 12% when compared to the same period in 2015 (Bank: 14%), which was mostly driven by personnel costs. By the end of June 2016, the number of active employees in the Group increased to 1,666 (Bank: 1,299). The increase was the result of the Group's strategy to further strengthen the sales force and IT teams.

Group's **asset quality** continued to improve. NPL ratio decreased to 9.6% (Bank: 10.0%) compared to 12.0% in June 2015 (Bank: 12.2%). Although net impairment charges increased, Group's cost of risk remained at 1.0% (Bank: 1.2%), which was a similar level to the one seen a year ago.

Group's **liquidity** and **capital position** remained strong: the deposit book grew by 14% compared to the respective period last year, maintaining the loan-to-deposit ratio at prudent 45% level, and the total capital adequacy ratio was 12.5% (Bank: 13.7%), which excludes the profit generated in the first half of 2016.

DEVELOPMENTS AND EVENTS IN LENDING

Active lending to SMEs in all three Baltic States, and retail lending in Latvia and Lithuania, shaped the basis of the loan portfolio growth. Growth in the retail and SME sectors reflected Citadele's new strategy to become the primary bank of choice for customers in these segments.

Retail segment Latvia

In the Latvian retail segment the loan portfolio registered a 9% increase year-over-year, with the total loan portfolio increasing by EUR 26 million and reaching EUR 304 million. Central to growth has been speeding up the loan application reviewing periods and developing a new application channel: a web-based credit scoring tool that Citadele introduced in May. The tool invites existing and potential new clients to learn their individual credit capacity. The amount of available consumer lending and individual interest rate is calculated based on data submitted by interested clients via the web form without having to formally register. The ease of use of the web portal and openness in communicating Citadele's proposition resonated well with consumers.

Company segment Latvia

While both SME and Corporate loan portfolios in Latvia continued to grow, the SME segment demonstrated the most rapid growth: a 15% increase year-over-year. In the first half of 2016, Citadele launched a series of "Support Loan" products tailored to a range of industries for SMEs. For example, these new products enabled companies and farmers to receive micro loans of up to EUR 20,000 based on the client's cash flow and waived the requirement for collateral. The offering has enabled Citadele to increase its client base in the micro-SME sub-segment, a segment historically underserved by the market in lending.

Lithuania and Estonia

Growth in lending is also reflected in Citadele's operations in Lithuania and Estonia, where Citadele continued to strengthen its business. In Estonia, the total loan portfolio reached EUR 92 million (a 54% increase, compared to June 2015). In Lithuania the total loan portfolio reached EUR 229 million (a 19% increase, compared to June 2015).

DEVELOPMENTS AND EVENTS IN INNOVATIONS

In order to continuously improve Citadele's customer experience and competitiveness of services, the Group is maintaining a steady focus on innovation in customer service and technologies. In addition to introducing a range of micro-loans in the MSME segment and providing an on-demand web-based credit-scoring tool for retail consumers, there were also a number of other innovations in 2016.

Mobile

During 1Q 2016, Citadele invested in developing a brand new mobile application with online-banking functionality. A distinctive feature is a MobileSCAN authorization tool built into the mobile application and linked to a particular device – smartphone or tablet. It enables users to connect to the internet bank by merely entering the user's name, password and PIN code, waiving the need for a separate code card or calculator (which are normally required by banks). Since the beginning of the year, the number of Citadele mobile app users in Latvia has increased by more than 2.5 times.

Branches

In 2016 Citadele continued to invest in refining its approach to the retail branch concept and design. In February Citadele opened a branch office at Skanstes Street, Riga, Latvia that featured a novel concept: the branch is designed with an informal house-like atmosphere. In May, Citadele opened a new branch in Vilnius, Lithuania, jointly with the "Coffee Inn" chain, featuring a cafe and bank on the same premises.

Product design

For retail product design Citadele developed and launched a distinctive fixed-price service bundle offering to new clients in Latvia and Lithuania in order to increase its base of primary-banking clients who use Citadele for their everyday money transfers and card payments. The approach differentiates Citadele's offering from other offers in market.

AWARDS

Citadele's dedication to growth and continued effort in refining customer service has been recognized by third parties.

Euromoney Awards of Excellence

In June, Citadele was declared "Central and Eastern Europe's Best Bank Transformation" in Euromoney magazine's annual "Euromoney Awards of Excellence". The following is a statement by Euromoney: "Restructured, recapitalised and renewed – Citadele can no longer be seen as the unsuccessful lender which was left over after the influential collapse of Parex. Citadele is now in a good place from which to serve Latvia's economic recovery."

Customer service

In 2016, Citadele received high recognition for its services in Latvia and Lithuania from "Dive", a customer satisfaction research company commissioned to carry out Baltic banking service studies annually. In Lithuania, Citadele was recognized as the best customer service provider among Lithuanian banks, whereas in Latvia Citadele was recognized as the runner-up in terms of the customer service.

CORPORATE GOVERNANCE

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
David Shuman	Member of the Supervisory Board	20 April 2015
Geoffrey Richard Dunn	Member of the Supervisory Board	30 June 2010
Sylvia Yumi Gansser-Potts	Member of the Supervisory Board	20 April 2015
Klāvs Vasks	Member of the Supervisory Board	30 June 2010

In the reporting period, there were no changes in the Supervisory Council of the Bank.

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
Aldis Paegle	Member of the Management Board, per procura	Chief Financial Officer
Santa Purgaile	Member of the Management Board	Chief Business Officer

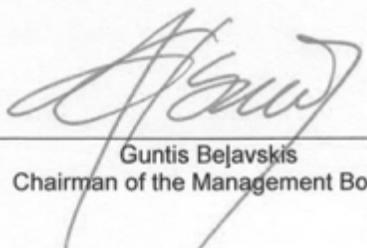
In the reporting period, there were no changes in the Management Board of the Bank.

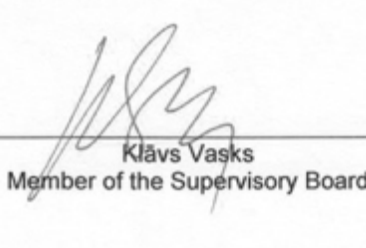
INCOME STATEMENT

		EUR 000's			
		Jan-Jun 2016 Group	Jan-Jun 2015 Group	Jan-Jun 2016 Bank	Jan-Jun 2015 Bank
	Notes				
Interest income	5	40,233	39,570	31,573	32,078
Interest expense	5	(9,100)	(10,027)	(7,950)	(8,349)
Net interest income		31,133	29,543	23,623	23,729
Commission and fee income		26,498	24,500	20,183	18,481
Commission and fee expense		(8,208)	(7,287)	(7,114)	(6,168)
Net commission and fee income		18,290	17,213	13,069	12,313
Gain on transactions with financial instruments, net	6	19,889	6,286	17,793	4,184
Other income		1,260	1,533	1,427	1,098
Other expense		(425)	(306)	(85)	(184)
Administrative expenses		(36,633)	(32,800)	(28,162)	(24,747)
Amortisation and depreciation charge		(2,296)	(2,032)	(1,089)	(803)
Impairment charges and reversals, net	7	(5,110)	(3,072)	(5,583)	(4,379)
Profit before taxation		26,108	16,365	20,993	11,211
Income tax		(755)	(1,433)	(394)	(1,127)
Net profit for the period		25,353	14,932	20,599	10,084
Basic earnings per share in EUR		0.16	0.10	0.13	0.07
Weighted average number of shares outstanding during the period in thousands	14	156,556	150,478	156,556	150,478

The notes on pages 12 to 34 are an integral part of these interim condensed financial statements.

The interim condensed financial statements on pages 7 to 34 have been approved and authorised for issue by the Management Board and Supervisory Board and signed on their behalf by:


Guntis Bejavskis
Chairman of the Management Board


Klāvs Vasks
Member of the Supervisory Board

STATEMENT OF COMPREHENSIVE INCOME

	EUR 000's			
	Jan-Jun 2016 Group	Jan-Jun 2015 Group	Jan-Jun 2016 Bank	Jan-Jun 2015 Bank
Net profit for the period	25,353	14,932	20,599	10,084
Other comprehensive income items that are or may be reclassified to profit or loss:				
<i>Fair value revaluation reserve: held to maturity securities</i>				
Amortisation	(28)	65	(34)	42
Deferred income tax charged directly to equity	(1)	(3)	-	-
<i>Fair value revaluation reserve: available for sale securities</i>				
Fair value revaluation reserve charged to statement of income	(12,728)	(2,333)	(12,087)	(785)
Change in fair value of available for sale securities	7,854	1,229	6,313	571
Deferred income tax charged / (credited) directly to equity	(290)	111	(155)	(16)
<i>Other reserves</i>				
Foreign exchange revaluation and other reserves	(51)	2,717	-	-
Other comprehensive income / (loss) for the period	(5,244)	1,786	(5,963)	(188)
Total comprehensive income for the period	20,109	16,718	14,636	9,896

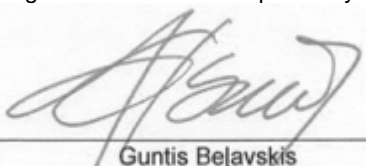
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BALANCE SHEET

		EUR 000's			
	Notes	30/06/2016 Group	31/12/2015 Group	30/06/2016 Bank	31/12/2015 Bank
Assets					
Cash and balances with central banks		508,529	555,078	83,805	348,960
Balances due from credit institutions		235,583	181,145	544,165	301,280
Securities held for trading:	8				
- fixed income		9,279	11,081	-	-
- shares and other non-fixed income		5,784	4,991	-	-
Derivative financial instruments		4,468	4,907	3,905	4,960
Financial assets designated at fair value through profit or loss:	8				
- fixed income		103,020	91,764	-	-
- shares and other non-fixed income		19,523	19,323	-	-
Available for sale securities:	8				
- fixed income		691,267	590,166	552,098	469,559
- shares and other non-fixed income		12,332	19,864	12,316	19,847
Loans and receivables from customers	9	1,230,647	1,172,345	1,012,516	983,425
Held to maturity securities	8	210,926	203,718	179,770	165,293
Property and equipment		43,618	43,111	4,819	4,393
Intangible assets		3,012	2,538	2,664	2,213
Investment property		186	189	-	-
Investments in subsidiaries	10	-	-	61,925	61,580
Current income tax assets		346	259	-	-
Deferred income tax assets		27,101	27,769	25,622	26,157
Other assets		33,985	32,215	22,370	21,333
Total assets		3,139,606	2,960,463	2,505,975	2,409,000
Liabilities					
Derivative financial instruments		3,761	1,901	3,783	1,897
Financial liabilities designated at fair value through profit or loss	11	35,531	33,915	-	-
Balances due to credit institutions and central banks		36,065	41,635	110,993	87,778
Deposits from customers	12	2,747,509	2,583,030	2,098,237	2,037,349
Current income tax liabilities		186	233	-	-
Other liabilities		21,981	25,263	14,491	18,119
Subordinated liabilities	13	54,693	54,715	54,693	54,715
Total liabilities		2,899,726	2,740,692	2,282,197	2,199,858
Equity					
Share capital	14	156,556	156,556	156,556	156,556
Reserves		2,491	7,565	2,330	8,293
Retained earnings		80,833	55,650	64,892	44,293
Total equity		239,880	219,771	223,778	209,142
Total liabilities and equity		3,139,606	2,960,463	2,505,975	2,409,000
Off-balance sheet items					
Contingent liabilities		29,682	38,517	25,343	34,242
Financial commitments		185,589	178,121	234,244	176,181

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Chairman of the Management Board


Klāvs Vasks
Member of the Supervisory Board

STATEMENT OF CHANGES IN EQUITY

Changes in the Group's equity are as follows:

	EUR 000's						
	Attributable to equity holders of the Bank						
	Issued share capital	Securities fair value revaluation reserve	Foreign exchange reserves	Other reserves	Restructuring reserve	Retained earnings	Total equity
Balance as at 31 December 2014	146,556	3,062	1,934	259	(4,710)	29,610	176,711
Total comprehensive income for the period							
Net profit for the period	-	-	-	-	-	14,932	14,932
Other comprehensive income / (loss) for the period	-	(931)	2,697	-	-	20	1,786
Transactions with shareholders							
Transfer to other reserve	-	-	-	12	-	(12)	-
Shares issued (see Note 14)	10,000	-	-	-	-	-	10,000
Balances as at 30 June 2015	156,556	2,131	4,631	271	(4,710)	44,550	203,429
Balance as at 31 December 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 other reserve	-	-	-	170	-	(170)	-
Balances as at 30 June 2016	156,556	2,923	3,778	441	(4,651)	80,833	239,880

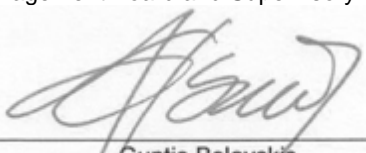
Changes in the Bank's equity are as follows:

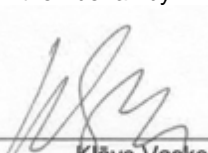
changes in the Bank's equity are as follows:

	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 December 2014	146,556	1,994	24,747	173,297
Total comprehensive income for the period				
Net profit for the period	-	-	10,084	10,084
Other comprehensive income / (loss) for the period	-	(188)	-	(188)
Transactions with shareholders				
Shares issued (see Note 14)	10,000	-	-	10,000
Balances as at 30 June 2015	156,556	1,806	34,831	193,193
Balance as at 31 December 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)
Balances as at 30 June 2016	156,556	2,330	64,892	223,778

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Member of the Supervisory Board

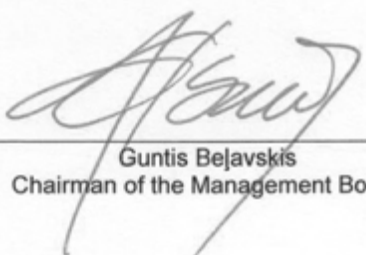
STATEMENT OF CASH FLOWS

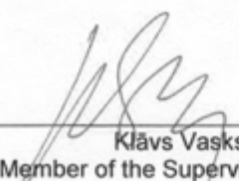
		EUR 000's			
	Notes	Jan-Jun 2016 Group	Jan-Jun 2015 Group	Jan-Jun 2016 Bank	Jan-Jun 2015 Bank
Cash flows from operating activities					
Profit before tax		26,108	16,365	20,993	11,211
Dividends income		-	-	-	(238)
Amortisation of intangible assets, depreciation of property, equipment and investment property		2,296	2,032	1,089	803
Change in impairment allowances and other provisions		5,110	3,072	5,583	4,379
Interest income		(40,233)	(39,570)	(31,573)	(32,078)
Interest expense		9,100	10,027	7,950	8,349
Other non-cash items*		2,175	(29,362)	499	(20,918)
Cash flows before changes in assets and liabilities		4,556	(37,436)	4,541	(28,492)
Change in derivative financial instruments		2,299	5,138	2,941	3,243
(Increase) / decrease in other assets		(2,074)	(411)	(1,317)	125
Increase / (decrease) in other liabilities		(3,282)	2,808	(3,628)	3,201
(Increase) / decrease in trading investments and items designated at fair value through profit or loss		(8,831)	3,529	-	-
(Increase) / decrease in balances due from credit institutions		7,832	346,586	7,803	116,623
(Increase) / decrease in loans and receivables from customers		(65,512)	(10,521)	(35,763)	27,627
Increase / (decrease) in balances due to credit institutions and central banks		(23,070)	984	277	11,337
Increase / (decrease) in deposits from customers		164,526	(109,734)	61,141	(50,217)
Cash generated from operating activities before corporate income tax		76,444	200,943	35,995	83,447
Interest received during the period		40,330	39,748	31,841	32,162
Interest paid during the period		(9,188)	(10,380)	(8,204)	(8,571)
Corporate income tax paid during the period		(152)	(218)	(14)	(47)
Net cash flows from operating activities		107,434	230,093	59,618	106,991
Cash flows from investing activities					
Purchase of property, equipment and intangible assets		(2,689)	(650)	(2,026)	(422)
Proceeds from disposal of property and equipment		50	10	14	10
Purchase of held-to-maturity securities		(181,579)	(38,831)	(181,299)	(37,476)
Proceeds from held-to-maturity securities		173,151	22,616	165,896	19,860
Purchase of available-for-sale securities		(388,991)	(150,201)	(292,178)	(95,142)
Cash inflows from available-for-sale securities		290,829	173,837	212,960	111,538
Dividends received		-	-	-	238
Acquisitions and investments in subsidiaries		-	-	(350)	-
Net cash flows from investing activities		(109,229)	6,781	(96,983)	(1,394)
Cash flows from financing activities					
Issued share capital		-	10,000	-	10,000
Repayment of subordinated liabilities		-	(18,400)	-	(18,400)
Net cash flow from financing activities		-	(8,400)	-	(8,400)
Net cash flows for the period		(1,795)	228,474	(37,365)	97,197
Cash and cash equivalents at the beginning of the period		709,641	369,011	617,316	419,225
Cash and cash equivalents at the end of the period	22	707,846	597,485	579,951	516,422

* Other non-cash items from operating activities in the 6 month period ended 30 June 2015 mostly relate to foreign exchange revaluation of securities investment.

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Guntis Bejavskis
Chairman of the Management Board


Klāvs Vasks
Member of the Supervisory Board

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENT

If not mentioned otherwise, referral to 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 at 31 December 2015 or for the six month period ended 30 June 2015, 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 16 August 2016 and Supervisory Board on 30 August 2016 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 was established as a result of implementation of an EC restructuring plan, which was approved by the Cabinet of Ministers of the government of Latvia in the spring of 2010 and pursuant to which AS Citadele Banka was to take over from AS Parex Banka certain assets and liabilities and other items, i.e. an undertaking. The transfer of undertaking took place 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 at 30 June 2016, the Bank was operating a total of 35 (2015: 35) branches and client service centres in Riga and throughout Latvia. The Bank has 2 (2015: 2) foreign branches and client service centres in Tallinn (Estonia). The Bank owns directly and indirectly 25 (2015: 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 2016, the Group had 1,666 (2015: 1,625) and the Bank had 1,299 (2015: 1,263) full time equivalent active employees.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 2015. 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 2015 full 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 2015, which have been prepared in accordance with IFRS as adopted by EU.

Previously, group reported certain special purpose financing received from government related agencies as other financial liabilities at amortised cost. In order to simplify balance sheet and as these balances qualify for deposit presentation, since 30 June 2016 these liabilities are presented within deposits from state and municipality owned enterprises. Comparatives have been adjusted accordingly.

Adoption of new or revised standards and interpretations

Certain new standards, interpretations and amendments to the existing standards have been published that become effective for the accounting periods beginning on or after 1 January 2016 or later periods and which are not relevant to the Group or are not yet endorsed by the EU. The Group is in the process of evaluating the potential effect if any of these new standards and interpretations.

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 and its Latvian 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).

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.

Restructuring reserve

On 30 June 2010 AS Citadele Banka was registered in the commercial registry of the Republic of Latvia and on the same date it received its banking licence from the Financial and Capital Market Commission (FCMC). AS Citadele Banka was established as a result of the implementation of its EC restructuring plan, which was approved by the Cabinet of Ministers in the spring of 2010 and pursuant to which AS Citadele Banka was to take over from AS Parex Banka certain assets and liabilities and other items, i.e. an undertaking.

The transfer of undertaking from AS Parex Banka to AS Citadele Banka took place on 1 August 2010. The transfer of undertaking was performed under Article 59.2 of the Latvian Law on Credit Institutions (further also – CIL). Legal definition of undertaking is given in the same Article 59.2 of CIL. Transfer of undertaking is a civil law transaction between two parties: the transferor, AS Parex Banka, and the transferee, AS Citadele Banka, whereby the transferee acquires title to the transferred undertaking. The transferred undertaking, i.e. the components thereof, is agreed by both banks and defined in the agreement on transfer of undertaking, which was entered into on 28 July 2010.

Group's policy is to reclassify any change in restructuring reserve directly to retained earnings. All other amounts presented in other comprehensive income will be subsequently reclassified to statement of income when specific conditions are met.

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 the same as those applicable to the financial statements as at and for the year ended 31 December 2015 (evaluation of impairment for financial asset, determining fair values of financial assets and liabilities, impairment of non-financial assets, estimating future periods' taxable profits for deferred tax asset assessment and determination of the control of investees for consolidation purposes).

The Bank continued to monitor it's and 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 7 (*Impairment Charges and Reversals*).

Interim period income tax is accrued based on the estimated effective tax rate that would be applicable to the expected total annual earnings. As 2016 earnings include a non-taxable gain 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 considerably lower than for the same period in 2015.

NOTE 4. RISK MANAGEMENT

All aspects of 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 2015. 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 2015.

NOTE 5. INTEREST INCOME AND EXPENSE

	EUR 000's			
	Jan-Jun 2016 Group	Jan-Jun 2015 Group	Jan-Jun 2016 Bank	Jan-Jun 2015 Bank
Interest income on:				
- financial assets measured at amortised cost:	35,649	35,281	28,444	29,518
- <i>loans and receivables from customers</i>	34,030	31,748	27,255	26,566
- <i>balances due from credit institutions and central banks</i>	397	493	347	329
- <i>held-to-maturity securities</i>	1,222	3,040	842	2,623
- available-for-sale securities	3,972	3,582	3,129	2,560
- held for trading securities	127	204	-	-
- financial assets designated at fair value through profit or loss	485	503	-	-
Total interest income	40,233	39,570	31,573	32,078
Interest expense on:				
- financial liabilities measured at amortised cost:	(8,123)	(9,743)	(7,140)	(8,206)
- <i>deposits from customers</i>	(5,134)	(6,708)	(4,068)	(5,279)
- <i>subordinated liabilities</i>	(2,005)	(2,358)	(2,005)	(2,358)
- <i>balances due to credit institutions and central banks</i>	(984)	(677)	(1,067)	(569)
- financial liabilities designated at fair value through profit or loss	(167)	(141)	-	-
- other interest expense	(810)	(143)	(810)	(143)
Total interest expense	(9,100)	(10,027)	(7,950)	(8,349)
Net interest income	31,133	29,543	23,623	23,729

In the current economic environment the overall effective interest rate on some high quality liquid assets has turned negative. The Group is also affected by negative interest rates applied on certain balances due from central banks and some credit institutions. 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 6. GAIN ON TRANSACTIONS WITH FINANCIAL INSTRUMENTS, NET

	EUR 000's			
	Jan-Jun 2016 Group	Jan-Jun 2015 Group	Jan-Jun 2016 Bank	Jan-Jun 2015 Bank
Gain from foreign exchange trading and revaluation of open positions, net	6,057	3,498	5,428	2,684
Gain / (loss) from disposal of available for sale securities, net	12,728	2,333	12,087	785
Gain / (loss) from trading and revaluation of securities and derivatives held for trading purposes, net	580	733	278	715
Gain / (loss) on financial assets or financial liabilities designated at fair value through profit and loss	524	(278)	-	-
Gain on transactions with financial instruments, net	19,889	6,286	17,793	4,184

In the reporting period 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 was received as part of the consideration refer to Note 23 (*Fair Values of Financial Assets and Liabilities*).

NOTE 7. IMPAIRMENT CHARGES AND REVERSALS

Total net impairment allowance charged to income statement:

	EUR 000's			
	Jan-Jun 2016 Group	Jan-Jun 2015 Group	Jan-Jun 2016 Bank	Jan-Jun 2015 Bank
Loans – specifically assessed impairment	(3,269)	(1,199)	(3,149)	(1,636)
Loans – collectively assessed impairment	(2,952)	(3,464)	(2,664)	(3,283)
Available-for-sale securities	109	-	109	-
Other financial and non-financial assets	505	940	(286)	7
Recovered written-off assets	497	651	407	533
Total impairment allowance charged to income statement, net	(5,110)	(3,072)	(5,583)	(4,379)

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.

An analysis of the change in impairment allowance of loans and receivables:

	EUR 000's			
	Jan-Jun 2016 Group	Jan-Jun 2015 Group	Jan-Jun 2016 Bank	Jan-Jun 2015 Bank
Total impairment allowance at the beginning of the period:	90,175	88,707	73,662	69,767
- loans – specifically assessed impairment	67,751	67,676	55,135	51,383
- loans – collectively assessed impairment	22,424	21,031	18,527	18,384
Charge:	13,486	8,860	11,588	7,271
- loans – specifically assessed impairment	8,825	4,206	7,813	3,516
- loans – collectively assessed impairment	4,661	4,654	3,775	3,755
Release:	(7,265)	(4,197)	(5,775)	(2,352)
- loans – specifically assessed impairment	(5,556)	(3,007)	(4,664)	(1,880)
- loans – collectively assessed impairment	(1,709)	(1,190)	(1,111)	(472)
Allowance charged to the statement of income, net:	6,221	4,663	5,813	4,919
- loans – specifically assessed impairment	3,269	1,199	3,149	1,636
- loans – collectively assessed impairment	2,952	3,464	2,664	3,283
Change of allowance due to write-offs	(4,661)	(2,781)	(3,084)	-
Effect of changes in currency exchange rates:	(50)	246	(52)	244
- loans – specifically assessed impairment	(52)	244	(52)	244
- loans – collectively assessed impairment	2	2	-	-
Total impairment allowance at the end of the period:	91,685	90,835	76,339	74,930
- loans – specifically assessed impairment	66,307	66,338	55,148	53,263
- loans – collectively assessed impairment	25,378	24,497	21,191	21,667

During the ordinary course of business recoverability of some loans deteriorate while for others improve; also loans which cannot be recovered are written-off. This directly affects specifically assessed impairment allowance for loans. Changes in Group's and Bank's collectively assessed impairment allowance for loans in the reporting period relates to growth in Group's and Bank's lending business, particularly retail segment, as well as due to fluctuations in past due days of unimpaired loan balances.

An analysis of the change in impairment of other assets:

	EUR 000's			
	Jan-Jun 2016 Group	Jan-Jun 2015 Group	Jan-Jun 2016 Bank	Jan-Jun 2015 Bank
Total impairment allowance at the beginning of the period:	25,921	28,775	61,441	61,641
- available-for-sale securities	6,924	7,062	6,924	7,062
- due from credit institutions	950	852	950	852
- other financial and non-financial assets	18,047	20,861	53,567	53,727
Charge:	607	196	286	103
- available-for-sale securities	-	-	-	-
- other financial and non-financial assets	607	196	286	103
Release:	(1,221)	(1,136)	(109)	(110)
- available-for-sale securities	(109)	-	(109)	-
- other financial and non-financial assets	(1,112)	(1,136)	-	(110)
Allowance charged to the statement of income, net:	(614)	(940)	177	(7)
- available-for-sale securities	(109)	-	(109)	-
- other financial and non-financial assets	(505)	(940)	286	(7)
Change of allowance due to write-offs:	(5,473)	(494)	(5,174)	(124)
- available-for-sale securities	(5,044)	-	(5,044)	-
- other financial and non-financial assets	(429)	(494)	(130)	(124)
Effect of changes in currency exchange rates:	(111)	(402)	(104)	(375)
- available-for-sale securities	(86)	(448)	(86)	(448)
- due from credit institutions	(18)	73	(18)	73
- other financial and non-financial assets	(7)	(27)	-	-
Total impairment allowance at the end of the period:	19,723	26,939	56,340	61,135
- available-for-sale securities	1,685	6,614	1,685	6,614
- due from credit institutions	932	925	932	925
- other financial and non-financial assets	17,106	19,400	53,723	53,596

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 headquarters building. Based on the re-estimate of the fair value a reversal of impairment took place.

NOTE 8. FIXED AND NON-FIXED INCOME SECURITIES

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

	EUR 000's 30/06/2016				
	Government bonds	Municipality bonds	Credit institution bonds	Corporate and other bonds	Total
Held for trading	4,503	-	-	4,776	9,279
Financial assets designated at fair value through profit or loss	16,610	1,365	38,700	46,345	103,020
Available for sale	274,116	1,359	185,088	230,704	691,267
Held to maturity	147,516	-	37,247	26,163	210,926
Total fixed income securities	442,745	2,724	261,035	307,988	1,014,492

The Group and the Bank has classified as held to maturity a credit linked note with carrying amount of EUR 34.4 million (2015: EUR 34.4 million). This instrument includes an embedded derivative, which is presented separately within the derivatives caption. Latvian municipality exposure associated with this derivative, has not been presented as part of the fixed and non-fixed income securities credit risk profile.

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

	EUR 000's 31/12/2015				
	Government bonds	Municipality bonds	Credit institution bonds	Corporate and other bonds	Total
Held for trading	4,502	-	-	6,579	11,081
Financial assets designated at fair value through profit or loss	14,766	912	33,980	42,106	91,764
Available for sale	199,951	1,381	150,521	238,313	590,166
Held to maturity	136,886	-	38,817	28,015	203,718
Total fixed income securities	356,105	2,293	223,318	315,013	896,729

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

EUR 000's 30/06/2016					
	Government bonds	Municipality bonds	Credit institution bonds	Corporate and other bonds	Total
Available for sale	209,643	-	133,734	208,721	552,098
Held to maturity	143,153	-	36,617	-	179,770
Total fixed income securities	352,796	-	170,351	208,721	731,868

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

EUR 000's 31/12/2015					
	Government bonds	Municipality bonds	Credit institution bonds	Corporate and other bonds	Total
Available for sale	140,789	-	136,000	192,770	469,559
Held to maturity	128,104	-	37,189	-	165,293
Total fixed income securities	268,893	-	173,189	192,770	634,852

As at 30 June 2016, there are no Group's or Bank's securities on which payments are past due or which were restructured during the reporting period (2015: EUR nil). No fixed income securities were impaired as at June 30 2016 (2015: 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, shares and other non-fixed income securities by issuer's country, net:

EUR 000's						
	30/06/2016			31/12/2015		
	Government bonds	Other securities	Total	Government bonds	Other securities	Total
Latvia	266,256	4,037	270,293	232,246	4,378	236,624
United States	6,537	80,080	86,617	7,773	90,510	98,283
Netherlands	4,637	73,636	78,273	-	56,681	56,681
Germany	-	67,480	67,480	-	67,140	67,140
Lithuania	58,616	-	58,616	56,454	-	56,454
Japan	41,221	1,292	42,513	3,815	2,027	5,842
Canada	3,619	38,481	42,100	3,681	24,521	28,202
Sweden	15,365	22,033	37,398	15,573	19,787	35,360
Finland	17,008	17,076	34,084	13,066	19,188	32,254
Australia	-	33,487	33,487	-	23,635	23,635
United Kingdom	-	33,210	33,210	-	38,578	38,578
Singapore	-	27,703	27,703	-	24,481	24,481
Norway	-	25,168	25,168	-	25,648	25,648
Multilateral development banks	-	26,864	26,864	-	27,407	27,407
Other countries*	29,486	122,969	152,455	23,497	125,328	148,825
Total fixed income securities and shares, net	442,745	573,516	1,016,261	356,105	549,309	905,414
Investments in investment funds **	-	35,870	35,870	-	35,493	35,493
Total securities, net	442,745	609,386	1,052,131	356,105	584,802	940,907

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

EUR 000's						
	30/06/2016			31/12/2015		
	Government bonds	Other securities	Total	Government bonds	Other securities	Total
Latvia	253,088	3,305	256,393	218,930	3,189	222,119
United States	6,537	53,959	60,496	7,773	48,813	56,586
Germany	-	57,346	57,346	-	54,588	54,588
Netherlands	4,637	45,780	50,417	-	35,223	35,223
Japan	41,221	-	41,221	3,815	-	3,815
Finland	13,375	15,717	29,092	9,276	17,807	27,083
Sweden	6,326	22,032	28,358	6,431	19,787	26,218
Singapore	-	26,015	26,015	-	22,790	22,790
Canada	3,619	20,728	24,347	3,681	20,767	24,448
Multilateral development banks	-	20,639	20,639	-	21,615	21,615
Other countries*	23,993	115,304	139,297	18,987	130,048	149,035
Total fixed income securities and shares, net	352,796	380,825	733,621	268,893	374,627	643,520
Investments in investment funds **	-	10,563	10,563	-	11,179	11,179
Total securities, net	352,796	391,388	744,184	268,893	385,806	654,699

* Largest Group's and Bank's exposure to a single country within this group as at period end is EUR 17,896 thousand and EUR 19,912 thousand respectively (2015: EUR 13,667 thousand and EUR 25,899 thousand).

** Investments in managed funds here are not distributed by their issuer's country but shown in a separate line.

All fixed income securities as at 30 June 2016 and 31 December 2015 were listed.

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

	EUR 000's							
	30/06/2016				31/12/2015			
	Foreign equities	Latvian equities	Mutual investment funds	Total	Foreign equities	Latvian equities	Mutual investment funds	Total
Held for trading	-	-	5,784	5,784	-	-	4,991	4,991
Financial assets designated at fair value through profit or loss	-	-	19,523	19,523	-	-	19,323	19,323
Available for sale	1,669	100	10,563	12,332	8,585	100	11,179	19,864
Total non-fixed income securities, net	1,669	100	35,870	37,639	8,585	100	35,493	44,178

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 2016 EUR 19,523 thousand (2015: EUR 19,323 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							
	30/06/2016				31/12/2015			
	Foreign equities	Latvian equities	Mutual investment funds	Total	Foreign equities	Latvian equities	Mutual investment funds	Total
Available for sale	1,653	100	10,563	12,316	8,568	100	11,179	19,847
Total non-fixed income securities, net	1,653	100	10,563	12,316	8,568	100	11,179	19,847

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 2016, the carrying amount of the Group's and Bank's securities, which were impaired but not past due was nil EUR (2015: EUR 910 thousand).

NOTE 9. LOANS AND RECEIVABLES FROM CUSTOMERS

	Group, EUR 000's					
	30/06/2016			31/12/2015		
	Gross loans	Impairment allowance	Net carrying amount	Gross loans	Impairment allowance	Net carrying amount
Not past due – not impaired	1,125,178	-	1,125,178	1,078,334	-	1,078,334
Not past due – impaired	53,000	(23,487)	29,513	59,263	(24,747)	34,516
Total not past due loans	1,178,178	(23,487)	1,154,691	1,137,597	(24,747)	1,112,850
Past due loans - not impaired						
Delayed days:						
=< 29	51,219	-	51,219	31,999	-	31,999
30-59	15,165	-	15,165	12,812	-	12,812
60-89	4,168	-	4,168	3,247	-	3,247
90 and more	9,758	-	9,758	9,618	-	9,618
Total past due loans - not impaired	80,310	-	80,310	57,676	-	57,676
Past due loans – impaired						
Delayed days:						
=< 89	3,962	(1,594)	2,368	16,076	(5,896)	10,180
90 and more	59,882	(41,226)	18,656	51,171	(37,108)	14,063
Total past due loans - impaired	63,844	(42,820)	21,024	67,247	(43,004)	24,243
Total loans and receivables from customers	1,322,332	(66,307)	1,256,025	1,262,520	(67,751)	1,194,769
Collective impairment allowance		(25,378)	(25,378)		(22,424)	(22,424)
Total net loans and receivables from customers			1,230,647			1,172,345

	Bank, EUR 000's					
	30/06/2016			31/12/2015		
	Gross loans	Impairment allowance	Net carrying amount	Gross loans	Impairment allowance	Net carrying amount
Not past due – not impaired	937,642	-	937,642	918,927	-	918,927
Not past due – impaired	50,470	(20,835)	29,635	57,264	(22,281)	34,983
Total not past due loans	988,112	(20,835)	967,277	976,191	(22,281)	953,910
Past due loans - not impaired						
Delayed days:						
=< 29	31,688	-	31,688	15,036	-	15,036
30-59	8,770	-	8,770	6,391	-	6,391
60-89	2,300	-	2,300	979	-	979
90 and more	6,394	-	6,394	5,993	-	5,993
Total past due loans - not impaired	49,152	-	49,152	28,399	-	28,399
Past due loans – impaired						
Delayed days:						
=< 89	1,701	(834)	867	13,397	(4,954)	8,443
90 and more	49,890	(33,479)	16,411	39,100	(27,900)	11,200
Total past due loans - impaired	51,591	(34,313)	17,278	52,497	(32,854)	19,643
Total loans and receivables from customers	1,088,855	(55,148)	1,033,707	1,057,087	(55,135)	1,001,952
Collective impairment allowance		(21,191)	(21,191)		(18,527)	(18,527)
Total net loans and receivables from customers			1,012,516			983,425

Certain loan portfolio's financial ratios

	EUR 000's			
	30/06/2016 Group	31/12/2015 Group	30/06/2016 Bank	31/12/2015 Bank
Non-performing loans ratio ¹⁾	9.6%	10.8%	10.0%	11.0%
Non-performing loans coverage ratio ²⁾	72.4%	66.2%	70.4%	63.6%
90 days past due ratio ³⁾	5.3%	4.8%	5.2%	4.3%
90 days past due coverage ratio ⁴⁾	132%	148%	136%	163%

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 the percentage of total gross loans and receivables from customers that are 90 or more days overdue 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.

NOTE 10. INVESTMENTS IN SUBSIDIARIES

Changes in the Bank's investments in subsidiaries:

	EUR 000's	
	Jan-Jun 2016	Jan-Jun 2015
Net balance at the beginning of the period	61,580	61,605
Establishment of new subsidiaries/increase of share capital	350	-
Impairment, net	(5)	(10)
Net balance at the end of the period	61,925	61,595

Based on the forecasted performance of the repossessed asset management companies, share capital in some of the respective subsidiaries was impaired (net) by EUR (5) thousand in the 6 month period ended 30 June 2016 (2015: EUR (10) thousand). On 16 March 2016 the legal name of SIA "Hortus LH" was changed to SIA "CBL Cash Logistics" and its share capital increased by EUR 350 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 (18.0%), minimum target capital adequacy ratio and future profitability of the operations of the entity. In 2016 the management has assessed the model's inputs and concluded that there are no circumstances that require changes to these inputs.

NOTE 11. FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

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

	EUR 000's			
	Jan-Jun 2016 Unit-linked	Jan-Jun 2016 Other	Jan-Jun 2015 Unit-linked	Jan-Jun 2015 Other
Balance at the beginning of the period	19,341	14,574	12,784	11,810
Premiums received	1,683	1,325	4,543	1,223
Commissions and risk charges	(145)	(137)	(212)	(127)
Paid to policyholders	(1,094)	(366)	(552)	(234)
Dividends received	1	-	1	-
Securities fair value revaluation result	312	-	397	-
Other	-	126	-	180
Currency revaluation result	(87)	(2)	227	12
Balance at the end of the period	20,011	15,520	17,188	12,864

During the 6 months ended 30 June 2016 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 43 thousand in the statement of income (2015: EUR (61) 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 12. DEPOSITS FROM CUSTOMERS

Deposits from customers according to customer profile:

	EUR 000's			
	30/06/2016 Group	31/12/2015 Group	30/06/2016 Bank	31/12/2015 Bank
Privately held companies	1,149,747	1,180,403	758,559	850,492
Private individuals	1,149,332	1,072,706	894,201	860,243
Financial institutions	265,190	129,796	280,664	144,397
State and municipality owned enterprises	136,618	116,775	123,072	102,404
Municipalities	23,524	10,853	23,524	10,853
Public and religious institutions	15,779	66,458	13,629	64,432
Government	7,319	6,039	4,588	4,528
Total deposits from customers	2,747,509	2,583,030	2,098,237	2,037,349

Certain special purpose financing received from government related agencies previously presented as other financial liabilities at amortised cost since 30 June 2016 is presented within deposits from state and municipality owned enterprises. For more details refer to Note 3 (Summary of Significant Accounting Policies).

Deposits from customers according to contractual maturity:

	EUR 000's			
	30/06/2016 Group	31/12/2015 Group	30/06/2016 Bank	31/12/2015 Bank
Demand deposits	2,052,729	1,872,294	1,639,574	1,510,265
Term deposits:				
due within 1 month	119,842	242,256	83,082	196,598
due within 2-3 months	79,638	71,325	36,123	49,133
due within 4-6 months	130,109	71,150	80,459	37,761
due within 7-12 months	194,414	164,814	129,495	118,433
due within 1-5 years	164,012	154,895	126,164	121,718
due in more than 5 years	6,765	6,296	3,340	3,441
Total term deposits	694,780	710,736	458,663	527,084
Total deposits from customers	2,747,509	2,583,030	2,098,237	2,037,349

NOTE 13. SUBORDINATED LIABILITIES

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

Counterparty	Currency	Interest rate	Maturity date	Principal (EUR 000's)	Amortised cost (EUR 000's)	
					30/06/2016	31/12/2015
Privatisation Agency	EUR	6.898%	20/12/2017	34,728	35,686	35,701
EBRD	EUR	8.30%	08/08/2020	18,400	19,007	19,014
					54,693	54,715

NOTE 14. ISSUED SHARE CAPITAL

On 5 April 2016 Citadele's share structure was reverted to single class share capital structure with nominal of each single class share in the amount of 1 EUR, and each single class share having one voting right, equal dividend rights and equal liquidation quota. As at 30 June 2016, the Bank's registered and paid-in share capital was EUR 156,556 thousand. Nominal value of one share is one EUR. The total number of ordinary shares with voting rights is 156,555,796. All shares as at 30 June 2016 and 31 December 2015 were issued and fully paid. As at 30 June 2016 and 31 December 2015, the Bank did not possess any of its own shares. No dividends were proposed and paid during the 6 month period ended 30 June 2016 or 2015.

Bank's shareholders as at 30 June 2016:

	30/06/2016	
	Paid-in share capital (EUR)	Total shares with voting rights
European Bank for Reconstruction and Development	39,138,948	39,138,948
RA Citadele Holdings LLC *	35,082,302	35,082,302
Other shareholders **	82,334,546	82,334,546
Total	156,555,796	156,555,796

* RA Citadele Holdings LLC (United States) is an entity wholly owned by Ripplewood Advisors LLC.

** These shares are owned by an international group of twelve investors represented by Ripplewood Advisors LLC.

In October 2015 in anticipation of an IPO which subsequently was postponed, Citadele re-designated its share capital into three separate categories of shares. The table below sets out shareholdings of the shareholders, nominal per share, voting rights and dividend entitlement after re-designation and as at 31 December 2015:

Ordinary share category	Number of shares				Nominal value per share (EUR)	Total equity allocated (EUR)	Voting rights per share	Dividend rights per share
	EBRD	RA Citadele Holdings LLC	Other	Total				
A	391,388	350,824	823,344	1,565,556	20.00	31,311,120	200	1
B	38,747,560	34,731,478	81,511,202	154,990,240	0.10	15,499,024	1	1
C	-	32,790,269	76,955,383	109,745,652	1.00	109,745,652	-	-
Total						156,555,796		

Until 5 April 2016 ordinary A shares and ordinary B shares had equal rights to share in Citadele's assets on a liquidation (liquidation quota); but ordinary C share rights to liquidation quota were limited to receive EUR 0.10 for each C share only in case if each A share and each B share holder had received liquidation quota in amount of EUR 10 million for each paid ordinary A share and/or ordinary B share on a winding up.

In April 2015 Citadele's share capital was increased by EUR 10 million with corresponding increase in number of shares outstanding. This change in the number of shares is reflected in calculation of weighted average number of shares outstanding during the 6 month period ended 30 June 2015. In 6 month period ended 30 June 2016 a share structure of Citadele was changed from three categories of shares with differentiated dividend rights and nominal to a single category share structure with equal dividend rights and equal nominal. As there were no cash dividend payments to shareholders in the six month period ended 30 June 2016 and since the share structure has been simplified considerably during the period, for more transparent presentation purposes the earnings per share calculation uses the same number of shares outstanding for 30 June 2016 and for 2016.

NOTE 15. CAPITAL ADEQUACY

Capital adequacy ratios in these financial statements are calculated in accordance with the CRD IV package which transposes – via a regulation (575/2013) and a directive (2013/36/EU) – the new 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 the credit risks and market risks arising from the portfolio of assets and the off-balance sheet exposures and other operational risks. 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 introduce 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, effectively implying well capitalised bank Tier 1 capital ratio target of 8.5% and total capital ratio target of 10.5%. Besides this, countercyclical buffer norms apply as well based on the risk exposure by geographical distribution. FCMC has also calculated the Bank's individual capital adequacy ratio based on FCMC policies and guidelines. The 2015 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%. The same ratio is applicable as at 30 June 2016. The increase in the ratio is related to the business with non-Baltic customers of the Bank. The ratio should also be applied on the consolidated level.

The Bank has subsidiaries, which are financial institutions and need to comply with the regulatory requirements based on both the Group's level and the Bank's level as a stand-alone entity. As at 30 June 2016, the Group's and the Bank's regulatory capital complies with these FCMC's requirements.

FCMC identified the Bank as "other systemically important institution" (O-SII) at the end of 2015. After the reporting period ending 30 June 2016, FCMC informed the Bank about the plans to introduce the capital buffer for systemically important institutions in Latvia. There are six such institutions and the buffer requirements range from 1.5% to 2.0%. The Bank's O-SII capital buffer requirement is 1.5%, however it will be introduced in two steps – 0.75% capital buffer requirement will be introduced as of 30 June 2017, while the

compliance with full buffer requirements will have to be ensured as of 30 June 2018. The O-SII buffer requirement has to be ensured by Tier 1 capital. If the buffer requirement were effective as at 30 June 2016, the Bank's and Group's Tier 1 ratio would have to be at least 10.4%, to meet all the requirements: (1) Common equity tier 1 ratio of 4.5%, (2) additional tier 1 ratio of 1.5%, (3) capital conservation buffer of 2.5%, (4) individual capital buffer of 0.4%, as determined by FCMC and (5) O-SII capital buffer of 1.5%. As at 30 June 2016, both, the Bank and Group have sufficient Tier 1 capital to comply with the full O-SII buffer requirements.

The eligible capital for capital adequacy purposes constitutes the capital that the Bank manages. The eligible capital comprises of Tier 1 and Tier 2 items, reduced by specific capital charges in accordance with the regulatory requirements.

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

	EUR 000's			
	30/06/2016 Group*	31/12/2015 Group*	30/06/2016 Bank	31/12/2015 Bank
Common equity Tier 1 capital				
Paid up capital instruments	156,556	156,556	156,556	156,556
Retained earnings and eligible profits	55,260	55,431	44,293	44,293
Deductible other intangible assets	(2,982)	(2,506)	(2,664)	(2,213)
Other capital components, deductions and transitional adjustments, net	(5,680)	(3,915)	(3,765)	(432)
Tier 2 capital				
Eligible part of subordinated liabilities	25,339	30,633	25,339	30,633
Total own funds	228,493	236,199	219,759	228,837
Risk weighted exposure amounts for credit risk, counterparty credit risk and dilution risk				
Central governments or central banks	26,612	16,500	21,804	12,250
Regional governments or local authorities	1,174	806	348	453
Public sector entities	52	23	52	23
Multilateral Development Banks	2,510	2,578	1,759	1,833
Institutions	151,757	134,322	186,185	142,061
Corporates	748,560	730,788	696,059	684,767
Retail	129,681	111,333	52,865	43,908
Secured by mortgages on immovable property	255,329	255,935	212,890	200,881
Exposures in default	73,120	72,986	70,828	72,835
Items associated with particularly high risk	33,699	37,213	33,305	36,691
Claims on institutions and corporates with a short-term credit assessment	260	1,178	-	-
Collective investments undertakings	10,563	11,179	10,563	11,179
Equity	12,591	19,407	63,828	70,300
Other items	140,216	131,813	62,706	55,617
Total exposure amounts for position, foreign currency open position and commodities risk				
Traded debt instruments	17,998	13,881	16,898	11,099
Equity	-	249	-	-
Foreign Exchange	10,382	7,878	3,342	1,176
Commodities	-	6,975	-	6,975
Total exposure amounts for operational risk	206,687	206,687	165,649	165,649
Total exposure amounts for credit valuation adjustment	2,013	1,067	1,927	1,060
Total risk exposure amount	1,823,204	1,762,798	1,601,008	1,518,757
Total capital adequacy ratio	12.5%	13.4%	13.7%	15.1%
Common equity Tier 1 capital ratio	11.1%	11.7%	12.1%	13.1%

* 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 FCMC regulations implies several transitional adjustments as implemented by the EU and 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 until 31 December 2023. The Bank's and the Group's fully loaded (i.e. excluding any transitional adjustments) capital adequacy ratio:

	30/06/2016 Group	31/12/2015 Group	30/06/2016 Bank	31/12/2015 Bank
Common equity Tier 1 capital, fully loaded	187,096	191,816	177,739	183,234
Tier 2 capital	25,339	30,633	25,339	30,633
Total own funds, fully loaded	212,435	222,449	203,078	213,867
Total risk exposure amount, fully loaded	1,823,204	1,762,798	1,601,008	1,518,757
Total capital adequacy ratio, fully loaded	11.7%	12.6%	12.7%	14.1%
Common equity Tier 1 capital ratio, fully loaded	10.3%	10.9%	11.1%	12.1%

NOTE 16. 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, accordingly. All transactions with related parties were made on terms equivalent to those that prevail in arm's length transactions, except that in the case of the below described advisory services agreement with Ripplewood Advisors LLC, where such assessment was not performed.

On 20 April 2015 the composition of related parties of the Group changed significantly. On that date RA Citadele Holdings LLC (United States of America) and an international group of twelve investors acquired shares previously owned by VAS Privatisation Agency of the Republic of Latvia. Since then transactions with parties affiliated with Privatisation Agency, including Latvian state and municipal institutions, are not considered related party transactions.

Outstanding balances and terms of the Group's and the Bank's transactions in this note are shown with related parties which are not affiliated with the former shareholder VAS Privatisation Agency, and which were related parties at respective dates.

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

	EUR 000's			
	30/06/2016 Group	31/12/2015 Group	30/06/2016 Bank	31/12/2015 Bank
<u>Credit exposures to other related parties, net</u>				
Loans and receivables from customers and balances due from credit institutions, net				
- Management	386	418	146	155
- Consolidated subsidiaries	-	-	497,734	309,461
Derivatives	-	-	2	55
Investments in subsidiaries, net	-	-	61,925	61,580
Financial commitments and guarantees outstanding	74	70	92,825	29,756
Total credit exposures to other related parties, net	460	488	652,632	401,007
<u>Liabilities to other related parties</u>				
Deposits from customers and balances due to credit institutions				
- Management	1,009	875	543	468
- Consolidated subsidiaries	-	-	35,176	29,631
Subordinated liabilities (EBRD)	19,007	19,014	19,007	19,014
Derivatives	-	-	22	-
Total liabilities to other related parties	20,016	19,889	54,748	49,113

As at 30 June 2016 the impairment allowance recognised on loans and receivables from consolidated subsidiaries relates to 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 loans issued to these subsidiaries depends on the holding period and sales price of the properties in the portfolio.

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

	EUR 000's			
	Jan-Jun 2016 Group	Jan-Jun 2015 Group	Jan-Jun 2016 Bank	Jan-Jun 2015 Bank
Interest income	5	2	1,851	1,521
Interest expense	(790)	(463)	(1,338)	(610)
Gain on transactions with financial instruments, net	-	-	60	(2,349)
Dividends received from consolidated subsidiaries	-	-	-	238
Other income	7	7	1,880	987
Other expense	(2)	(1)	(112)	(8)

In the 6 month period ended 30 June 2016 the Bank's administrative expense with related parties amounted to EUR 2,7 million (2015: EUR 2,7 million). This mostly relates to rent and utility fees paid to Group's companies and Advisory Service Agreement fee. Banks fee and commission income from related parties in the 6 month period ended 30 June 2016 was EUR 0.7 million (2015: EUR 0.6 million) and commission and fee expense EUR 7 thousand (2015: EUR 7 thousand).

In May 2015, 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, risk management, capital allocation, strategic analysis, operating efficiency, human resource management, and other services.

NOTE 17. BALANCE SHEET AMOUNTS BY 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:

	Group 30/06/2016, EUR 000's						Total
	Latvia	Lithuania	Estonia	Other EU countries	CIS countries	Other countries	
Assets							
Cash and balances with central banks	77,087	19,004	6,718	-	-	405,720	508,529
Balances due from credit institutions	4,251	418	79	158,704	5,555	66,576	235,583
Securities held for trading	6,469	-	1,135	4,909	-	2,550	15,063
Derivative financial instruments	1,833	-	-	976	-	1,659	4,468
Financial assets designated at fair value through profit or loss	11,727	-	-	71,694	-	39,122	122,543
Available for sale securities	131,016	56,433	3,381	193,690	-	319,079	703,599
Loans and receivables from customers	754,618	292,886	129,735	17,201	21,160	15,047	1,230,647
Held to maturity securities	140,836	2,183	-	56,234	-	11,673	210,926
Other assets	84,734	5,684	1,967	14,778	119	966	108,248
Total assets	1,212,571	376,608	143,015	518,186	26,834	862,392	3,139,606
Liabilities							
Derivative financial instruments	228	-	4	1,775	40	1,714	3,761
Financial liabilities designated at fair value through profit or loss	30,886	-	-	154	4,491	-	35,531
Balances due to credit institutions and central banks	33,785	1,855	36	334	37	18	36,065
Deposits from customers	1,263,330	269,064	91,996	323,242	221,536	578,341	2,747,509
Other liabilities	16,333	3,689	589	123	135	1,298	22,167
Subordinated liabilities	35,686	-	-	19,007	-	-	54,693
Total liabilities	1,380,248	274,608	92,625	344,635	226,239	581,371	2,899,726
Off-balance sheet items							
Contingent liabilities	22,162	2,679	444	893	860	2,644	29,682
Financial commitments	138,375	34,937	9,052	987	1,134	1,104	185,589

For additional information on geographical distribution of securities exposures please refer to Note 8 (*Fixed and non-Fixed Income Securities*). All Group's cash and deposit with central banks balances presented as "Other countries" are with Swiss National Bank (EUR 405.7 million). Group's balances due from credit institutions presented as "Other countries" are with Swiss credit institutions (EUR 48.7 million) and United States registered credit institutions (EUR 8.4 million), among others.

	Group 31/12/2015, EUR 000's						Total
	Latvia	Lithuania	Estonia	Other EU countries	CIS countries	Other countries	
Assets							
Cash and balances with central banks	339,537	28,890	5,332	-	-	181,319	555,078
Balances due from credit institutions	3,945	785	27	82,948	8,253	85,187	181,145
Securities held for trading	6,252	-	1,101	4,549	-	4,170	16,072
Derivative financial instruments	1,728	-	-	1,666	2	1,511	4,907
Financial assets designated at fair value through profit or loss	11,125	-	-	62,682	-	37,280	111,087
Available for sale securities	108,431	49,877	10,759	180,063	-	260,900	610,030
Loans and receivables from customers	738,765	262,329	115,306	17,334	23,604	15,007	1,172,345
Held to maturity securities	130,309	6,577	-	53,172	-	13,660	203,718
Other assets	82,817	6,004	1,549	14,971	96	644	106,081
Total assets	1,422,909	354,462	134,074	417,385	31,955	599,678	2,960,463
Liabilities							
Derivative financial instruments	263	-	-	1,111	107	420	1,901
Financial liabilities designated at fair value through profit or loss	29,898	-	-	103	2,521	1,393	33,915
Balances due to credit institutions and central banks	39,463	2,124	35	-	7	6	41,635
Deposits from customers	1,111,405	233,001	98,490	322,357	211,496	606,281	2,583,030
Other liabilities	20,217	3,383	601	153	163	979	25,496
Subordinated liabilities	35,701	-	-	19,014	-	-	54,715
Total liabilities	1,236,947	238,508	99,126	342,738	214,294	609,079	2,740,692
Off-balance sheet items							
Contingent liabilities	29,482	2,164	405	2,977	834	2,655	38,517
Financial commitments	137,039	25,894	12,713	432	852	1,191	178,121

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:

Bank 30/06/2016, EUR 000's							
	Latvia	Lithuania	Estonia	Other EU countries	CIS countries	Other countries	Total
Assets							
Cash and balances with central banks	77,087	-	6,718	-	-	-	83,805
Balances due from credit institutions	958	26	-	148,876	5,519	388,786	544,165
Derivative financial instruments	1,833	2	-	976	-	1,094	3,905
Available for sale securities	123,677	12,564	3,381	166,385	-	258,407	564,414
Loans and receivables from customers	807,672	33,603	125,617	13,990	20,349	11,285	1,012,516
Held to maturity securities	138,656	-	-	41,114	-	-	179,770
Other assets	47,477	40,025	1,039	14,757	47	14,055	117,400
Total assets	1,197,360	86,220	136,755	386,098	25,915	673,627	2,505,975
Liabilities							
Derivative financial instruments	228	3	4	1,775	40	1,733	3,783
Balances due to credit institutions and central banks	33,785	11,159	36	334	37	65,642	110,993
Deposits from customers	1,273,270	1,075	94,726	205,801	164,237	359,128	2,098,237
Other liabilities	14,030	23	287	55	31	65	14,491
Subordinated liabilities	35,686	-	-	19,007	-	-	54,693
Total liabilities	1,356,999	12,260	95,053	226,972	164,345	426,568	2,282,197
Off-balance sheet items							
Contingent liabilities	22,134	-	444	369	369	2,027	25,343
Financial commitments	188,112	923	43,213	262	1,134	600	234,244

For additional information on geographical distribution of securities exposures please refer to Note 8 (*Fixed and non-Fixed Income Securities*). Bank's balances due from credit institutions presented as "Other countries" are with Swiss credit institutions (EUR 371.4 million) and United States registered credit institutions (EUR 8.0 million) among others.

Bank 31/12/2015, EUR 000's							
	Latvia	Lithuania	Estonia	Other EU countries	CIS countries	Other countries	Total
Assets							
Cash and balances with central banks	339,537	-	5,332	-	-	4,091	348,960
Balances due from credit institutions	1,024	123	-	72,378	8,196	219,559	301,280
Derivative financial instruments	1,730	55	-	1,662	2	1,511	4,960
Available for sale securities	100,496	10,804	10,759	152,288	-	215,059	489,406
Loans and receivables from customers	791,477	29,409	116,322	13,605	22,256	10,356	983,425
Held to maturity securities	128,104	-	-	37,189	-	-	165,293
Other assets	46,301	40,026	530	14,949	33	13,837	115,676
Total assets	1,408,669	80,417	132,943	292,071	30,487	464,413	2,409,000
Liabilities							
Derivative financial instruments	263	-	-	1,107	107	420	1,897
Balances due to credit institutions and central banks	39,463	25,360	35	-	7	22,913	87,778
Deposits from customers	1,119,718	1,811	102,038	217,320	167,095	429,367	2,037,349
Other liabilities	17,647	23	133	132	2	182	18,119
Subordinated liabilities	35,701	-	-	19,014	-	-	54,715
Total liabilities	1,212,792	27,194	102,206	237,573	167,211	452,882	2,199,858
Off-balance sheet items							
Contingent liabilities	29,432	-	405	2,138	377	1,890	34,242
Financial commitments	152,794	1,017	20,645	188	852	685	176,181

NOTE 18. BALANCE SHEET AMOUNTS BY CURRENCY

The carrying amount of the Group's assets, liabilities and memorandum items by currency profile:

Group 30/06/2016, EUR 000's						
	EUR	USD	CHF	RUB	Other	Total
Assets						
Cash and balances with central banks	91,729	3,736	405,914	202	6,948	508,529
Balances due from credit institutions	57,761	84,059	35,329	5,379	53,055	235,583
Securities held for trading	12,280	1,341	1,442	-	-	15,063
Derivative financial instruments	3,903	-	565	-	-	4,468
Financial assets designated at fair value through profit or loss	55,923	52,195	13,626	-	799	122,543
Available for sale securities	179,799	471,917	-	-	51,883	703,599
Loans and receivables from customers	1,183,707	43,185	3,583	137	35	1,230,647
Held to maturity securities	186,136	24,790	-	-	-	210,926
Other assets	95,708	11,304	748	41	447	108,248
Total assets	1,866,946	692,527	461,207	5,759	113,167	3,139,606
Liabilities						
Derivative financial instruments	3,761	-	-	-	-	3,761
Financial liabilities designated at fair value through profit or loss	30,580	4,951	-	-	-	35,531
Balances due to credit institutions and central banks	9,106	24,694	-	5	2,260	36,065
Deposits from customers	1,747,282	897,099	18,416	14,995	69,717	2,747,509
Other liabilities	18,596	2,076	1,238	92	165	22,167
Subordinated liabilities	54,693	-	-	-	-	54,693
Total liabilities	1,864,018	928,820	19,654	15,092	72,142	2,899,726
Equity	238,004	1,859	-	-	17	239,880
Total liabilities and equity	2,102,022	930,679	19,654	15,092	72,159	3,139,606
Net long/ (short) position for balance sheet items	(235,076)	(238,152)	441,553	(9,333)	41,008	-
Off-balance sheet claims arising from foreign exchange						
Spot exchange contracts	(1,079)	(5,911)	277	224	6,525	36
Forward foreign exchange contracts	(1,176)	1,194	-	-	-	18
Swap exchange contracts	226,698	245,287	(435,958)	9,149	(45,125)	51
Net long/ (short) positions on foreign exchange	224,443	240,570	(435,681)	9,373	(38,600)	105
Net long/ (short) total position	(10,633)	2,418	5,872	40	2,408	105

Group 31/12/2015, EUR 000's						
	EUR	USD	CHF	RUB	Other	Total
Assets						
Cash and balances with central banks	370,607	2,623	177,587	161	4,100	555,078
Balances due from credit institutions	49,331	67,501	6,185	8,038	50,090	181,145
Securities held for trading	11,789	2,836	1,447	-	-	16,072
Derivative financial instruments	4,907	-	-	-	-	4,907
Financial assets designated at fair value through profit or loss	49,372	50,471	10,356	-	888	111,087
Available for sale securities	182,908	403,863	-	-	23,259	610,030
Loans and receivables from customers	1,123,754	44,836	3,460	178	117	1,172,345
Held to maturity securities	181,791	21,927	-	-	-	203,718
Other assets	93,645	11,428	609	28	371	106,081
Total assets	2,068,104	605,485	199,644	8,405	78,825	2,960,463
Liabilities						
Derivative financial instruments	1,900	-	1	-	-	1,901
Financial liabilities designated at fair value through profit or loss	28,901	5,014	-	-	-	33,915
Balances due to credit institutions and central banks	3,670	35,660	-	1,956	349	41,635
Deposits from customers	1,660,398	814,029	20,261	16,778	71,564	2,583,030
Other liabilities	21,353	3,040	801	131	171	25,496
Subordinated liabilities	54,715	-	-	-	-	54,715
Total liabilities	1,770,937	857,743	21,063	18,865	72,084	2,740,692
Equity	221,136	(1,363)	-	-	(2)	219,771
Total liabilities and equity	1,992,073	856,380	21,063	18,865	72,082	2,960,463
Net long/ (short) position for balance sheet items	76,031	(250,895)	178,581	(10,460)	6,743	-
Off-balance sheet claims arising from foreign exchange						
Spot exchange contracts	18,488	(21,195)	(366)	(507)	3,466	(114)
Forward foreign exchange contracts	(66,471)	316	-	-	66,660	505
Swap exchange contracts	(34,012)	273,452	(172,507)	11,039	(76,138)	1,834
Net long/ (short) positions on foreign exchange	(81,995)	252,573	(172,873)	10,532	(6,012)	2,225
Net long/ (short) total position	(5,964)	1,678	5,708	72	731	2,225

The carrying amount of the Bank's assets, liabilities and memorandum items by currency profile:

Bank 30/06/2016, EUR 000's						
	EUR	USD	CHF	RUB	Other	Total
Assets						
Cash and balances with central banks	74,094	3,255	162	202	6,092	83,805
Balances due from credit institutions	40,342	76,739	370,524	5,345	51,215	544,165
Derivative financial instruments	3,905	-	-	-	-	3,905
Available for sale securities	127,534	384,997	-	-	51,883	564,414
Loans and receivables from customers	970,819	37,824	3,583	137	153	1,012,516
Held to maturity securities	175,272	4,498	-	-	-	179,770
Other assets	92,215	10,919	13,844	-	422	117,400
Total assets	1,484,181	518,232	388,113	5,684	109,765	2,505,975
Liabilities						
Derivative financial instruments	3,783	-	-	-	-	3,783
Balances due to credit institutions and central banks	13,386	86,078	25	401	11,103	110,993
Deposits from customers	1,403,882	614,486	9,376	13,566	56,927	2,098,237
Other liabilities	12,483	1,813	5	79	111	14,491
Subordinated liabilities	54,693	-	-	-	-	54,693
Total liabilities	1,488,227	702,377	9,406	14,046	68,141	2,282,197
Equity	222,328	1,433	-	-	17	223,778
Total liabilities and equity	1,710,555	703,810	9,406	14,046	68,158	2,505,975
Net long/ (short) position for balance sheet items	(226,374)	(185,578)	378,707	(8,362)	41,607	-
Off-balance sheet claims arising from foreign exchange						
Spot exchange contracts	(2,899)	(3,980)	231	231	6,449	32
Forward foreign exchange contracts	(1,176)	1,194	-	-	-	18
Swap exchange contracts	227,560	188,311	(378,874)	8,119	(45,657)	(541)
Net long/ (short) positions on foreign exchange	223,485	185,525	(378,643)	8,350	(39,208)	(491)
Net long/ (short) total position	(2,889)	(53)	64	(12)	2,399	(491)

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.

Bank 31/12/2015, EUR 000's						
	EUR	USD	CHF	RUB	Other	Total
Assets						
Cash and balances with central banks	342,669	2,267	329	161	3,534	348,960
Balances due from credit institutions	34,809	47,599	162,900	8,001	47,971	301,280
Derivative financial instruments	4,960	-	-	-	-	4,960
Available for sale securities	151,499	314,648	-	-	23,259	489,406
Loans and receivables from customers	942,084	37,585	3,460	178	118	983,425
Held to maturity securities	165,293	-	-	-	-	165,293
Other assets	90,656	10,857	13,819	-	344	115,676
Total assets	1,731,970	412,956	180,508	8,340	75,226	2,409,000
Liabilities						
Derivative financial instruments	1,897	-	-	-	-	1,897
Balances due to credit institutions and central banks	8,673	68,111	143	2,091	8,760	87,778
Deposits from customers	1,342,682	609,377	10,164	15,940	59,186	2,037,349
Other liabilities	15,124	2,708	5	128	154	18,119
Subordinated liabilities	54,715	-	-	-	-	54,715
Total liabilities	1,423,091	680,196	10,312	18,159	68,100	2,199,858
Equity	209,964	(819)	-	-	(3)	209,142
Total liabilities and equity	1,633,055	679,377	10,312	18,159	68,097	2,409,000
Net long/ (short) position for balance sheet items	98,916	(266,421)	170,196	(9,819)	7,129	-
Off-balance sheet claims arising from foreign exchange						
Spot exchange contracts	17,980	(20,707)	(366)	(472)	3,453	(111)
Forward foreign exchange contracts	(66,169)	(2)	-	-	66,676	505
Swap exchange contracts	(49,324)	287,487	(169,909)	10,345	(76,710)	1,889
Net long/ (short) positions on foreign exchange	(97,513)	266,778	(170,275)	9,873	(6,580)	2,283
Net long/ (short) total position	1,403	357	(79)	54	549	2,283

NOTE 19. BALANCE SHEET AMOUNTS BY CONTRACTUAL MATURITY

The carrying amount of the Group's assets, liabilities and memorandum items by contractual maturity structure:

Group 30/06/2016, EUR 000's							
	Within 1 month	2-3 months	4-6 months	7-12 months	1-5 years	Over 5 years and undated	Total
Assets							
Cash and balances with central banks	508,529	-	-	-	-	-	508,529
Balances due from credit institutions	231,460	86	1,163	385	874	1,615	235,583
Securities held for trading	-	-	1,442	1,013	5,512	7,096	15,063
Derivative financial instruments	1,977	1,025	338	-	1,128	-	4,468
Financial assets designated at fair value through profit or loss	2,712	9,798	7,378	11,027	62,699	28,929	122,543
Available for sale securities	21,908	71,138	27,184	171,177	375,266	36,926	703,599
Loans and receivables from customers	32,590	51,362	84,943	144,258	632,396	285,098	1,230,647
Held to maturity securities	57,651	5,859	-	2,700	139,630	5,086	210,926
Other assets	6,984	433	467	1,050	483	98,831	108,248
Total assets	863,811	139,701	122,915	331,610	1,217,988	463,581	3,139,606
Liabilities							
Derivative financial instruments	1,632	2,126	3	-	-	-	3,761
Financial liabilities designated at fair value through profit or loss	456	545	1,590	7,823	22,442	2,675	35,531
Balances due to credit institutions and central banks	34,422	1,206	201	236	-	-	36,065
Deposits from customers	2,172,571	79,638	130,109	194,414	164,012	6,765	2,747,509
Other liabilities	20,387	265	149	1,148	210	8	22,167
Subordinated liabilities	-	1,569	-	-	53,124	-	54,693
Total liabilities	2,229,468	85,349	132,052	203,621	239,788	9,448	2,899,726
Equity	-	-	-	-	-	239,880	239,880
Total liabilities and equity	2,229,468	85,349	132,052	203,621	239,788	249,328	3,139,606
Net balance sheet position – long/ (short)	(1,365,657)	54,352	(9,137)	127,989	978,200	214,253	-
Off-balance sheet items							
Contingent liabilities	29,682	-	-	-	-	-	29,682
Financial commitments	185,589	-	-	-	-	-	185,589

Group 31/12/2015, EUR 000's							
	Within 1 month	2-3 months	4-6 months	7-12 months	1-5 years	Over 5 years and undated	Total
Assets							
Cash and balances with central banks	555,078	-	-	-	-	-	555,078
Balances due from credit institutions	145,810	107	7,786	1,163	1,242	25,037	181,145
Securities held for trading	-	-	900	1,447	6,228	7,497	16,072
Derivative financial instruments	3,844	854	209	-	-	-	4,907
Financial assets designated at fair value through profit or loss	1,335	8,422	6,377	18,920	52,495	23,538	111,087
Available for sale securities	23,908	43,637	37,373	82,980	384,190	37,942	610,030
Loans and receivables from customers	37,069	52,256	75,418	134,437	631,264	241,901	1,172,345
Held to maturity securities	31,315	4,588	2,431	32,610	118,880	13,894	203,718
Other assets	7,132	465	815	675	645	96,349	106,081
Total assets	805,491	110,329	131,309	272,232	1,194,944	446,158	2,960,463
Liabilities							
Derivative financial instruments	1,523	306	72	-	-	-	1,901
Financial liabilities designated at fair value through profit or loss	67	283	493	2,690	27,306	3,076	33,915
Balances due to credit institutions and central banks	40,561	639	200	200	35	-	41,635
Deposits from customers	2,114,550	71,325	71,150	164,814	154,895	6,296	2,583,030
Other liabilities	23,631	796	517	362	48	142	25,496
Subordinated liabilities	-	1,607	-	-	53,108	-	54,715
Total liabilities	2,180,332	74,956	72,432	168,066	235,392	9,514	2,740,692
Equity	-	-	-	-	-	219,771	219,771
Total liabilities and equity	2,180,332	74,956	72,432	168,066	235,392	229,285	2,960,463
Net balance sheet position – long/ (short)	(1,374,841)	35,373	58,877	104,166	959,552	216,873	-
Off-balance sheet items							
Contingent liabilities	38,517	-	-	-	-	-	38,517
Financial commitments	178,121	-	-	-	-	-	178,121

The carrying amount of the Bank's assets, liabilities and memorandum items by contractual maturity structure:

Bank 30/06/2016, EUR 000's							
	Within 1 month	2-3 months	4-6 months	7-12 months	1-5 years	Over 5 years and undated	Total
Assets							
Cash and balances with central banks	83,805	-	-	-	-	-	83,805
Balances due from credit institutions	543,295	-	-	-	-	870	544,165
Derivative financial instruments	1,414	1,025	338	-	1,128	-	3,905
Available for sale securities	21,908	69,779	24,105	157,999	261,312	29,311	564,414
Loans and receivables from customers	24,965	31,118	62,451	189,209	457,606	247,167	1,012,516
Held to maturity securities	57,651	4,498	-	2,178	115,443	-	179,770
Other assets	5,259	-	-	-	-	112,141	117,400
Total assets	738,297	106,420	86,894	349,386	835,489	389,489	2,505,975
Liabilities							
Derivative financial instruments	1,654	2,126	3	-	-	-	3,783
Balances due to credit institutions and central banks	61,470	25,082	12,839	10,211	1,391	-	110,993
Deposits from customers	1,722,656	36,123	80,459	129,495	126,164	3,340	2,098,237
Other liabilities	14,491	-	-	-	-	-	14,491
Subordinated liabilities	-	1,569	-	-	53,124	-	54,693
Total liabilities	1,800,271	64,900	93,301	139,706	180,679	3,340	2,282,197
Equity							
	-	-	-	-	-	223,778	223,778
Total liabilities and equity	1,800,271	64,900	93,301	139,706	180,679	227,118	2,505,975
Net balance sheet position – long/ (short)	(1,061,974)	41,520	(6,407)	209,680	654,810	162,371	-
Off-balance sheet items							
Contingent liabilities	25,343	-	-	-	-	-	25,343
Financial commitments	234,244	-	-	-	-	-	234,244

Bank 31/12/2015, EUR 000's							
	Within 1 month	2-3 months	4-6 months	7-12 months	1-5 years	Over 5 years and undated	Total
Assets							
Cash and balances with central banks	348,960	-	-	-	-	-	348,960
Balances due from credit institutions	269,193	-	7,786	-	-	24,301	301,280
Derivative financial instruments	3,898	854	208	-	-	-	4,960
Available for sale securities	23,908	43,637	30,736	77,545	280,428	33,152	489,406
Loans and receivables from customers	67,146	86,915	51,463	97,496	471,891	208,514	983,425
Held to maturity securities	31,315	-	514	31,225	97,246	4,993	165,293
Other assets	4,713	1	-	6	17	110,939	115,676
Total assets	749,133	131,407	90,707	206,272	849,582	381,899	2,409,000
Liabilities							
Derivative financial instruments	1,523	305	69	-	-	-	1,897
Balances due to credit institutions and central banks	76,508	2,005	4,464	3,363	1,438	-	87,778
Deposits from customers	1,706,863	49,133	37,761	118,433	121,718	3,441	2,037,349
Other liabilities	18,116	-	3	-	-	-	18,119
Subordinated liabilities	-	1,607	-	-	53,108	-	54,715
Total liabilities	1,803,010	53,050	42,297	121,796	176,264	3,441	2,199,858
Equity							
	-	-	-	-	-	209,142	209,142
Total liabilities and equity	1,803,010	53,050	42,297	121,796	176,264	212,583	2,409,000
Net balance sheet position – long/ (short)	(1,053,877)	78,357	48,410	84,476	673,318	169,316	-
Off-balance sheet items							
Contingent liabilities	34,242	-	-	-	-	-	34,242
Financial commitments	176,181	-	-	-	-	-	176,181

NOTE 20. CREDIT QUALITY OF FIXED INCOME SECURITIES AND DUE FROM CREDIT INSTITUTIONS BALANCES

The tables below provide details of the Group's fixed income securities portfolio quality:

Group, EUR 000's					
30/06/2016					
	Held for trading	Financial assets designated at fair value through profit or loss	Available for sale	Held to maturity	Total
Investment grade:					
AAA/Aaa	-	21,730	118,348	2,169	142,247
AA/Aa	-	39,292	173,391	10,407	223,090
A	5,699	28,903	326,151	150,673	511,426
BBB/Baa	3,580	12,079	68,413	11,529	95,601
BB/Ba	-	1,016	2,357	1,701	5,074
Not rated	-	-	2,607	34,447	37,054
Total net fixed income securities	9,279	103,020	691,267	210,926	1,014,492

Group, EUR 000's					
31/12/2015					
	Held for trading	Financial assets designated at fair value through profit or loss	Available for sale	Held to maturity	Total
Investment grade:					
AAA/Aaa	-	24,942	125,584	3,771	154,297
AA/Aa	-	31,816	117,802	5,896	155,514
A	5,920	20,951	246,252	145,652	418,775
BBB/Baa	5,161	13,054	90,707	12,490	121,412
BB/Ba	-	1,001	4,824	1,459	7,284
Not rated	-	-	4,997	34,450	39,447
Total net fixed income securities	11,081	91,764	590,166	203,718	896,729

The tables below provide details of the Bank's fixed income securities portfolio quality:

Bank, EUR 000's					
30/06/2016			31/12/2015		
Available for sale	Held to maturity	Total	Available for Sale	Held to maturity	Total
Investment grade:					
AAA/Aaa	107,801	2,169	109,970	2,739	112,629
AA/Aa	123,077	4,498	127,575	-	105,779
A	260,866	138,656	399,522	128,104	314,178
BBB/Baa	56,749	-	56,749	-	59,271
BB/Ba	999	-	999	-	3,548
Not rated	2,606	34,447	37,053	34,450	39,447
Total net fixed income securities	552,098	179,770	731,868	165,293	469,559

The tables below provide details of the Group's due from credit institutions balances credit quality:

EUR 000's			
	30/06/2016 Group	31/12/2015 Group	
			30/06/2016 Bank
			31/12/2015 Bank
Investment grade:			
AAA/Aaa	-	-	-
AA/Aa	23,970	29,494	9,991
A	107,164	62,588	103,425
BBB/Baa	88,208	72,431	82,451
Other lower ratings	5,548	8,219	5,515
Not rated Baltic registered credit institutions	2,850	2,573	958
Citadele Group's banks	-	-	341,802
Other not rated credit institutions	7,843	5,840	23
Total balances due from credit institutions, net	235,583	181,145	544,165

NOTE 21. LOAN TO VALUE ANALYSIS OF LOAN PORTFOLIO

In the table 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%).

	Group, EUR 000's							
	30/06/2016				31/12/2015			
	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	749,397	1,585,876	139,573	68,130	735,677	1,566,223	129,360	78,082
Utilised credit lines	111,650	238,437	8,992	6,368	98,831	238,820	10,400	9,248
Finance leases	132,829	137,986	6,265	4,779	120,142	124,629	4,851	4,755
Debit balances on cards	258	1,415	46,947	5	189	1,317	46,598	2
Overdraft facilities	10,031	31,256	14,100	3,246	17,850	56,443	1,352	100
Factoring	6,848	7,690	349	-	4,482	4,884	235	2
Due from investment counterparties	-	-	3,408	-	-	-	2,378	-
Total net loans	1,011,013	2,002,660	219,634	82,528	977,171	1,992,316	195,174	92,189

	Bank, EUR 000's							
	30/06/2016				31/12/2015			
	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	597,458	1,201,856	94,221	45,577	596,114	1,221,321	87,215	46,262
Utilised credit lines	94,625	182,423	6,993	4,635	84,059	187,911	9,390	8,314
Finance leases	11	106	-	-	24	282	-	-
Debit balances on cards	227	1,345	42,027	1	179	1,298	41,776	2
Overdraft facilities	9,615	30,128	8,585	3,246	15,090	42,601	1,226	101
Due from investment counterparties	-	-	2,822	-	-	-	1,768	-
Loans to subsidiaries	-	-	155,932	43,583	-	-	146,584	39,265
Total net loans	701,936	1,415,858	310,580	97,042	695,466	1,453,413	287,959	93,944

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 to reflect the completion rate of the project at the date of the report. 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. Finance leases are secured by the respective property leased out.

NOTE 22. CASH AND CASH EQUIVALENTS

The table below provides a breakdown of cash and cash equivalents:

	EUR 000's			
	30/06/2016 Group	31/12/2015 Group	30/06/2016 Bank	31/12/2015 Bank
Cash and balances with central banks	508,529	555,078	83,805	348,960
Balances with other credit institutions*	230,714	168,457	543,664	292,973
Demand balances due to other credit institutions	(31,397)	(13,894)	(47,518)	(24,617)
Total cash and cash equivalents	707,846	709,641	579,951	617,316

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

NOTE 23. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the price that would be received to sell an asset 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, by definition, no active markets. Accordingly, fair value 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/ 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 year and credit margins, which are adjusted for current market conditions. If all the assumed discount rates would change by 10%, the fair value of the loan portfolio would change by EUR 11.1 million (2015: EUR 10.0 million).

Held to maturity securities

Held to maturity securities are valued using unadjusted quoted prices in active markets, where available. In other instances, either quotes of market participants are used or value of securities is determined using valuation models employing observable or non-observable market inputs.

Available for sale securities

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.

As at 30 June 2016 Citadele is not anymore exposed to possible loss in value of available for sale classified closed-end fund investments' as a result of fluctuations in real estate prices (2015: if market prices for similar real estate properties would have decreased by 10%, the fair value of these closed-end fund investments' would have decreased by EUR (91) thousand).

Derivatives

Currency derivatives are valued using unadjusted current market prices. Fair value of other derivatives is determined using valuation models employing non-observable market inputs (classified as Level 3 in fair value hierarchy). One of the non-observable market input is CDS rate. If the CDS rate would change by +/-20 basis points the fair value would change by EUR 137 thousand or EUR (137) thousand respectively (2015: EUR 200/(236) thousand).

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 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 (2015: EUR 0.12 million).

Subordinated liabilities

The fair value of subordinated liabilities approximates the carrying amount as the borrowing rates are periodically reprised to reflect changes in market rates. If the discount rate would change by +/-50 basis points the fair value would change by EUR 0.5 million (2015: EUR 0.6 million).

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 finance rates. If the assumed discount rates would change by 10%, the fair value of the portfolio would change by EUR 9 thousand and EUR (9) thousand respectively (2015: EUR 15 thousand and EUR (11) 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.

The following table presents fair values of Group's financial assets and liabilities as at 30 June 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	15,063	15,063	15,063	-	-
Financial assets designated at fair value through profit or loss	122,543	122,543	122,543	-	-
Derivatives	4,468	4,468	-	3,340	1,128
Available for sale securities	703,599	703,599	701,830	-	1,840
<i>Financial assets not measured at fair value:</i>					
Cash and deposits with central banks	508,529	508,529	-	-	-
Balances due from credit institutions	235,583	235,583	-	-	-
Loans and receivables from customers	1,230,647	1,224,518	-	-	1,224,518
Held to maturity securities	210,926	214,222	179,849	-	34,373
Total assets	3,031,358	3,028,256	1,019,017	3,340	1,261,859
Derivatives	3,761	3,761	-	3,761	-
Financial liabilities designated at fair value through profit or loss	35,531	35,531	20,011	-	15,520
<i>Financial liabilities not measured at fair value:</i>					
Balances due to credit institutions and central banks	36,065	36,065	-	-	-
Customer deposits	2,747,509	2,751,144	-	-	2,751,144
Subordinated liabilities	54,693	54,693	-	-	54,693
Total liabilities	2,877,559	2,881,194	20,011	3,761	2,821,357

The following table presents fair values of Group's financial assets and liabilities as at 31 December 2015:

	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	16,072	16,072	16,072	-	-
Financial assets designated at fair value through profit or loss	111,087	111,087	111,087	-	-
Derivatives	4,907	4,907	-	4,056	851
Available for sale securities	610,030	610,030	600,435	-	9,595
<i>Financial assets not measured at fair value:</i>					
Cash and deposits with central banks	555,078	555,078	-	-	-
Balances due from credit institutions	181,145	181,145	-	-	-
Loans and receivables from customers	1,172,345	1,166,678	-	-	1,166,678
Held to maturity securities	203,718	206,473	172,120	-	34,353
Total assets	2,854,382	2,851,470	899,714	4,056	1,211,477
Derivatives	1,901	1,901	-	1,901	-
Financial liabilities designated at fair value through profit or loss	33,915	33,915	19,341	-	14,574
<i>Financial liabilities not measured at fair value:</i>					
Balances due to credit institutions and central banks	41,635	41,635	-	-	-
Customer deposits	2,583,030	2,586,518	-	-	2,586,518
Subordinated liabilities	54,715	54,715	-	-	54,715
Total liabilities	2,715,196	2,718,684	19,341	1,901	2,655,807

The following table presents fair values of Bank's financial assets and liabilities as at 30 June 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	3,905	3,905	-	2,777	1,128
Available for sale securities	564,414	564,414	562,661	-	1,823
<i>Financial assets not measured at fair value:</i>					
Cash and deposits with central banks	83,805	83,805	-	-	-
Balances due from credit institution	544,165	544,165	-	-	-
Loans and receivables from customers	1,012,516	996,840	-	-	996,840
Held to maturity securities	179,770	182,021	147,648	-	34,373
Total assets	2,388,575	2,375,150	710,309	2,777	1,034,164
Derivatives	3,783	3,783	-	3,783	-
<i>Financial liabilities not measured at fair value:</i>					
Balances due to credit institutions and central banks	110,993	110,993	-	-	-
Customer deposits	2,098,237	2,102,106	-	-	2,102,106
Subordinated liabilities	54,693	54,693	-	-	54,693
Total liabilities	2,267,706	2,271,575	-	3,783	2,156,799

The following table presents fair values of Bank's financial assets and liabilities as at 31 December 2015:

	Carrying value	Total fair value	Fair value hierarchy (where applicable)		
			Quoted market prices	Valuation technique - observable inputs	Valuation technique - non-market observable inputs
Derivatives	4,960	4,960	-	4,109	851
Available for sale securities	489,406	489,406	471,358	-	9,578
<i>Financial assets not measured at fair value:</i>					
Cash and deposits with central banks	348,960	348,960	-	-	-
Balances due from credit institution	301,280	301,280	-	-	-
Loans and receivables from customers	983,425	970,170	-	-	970,170
Held to maturity securities	165,293	167,837	133,484	-	34,353
Total assets	2,293,324	2,282,613	604,842	4,109	1,014,952
Derivatives	1,897	1,897	-	1,897	-
<i>Financial liabilities not measured at fair value:</i>					
Balances due to credit institutions and central banks	87,778	87,778	-	-	-
Customer deposits	2,037,349	2,041,075	-	-	2,041,075
Subordinated liabilities	54,715	54,715	-	-	54,715
Total liabilities	2,181,739	2,185,465	-	1,897	2,095,790

The movement in financial assets carried at fair value categorised as Level 3:

	EUR 000's			
	01/01/2016-30/06/2016 Group	01/01/2015-30/06/2015 Group	01/01/2016-30/06/2016 Bank	01/01/2015-30/06/2015 Bank
As at the beginning of the period, net	10,446	1,636	10,429	1,620
Gain on derivatives	649	714	649	714
Settlement on derivatives	(372)	(372)	(372)	(372)
Fair value revaluation gains on non-fixed income securities	2,887	-	2,887	-
Release of impairment allowance	109	-	109	-
Settlement on non-fixed income securities	(12,349)	-	(12,349)	-
New exposures	1,598	-	1,598	-
As at the end of the period, net	2,968	1,978	2,951	1,962

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. Similarly fair value of derivatives for which valuation is based on valuation models employing non-observable market inputs is categorised as Level 3 in fair value hierarchy.

NOTE 24. SUBSEQUENT EVENTS

FCCM identified the Bank as "other systemically important institution" (O-SII) at the end of 2015. After the reporting period ending 30 June 2016, FCCM informed the Bank about the plans to introduce the capital buffer for systemically important institutions in Latvia. There are six such institutions and the buffer requirements range from 1.5% to 2.0%. The Bank's O-SII capital buffer requirement is 1.5%, however it will be introduced in two steps – 0.75% capital buffer requirement will be introduced as of 30 June 2017, while the compliance with full buffer requirements will have to be ensured as of 30 June 2018. The O-SII buffer requirement has to be ensured by Tier 1 capital. If the buffer requirement were effective as at 30 June 2016, the Bank's and Group's Tier 1 ratio would have to be at least 10.4%, to meet all the requirements: (1) Common equity tier 1 ratio of 4.5%, (2) additional tier 1 ratio of 1.5%, (3) capital conservation buffer of 2.5%, (4) individual capital buffer of 0.4%, as determined by FCCM and (5) O-SII capital buffer of 1.5%. As at 30 June 2016, both, the Bank and Group have sufficient Tier 1 capital to comply with the full O-SII buffer requirements.



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Independent Auditors' Report

To the shareholders of AS "Citadele banka"

Report on the Condensed Interim Separate and Consolidated Financial Information

We have audited the accompanying condensed interim separate financial information of AS "Citadele banka" ("the Bank"), which comprises the condensed interim separate balance sheet as at 30 June 2016, the condensed interim separate statements of income and comprehensive income, changes in equity and cash flows for the six month period ended 30 June 2016, and notes, comprising a condensed summary of significant accounting policies and other explanatory notes, as set out on pages 7 to 34. We have also audited the accompanying condensed consolidated interim financial information of AS "Citadele banka" and its subsidiaries ("the Group"), which comprises the condensed interim consolidated balance sheet as at 30 June 2016, the condensed interim consolidated statements of income and comprehensive income, changes in equity and cash flows for the six month period ended 30 June 2016, and notes, comprising a condensed summary of significant accounting policies and other explanatory notes, as set out on pages 7 to 34.

Management's Responsibility for the Condensed Interim Separate and Consolidated Financial Information

Management is responsible for the preparation and presentation of this 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 controls as management determines are necessary to enable the preparation of this condensed interim separate and consolidated financial information that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on this condensed interim separate and consolidated financial information based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether this condensed interim separate and consolidated financial information is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the condensed interim separate and consolidated financial information. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of this condensed interim separate and consolidated financial information, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the Bank's and the Group's preparation and fair presentation of this condensed interim separate and consolidated financial information 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 the Group's internal controls. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by the Bank and the Group management, as well as evaluating the overall presentation of the condensed interim separate and consolidated financial information.



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

Opinion

In our opinion, the condensed interim separate financial information of AS "Citadele banka" as at 30 June 2016 and for the six month period ended 30 June 2016 is prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting* as adopted by the European Union.

In our opinion, the condensed interim consolidated financial information of AS "Citadele banka" and its subsidiaries as at 30 June 2016 and for the six month period ended 30 June 2016 is prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting* as adopted by the European Union.

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A handwritten signature in blue ink, appearing to read 'Ondrej Fikrle', with a stylized 'R' at the end.

Ondrej Fikrle
Partner pp KPMG Baltics SIA
Riga, Latvia
30 August 2016

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