

AS Citadele banka

# Public Financial Information

2nd Quarter 2015



**Citadele**

## Letter from the Management Board

Dear shareholders,

The business environment in the first half of 2015 continued to be challenging. The downturn in Russia, Latvia's eastern neighbour, has implications for the Baltic economies. Businesses have broadly adapted to this situation, however, meaning the region should suffer minimal unforeseen consequences as a result. The Management Board does not expect the Baltic economies to see any major adverse effects from the growing tensions between Greece and the rest of the Eurozone members. Moderate increases in people's income, lower energy costs and savings on interest rate payments (owing to low interest rates) are helping to stimulate internal consumption. While the sentiment of Latvian entrepreneurs was pessimistic at the beginning of the year, according to our Citadele Index survey, the expectations for the second half of 2015 have grown more positive.

In the first six months of the year, Citadele Group ("the Group") increased its operating income by 1% to EUR 54.6 million, while its net profit increased by 3% to EUR 14.9 million, compared to the same period in 2014. We further strengthened the Group's capital structure, represented by the common tier 1 ratio and the adequacy ratio, which amounted to 10.7% and 12.8% respectively, as of 30 June 2015. In June, Moody's Investors Service upgraded the long-term deposit rating of Citadele Banka ("the Bank") to B1 from B2 and the outlook on the long term rating was left positive. This decision was taken in view of the improved financial results and profitability, as well as the increase in Citadele's loan portfolio quality. Furthermore, the rating agency has looked favourably on the privatisation of the Bank, which is allowing the bank to shape a stronger capital base than previously.

The sale of the Latvian state's 75% stake in Citadele to a consortium of international investors led by New York-based Ripplewood Advisors LLC is a major milestone in the history of the Group. After the transaction was completed in April 2015, shareholders voted to increase the size of the Supervisory Board of the Bank from five to nine. The newly elected Supervisory Board comprises seven new members who now sit alongside two representatives from the previous board. The new board members each bring a wealth of experience from different businesses, and we look forward to benefitting from their combined insights and acumen. The remaining 25% stake of the bank is still retained by the European Bank for Reconstruction and Development (EBRD).

In the first half of 2015, our payment cards business has seen particularly strong growth, with the number of cards issued surging by 20%. The uptake of online banking is also on the rise: 77% of our clients use it on a regular basis and that percentage is consistently growing. Another important initiative was the introduction of our mortgage loan offer to Latvian families. Citadele was the first commercial bank in Latvia offering state-guaranteed mortgages with more favourable conditions. The market has responded positively and by 30 June 2015, the Bank had entered into 117 such mortgage agreements.

Citadele's new shareholders are working with management to develop the Bank as the leading bank in Latvia in terms of quality and the diversity of products and services. We will continue to focus on customer relations' development. By offering easily to understand financial products and services that meet client requirements, we add value for customers and the real economy.

We appreciate and value the trust that our existing and new clients, shareholders and investors place in Citadele Group. We would like to take this opportunity to thank all our employees whose skill and dedication have secured our clients' continued loyalty to Citadele Group.

Sincerely,

Guntis Beļavskis  
Chairman of the Management Board

## Income Statement

<i>EUR th.</i>	Jan-Jun 2015 <i>Reviewed*</i> Group	Jan-Jun 2014 <i>Audited*</i> Group	Jan-Jun 2015 <i>Reviewed*</i> Bank	Jan-Jun 2014 <i>Audited*</i> Bank
Interest income	39,570	38,585	32,078	32,286
Interest expense	(10,027)	(9,058)	(8,349)	(7,634)
Dividends received		-	238	1,690
Commission and fee income	24,500	22,956	18,481	17,453
Commission and fee expense	(7,287)	(6,722)	(6,168)	(5,647)
Net gain/ (loss) on financial assets and financial liabilities measured at amortised cost		(90)		-
Net gain/ (loss) on available for sale financial assets and financial liabilities	2,333	1,654	785	696
Net gain/ (loss) on held for trading financial assets and financial liabilities	733	222	715	1
Net gain/ (loss) on financial assets or financial liabilities designated at fair value through profit and loss	(278)	17	-	-
Fair value change in the hedge accounting	-	-	-	-
Gain/ (loss) from foreign exchange trading and revaluation of open positions	3,499	5,097	2,684	4,868
<b>Net financial profit</b>	<b>53,043</b>	<b>52,661</b>	<b>40,464</b>	<b>43,713</b>
Net gain/ (loss) on disposal of property, plant and equipment, investment property and intangible assets	3	(15)	-	-
Other income	1,532	1,351	860	805
Other expense	(309)	(569)	(184)	(235)
Administrative expense	(32,800)	(30,766)	(24,747)	(22,990)
Amortisation and depreciation charge	(2,315)	(2,828)	(803)	(645)
Impairment charge and reversals, net	(2,789)	(2,843)	(4,379)	(4,070)
<b>Profit before taxes</b>	<b>16,365</b>	<b>16,991</b>	<b>11,211</b>	<b>16,578</b>
Corporate income tax	(1,433)	(2,553)	(1,127)	(2,442)
<b>Net profit for the reporting period</b>	<b>14,932</b>	<b>14,438</b>	<b>10,084</b>	<b>14,136</b>

## Statement of Comprehensive Income

<i>EUR th.</i>	Jan-Jun 2015 <i>Reviewed*</i> Group	Jan-Jun 2014 <i>Audited*</i> Group	Jan-Jun 2015 <i>Reviewed*</i> Bank	Jan-Jun 2014 <i>Audited*</i> Bank
Net change in fair value revaluation reserve of securities and other reserves	1,786	1,850	(188)	1,545
Other comprehensive income for the period	1,786	1,850	(188)	1,545
<b>Total comprehensive income for the period</b>	<b>16,718</b>	<b>16,288</b>	<b>9,896</b>	<b>15,681</b>

\* Auditor: SIA "KPMG Baltics". For audited or reviewed financial reports, please refer to the Bank's web page's sections "[Annual reports](#)" and "[Interim reports](#)".

## Balance Sheet

<i>EUR th.</i>	<b>30/06/2015 Reviewed* Group</b>	<b>31/12/2014 Audited* Group</b>	<b>30/06/2015 Reviewed* Bank</b>	<b>31/12/2014 Audited* Bank</b>
Cash and balances with central banks	324,554	225,399	223,958	142,650
Demand deposits due from credit institutions	231,404	349,719	275,597	315,918
Financial assets held for trading	23,046	29,880	2,013	5,963
Financial assets designated at fair value through profit and loss	102,286	97,449	-	-
Available for sale financial assets	559,824	558,196	447,099	444,418
Loans and receivables to customers, net	1,147,270	1,235,386	961,878	1,089,683
Held to maturity investments	251,024	229,252	211,647	192,977
Change in the fair value of the portfolio hedged against interest rate risk	-	-	-	-
Prepayments and accrued income	3,431	3,016	1,716	1,725
Property and equipment	42,773	42,525	3,943	3,651
Investment property	403	409	-	-
Intangible assets	1,796	1,708	1,523	1,456
Investments in subsidiaries	-	-	61,595	61,605
Income tax assets	29,281	30,510	27,638	28,735
Other assets	50,879	51,146	41,780	41,880
<b>Total assets</b>	<b>2,767,971</b>	<b>2,854,595</b>	<b>2,260,387</b>	<b>2,330,661</b>
Due to central banks	6	5	6	5
Demand liabilities to credit institutions	19,744	14,971	35,474	70,657
Financial liabilities held for trading	2,859	1,647	2,860	3,567
Financial liabilities designated at fair value through profit and loss	30,052	24,594	-	-
Financial liabilities measured at amortised cost	2,486,972	2,612,998	2,011,200	2,068,682
Amounts payable under repurchase agreements	-	-	-	-
Change in the fair value of the portfolio hedged against interest rate risk	-	-	-	-
Accrued expenses and deferred income	12,967	12,141	10,381	9,129
Provisions	437	695	-	-
Income tax liabilities	76	187	-	-
Other liabilities	11,429	10,646	7,273	5,324
<b>Total liabilities</b>	<b>2,564,542</b>	<b>2,677,884</b>	<b>2,067,194</b>	<b>2,157,364</b>
Shareholders' equity	203,429	176,711	193,193	173,297
<b>Total liabilities and shareholders' equity</b>	<b>2,767,971</b>	<b>2,854,595</b>	<b>2,260,387</b>	<b>2,330,661</b>
<b>Memorandum items</b>				
Contingent liabilities	57,376	58,217	52,907	54,544
Financial commitments	184,667	168,646	230,011	192,406

\* Auditor: SIA "KPMG Baltics". For audited or reviewed financial reports, please refer to the Bank's web page's sections "[Annual reports](#)" and "[Interim reports](#)".

## Key Ratios

	Jan-Jun 2015 Group	Jan-Jun 2014 Group	Jan-Jun 2015 Bank	Jan-Jun 2014 Bank
Return on equity (ROE) (%)*	15.71%	19.05%	11.01%	18.67%
Return on assets (ROA) (%)*	1.06%	1.13%	0.88%	1.34%

\* Average value is calculated as the arithmetic mean of the balance sheet assets or residual capital and reserves at the beginning of the reporting period and at the end of the reporting period.

## Investments in Securities by Issuer's Country

EUR th.	Group			
	30/06/2015		31/12/2014	
	Government bonds	Other securities	Government bonds	Other securities
Latvia	274,881	4,773	253,751	37,978
United States	5,662	73,979	12,358	77,321
Germany	-	64,508	-	24,479
Netherlands	7,316	53,742	10,080	53,734
Lithuania	58,340	-	86,375	-
Australia	699	32,864	693	32,946
Singapore	-	29,576	-	24,368
Sweden	7,367	20,942	5,376	21,342
Canada	3,599	24,374	3,308	24,023
Norway	-	27,701	-	26,638
Finland	14,123	11,379	13,246	16,312
Multilateral development banks	-	23,142	-	12,902
Other countries**	23,641	171,568	26,521	145,096
<b>Total securities, net</b>	<b>395,628</b>	<b>538,548</b>	<b>411,708</b>	<b>497,139</b>

EUR th.	Bank			
	30/06/2015		31/12/2014	
	Government bonds	Other securities	Government bonds	Other securities
Latvia	261,787	3,500	241,007	36,955
United States	5,662	36,428	12,358	38,612
Germany	-	52,414	-	16,373
Netherlands	7,317	30,705	10,080	34,351
Australia	698	24,322	693	24,792
Singapore	-	27,888	-	22,820
Sweden	4,500	20,942	4,143	21,342
Canada	3,599	20,060	3,308	19,356
Norway	-	21,748	-	19,788
Finland	11,200	11,379	10,549	16,312
Multilateral development banks	-	20,527	-	12,902
Other countries**	18,094	75,976	23,888	67,766
<b>Total securities, net</b>	<b>312,857</b>	<b>345,889</b>	<b>306,026</b>	<b>331,369</b>

\*\* Each country's issuers' total exposure is less than 10% from the eligible capital used for capital adequacy calculation purposes. Investments in managed funds and exposures with multilateral development banks are included in line "Other countries".

As at the period end the Bank and the Group has not recognised any impairment allowance for held to maturity investments (2014: nil). Market value of the Bank's and Group's held to maturity securities as at 30 June 2015 is EUR 215,946 thousand (2014: EUR 197,188 thousand) and EUR 254,717 thousand (2014: EUR 234,260 thousand), respectively. During the reporting period the Bank and the Group has not recognised any impairment allowance for available for sale securities (2014: recognised impairment allowance of EUR 255 thousand); total recognised impairment allowance for available for sale securities as at the period end is EUR 6,614 thousand (2014: EUR 7,062 thousand).

## Liquidity Ratio Calculation

	<i>EUR th.</i>	<b>30/06/2015</b>	<b>31/12/2014</b>
		<b>Bank</b>	<b>Bank</b>
<b>1</b>	<b>Liquid assets (1.1.+1.2.+1.3.+1.4.)</b>	<b>1,066,995</b>	<b>1,115,000</b>
1.1	Cash	51,482	57,728
1.2	Due from Bank of Latvia	171,280	84,593
1.3	Due from with solvent credit institutions	323,694	460,838
1.4	Liquid securities	520,539	511,841
<b>2</b>	<b>Liabilities (with remaining maturity up to 30 days)</b>		
	<b>(2.1.+2.2.+2.3.+2.4.+2.5.+2.6.)</b>	<b>1,790,158</b>	<b>1,884,387</b>
2.1	Due to credit institutions	76,575	104,612
2.2	Deposits	1,448,402	1,532,200
2.3	Issued debt securities	-	-
2.4	Cash in transit	61,122	46,640
2.5	Other current liabilities	20,770	16,655
2.6	Off balance sheet liabilities	183,289	184,280
<b>3</b>	<b>Liquidity ratio (1.:2.) (%)</b>	<b>60%</b>	<b>59%</b>
<b>4</b>	<b>Minimum liquidity ratio</b>	<b>30%</b>	<b>30%</b>

Bank's individual minimum liquidity ratio allowed by FCMC is 40%.

## Capital Adequacy Report

	EUR th.	30/06/2015 Reviewed* Group	31/12/2014 Audited* Group	30/06/2015 Reviewed* Bank	31/12/2014 Audited* Bank
<b>1</b>	<b>Own funds</b>	<b>214,922</b>	<b>200,495</b>	<b>213,080</b>	<b>200,595</b>
1.1	Tier 1 capital	179,329	168,927	177,487	169,027
1.1.1	Common equity Tier 1 capital	179,329	168,927	177,487	169,027
1.1.2	Additional Tier 1 capital	-	-	-	-
1.2	Tier 2 capital	35,593	31,568	35,593	31,568
<b>2</b>	<b>Total risk exposure amount (2.1.+2.2.+2.3.+2.4.+2.5.+2.6.+2.7.)</b>	<b>1,678,194</b>	<b>1,822,041</b>	<b>1,451,426</b>	<b>1,625,823</b>
2.1	Risk weighted exposure amounts for credit, counterparty credit and dilution risks and free deliveries	1,462,415	1,606,664	1,286,379	1,463,267
2.2	Total risk exposure amount for settlement/delivery	36	-	36	-
2.3	Total risk exposure amount for position, foreign exchange and commodities risks	18,610	17,734	7,032	4,074
2.4	Total risk exposure amount for operational risk	196,501	196,501	157,347	157,347
2.5	Total risk exposure amount for credit valuation adjustment	632	1,142	632	1,135
2.6	Total risk exposure amount related to large exposures in the trading book	-	-	-	-
2.7	Other risk exposure amounts	-	-	-	-
<b>3</b>	<b>Capital adequacy ratios</b>				
3.1	Common equity Tier 1 capital ratio (1.1.1./2.*100)	10.7%	9.3%	12.2%	10.4%
3.2	Surplus (+)/ deficit (-) of Common equity Tier 1 capital (1.1.1.-2.*4.5%)	103,810	86,935	112,173	95,865
3.3	Tier 1 capital ratio (1.1./2.*100)	10.7%	9.3%	12.2%	10.4%
3.4	Surplus (+)/ Deficit (-) of Tier 1 capital (1.1.-2.*6%)	78,637	59,604	90,402	71,477
3.5	Total capital ratio (1./2.*100)	12.8%	11.0%	14.7%	12.3%
3.6	Surplus (+)/ Deficit (-) of total capital (1.-2.*8%)	80,666	54,732	96,966	70,529
<b>4</b>	<b>Combined buffer requirements (4.1.+4.2.+4.3.+4.4.+4.5.)</b>	2.5%	2.5%	2.5%	2.5%
4.1	Capital conservation buffer (%)	2.5%	2.5%	2.5%	2.5%
4.2	Institution specific countercyclical buffer (%)	-	-	-	-
4.3	Systemic risk buffer (%)	-	-	-	-
4.4	Systemically important institution buffer (%)	-	-	-	-
4.5	Other systemically important institution buffer (%)	-	-	-	-
<b>5</b>	<b>Capital adequacy ratios, including adjustments</b>				
5.1	Impairment or asset value adjustments for capital adequacy ratio purposes	-	-	-	-
5.2	Common equity tier 1 capital ratio including line 5.1 adjustments	10.7%	9.3%	12.2%	10.4%
5.3	Tie 1 capital ratio including line 5.1 adjustments	10.7%	9.3%	12.2%	10.4%
5.4	Total capital ratio including line 5.1 adjustments	12.8%	11.0%	14.7%	12.3%

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.

\* Auditor: SIA "KPMG Baltics". For audited or reviewed financial reports, please refer to the Bank's web page's sections "[Annual reports](#)" and "[Interim reports](#)".

## Consolidation Group as at 30 June 2015

No.	Name of company	Registration number	Registration address	Country of domicile	Company type*	% of total paid-in share capital	% of total voting rights	Basis for inclusion in the group**
1	AS "Citadele banka"	40103303559	Latvia, Riga LV-1010, Republikas laukums 2A	LV	BNK	100	100	MAS
2	IPAS "CBL Asset Management"	40003577500	Latvia, Riga LV-1010, Republikas laukums 2A	LV	IPS	100	100	MS
3	AB "Citadele"	112021619	Lithuania, Vilnius LT-03107, K.Kalinausko 13	LT	BNK	100	100	MS
4	SIA "Citadele Express Kredīts"	40003238125	Latvia, Riga LV-1010, Republikas laukums 2A	LV	CFI	100	100	MS
5	AS "CBL atklātais pensiju fonds"	40003397312	Latvia, Riga LV-1010, Republikas laukums 2A	LV	PFO	100	100	MS
6	AAS "CBL Life"	40003786859	Latvia, Riga LV-1010, Republikas laukums 2A	LV	APS	100	100	MMS
7	OU "Citadele Leasing & Factoring"	10925733	Estonia, Tallinn 10119, Roosikrantsi 2	EE	LIZ	100	100	MS
8	OOO „Mizush Asset Management Ukraine"	32984601	Ukraine, Kiev 03150, Gorkovo 172	UA	IBS	100	100	MMS
9	SIA "E & P Baltic Properties"	40003754637	Latvia, Riga LV-1010, Republikas laukums 2A	LV	IPS	50	50	MMS
10	UAB "Citadele faktoringas ir lizingas"	126233315	Lithuania, Vilnius LT-03107, K.Kalinausko 13	LT	LIZ	100	100	MMS
11	UAB "Citadele investiciju valdymas"	111829843	Lithuania, Vilnius LT-01109, Gyneju 16	LT	IBS	100	100	MMS
12	"AP Anlage & Privatbank" AG	130.0.007.738-0	Switzerland, Limmatquai 4, CH-8001, Zurich	CH	BNK	100	100	MS
13	Calenia Investments Limited	HE156501	Cyprus, Nicosia 1075, 58 Arch. Makarios III Avenue, Iris Tower, 6th floor, office 602	CY	PLS	100	100	MS
14	SIA "Citadele līzings un faktoringas"	50003760921	Latvia, Riga LV-1010, Republikas laukums 2A	LV	LIZ	100	100	MS
15	SIA "Rīgas pirmā garāža"	40003397543	Latvia, Riga LV-1010, Republikas laukums 2A	LV	PLS	100	100	MS
16	SIA "RPG interjers"	40103157899	Latvia, Riga LV-1010, Republikas laukums 2A	LV	PLS	100	100	MMS
17	SIA "PR Speciālie projekti"	40103195231	Latvia, Riga LV-1010, Republikas laukums 2A	LV	PLS	100	100	MMS
18	SIA "Hortus Commercial"	40103460641	Latvia, Riga LV-1010, Republikas laukums 2A	LV	PLS	100	100	MS
19	SIA "Hortus Land"	40103460961	Latvia, Riga LV-1010, Republikas laukums 2A	LV	PLS	100	100	MS
20	SIA "Hortus TC"	50103460681	Latvia, Riga LV-1010, Republikas laukums 2A	LV	PLS	100	100	MS
21	SIA "Hortus Residential"	40103460622	Latvia, Riga LV-1010, Republikas laukums 2A	LV	PLS	100	100	MS
22	SIA "Hortus LH"	40103721581	Latvia, Riga LV-1010, Republikas laukums 2A	LV	PLS	100	100	MS
23	SIA "Hortus MD"	40103724840	Latvia, Riga LV-1010, Republikas laukums 2A	LV	PLS	100	100	MS
24	SIA "Hortus JU"	40103724855	Latvia, Riga LV-1010, Republikas laukums 2A	LV	PLS	100	100	MS
25	SIA "Hortus RE"	40103752416	Latvia, Riga LV-1010, Republikas laukums 2A	LV	PLS	100	100	MS
26	SIA "Hortus BR"	50103752441	Latvia, Riga LV-1010, Republikas laukums 2A	LV	PLS	100	100	MS
27	SIA "Hortus NI"	40103752435	Latvia, Riga LV-1010, Republikas laukums 2A	LV	PLS	100	100	MS



Prepared in accordance with the Financial and Capital Market Commission's regulations No. 145 „Regulations on Preparation of Public Quarterly Reports of Credit Institutions”.

\*BNK – bank, IBS – investment brokerage company, IPS – investment management company, PFO – pension fund, CFI – other financial institution, LIZ – leasing company, PLS – company providing various support services, APS – insurance company. \*\* MS – subsidiary company, MMS – subsidiary of the subsidiary company, MAS – parent company.

On 22 December 2014 legal names of IPAS „CBL Asset Management” (former legal name IPAS „Citadele Asset Management”), AS „CBL atklātais pensiju fonds” (former legal name AS „Citadele atklātais pensiju fonds”), and AAS „CBL Life” (former legal name AAS „Citadele Life”) were changed. The purpose of the new name is to strengthen the companies’ international reputation while maintaining links to the Citadele Bank and its name. “CBL” is an abbreviation of “Citadele Bank Latvia”. On 25 March 2015 OOO „Citadele Asset Management Ukraina” legal name was changed to OOO „Mizush Asset Management Ukraine”.

## Shareholders as at 30 June 2015

Shareholders	Nominal value (EUR)	Number of shares	Paid-in share capital (EUR)	Voting rights
European Bank for Reconstruction and Development	1	39,138,948	39,138,948	39,138,948
RA Citadele Holdings LLC	1	35,082,302	35,082,302	35,082,302
Other shareholders	1	82,334,546	82,334,546	82,334,546
<b>Total</b>		<b>156,555,796</b>	<b>156,555,796</b>	<b>156,555,796</b>

On 16 September 2014 following a tender process, the Latvian government decided to sell its 75% less 1 share stake in Citadele to RA Citadele Holdings LLC (United States), an entity wholly owned by Ripplewood Advisors LLC (Ripplewood), and an international group of twelve investors. VAS Privatizācijas aģentūra (Privatisation Agency of the Republic of Latvia) signed the agreement on 5 November 2014. The transaction was closed on 20 April 2015. Regulatory approvals have been received from the Latvian Finance and Capital Markets Commission, as well as the banking regulators in Lithuania and Switzerland. The EBRD retained its stake in Citadele. Immediately upon acquisition, the new shareholders and the EBRD increased the Citadele Bank's share capital by EUR 10 million (10 million shares at par value of 1 EUR per share). After the increase, the Bank's share capital is EUR 156.6 million where EBRD's stake is 25% less 1 share. After the change in ownership there is no single majority beneficial owner of the Group and Bank.

## Management of the Bank as at 30 June 2015

### *Supervisory Board of the Bank*

Name	Position
Timothy Clark Collins	Chairman of the Supervisory Board
Elizabeth Critchley	Deputy chairperson of the Supervisory Board
James Laurence Balsillie	Member of the Supervisory Board
Dhananjaya Dvivedi	Member of the Supervisory Board
Lawrence Neal Lavine	Member of the Supervisory Board
David Shuman	Member of the Supervisory Board
Geoffrey Richard Dunn	Member of the Supervisory Board
Sylvia Yumi Gansser-Potts	Member of the Supervisory Board
Klāvs Vasks	Member of the Supervisory Board

### *Management Board of the Bank*

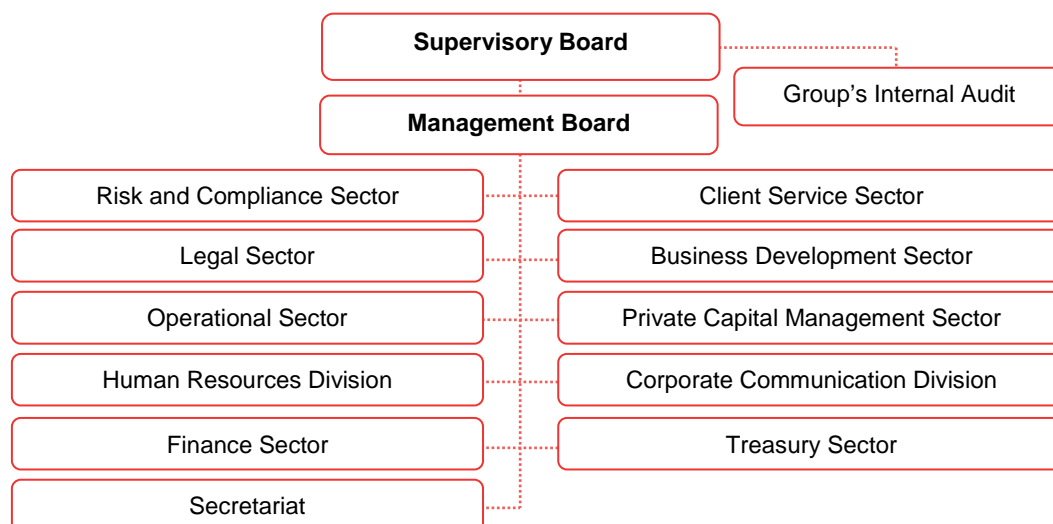
Name	Position
Guntis Beļavskis	Chairman of the Management Board, per procura
Valters Ābele	Member of the Management Board, per procura
Kaspars Cikmačs	Member of the Management Board
Santa Purgaile	Member of the Management Board
Aldis Paegle	Member of the Management Board

## Business Strategy and Objectives

Information about Citadele's strategy is available in "[Business Strategy](#)" section of the Bank's web page, about Bank's objectives – in "[Vision, mission, values](#)" section.

## Bank's Organizational Structure

As at 30 June 2015 the Bank was operating a total of 20 branches (including 1 foreign branch), 18 mid-size client service centres (including 1 foreign) and 2 representative offices. Information about Citadele's branches and client service centres is available in the Bank's web page's section "[Klientu apkalpošanas centri un filiāles](#)", about ATM – in section "[Bankomāti](#)".



## Ratings

Rating agency	Long-term rating	Short-term rating	Rating's outlook	Rating revision date
Moody's Investors Service	B1	Not Prime	Positive	17/06/2015
Moody's Investors Service	B2	Not Prime	Under Review	17/03/2015
Moody's Investors Service	B2	Not Prime	Negative	29/05/2014
Moody's Investors Service	B2	Not Prime	Stable	23/08/2013
Moody's Investors Service	B2	Not Prime	Negative	16/12/2011
Moody's Investors Service	Ba3	Not Prime	Under Review	20/09/2011
Moody's Investors Service	Ba3	Not Prime	Stable	06/09/2010

Detailed information about ratings can be found on the web site of the rating agency: [www.moodys.com](http://www.moodys.com)

## Risk Management

Risk management principles are set out in Group's Risk Management Policy. The Group adheres to the following key risk management principles:

- The Group aims to ensure low risk exposure, diversified asset portfolio, limited risks in financial markets and low level of operational risk;
- The Group aims to ensure an acceptable risk level in all operations. Risks are always assessed in relation to the expected return. Risk exposures that are not acceptable for the Group are avoided, limited or hedged;
- The Group does not assume high or uncontrollable risks irrespective of the return they provide. Risks should be diversified and those risks that are quantifiable should be limited or hedged;
- The Group pursues prudent risk management policy, that is aligned with the Group's business and ensures effective total risk mitigation;
- Risk management is based on awareness of each and every Group's employee about and responsibility for the nature of transactions he/she carries out and related risks;
- Risk limit system and strict controls are essential risk management elements. Control of risk level and compliance with limits is ensured by structured risk limit systems for all material risks.

Risk management is an essential element of the Group's management process. Risk management within the Group is controlled by independent unit – Risk and Compliance Sector.

The Group is exposed to the following main risks: credit risk, market risk, interest rate risk, liquidity risk, currency risk and operational risk. The Group has approved risk management policies for each of these risks, which are briefly summarised below. More detailed information about risk management is available in "Risk management" note of AS Citadele Banka annual report, which is published in the Bank's web page's section "[Annual reports](#)".

### Credit Risk

Credit risk is the risk that the Group will incur a loss from debtor's non-performance or default. The Group is exposed to credit risk in its lending, investing and trading activities, as well as in respect to the guarantees issued to third parties and other off-balance sheet commitments to third parties.

Credit risk management is based on adequate risk assessment and decision-making. For material risks, risk analysis is conducted by independent unit of Risk and Compliance Sector. The analysis of credit risk comprises evaluation of customer's creditworthiness and collateral and its liquidity. The analysis of creditworthiness of a legal entity includes the analysis of industry, the company, its credit history and its current and forecasted financial position. The analysis of creditworthiness of an individual includes the analysis of the customer's credit history, income and debt-to-income ratio analysis, as well as the analysis of social and demographic factors. In the event of material risks, lending decision is made by the Credit Committee, and further reviewed by the Bank's Management Board. For securities Group analyses factors such as business profile and financial performance of the issuer, credit ratings assigned by international rating agencies, market based indicators such as credit spreads and liquidity.

After a loan is issued or a security acquired, customer's financial position and issuers' risk are monitored on a regular basis in order to timely identify potential credit losses.

To limit its credit risk, the Group has set the following concentration limits: individual counterparty limit, limit for group of mutually related customers, limit for large risk exposures, limit for the Group's related parties, an industry limit, limit by customer type, loan product, and collateral type.

The Group reviews its loan portfolio and securities portfolio on a regular basis to assess its quality and concentrations, as well as to evaluate the portfolio trends. Group's derivative exposures relate to short term derivatives that do not expose the Group to material credit risk and none of the derivative exposures are overdue.

Credit risk identification, monitoring and reporting is the responsibility of Risk and Compliance Sector.

### Market Risk

Market risk is the risk that the Group will incur a loss as a result of the mark-to-market revaluation of balance sheet and off-balance sheet items caused by changes in market values of financial instruments due to changes in foreign exchange rates, interest rates and other factors.

Position risk of financial instruments is assessed and limits are set by the Group's Investment Committee (GIC). The decisions of GIC are approved by the Bank's Management Board. Market risk is managed by the Group's business units and subsidiaries which can accept market risk in line with the set limits and investment restrictions of

the respective portfolio. Market risk is measured, monitored and risk levels are reported by Risk and Compliance Sector.

The Group manages market risk by developing investment guidelines for every significant portfolio, as well as by setting individual limits to issuers and financial instruments, ensuring that maximum limit volumes are closely linked to the results of risk assessment. The Group puts a large emphasis on concentration risk applying a framework, where limits are set based on risk weighted exposures for every country and sector combination. To assess position risk the Group uses sensitivity analysis and scenario analysis, which identifies and quantifies negative impact of adverse events on portfolio of the Group taking into consideration regional, sector and credit rating profile.

### **Interest Rate Risk**

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

Interest rate risk management in the Group is carried out in accordance with the Group's Interest rate Risk Management Policy. Interest rate risk is assessed and decisions are made by Assets and Liabilities Management Committee (ALCO). The decisions of ALCO are approved by the Bank's Management Board. ALCO sets the acceptable interest rate risk level and the Group's internal limit system, monitors the compliance with the approved limits and use of the instruments for the management of interest rate risk. Interest rate risk measurement, management and reporting are responsibilities of Treasury Sector, while Risk and Compliance Sector ensures proper oversight and prepares analytical reports to ALCO and the Bank's Management Board.

The Group manages interest rate risk by using the gap analysis of the risk sensitive assets and liabilities, duration analysis and sensitivity analysis of assets and liabilities as well as stress testing of interest rate risk. The Group sets limits for impact of interest rate shock on economic value, net interest income and revaluation reserve. Based on the market analysis and the Group's financing structure, ALCO sets customer deposit interest rates.

### **Liquidity Risk**

Liquidity risk is the risk that the Group will be unable to meet its legal payment obligations. The purpose of liquidity risk management is to ensure the availability of liquid assets sufficient to meet potential obligations.

The Group manages its liquidity risk in accordance with the Group's Liquidity Risk Management Policy. Liquidity risk is assessed and decisions are made by ALCO. The decisions of ALCO are approved by the Bank's Management Board. ALCO sets the acceptable liquidity risk level, the Group's internal limit system and defines instruments for the management of liquidity risk, as well as monitors the compliance with the set limits. Daily liquidity management, as well as control is ensured by the Treasury Sector. Liquidity risk management and reporting in the Group is coordinated by the Risk and Compliance Sector.

The Bank evaluates liquidity risk by using scenario analysis. For this purpose several scenarios of Bank's operations under a variety of conditions are developed: gentle crisis (base case scenario), bank's crisis, general market crisis and a combined scenario. The Bank evaluates its liquidity position for each of the scenarios for a variety of periods (ranging from 1 week to 3 months). System of liquidity risk limits and early warning indicators has been implemented in the Bank. The Bank also estimates costs it could suffer under conditions of prolonged liquidity crisis. In addition to scenarios analysis, the Bank also prepares yearly cash flows, which incorporate assumptions about the most likely flows of funds. For general assessment of asset and liability gaps the Bank regularly prepares and analyses liquidity term structure.

In the reporting period the Bank was in compliance with liquidity ratio requirements and met mandatory reserve requirements in the Bank of Latvia.

### **Currency Risk**

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

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

Day-to-day currency risk management is the responsibility of Treasury Sector, while risk monitoring and reporting is the responsibility of Risk and Compliance Sector. The Group has set a limit for open currency positions in each

currency at 10% of its equity, and the limit for the total open currency position at 20% of its equity. The limits are in compliance with the requirements of Latvian legislation. To enhance its capacity to measure and control the exposure to foreign exchange risk the Group takes advantage of several widely applied methodologies: value at risk, expected shortfall and scenario analysis.

### **Operational Risk**

Citadele has adopted the Basel definition of operational risk: the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. It includes legal risk (risk of penalty fees, sanctions applied by external institutions, losses inflicted as a result of litigation and risk of other similar events), but excludes strategic risk and reputational risk.

Further operational risk is divided in the following categories: personnel risk, process risk, IT and system risk, external risk.

Operational risk is managed by integrated and comprehensive framework of policies, methodologies, procedures, and regulations for identification, analysis, mitigation, control and reporting of operational risk have been implemented. Operational risk management is an indispensable part of the day-to-day management process and is binding to all Group participants, process, product and service owners, structural units, their heads and employees in their daily operations in line with their specific features. Citadele's target is to ensure that each employee knows not just how to perform a specific transaction, but also understands the justification of the use of the specific mode of performance.

The purpose of operational risk management system is to maintain possibly low level of economically justified risk facilitating the sustainability of the Group's performance and business profit in the long-term.

The Group does not accept operational risks with potential impact exceeding 10% of the Group's net annual revenues and with probability of occurrence at least once per ten years or risks with unquantifiable impact which are unmanageable, irrespective of the financial gains this could bring (i.e., the Group does not perform business activities incurring such operational risks).

The Group applies following approaches for operational risk management:

- Operational risk assessment in development projects – new and updated services and products are introduced only after a thorough risk assessment has been carried out;
- Regular operational risk-control self-assessment – identification and assessment of potential operational risk events, assessment of the control systems in place and analysis of the necessary risk reduction measures;
- Determining operational risk indicators – usage of statistical, financial, and other indicators, which represent the level of operational risk in variable activities of the Bank;
- Operational risk measurement, analysis, monitoring, reporting and escalation – registering and analyzing operational risk events, severity of these events, causes, and other important information in operational risk loss and incident database;
- Scenario analysis and stress testing;
- Business Continuity planning – regular Business Impact Analysis is carried out and Disaster Recovery plan is implemented