

AS Citadele banka

# Public Financial Information

1st Quarter 2016

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



**Citadele**

## LETTER FROM THE MANAGEMENT BOARD

### Financial Performance

AS Citadele Banka Group's profit in the 1st quarter of 2016 was EUR 7.67 million; the results were similar to the 1st quarter of 2015 when the Group's profit was EUR 7.65 million.

The Group's operating income in the 1st quarter of 2016 was EUR 29.6 million, which was a 8% increase compared to the respective quarter in prior year. The Group's net commission income reached EUR 8.7 million during the reporting period, a 4% increase compared to the same period in 2015. The increase was mostly generated by clients of the Group's Latvian and Swiss bank entities. Net interest margin decreased due to negative interest rate trends in the market; however, as a result of a growing loan portfolio, the net interest income reached EUR 15.7 million during the 1st quarter of 2016. This was an increase of EUR 0.2 million compared to the 1st quarter of 2015.

During the last 12 months, customers' deposits within the Group have increased by 5% reaching EUR 2.57 billion in the end of March 2016. The amount of the deposits was more than two times higher than the amount of the issued loans. This ensured high liquidity ratios within the Group.

Administrative expenses were EUR 19 million during the reporting period, an increase by EUR 1.9 million compared to the same period last year. In accordance with Citadele's growth strategy, the Group continued investing in its existing employees, creating new jobs, solutions tailored for its clients' everyday convenience, as well as in enhancing the stability and security of its systems. Despite notable investments in its services and new product development, Citadele achieved strong profit results mainly driven by an increasing number of its customers.

1st quarter of 2016 ensured shareholders with a 14% return on average equity (ROE), and a 1% return on average assets (ROA). Group's equity was EUR 229 million as of 31 March 2016.

Tier 1 ratio and common equity tier 1 ratio of Citadele Group as of 31 March 2016 was 11.3% (Bank: 12.7%). Group's capital adequacy ratio as of 31 March 2016 was 12.9% (Bank: 14.5%).

### Citadele Actively Focusing on SME Loans

During the 1st quarter of 2016, Citadele Bank continued developing and selling its new loan products in order to ensure that small and medium enterprises have better access to funding. Citadele developed and promoted its "Support Loan" products. These products enable companies to receive financing based on their cash flow, without the need to mortgage their property.

AS Citadele Banka Group's loan portfolio increased by 3% during the 1st quarter of 2016 reaching EUR 1.2 billion. The portfolio increased by EUR 132 million, compared to March 2015; this was an annual increase of 12%. Active lending to SMEs in all three Baltic States as well as retail lending in Latvia and Lithuania shape the basis of the loan portfolio growth.

In line with Citadele Group's strategy, the amount of loans issued to SMEs in Latvia increased by 16% during the last 12 months. Group continued strengthening its business in Lithuania and Estonia where its loan portfolios have increased by 20% and 45% accordingly. The quality of the Group's loan portfolio continues improving. The NPL portfolio decreased down to 10% by the end of March 2016, compared to 12% in the respective period last year.

### Innovations: The Corner Stone of Citadele's Development

During the 1st quarter of 2016, Citadele invested in developing its new mobile application and opened a branch office at Skanstes Street, Riga, that features our new concept.

In terms of consumer loans, Citadele Group's companies were speeding up the application review periods and developing new application channels across the Baltics. During the first quarter of 2016 a cooperation with PayPost, a subsidiary of the Lithuanian postal service, was established in Lithuania. As a result, residents of Lithuania can now apply and receive bank loans at PayPost kiosks. PayPost has approximately 200 kiosks across Lithuania, and the established cooperation will make consumer loans more accessible for clients.

During the first quarter of 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 the best customer service provider among Lithuanian banks whereas in Latvia it was recognized as the runner-up in terms of customer service.

### Promoting the Use of Payment Cards

Citadele Bank continued encouraging its clients to use their payment cards by expanding its partnerships with retailers and offering other benefits to its clients. Discounts on payment card transactions and other special offers are an important part of the advantages that Citadele provides to its clients. Citadele Bank is the sole official partner

of American Express® in Latvia and Lithuania with rights to issue American Express® cards in these countries. In order to ensure maximum applicability of American Express Cards, Citadele is constantly seeking new retailers: American Express Cards were accepted in a total of 13,830 locations in Latvia, and 8,552 locations in Lithuania as of March 2016. The number of Citadele's issued payment cards in Latvia increased by 33 % during the first quarter of 2016, compared to the same period in 2015.

Citadele's payment card with e-ticket function is the only payment card that allows clients to pay for rides on public transport in Riga. An increasing number of retail customers enjoy the convenience of this payment card. During the 1st quarter of 2016, an average of 21,000 rides were registered weekly using Citadele payment cards.

## Ownership structure

Citadele's shareholders are a group of international and multinational investors with extensive experience in the banking sector across the world. The largest shareholder is the European Bank for Reconstruction and Development (EBRD) which possesses 25 % minus one share whereas an international group of investors, represented by Ripplewood Advisors LLC, owns the remaining 75 % plus one share.

Sincerely,

Guntis Beļavskis  
Chairman of the Management Board

## Income Statement

<i>EUR th.</i>	Jan-Mar 2016 <i>Unaudited Group</i>	Jan-Mar 2015 <i>Restated*</i> <i>Group</i>	Jan-Mar 2016 <i>Unaudited Bank</i>	Jan-Mar 2015 <i>Restated*</i> <i>Bank</i>
Interest income	19,981	20,348	15,819	16,813
Interest expense	(4,324)	(4,861)	(3,773)	(4,023)
Dividends received	-	-	-	238
Commission and fee income	12,587	11,913	9,603	9,138
Commission and fee expense	(3,864)	(3,536)	(3,384)	(2,987)
Net gain/ (loss) on financial assets and financial liabilities measured at amortised cost	-	-	-	-
Net gain/ (loss) on available for sale financial assets and financial liabilities	1,214	1,391	599	616
Net gain/ (loss) on held for trading financial assets and financial liabilities	180	200	-	2
Net gain/ (loss) on financial assets or financial liabilities designated at fair value through profit and loss	241	107	-	-
Fair value change in the hedge accounting	-	-	-	-
Gain/ (loss) from foreign exchange trading and revaluation of open positions	2,948	885	2,741	273
<b>Net financial profit</b>	<b>28,963</b>	<b>26,447</b>	<b>21,605</b>	<b>20,070</b>
Net gain/ (loss) on disposal of property, plant and equipment, investment property and intangible assets	-	-	-	-
Other income	635	893	703	495
Other expense	(266)	(135)	(52)	(92)
Administrative expense	(17,610)	(15,958)	(13,442)	(11,762)
Amortisation and depreciation charge	(1,100)	(1,000)	(504)	(386)
Impairment charge and reversals, net	(1,880)	(1,520)	(2,223)	(1,982)
<b>Profit before taxation</b>	<b>8,742</b>	<b>8,727</b>	<b>6,087</b>	<b>6,343</b>
Corporate income tax	(1,071)	(1,078)	(1,007)	(971)
<b>Net profit for the period</b>	<b>7,671</b>	<b>7,649</b>	<b>5,080</b>	<b>5,372</b>

## Statement of Comprehensive Income

<i>EUR th.</i>	Jan-Mar 2016 <i>Unaudited Group</i>	Jan-Mar 2015 <i>Unaudited Group</i>	Jan-Mar 2016 <i>Unaudited Bank</i>	Jan-Mar 2015 <i>Unaudited Bank</i>
Net change in fair value revaluation reserve of securities and other reserves	1,592	4,324	1,419	780
Other comprehensive income for the period	1,592	4,324	1,419	780
<b>Total comprehensive income for the period</b>	<b>9,263</b>	<b>11,973</b>	<b>6,499</b>	<b>6,152</b>

\* The Group has changed the approach to presentation of depreciation charges on impaired property and equipment items. Comparatives for 2015 have been restated accordingly.

## Balance Sheet

<i>EUR th.</i>	<b>31/03/2016 Unaudited Group</b>	<b>31/12/2015 Audited* Group</b>	<b>31/03/2016 Unaudited Bank</b>	<b>31/12/2015 Audited* Bank</b>
Cash and balances with central banks	365,082	555,078	120,406	348,960
Demand deposits due from credit institutions	222,749	131,098	405,259	254,481
Financial assets held for trading	18,875	20,979	2,377	4,960
Financial assets designated at fair value through profit and loss	109,945	111,088	-	-
Available for sale financial assets	641,673	610,030	521,613	489,406
Loans and receivables, net	1,294,886	1,222,392	1,082,171	1,030,223
Held to maturity investments	196,320	203,718	163,382	165,293
Change in the fair value of the portfolio hedged against interest rate risk	-	-	-	-
Prepayments and accrued income	4,481	4,623	1,903	1,745
Property and equipment	43,843	43,111	4,996	4,393
Investment property	187	189	-	-
Intangible assets	2,779	2,538	2,474	2,213
Investments in subsidiaries	-	-	61,576	61,580
Income tax assets	26,908	28,029	25,070	26,157
Other assets	31,829	27,590	23,296	19,589
<b>Total assets</b>	<b>2,959,557</b>	<b>2,960,463</b>	<b>2,414,523</b>	<b>2,409,000</b>
Due to central banks	6	6	6	6
Demand liabilities to credit institutions	31,868	13,888	49,139	24,617
Financial liabilities held for trading	5,501	1,901	5,487	1,897
Financial liabilities designated at fair value through profit and loss	34,295	33,915	-	-
Financial liabilities measured at amortised cost	2,636,681	2,665,486	2,130,129	2,155,219
Amounts payable under repurchase agreements	-	-	-	-
Change in the fair value of the portfolio hedged against interest rate risk	-	-	-	-
Accrued expenses and deferred income	12,842	14,932	9,652	11,772
Provisions	558	583	-	-
Income tax liabilities	228	233	-	-
Other liabilities	8,544	9,748	4,470	6,348
<b>Total liabilities</b>	<b>2,730,523</b>	<b>2,740,692</b>	<b>2,198,883</b>	<b>2,199,859</b>
Shareholders' equity	229,034	219,771	215,640	209,141
<b>Total liabilities and shareholders' equity</b>	<b>2,959,557</b>	<b>2,960,463</b>	<b>2,414,523</b>	<b>2,409,000</b>
<b>Memorandum items</b>				
Contingent liabilities	29,910	38,517	25,533	34,242
Financial commitments	174,991	178,121	238,934	176,181

\* 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-Mar 2016 Group	Jan-Mar 2015 Group	Jan-Mar 2016 Bank	Jan-Mar 2015 Bank
Return on equity (ROE) (%)*	13.67%	16.75%	9.57%	12.18%
Return on assets (ROA) (%)*	1.04%	1.08%	0.84%	0.93%

\* 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			
	31/03/2016		31/12/2015	
	Government bonds	Other securities	Government bonds	Other securities
Latvia	238,779	3,688	232,246	4,378
United States	7,286	80,525	7,773	90,510
Netherlands	4,511	66,352	-	56,681
Germany	-	68,397	-	67,140
Lithuania	47,429	-	56,454	-
Great Britain	-	39,457	-	38,578
Japan	36,756	1,970	3,815	2,027
Sweden	15,023	21,547	15,573	19,787
Canada	3,520	25,075	3,681	24,521
Singapore	-	27,435	-	24,481
Norway	-	23,046	-	25,648
Multilateral development banks	-	25,863	-	27,407
Other countries**	25,307	202,455	36,563	203,644
<b>Total securities, net</b>	<b>378,611</b>	<b>585,810</b>	<b>356,105</b>	<b>584,802</b>

EUR th.	Bank			
	31/03/2016		31/12/2015	
	Government bonds	Other securities	Government bonds	Other securities
Latvia	225,900	2,489	218,930	3,189
Germany	-	54,868	-	54,588
United States	7,286	41,553	7,773	48,813
Netherlands	4,511	43,434	-	35,223
Japan	36,756	-	3,815	-
Sweden	6,174	21,547	6,431	19,787
Canada	3,520	20,483	3,681	20,767
Singapore	-	25,771	-	22,790
Great Britain	-	25,388	-	25,899
Multilateral development banks	-	19,735	-	21,615
Other countries**	19,839	125,740	28,263	133,135
<b>Total securities, net</b>	<b>303,986</b>	<b>381,008</b>	<b>268,893</b>	<b>385,806</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 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 (2015: nil). Market value of the total Bank's and Group's held to maturity securities as at 31 March 2016 is EUR 165,567 thousand (2015: EUR 167,837 thousand) and EUR 199,277 thousand (2015: EUR 206,473 thousand), respectively. During the reporting period the Bank and the Group has not recognised any additional impairment allowance for available for sale securities (2015: nil EUR); total recognised impairment allowance for available for sale securities as at the period end is EUR 6,717 thousand (2015: EUR 6,924 thousand).

## Liquidity Ratio Calculation

	<i>EUR th.</i>	<b>31/03/2016 Bank</b>	<b>31/12/2015 Bank</b>
<b>1</b>	<b>Liquid assets (1.1.+1.2.+1.3.+1.4.)</b>	<b>1,120,087</b>	<b>1,127,770</b>
1.1	Cash	53,168	46,737
1.2	Due from Bank of Latvia	67,192	299,091
1.3	Due from with solvent credit institutions	487,663	292,120
1.4	Liquid securities	512,064	489,822
<b>2</b>	<b>Liabilities (with remaining maturity up to 30 days) (2.1.+2.2.+2.3.+2.4.+2.5.+2.6.)</b>	<b>1,896,683</b>	<b>1,971,971</b>
2.1	Due to credit institutions	67,372	75,803
2.2	Deposits	1,624,029	1,672,730
2.3	Issued debt securities	-	-
2.4	Cash in transit	38,304	36,638
2.5	Other current liabilities	15,516	20,180
2.6	Off balance sheet liabilities	151,462	166,620
<b>3</b>	<b>Liquidity ratio (1.:2.) (%)</b>	<b>59%</b>	<b>57%</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.	31/03/2016 Unaudited Group	31/12/2015 Audited* Group	31/03/2016 Unaudited Bank	31/12/2015 Audited* Bank
<b>1</b>	<b>Own funds</b>	<b>235,453</b>	<b>236,199</b>	<b>227,072</b>	<b>228,837</b>
1.1	Tier 1 capital	207,467	205,566	199,086	198,204
1.1.1	Common equity Tier 1 capital	207,467	205,566	199,086	198,204
1.1.2	Additional Tier 1 capital	-	-	-	-
1.2	Tier 2 capital	27,986	30,633	27,986	30,633
<b>2</b>	<b>Total risk exposure amount (2.1.+2.2.+2.3.+2.4.+2.5.+2.6.+2.7.)</b>	<b>1,829,323</b>	<b>1,762,798</b>	<b>1,565,871</b>	<b>1,518,757</b>
2.1	Risk weighted exposure amounts for credit, counterparty credit and dilution risks and free deliveries	1,593,116	1,526,061	1,380,051	1,332,798
2.2	Total risk exposure amount for settlement/delivery	-	-	-	-
2.3	Total risk exposure amount for position, foreign exchange and commodities risks	28,538	28,983	19,189	19,250
2.4	Total risk exposure amount for operational risk	206,687	206,687	165,649	165,649
2.5	Total risk exposure amount for credit valuation adjustment	982	1,067	982	1,060
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	<b>Common equity Tier 1 capital ratio (1.1.1./2.*100)</b>	<b>11.3%</b>	<b>11.7%</b>	<b>12.7%</b>	<b>13.1%</b>
3.2	Surplus (+)/ deficit (-) of Common equity Tier 1 capital (1.1.1.-2.*4.5%)	125,148	126,240	128,622	129,860
3.3	<b>Tier 1 capital ratio (1.1./2.*100)</b>	<b>11.3%</b>	<b>11.7%</b>	<b>12.7%</b>	<b>13.1%</b>
3.4	Surplus (+)/ Deficit (-) of Tier 1 capital (1.1.-2.*6%)	97,708	99,798	105,134	107,079
3.5	<b>Total capital ratio (1./2.*100)</b>	<b>12.9%</b>	<b>13.4%</b>	<b>14.5%</b>	<b>15.1%</b>
3.6	Surplus (+)/ Deficit (-) of total capital (1.-2.*8%)	89,107	95,175	101,802	107,337
<b>4</b>	<b>Combined buffer requirements (4.1.+4.2.+4.3.+4.4.+4.5.)</b>	<b>2.5%</b>	<b>2.5%</b>	<b>2.5%</b>	<b>2.5%</b>
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	11.3%	11.7%	12.7%	13.1%
5.3	Tie 1 capital ratio including line 5.1 adjustments	11.3%	11.7%	12.7%	13.1%
5.4	Total capital ratio including line 5.1 adjustments	12.9%	13.4%	14.5%	15.1%

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 regulation) 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 31 March 2016

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	AB "Citadele" bankas	112021619	Lithuania, Vilnius LT-03107, K.Kalinausko 13	LT	BNK	100	100	MS
3	"AP Anlage & Privatbank" AG	130.0.007.738-0	Switzerland, Limmatquai 4, CH-8001, Zurich	CH	BNK	100	100	MS
4	SIA "Citadele līzings un faktoringa"	50003760921	Latvia, Riga LV-1010, Republikas laukums 2A	LV	LIZ	100	100	MS
5	OU "Citadele Leasing & Factoring"	10925733	Estonia, Tallinn 10119, Roosikrantsi 2	EE	LIZ	100	100	MS
6	UAB "Citadele faktoringas ir lizingas"	126233315	Lithuania, Vilnius LT-03107, K.Kalinausko 13	LT	LIZ	100	100	MMS
7	IPAS "CBL Asset Management"	40003577500	Latvia, Riga LV-1010, Republikas laukums 2A	LV	IPS	100	100	MS
8	AS "CBL atklātais pensiju fonds"	40003397312	Latvia, Riga LV-1010, Republikas laukums 2A	LV	PFO	100	100	MS
9	AAS "CBL Life"	40003786859	Latvia, Riga LV-1010, Republikas laukums 2A	LV	APS	100	100	MMS
10	SIA "E & P Baltic Properties"	40003754637	Latvia, Riga LV-1010, Republikas laukums 2A	LV	IPS	50	50	MMS
11	SIA "PR Speciālie projekti"	40103195231	Latvia, Riga LV-1010, Republikas laukums 2A	LV	PLS	100	100	MMS
12	Calenia Investments Limited	HE156501	Cyprus, Nicosia 1075, 58 Arch. Makarios III Avenue, Iris Tower, 6th floor, office 602	CY	PLS	100	100	MS
13	OOO „Mizush Asset Management Ukraine”	32984601	Ukraine, Kiev 03150, Gorkovo 172	UA	IBS	100	100	MMS
14	SIA "Citadele Express Kredīts"	40003238125	Latvia, Riga LV-1010, Republikas laukums 2A	LV	CFI	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 "CBL Cash Logistics"	40103721581	Latvia, Riga LV-1010, Republikas laukums 2A	LV	PLS	100	100	MS
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 MD"	40103724840	Latvia, Riga LV-1010, Republikas laukums 2A	LV	PLS	100	100	MS
23	SIA "Hortus JU"	40103724855	Latvia, Riga LV-1010, Republikas laukums 2A	LV	PLS	100	100	MS
24	SIA "Hortus RE"	40103752416	Latvia, Riga LV-1010, Republikas laukums 2A	LV	PLS	100	100	MS
25	SIA "Hortus BR"	50103752441	Latvia, Riga LV-1010, Republikas laukums 2A	LV	PLS	100	100	MS
26	SIA "Hortus NI"	40103752435	Latvia, Riga LV-1010, Republikas laukums 2A	LV	PLS	100	100	MS

\*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 16 March 2016 the legal name of SIA "Hortus LH" was changed to SIA "CBL Cash Logistics".

## Shareholders as at 31 March 2016

In October 2015 in anticipation of IPO which subsequently was postponed, Citadele redesignated its share capital into three separate categories of shares. The table sets out shareholdings of the shareholders, nominal per share, voting rights and dividend entitlement after redesignation and as at 31 March 2016.

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	-	-
<b>Total</b>						<b>156,555,796</b>		

\* These shares are owned by an international group of twelve investors.

Ordinary A shares and ordinary B shares have equal rights to share in Citadele's assets on a liquidation (liquidation quota); but ordinary C share rights to liquidation quota is limited to receive EUR 0.10 for each C share only in case if each A share and each B share holder has received liquidation quota in amount of EUR 10 million for each paid ordinary A share and/or ordinary B share on a winding up. Such structure was valid until 5 April 2016 when the share structure was reverted back to previous 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.

## Management of the Bank as at 31 March 2016

### *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*

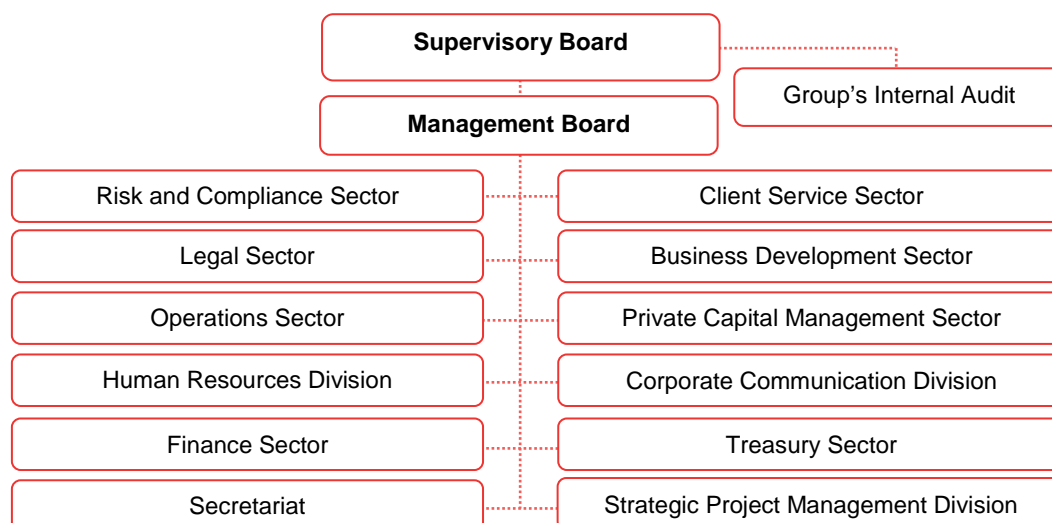
Name	Position
Guntis Beļavskis	Chairman of the Management Board, per procura
Valters Ābele	Member of the Management Board, per procura
Kaspars Cikmačs	Member of the Management Board
Santa Purgaile	Member of the Management Board
Aldis Paegle	Member of the Management Board

## 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 31 March 2016 the Bank was operating a total of 20 branches (including 1 foreign branch), 17 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	08/01/2016
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 transaction 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 bond credit spreads and stock performance.

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 and issuer limits, maximum exposure limit linked to a particular risk class of counterparty/issuer, limit for risk weighted exposures in a particular country/sector combination, 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 probability to incur losses due to failure or partial failure of internal processes to comply with the requirements of the laws and binding external regulations, as well as the requirements of internal regulations, due to the acts of the Group's employees and operation of systems, irregularities in internal processes, as well as due to the acts of third parties or other external conditions.

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 Group;
- Operational risk measurement, analysis, monitoring, reporting and escalation – registering and analysing 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.