

AS Citadele banka

Public Financial Information

2nd 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”



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.

Sincerely,

Guntis Beļavskis
Chairman of the Management Board

Income Statement

| | Jan-Jun 2016 <i>Audited Group</i> | Jan-Jun 2015 <i>Unaudited Group</i> | Jan-Jun 2016 <i>Audited Bank</i> | Jan-Jun 2015 <i>Unaudited Bank</i> |
|--|---|---|--|--|
| <i>EUR th.</i> | | | | |
| Interest income | 40,233 | 39,570 | 31,573 | 32,078 |
| Interest expense | (9,100) | (10,027) | (7,950) | (8,349) |
| Dividends received | - | - | - | 238 |
| 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 gain/ (loss) on financial assets and financial liabilities measured at amortised cost | - | - | - | - |
| Net gain/ (loss) on available for sale financial assets and financial liabilities | 12,728 | 2,333 | 12,088 | 785 |
| Net gain/ (loss) on held for trading financial assets and financial liabilities | 580 | 733 | 278 | 715 |
| Net gain/ (loss) on financial assets or financial liabilities designated at fair value through profit and loss | 524 | (278) | - | - |
| Fair value change in the hedge accounting | - | - | - | - |
| Gain/ (loss) from foreign exchange trading and revaluation of open positions | 6,057 | 3,499 | 5,428 | 2,684 |
| Net financial profit | 69,312 | 53,043 | 54,486 | 40,464 |
| Net gain/ (loss) on disposal of property, plant and equipment, investment property and intangible assets | 5 | 3 | - | - |
| Other income | 1,260 | 1,532 | 1,426 | 860 |
| Other expense | (430) | (309) | (85) | (184) |
| Administrative expense | (36,633) | (32,800) | (28,162) | (24,747) |
| Amortisation and depreciation charge | (2,296) | (2,032) | (1,089) | (803) |
| Impairment charge and reversals, net | (5,110) | (3,072) | (5,583) | (4,379) |
| Profit before taxation | 26,108 | 16,365 | 20,993 | 11,211 |
| Corporate income tax | (755) | (1,433) | (394) | (1,127) |
| Net profit for the period | 25,353 | 14,932 | 20,599 | 10,084 |

Statement of Comprehensive Income

| | Jan-Jun 2016 <i>Audited Group</i> | Jan-Jun 2015 <i>Unaudited Group</i> | Jan-Jun 2016 <i>Audited Bank</i> | Jan-Jun 2015 <i>Unaudited Bank</i> |
|---|---|---|--|--|
| <i>EUR th.</i> | | | | |
| Net change in fair value revaluation reserve of securities and other reserves | (5,244) | 1,786 | (5,963) | (188) |
| Other comprehensive income for the period | (5,244) | 1,786 | (5,963) | (188) |
| Total comprehensive income for the period | 20,109 | 16,718 | 14,636 | 9,896 |

* 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> | 30/06/2016 Audited Group | 31/12/2015 Audited Group | 30/06/2016 Audited Bank | 31/12/2015 Audited Bank |
|--|---|---|--|--|
| Cash and balances with central banks | 508,529 | 555,078 | 83,805 | 348,960 |
| Demand deposits due from credit institutions | 231,830 | 131,098 | 543,664 | 254,481 |
| Financial assets held for trading | 19,530 | 20,979 | 3,905 | 4,960 |
| Financial assets designated at fair value through profit and loss | 122,543 | 111,088 | - | - |
| Available for sale financial assets | 703,599 | 610,030 | 564,414 | 489,406 |
| Loans and receivables, net | 1,234,400 | 1,222,392 | 1,013,017 | 1,030,223 |
| Held to maturity investments | 210,926 | 203,718 | 179,770 | 165,293 |
| Change in the fair value of the portfolio hedged against interest rate risk | - | - | - | - |
| Prepayments and accrued income | 4,705 | 4,623 | 2,675 | 1,745 |
| Property and equipment | 43,618 | 43,111 | 4,819 | 4,393 |
| Investment property | 186 | 189 | - | - |
| Intangible assets | 3,012 | 2,538 | 2,664 | 2,213 |
| Investments in subsidiaries | - | - | 61,925 | 61,580 |
| Income tax assets | 27,447 | 28,029 | 25,622 | 26,157 |
| Other assets | 29,281 | 27,590 | 19,695 | 19,589 |
| Total assets | 3,139,606 | 2,960,463 | 2,505,975 | 2,409,000 |
| Due to central banks | 7 | 6 | 6 | 6 |
| Demand liabilities to credit institutions | 31,390 | 13,888 | 47,512 | 24,617 |
| Financial liabilities held for trading | 3,761 | 1,901 | 3,783 | 1,897 |
| Financial liabilities designated at fair value through profit and loss | 35,531 | 33,915 | - | - |
| Financial liabilities measured at amortised cost | 2,806,870 | 2,665,486 | 2,216,405 | 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 | 13,677 | 14,932 | 10,314 | 11,772 |
| Provisions | 523 | 583 | - | - |
| Income tax liabilities | 186 | 233 | - | - |
| Other liabilities | 7,781 | 9,748 | 4,177 | 6,348 |
| Total liabilities | 2,899,726 | 2,740,692 | 2,282,197 | 2,199,859 |
| Shareholders' equity | 239,880 | 219,771 | 223,778 | 209,141 |
| Total liabilities and shareholders' equity | 3,139,606 | 2,960,463 | 2,505,975 | 2,409,000 |
| Memorandum items | | | | |
| Contingent liabilities | 29,682 | 38,517 | 25,343 | 34,242 |
| Financial commitments | 185,589 | 178,121 | 234,244 | 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-Jun 2016 Group | Jan-Jun 2015 Group | Jan-Jun 2016 Bank | Jan-Jun 2015 Bank |
|-----------------------------|--------------------------|--------------------------|-------------------------|-------------------------|
| Return on equity (ROE) (%)* | 22.06% | 15.71% | 19.03% | 11.01% |
| Return on assets (ROA) (%)* | 1.66% | 1.06% | 1.68% | 0.88% |

* 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

| <i>EUR th.</i> | Group | | | |
|--------------------------------|---------------------|---------------------|---------------------|---------------------|
| | 30/06/2016 | | 31/12/2015 | |
| | Government bonds | Other securities | Government bonds | Other securities |
| Latvia | 266,256 | 4,037 | 232,246 | 4,378 |
| United States | 6,537 | 80,080 | 7,773 | 90,510 |
| Netherlands | 4,637 | 73,636 | - | 56,681 |
| Germany | - | 67,480 | - | 67,140 |
| Lithuania | 58,616 | - | 56,454 | - |
| Japan | 41,221 | 1,292 | 3,815 | 2,027 |
| Canada | 3,619 | 38,481 | 3,681 | 24,521 |
| Sweden | 15,365 | 22,033 | 15,573 | 19,787 |
| Finland | 17,008 | 17,076 | 13,066 | 19,188 |
| Australia | - | 33,487 | - | 23,635 |
| United Kingdom | - | 33,210 | - | 38,578 |
| Singapore | - | 27,703 | - | 24,481 |
| Norway | - | 25,168 | - | 25,648 |
| Multilateral development banks | - | 26,864 | - | 27,407 |
| Other countries** | 29,486 | 158,839 | 23,497 | 160,821 |
| Total securities, net | 442,745 | 609,386 | 356,105 | 584,802 |

| <i>EUR th.</i> | Bank | | | |
|--------------------------------|---------------------|---------------------|---------------------|---------------------|
| | 30/06/2016 | | 31/12/2015 | |
| | Government bonds | Other securities | Government bonds | Other securities |
| Latvia | 253,088 | 3,305 | 218,930 | 3,189 |
| United States | 6,537 | 53,959 | 7,773 | 48,813 |
| Germany | - | 57,346 | - | 54,588 |
| Netherlands | 4,637 | 45,780 | - | 35,223 |
| Japan | 41,221 | - | 3,815 | - |
| Finland | 13,375 | 15,717 | 9,276 | 17,807 |
| Sweden | 6,326 | 22,032 | 6,431 | 19,787 |
| Singapore | - | 26,015 | - | 22,790 |
| Canada | 3,619 | 20,728 | 3,681 | 20,767 |
| Multilateral development banks | - | 20,639 | - | 21,615 |
| Other countries** | 23,993 | 125,867 | 18,987 | 141,227 |
| Total securities, net | 352,796 | 391,388 | 268,893 | 385,806 |

** 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 30 June 2016 is EUR 182,021 thousand (2015: EUR 167,837 thousand) and EUR 214,222 thousand (2015: EUR 206,473 thousand), respectively. During the reporting period the Bank and the Group has recognised EUR 109 thousand 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 1,685 thousand (2015: EUR 6,924 thousand).

Liquidity Ratio Calculation

| | <i>EUR th.</i> | 30/06/2016 | 31/12/2015 |
|----------|--|-------------------|-------------------|
| | | Bank | Bank |
| 1 | Liquid assets (1.1.+1.2.+1.3.+1.4.) | 1,190,667 | 1,127,770 |
| 1.1 | Cash | 54,864 | 46,737 |
| 1.2 | Due from Bank of Latvia | 26,598 | 299,091 |
| 1.3 | Due from with solvent credit institutions | 541,518 | 292,120 |
| 1.4 | Liquid securities | 567,687 | 489,822 |
| 2 | Liabilities (with remaining maturity up to 30 days) | | |
| | (2.1.+2.2.+2.3.+2.4.+2.5.+2.6.) | 1,955,605 | 1,971,971 |
| 2.1 | Due to credit institutions | 60,789 | 75,803 |
| 2.2 | Deposits | 1,681,327 | 1,672,730 |
| 2.3 | Issued debt securities | - | - |
| 2.4 | Cash in transit | 35,143 | 36,638 |
| 2.5 | Other current liabilities | 16,363 | 20,180 |
| 2.6 | Off balance sheet liabilities | 161,983 | 166,620 |
| 3 | Liquidity ratio (1.:2.) (%) | 61% | 57% |
| 4 | Minimum liquidity ratio | 30% | 30% |

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

Capital Adequacy Report

| | EUR th. | 30/06/2016 Audited Group | 31/12/2015 Audited Group | 30/06/2016 Audited Bank | 31/12/2015 Audited Bank |
|----------|---|--------------------------------|--------------------------------|-------------------------------|-------------------------------|
| 1 | Own funds | 228,493 | 236,199 | 219,759 | 228,837 |
| 1.1 | Tier 1 capital | 203,154 | 205,566 | 194,420 | 198,204 |
| 1.1.1 | Common equity Tier 1 capital | 203,154 | 205,566 | 194,420 | 198,204 |
| 1.1.2 | Additional Tier 1 capital | - | - | - | - |
| 1.2 | Tier 2 capital | 25,339 | 30,633 | 25,339 | 30,633 |
| 2 | Total risk exposure amount (2.1.+2.2.+2.3.+2.4.+2.5.+2.6.+2.7.) | 1,823,204 | 1,762,798 | 1,601,008 | 1,518,757 |
| 2.1 | Risk weighted exposure amounts for credit, counterparty credit and dilution risks and free deliveries | 1,586,124 | 1,526,061 | 1,413,192 | 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 | 28,380 | 28,983 | 20,240 | 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 | 2,013 | 1,067 | 1,927 | 1,060 |
| 2.6 | Total risk exposure amount related to large exposures in the trading book | - | - | - | - |
| 2.7 | Other risk exposure amounts | - | - | - | - |
| 3 | Capital adequacy ratios | | | | |
| 3.1 | Common equity Tier 1 capital ratio (1.1.1./2.*100) | 11.1% | 11.7% | 12.1% | 13.1% |
| 3.2 | Surplus (+)/ deficit (-) of Common equity Tier 1 capital (1.1.1.-2.*4.5%) | 121,110 | 126,240 | 122,375 | 129,860 |
| 3.3 | Tier 1 capital ratio (1.1./2.*100) | 11.1% | 11.7% | 12.1% | 13.1% |
| 3.4 | Surplus (+)/ Deficit (-) of Tier 1 capital (1.1.-2.*6%) | 93,762 | 99,798 | 98,359 | 107,079 |
| 3.5 | Total capital ratio (1./2.*100) | 12.5% | 13.4% | 13.7% | 15.1% |
| 3.6 | Surplus (+)/ Deficit (-) of total capital (1.-2.*8%) | 82,637 | 95,175 | 91,678 | 107,337 |
| 4 | Combined buffer requirements (4.1.+4.2.+4.3.+4.4.+4.5.) | 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 (%) | - | - | - | - |
| 5 | Capital adequacy ratios, including adjustments | | | | |
| 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 | 11.1% | 11.7% | 12.1% | 13.1% |
| 5.3 | Tie 1 capital ratio including line 5.1 adjustments | 11.1% | 11.7% | 12.1% | 13.1% |
| 5.4 | Total capital ratio including line 5.1 adjustments | 12.5% | 13.4% | 13.7% | 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 30 June 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 30 June 2016

On 5 April 2016 the 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.

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 |

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

Management of the Bank as at 30 June 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

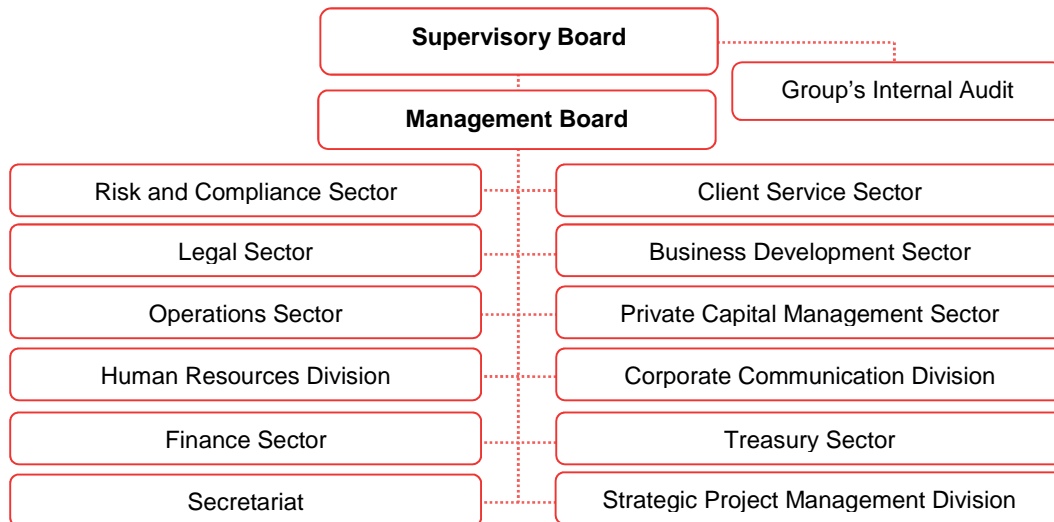
| Name | Position |
|------------------|---|
| Guntis Beļavskis | Chairman of the Management Board, per procura |
| Valters Ābele | Member of the Management Board, per procura |
| Kaspars Cikmačs | Member of the Management Board |
| Santa Purgaile | Member of the Management Board |
| Aldis Paegle | Member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

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 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 | 08/07/2016 |
| 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

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 and business activities. The aim of risk management in the Group is to facilitate the achievement of the Group's goals, the Group's successful development and long-term financial stability, protecting the Group from unidentified risks. 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.

The Group reviews its loan portfolio and securities portfolio on a regular basis to assess its structure, quality and concentrations, as well as to evaluate the portfolio trends and to control an acceptable credit risk level. The Group takes measures for limiting credit risk concentration by diversifying the portfolio and setting credit risk concentration limits. To limit its credit risk, the Group has set the following concentration limits: individual counterparty and issuer limits, maximum exposure limit linked to a particular risk class of counterparty/issuer, limit for 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, collateral type, intra Group transactions. Control of compliance with credit risk concentration limits, credit risk identification, monitoring and reporting is the responsibility of Risk and Compliance Sector.

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.

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 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 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.

Liquidity risk for the Group is assessed for each significant currency that the Group transacts. Liquidity risk limits are reviewed at least once a year depending on changes of the Group's operations or external factors with significant impact. A liquidity contingency plan has been developed and is updated on a regular basis.

The Group's balance sheet structure is planned for at least a one-year period and is aligned with actual business development plans. The major current and potential sources of liquidity are regularly analysed and controlled across the Group.

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 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

The Group 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. The Group'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.

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