AS Citadele banka

Public Financial Information

3rd 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

In the first nine months of the year, Citadele Group ("the Group") continued to demonstrate a healthy and profitable growth across its key business segments and geographies.

The Group reported a **net profit** of EUR 36.6 million which was a 57% increase compared to the same period in 2015 when the Group earned EUR 23.3 million. In the reporting period a gain of EUR 11.3 million was recognised on the sale of Citadele's share in Visa Europe to Visa Inc. Consequently, the Group experienced excellent profitability ratios with 20.7% ROE and 1.59% ROA (Bank: 17.4% ROE and 1.57% ROA). When adjusted before the impact from the gain received from the sale of Visa shares, Group's operating income demonstrated a 10% growth indicating a healthy increase in Group's core business numbers.

Group's **net loan portfolio** increased to EUR 1,249 million (+7% compared to September 2015) with Estonia segment experiencing the highest growth rate compared to September 2015.

Group's **net interest income** which experienced an 8% increase compared to the same period in 2015 reaching EUR 48.0 million (Bank: EUR 36.4 million). This was mostly driven by an increasing loan portfolio yield and size of the Group's loan book across the Baltic States.

Net commission income for the Group grew by 8% to EUR 28.0 million (Bank: EUR 20.2 million). The increase was mostly driven by an increase in income from payment transfers as well as payment cards where the Group benefited from a strong growth in its merchant business as well as its customer base.

Group's **administrative expense** was by 10% higher when compared to the same period in 2015 (Bank: 11%). This was mostly driven by personnel costs as the Group continued to invest in its personnel and increased its number of full time equivalent employees to 1,636 (Bank: 1,272) by September 2016. 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 with NPL ratio decreasing down to 9.2% (Bank: 9.7%) compared to 11.6% in September 2015 (Bank: 12.0%).Group's cost of risk remained at 0.7% (Bank: 0.8%) which was a similar level seen in the respective period of 2015.

Group's **liquidity** and **capital position** remained strong. The deposit book grew by 7% compared to the respective period last year resulting in the loan-to-deposit ratio of 45%. Capital adequacy ratio was at 13.8% level (Bank: 15.3%) which was a yearly increase of 1.8% pts and 1.5% pts respectively.

Developments and Events in Lending

During the year Citadele has increased its loan portfolio and has grown its deposit base in order to continue active lending to companies and retail customers in all Baltic States. Citadele's 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 13% increase year-over–year, with the total loan portfolio increasing by EUR 36 million in the first nine months of the year and reaching EUR 313 million at the end of 3rd quarter. Central to growth has been speeding up the loan application reviewing periods and developing a new loan application channel: a web-based credit scoring tool that Citadele introduced in May. The tool invites existing and potential customers to learn their individual credit capacity. The amount of available consumer lending and individual interest rate is calculated based on data submitted by interested customers via the web form without having to formally register. The ease of use of the web portal and openness in communicating Citadele's preposition resonated well with the customers. During the year the volume of consumer loans granted by Citadele has increased more than threefold compared to the prior year – in the first nine months of the year a total of EUR 26 million was granted, while in 2015 the total volume for the year was EUR 10 million.

Company segment Latvia

Citadele Bank in Latvia has granted EUR 118 million in loans to companies during the first nine months of the year, which is 35% more compared to the same period last year. The largest amounts have been granted to companies operating in such industries as transport, real estate and trade. Highest number of loan agreements has been signed with clients working in agriculture – during the year loans have been granted to 234 farmsteads.

Comparing company lending segment activity to prior year, there is an evident increase in financing of real estate development projects. This industry is recovering and projects, for which development had been postponed for many years, have obtained new owners and are now being developed with the intention of selling the apartments. This year has also been considerably better in terms of new project development for farmers that have managed to obtain co-financing from Rural Support Service for their projects. Furthermore the agricultural industry has managed to increase export volumes and shows signs of stability in the long term.

The bank's priority is financing of small and medium enterprise, which is reflected in the increase in financing for this segment. In the first half of 2016, Citadele has 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

In the 3rd quarter of 2016 Citadele bank was the first commercial bank to conclude an agreement with Development financial institution ALTUM, to provide co-financing in relation to the new house insulation program.

Lithuania and Estonia

Growth in lending is also evident in Citadele's operations in Lithuania and Estonia, where Citadele continued to strengthen its position. In Estonia, the total loan portfolio has reached EUR 93 million (a 47% increase year-over–year). In Lithuania the total loan portfolio has reached EUR 232 million (a 21% increase year-over–year).

Leasing

Citadele group leasing entities in Latvia and Lithuania by attracting new customers achieved a significant loan portfolio increase in the first nine months of the year. The Latvian entity grew its loan portfolio by 24% year-over-year and it amounted to EUR 67 million as at 30 September 2016. Whereas the Lithuanian entity has increased its loan portfolio by 31% year-over-year and at the end of 3rd quarter it has reached EUR 49 million.

Sincerely,

Guntis Beļavskis
Chairman of the Management Board

Income Statement

EUR th.	**Jan-Sep 2016** ***Unaudited*** **Group**	**Jan-Sep 2015** ***Unaudited*** **Group**	**Jan-Sep 2016** ***Unaudited*** **Bank**	**Jan-Sep 2015** ***Unaudited*** **Bank**
Interest income	62,034	59,069	48,565	47,783
Interest expense	(14,009)	(14,596)	(12,160)	(12,301)
Dividends received	1	-	1	238
Commission and fee income	40,634	37,328	31,036	28,435
Commission and fee expense	(12,617)	(11,342)	(10,875)	(9,639)
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	13,247	3,651	12,301	1,736
Net gain/ (loss) on held for trading financial assets and financial liabilities	457	558	275	715
Net gain/ (loss) on financial assets or financial liabilities designated at fair value though profit and loss	726	(627)	-	-
Fair value change in the hedge accounting	-	-	-	-
Gain/ (loss) from foreign exchange trading and revaluation of open positions	10,437	7,028	8,653	5,790
Net financial profit	**100,910**	**81,069**	**77,796**	**62,757**
Net gain/ (loss) on disposal of property, plant and equipment, investment property and intangible assets	5	3	-	-
Other income	1,867	2,057	2,093	1,178
Other expense	(1,217)	(530)	(696)	(305)
Administrative expense	(54,674)	(49,700)	(42,151)	(37,823)
Amortisation and depreciation charge	(3,520)	(3,083)	(1,683)	(1,241)
Impairment charge and reversals, net	(4,996)	(3,997)	(5,391)	(5,105)
Profit before taxation	**38,375**	**25,819**	**29,968**	**19,461**
Corporate income tax	(1,806)	(2,477)	(1,179)	(2,085)
Net profit for the period	**36,569**	**23,342**	**28,789**	**17,376**

Statement of Comprehensive Income

EUR th.	**Jan-Sep 2016** ***Unaudited*** **Group**	**Jan-Sep 2015** ***Unaudited*** **Group**	**Jan-Sep 2016** ***Unaudited*** **Bank**	**Jan-Sep 2015** ***Unaudited*** **Bank**
Net change in fair value revaluation reserve of securities and other reserves	(3,954)	(347)	(5,165)	(1,140)
Other comprehensive income for the period	(3,954)	(347)	(5,165)	(1,140)
Total comprehensive income for the period	**32,615**	**22,995**	**23,624**	**16,236**

* 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

EUR th.	**30/09/2016** ***Unaudited*** **Group**	**31/12/2015** ***Audited*** **Group**	**30/09/2016** ***Unaudited*** **Bank**	**31/12/2015** ***Audited*** **Bank**
Cash and balances with central banks	622,835	555,078	385,450	348,960
Demand deposits due from credit institutions	167,558	131,098	279,774	254,481
Financial assets held for trading	18,850	20,979	3,312	4,960
Financial assets designated at fair value through profit and loss	129,883	111,088	-	-
Available for sale financial assets	687,193	610,030	543,171	489,406
Loans and receivables, net	1,255,002	1,222,392	1,018,104	1,030,223
Held to maturity investments	157,013	203,718	126,750	165,293
Change in the fair value of the portfolio hedged against interest rate risk	-	-	-	-
Prepayments and accrued income	4,684	4,623	2,692	1,745
Property and equipment	43,725	43,111	4,879	4,393
Investment property	134	189	-	-
Intangible assets	2,974	2,538	2,661	2,213
Investments in subsidiaries	-	-	61,925	61,580
Income tax assets	26,411	28,029	24,821	26,157
Other assets	45,019	27,590	34,707	19,589
Total assets	**3,161,281**	**2,960,463**	**2,488,246**	**2,409,000**
Due to central banks	7	6	6	6
Demand liabilities to credit institutions	25,549	13,888	40,786	24,617
Financial liabilities held for trading	1,037	1,901	1,148	1,897
Financial liabilities designated at fair value through profit and loss	37,609	33,915	-	-
Financial liabilities measured at amortised cost	2,819,069	2,665,486	2,197,655	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	14,048	14,932	10,659	11,772
Provisions	1,068	583	572	-
Income tax liabilities	370	233	-	-
Other liabilities	10,138	9,748	4,655	6,348
Total liabilities	**2,908,895**	**2,740,692**	**2,255,481**	**2,199,859**
Shareholders' equity	252,386	219,771	232,765	209,141
Total liabilities and shareholders' equity	**3,161,281**	**2,960,463**	**2,488,246**	**2,409,000**
Memorandum items				
Contingent liabilities	29,016	38,517	24,205	34,242
Financial commitments	206,558	178,121	244,082	176,181

* Auditor: SIA "KPMG Baltics". For audited financial reports, please refer to the Bank's web page's sections "Annual reports" and "Interim reports".

Key Ratios

	Jan-Sep 2016 Group	Jan-Sep 2015 Group	Jan-Sep 2016 Bank	Jan-Sep 2015 Bank
Return on equity (ROE) (%)*	20.65%	16.11%	17.37%	12.43%
Return on assets (ROA) (%)*	1.59%	1.11%	1.57%	1.02%

* 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

	Group			
	30/09/2016		31/12/2015	
EUR th.	Government bonds	Other securities	Government bonds	Other securities
Latvia	216,967	4,059	232,246	4,378
United States	8,752	83,348	7,773	90,510
Netherlands	4,706	77,716	-	56,681
Lithuania	75,464	-	56,454	-
Germany	-	65,395	-	67,140
Canada	3,589	36,298	3,681	24,521
United Kingdom	-	39,671	-	38,578
Sweden	15,546	21,648	15,573	19,787
Australia	-	30,052	-	23,635
Singapore	-	27,973	-	24,481
Finland	12,666	14,511	13,066	19,188
Multilateral development banks	-	44,981	-	27,407
Other countries**	30,002	176,304	27,312	188,496
Total securities, net	**367,692**	**621,956**	**356,105**	**584,802**

	Bank			
	30/09/2016		31/12/2015	
EUR th.	Government bonds	Other securities	Government bonds	Other securities
Latvia	202,132	3,322	218,930	3,189
United States	8,395	55,140	7,773	48,813
Germany	-	56,332	-	54,588
Netherlands	4,706	46,750	-	35,223
Sweden	6,293	20,063	6,431	19,787
Singapore	-	26,291	-	22,790
United Kingdom	-	25,542	-	17,430
Lithuania	23,722	-	10,804	-
Finland	8,819	14,511	9,276	17,807
Multilateral development banks	-	38,504	-	21,615
Other countries**	14,905	114,494	15,679	144,564
Total securities, net	**268,972**	**400,949**	**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 September 2016 is EUR 128,369 thousand (2015: EUR 167,837 thousand) and EUR 159,409 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 1,605 thousand (2015: EUR 6,924 thousand).

Liquidity Ratio Calculation

	EUR th.	30/09/2016 Bank	31/12/2015 Bank
1	**Liquid assets (1.1.+1.2.+1.3.+1.4.)**	**1,156,710**	**1,127,770**
1.1	Cash	49,120	46,737
1.2	Due from Bank of Latvia	334,569	299,091
1.3	Due from with solvent credit institutions	277,936	292,120
1.4	Liquid securities	495,085	489,822
2	**Liabilities (with remaining maturity up to 30 days) (2.1.+2.2.+2.3.+2.4.+2.5.+2.6.)**	**1,906,522**	**1,971,971**
2.1	Due to credit institutions	60,517	75,803
2.2	Deposits	1,607,290	1,672,730
2.3	Issued debt securities	-	-
2.4	Cash in transit	42,127	36,638
2.5	Other current liabilities	15,943	20,180
2.6	Off balance sheet liabilities	180,645	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.	**30/09/2016** ***Unaudited*** **Group**	**31/12/2015** ***Audited*** **Group**	**30/09/2016** ***Unaudited*** **Bank**	**31/12/2015** ***Audited*** **Bank**
1	**Own funds**	**251,919**	**236,199**	**238,333**	**228,837**
1.1	Tier 1 capital	229,257	205,566	215,671	198,204
1.1.1	*Common equity Tier 1 capital*	*229,257*	*205,566*	*215,671*	*198,204*
1.1.2	*Additional Tier 1 capital*	-	-	-	-
1.2	Tier 2 capital	22,662	30,633	22,662	30,633
2	**Total risk exposure amount (2.1.+2.2.+2.3.+2.4.+2.5.+2.6.+2.7.)**	**1,831,121**	**1,762,798**	**1,559,095**	**1,518,757**
2.1	Risk weighted exposure amounts for credit, counterparty credit and dilution risks and free deliveries	1,598,899	1,526,061	1,375,279	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	24,438	28,983	17,074	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	1,097	1,067	1,093	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)**	**12.5%**	**11.7%**	**13.8%**	**13.1%**
3.2	Surplus (+)/ deficit (-) of Common equity Tier 1 capital (1.1.1.-2.*4.5%)	146,856	126,240	145,511	129,860
3.3	**Tier 1 capital ratio (1.1./2.*100)**	**12.5%**	**11.7%**	**13.8%**	**13.1%**
3.4	Surplus (+)/ Deficit (-) of Tier 1 capital (1.1.-2.*6%)	119,389	99,798	122,125	107,079
3.5	**Total capital ratio (1./2*100)**	**13.8%**	**13.4%**	**15.3%**	**15.1%**
3.6	Surplus (+)/ Deficit (-) of total capital (1.-2.*8%)	105,429	95,175	113,606	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 (%)	0.0%	-	0.0%	-
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	12.5%	11.7%	13.8%	13.1%
5.3	Tie 1 capital ratio including line 5.1 adjustments	12.5%	11.7%	13.8%	13.1%
5.4	Total capital ratio including line 5.1 adjustments	13.8%	13.4%	15.3%	15.1%

Capital adequacy ratios in these financial statements are calculated in accordance with the Basel III regulation as implemented via EU regulation 575/2013, directive 2013/36/EU and relevant FCMC regulations.

* Auditor: SIA “KPMG Baltics”. For audited financial reports, please refer to the Bank’s web page’s sections “Annual reports” and "Interim reports".

Consolidation Group as at 30 September 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 faktorings"	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. MakariosIII 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 Residental"	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 September 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 September 2016:

	30/09/2016	
	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 September 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

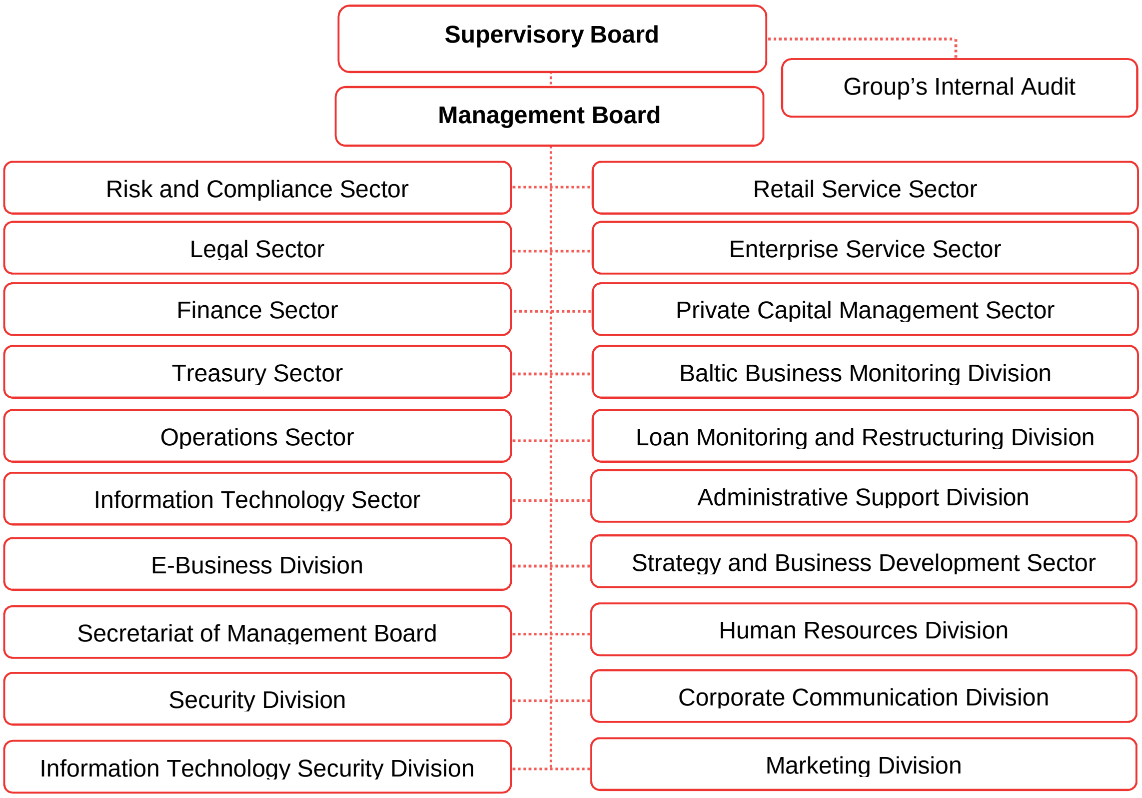
Name	Position
Guntis Beļavskis	Chairman of the Management Board, per procura
Valters Ābele	Member of the Management Board, per procura
Kaspars Cikmačs	Member of the Management Board
Santa Purgaile	Member of the Management Board
Aldis Paegle	Member of the Management Board, per procura

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 September 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

The Group considers risk management to be an essential component of its management process. The Group believes that it pursues prudent risk management policies that are aligned with its business and which aim to achieve effective risk mitigation. In order to assess and monitor complex risk exposures, the Group applies a wide range of risk management tools in conjunction with risk committees. Members of risk committees represent various operations of the Group, in order to balance business and risk orientation across the Group. The Group's risk management principles are set out in its Risk Management Policy. The Group adheres to the following key risk management principles:

- The Group aims to ensure that it maintains a low overall risk exposure, a diversified asset portfolio, limited risks in financial markets and low levels of operational risk;
- The Group aims to ensure an acceptable risk level in all operations. Risks are always assessed in relation to their expected return. Risk exposures that are not acceptable are avoided, limited or hedged;
- The Group does not assume high or uncontrollable risks irrespective of the return they provide, and assumes risks only in economic fields and geographical regions in relation to which it believes it has sufficient knowledge and expertise;
- Risk management is based on each Group's employee's responsibility for the transactions carried out by him and awareness of the related risks;
- Risk limit system and strict controls are essential risk management elements. Control over risk levels and compliance with the imposed limits is achieved by the existence of structured risk limit systems for all material risks.

The aim of the risk management in the Group is to facilitate the achievement of the Group's goals, successful development, long-term financial stability, and to protect the Group from unidentified risks. Risk management within the Group is controlled by an independent unit – the Risk and Compliance Sector.

The main risks to which the Group is exposed are: 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 guarantees issued to or received from third parties and other off-balance sheet commitments granted to third parties on behalf of the Bank's clients. Credit risk management is performed pursuant to the Credit Risk Management Policy. The goal of credit risk management is to achieve a diversified asset portfolio which generates profits that correspond to the assumed level of risk.

Credit risk management is based on an adequate assessment of a credit risk and a proper decision-making in relation to such risk. In cases when significant risk is to be undertaken, the credit risk analysis is performed by an independent unit of the Group's Risk and Compliance Sector. The credit risk analysis consists of assessment of customer's creditworthiness, pledged collateral quality and liquidity. The analysis of a legal entity's creditworthiness includes an assessment of the industry in which it operates as well as an analysis of its credit history and current and forecasted financial situation. The assessment of a private individual's creditworthiness consists of the analysis of its credit history, income and debt-to-income ratio analysis, as well as an analysis of applicable social and demographic factors. In cases of material risks, lending decision is taken by the Credit Committee and approved by the Bank's Management Board.

In relation to the acquisition of corporate bonds, the Group always analyses the business profile and financial performance of the issuer, takes into consideration the credit ratings assigned to it by international rating agencies, as well as market-based indicators. Sovereign bonds are assessed similarly, but with an emphasis on different fundamental factors, including the country's economic strength, institutional strength, financial strength of the government, political risks and other relevant factors.

After a loan is issued or a fixed income security is acquired, the customer's financial position and the issuers' risk indicators, such as credit rating changes, are monitored on a regular basis in order to timely identify potential credit quality deterioration. The loan monitoring process covers monitoring of financial results, financial position and cash flows of the borrower, loan repayment discipline and developments in quality of the collateral.

The Group reviews its loan portfolio and securities portfolio on a regular basis to assess its structure, quality and concentration levels, as well as to evaluate portfolio trends and to control 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 internally risk weighted exposures in a particular country/sector combination, limit for group of mutually related customers, limit for large risk exposures, limit for transactions with the Group's related parties, industry limit, limit by customer type, loan product type, collateral type, intragroup transactions. Control of compliance with credit risk concentration limits, credit risk identification, monitoring and reporting is the responsibility of the Risk and Compliance Sector.

In addition to the credit risk which is inherent in the Group's loan portfolio and fixed-income securities portfolio, the Group is also exposed to credit risk as a result of its banking relationships with multiple credit institutions which it maintains in order to process customer transactions in a prompt and efficient manner. The Group manages its exposure to commercial banks and brokerage companies by monitoring on a regular basis the credit ratings of such institutions, conducting due diligence of their credit profiles and monitoring the individual exposure limits applicable to counterparties set by the Financial Market and Counterparty Risk Committee (FMCRC). The Group's exposures to derivative counterparties arise from its activities in managing liquidity and credit risks through short term derivatives that do not expose it to material counterparty risk.

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 the 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 the Risk and Compliance Sector.

The Group manages market risk by developing investment guidelines for every significant portfolio, which restrict, among other things, the duration and credit quality profile of investments, as well as by setting individual limits for issuers and financial instruments, to keep limit volumes closely linked to the results of risk assessments. The Group places significant emphasis on managing concentration risk and applies a framework under which limits are set on risk adjusted exposures for every country and sector combination that the Group invests in. To assess position risk the Group uses sensitivity and scenario analysis, which identifies and quantifies the negative impact of adverse events on the portfolio of the Group, taking into consideration regional, sector and credit rating risk profiles of issuers.

Interest Rate Risk

Interest rate risk is related to the possible negative impact of changes in general interest rates 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 taken by the Assets and Liabilities Management Committee (ALCO). The decisions of the ALCO are approved by the Bank's Management Board. The 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 the Treasury Sector, while the Risk and Compliance Sector ensures proper oversight and prepares analytical reports to the ALCO and the Bank's Management Board.

The Group manages interest rate risk by using repricing gap analysis of the risk sensitive assets and liabilities, duration analysis of assets and liabilities as well as stress testing. 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, the ALCO sets the interest rates for customer deposits.

Liquidity Risk

Liquidity risk is the risk that the Group will be unable to meet its legal payment obligations. The purpose of liquidity risk management is to ensure the availability of liquid assets to cover any possible gaps between cash inflows and outflows as well as to secure sufficient funding for lending and investment activities.

The Group manages its liquidity risk in accordance with Liquidity Risk Management Policy. The management and reporting of liquidity risk is coordinated by the Treasury Sector, and the risk is assessed and decisions are taken by the ALCO. The decisions of the ALCO are approved by the Bank's Management Board. The Risk and Compliance Sector on a monthly basis provides information to the ALCO and the Bank's Management Board about the level of the assumed risk as part of the reporting and supervision process.

Liquidity risk for the Group is assessed in each currency in which the Group has performed a significant amount of transactions. Liquidity risk limits are reviewed at least once a year and also when there are major changes to the Group's operations or external factors affecting its operations. A liquidity crisis management plan has been developed and is updated on a regular basis.

One of the crucial tools used to evaluate liquidity risk is scenario analysis. Several scenarios of different severity and duration are employed by the Group with risk tolerances defined for the outcomes of those scenarios.

Furthermore, the Group has developed a system of liquidity risk limits and early warning indicators and systematically prepares cash flow forecasts which incorporate assumptions about the most likely flow of funds over the period of one year. For general assessment of existing gaps between contractual maturities of assets and liabilities without any assumptions on customer behaviour, the Group regularly analyses liquidity term structure and sets corresponding risk tolerances.

The Group's balance sheet structure is planned for at least a one-year period and is aligned with development plans for the current period. The major current and potential funding sources are regularly analysed and controlled across the Group. The Group maintains regular contact with its interbank business partners and creditors with the aim of projecting possible deadlines for repayment or prolongation of funding sources as well as absorption of excess liquidity.

The Financial and Capital Market Commission (FCMC) requires banks in Latvia to estimate and maintain a liquidity ratio of at least 30% and also sets individual liquidity ratio requirements based upon cash and cash equivalent assets available within 30 days span and current liabilities of the bank due in the next 30 days. The Bank's individual liquidity ratio requirement remained stable at 40% for the last 3-year period. The Bank was in compliance with the liquidity ratio requirements issued by the FCMC and met mandatory reserve requirements defined by the Bank of Latvia. In addition to a Latvia-specific liquidity ratio, the FCMC has also introduced a minimum requirement for a Basel III proposed Liquidity Coverage Ratio (LCR) with a phase-in period ending in 2018. The corresponding minimum levels to be maintained in 2016, 2017 and 2018 are 70%, 80% and 100%, respectively. Citadele is fully compliant with current requirements and has implemented necessary measures to ensure smooth compliance with future LCR thresholds.

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 FMCRC. The decisions of the FMCRC are approved by the Bank's Management Board. The FMCRC 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 the Treasury Sector, while risk monitoring and reporting is the responsibility of the Risk and Compliance Sector.

The Group has a low risk appetite for foreign exchange risk. The Group aims to keep exposures at levels that would produce a small net impact even in periods of high volatility. Several well-known methodologies are used to measure and manage foreign exchange risk including a conservative limit for a daily value-at-risk exposure. The Group is in full compliance with the currency risk requirements of the Latvian legislation.

Operational Risk

The Group has adopted the Basel Committee on Banking Supervision's 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 into the following categories: personnel risk, process risk, IT and system risk, external risk.

Operational risk is managed using an integrated and comprehensive framework of policies, methodologies, procedures and regulations for identification, analysis, mitigation, control and reporting of operational risk. The Group's operational risk management processes are integral to all business activities and are applicable to all employees and members of the Group. The Group's aim is to ensure that each of its employees knows not just how to perform a specific transaction, but also understands the key areas where risk can arise and the processes and steps required to prevent or otherwise mitigate such risks.

The goal of the Group's operational risk management framework is to maintain the lowest possible level of risk while ensuring that any remaining risk is economically justified in light of the need to sustain the Group's performance and profit in the long term. Whether a risk is economically justified depends on an assessment of the potential losses it could cause, the probability of its occurrence, the ability to implement mitigating measures and the cost of such measures, as well as the level of risk that would remain if such mitigating measures were to be put in place.

The Group aims to avoid operational risks with a potential impact which exceeds 10% of its net annual revenue and has a higher probability of occurrence than once per ten years, or risks with unquantifiable impact which are unmanageable, irrespective of the financial gains this could bring. Each accepted risk must be economically justified and, in cases where the assessment of operational risk in monetary terms is possible, the costs of the control measures required must be commensurate with the eventual loss that could be prevented by the existence of the control system.

The Group applies following approaches for operational risk management:

- Assessing operational risk in development projects: new and updated services and products are introduced only after a thorough risk assessment has been carried out;
- Conducting regular operational risk-control self-assessment: the Group identifies and assesses potential operational risk events, assesses control systems which are in place, and analyses the necessary risk reduction measures;
- Determining operational risk indicators: the Group uses statistical, financial, and other indicators which represent the levels of operational risk in its various activities;
- Measuring, analysing, monitoring, reporting and escalating operational risk: the Group registers and analyses operational risk events, including their severity, causes and other important information in an operational risk loss and incident database;
- Conducting scenario analysis and stress-testing;
- Performing business continuity planning: the Group performs regular business impact analysis and has implemented a Disaster Recovery Plan;
- Assigning responsibilities: the operational risk management system includes assignment of responsibilities to certain individuals; and
- Documenting decisions: the Group maintains records in relation to the process undertaken to reach a particular decision or to prevent or mitigate a particular risk.

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