

AS Citadele banka

Annual report

for the year ended
31 December 2016



Citadele

KEY FIGURES

| EUR millions | Group | | | Bank | | |
|---|--------|-------|---------|--------|-------|----------|
| | 2016 | 2015 | Change | 2016 | 2015 | Change |
| Net interest income | 66.2 | 60.5 | 9% | 50.1 | 48.1 | 4% |
| Net commission and fee income | 40.1 | 35.5 | 13% | 27.1 | 25.3 | 7% |
| Operating income ⁽¹⁾ | 134.3 | 112.7 | 19% | 107.1 | 86.5 | 24% |
| Impairment charges and reversals, net | (10.1) | (6.2) | 62% | (10.2) | (6.2) | 63% |
| Net profit | 40.7 | 26.1 | 56% | 36.3 | 19.5 | 86% |
| Return on average assets (ROA) ⁽²⁾ | 1.29% | 0.90% | 0.4pp | 1.44% | 0.82% | 0.6pp |
| Return on average equity (ROE) ⁽³⁾ | 17.2% | 13.2% | 4.0pp | 16.2% | 10.2% | 6.0pp |
| Cost to income ratio (CIR) ⁽⁴⁾ | 60.4% | 68.5% | (8.2pp) | 55.3% | 67.1% | (11.8pp) |
| Cost of risk ratio (COR) ⁽⁵⁾ | 0.9% | 0.6% | 0.3pp | 0.9% | 0.5% | 0.4pp |
| Total capital adequacy ratio (CAR) | 16.5% | 13.4% | 3.1pp | 19.0% | 15.1% | 3.9pp |
| Common equity Tier 1 capital ratio (CET1) | 13.5% | 11.7% | 1.8pp | 15.4% | 13.1% | 2.3pp |
| <i>Adjusted for major one-time items⁽⁶⁾:</i> | | | | | | |
| Net profit | 31.1 | 31.1 | 0% | 21.6 | 24.3 | (11%) |
| Return on average assets (ROA) ⁽²⁾ | 0.99% | 1.07% | (0.1pp) | 0.86% | 1.03% | (0.2pp) |
| Return on average equity (ROE) ⁽³⁾ | 13.3% | 15.5% | (2.2pp) | 9.9% | 12.6% | (2.7pp) |
| EUR millions | Group | | | Bank | | |
| | 2016 | 2015 | Change | 2016 | 2015 | Change |
| Total assets | 3,350 | 2,960 | 13% | 2,630 | 2,409 | 9% |
| Loans to customers | 1,241 | 1,172 | 6% | 1,009 | 983 | 3% |
| Deposits from customers | 2,919 | 2,583 | 13% | 2,149 | 2,037 | 5% |
| Shareholders' equity | 254 | 220 | 16% | 238 | 209 | 14% |
| Loan-to-deposit ratio ⁽⁷⁾ | 42% | 45% | (3pp) | 47% | 48% | (1pp) |

- (1) Operating income consists of the following income statement items: of net interest income, net commission and fee income, net gain on transactions with financial instruments and other income.
- (2) Return on average assets (ROA) is calculated as annualised net profit for the relevant period divided by the average of total assets at the beginning and the end of the period.
- (3) Return on average equity (ROE) is calculated as annualised net profit for the relevant period divided by the average of total equity at the beginning and the end of the period.
- (4) Cost to income ratio (CIR) is calculated as administrative expense plus amortization and depreciation plus other expense divided by operating income.
- (5) Cost of risk ratio (COR) is calculated as the sum of net collective and specific loans' impairment charges, net provisions for off-balance sheet credit risk products, and recovered written-off assets divided by the average of gross loans at the beginning and the end of the period. The definition has been adjusted and comparatives for 2015 have been updated accordingly.
- (6) 2016 adjusted for one-time income in the amount of EUR 11.3 million due to sale of Citadele's share in Visa Europe to Visa Inc (Group and Bank), EUR 5.1 million income on dividends from subsidiaries (Bank only) and EUR -1.8 million loss on sale of a single AFS (former HTM) security exposure before maturity (Group and Bank). 2015 adjusted for one-time costs due to the postponed IPO in the amount of EUR -5.0 million (Group and Bank) and EUR 0.2 million income on dividends from subsidiaries (Bank only).
- (7) Loan to deposit ratio is calculated as the carrying value of loans to customers divided by deposits from customers at the end of the relevant period.

CONTENTS

| | |
|--|----|
| Management Report | |
| Letter from the Management | 4 |
| Corporate Governance | 7 |
| Statement of the Management's Responsibility | 10 |
| Financial Statements: | |
| Income Statements | 11 |
| Statements of Comprehensive Income | 12 |
| Balance Sheets | 13 |
| Statements of Changes in Equity | 14 |
| Statements of Cash Flows | 15 |
| Notes to the Financial Statements | 16 |
| Independent Auditors' Report | 76 |
| Contact Details | 82 |

Rounding and Percentages

Some numerical figures included in these financial statements have been subject to rounding adjustments. Accordingly, numerical figures shown for the same category presented in different tables may vary slightly, and numerical figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

In these financial statements, certain percentage figures have been included for convenience purposes in comparing changes in financial and other data over time. However, certain percentages may not sum to 100% due to rounding.

LETTER FROM THE MANAGEMENT

KEY EVENTS IN 2016

2016 marks the year of accelerated growth in Baltic States of Latvia, Lithuania, and Estonia, as well as in Switzerland. Citadele's strategy is to be the regional champion, the preferred bank of choice for private customers and small and medium sized businesses (SME) in the Baltics to provide their daily business and banking needs. Citadele continues to improve its products and services for these clients, as well as other customers in the Corporate and Private Capital Management segments.

Another accolade for success in 2016 was the listing of Citadele's subordinated debt securities in the regulated market for the first time. Citadele attracted EUR 40 million in new funding from the issuance of these subordinated bonds. The funds were used to increase the bank's Tier 2 capital base to fund growth, as well as to pay back the loan received from the Latvian Privatisation Agency ahead of the schedule in January 2017.

Sizeable investments were made in the infrastructure of new products and information technology to support the implementation of Citadele's growth strategy. In 2016, Citadele introduced several unique products and services to the Latvian market including microcredit for SME customers and an online Credit Rating Tool for private customers. The Group further developed and upgraded its new mobile banking application, offering customers a modern and convenient banking solution with an authorisation tool built into the application. Focusing on customer service and convenience, several new concept branches were opened in 2016, with open layouts to break down the traditional physical barriers between the bank and our customers. One of these new branches in Lithuania was opened in cooperation with "Coffee Inn" coffee shop merchants to provide refreshments in the branch. In Estonia the bank office and branch moved to a new, larger premises using the new concept to improve overall customer service.

In terms of technology, Citadele fully upgraded its backup data centre by moving into a new, state-of-the-art facility and in ensuring optical data encryption. Most of the branches switched to tablets as key marketing and customer information sources as opposed to traditional paper booklets. The core system for handling card transactions was upgraded to the latest modern version as well for 2016.

To further develop our offerings in the payment and credit card areas, Citadele has engaged in close cooperation with VISA in 2016 and began issuing a new VISA credit card in Latvia with an extensive member benefit programme. These VISA payment cards will then gradually replace the American Express cards issued by Citadele in Latvia and Lithuania. In accordance with the current license contract with American Express, Citadele stopped issuing American Express cards to new clients in Latvia and Lithuania in December, while current American Express card users will be able to use their cards until the 31 March, 2018. Furthermore, Citadele installed approximately 2,000 contactless payment terminals throughout Latvia in order to create an adequate infrastructure for contactless payments. Currently roughly one-third of Citadele card terminals support contactless payments. Citadele also began offering contactless cards to customers at the beginning of 2017.

FINANCIAL PERFORMANCE

Citadele Group delivered solid financial performance in 2016, demonstrating further growth in its core business segments as well as improvements in asset quality metrics. The Group ended the year showing strong business fundamentals together with a healthy increase in its capital base.

Group's **net profit** for 2016 was EUR 40.7 million (Bank: EUR 36.3 million) compared to EUR 26.1 million (Bank: EUR 19.5 million) in 2015. This resulted in 17.2% **ROE** and 1.29% **ROA** (Bank: 16.2% ROE and 1.44% ROA) compared to 13.2% ROE and 0.90% ROA (Bank: 10.2% ROE and 0.82% ROA) in 2015. 2016 figures included two material one-time items, a EUR 11.3 million gain on the disposal of Citadele's shares in Visa Europe to Visa Inc., and the disposal of a single AFS security (formerly HTM) exposure that resulted in a EUR 1.8 million negative impact for the Group. When adjusted for these one-time items, the adjusted net profit for the Group for 2016 was EUR 31.1 million, which was the same as the prior year when excluding EUR 5 million of IPO-related costs in 2015. This translated to a 13.3% adjusted ROE and 0.99% adjusted ROA (Bank: 9.9% ROE and 0.86% ROA) for 2016. As described below, the Group saw strong core revenue generation from growths in net interest income and net commissions, and further invested in the business to support its employees, marketing and banking infrastructure.

The majority of the reported net profit was generated in the Latvian banking operations – EUR 36.3 million (2015: EUR 19.5 million). Lithuanian banking operations added EUR 2.5 million (2015: EUR 3.4 million), Asset management EUR 2.6 million (2015: EUR 1.7 million), Swiss subsidiary EUR 1.7 million (2015: EUR 0.5 million), Baltic leasing EUR 0.9 million (2015: EUR 0.1 million). Other Group entities delivered EUR 1.7 million (2015: EUR 1.6 million).

Net loan portfolio for the Group grew by 6% to EUR 1,241 million in 2016 from EUR 1,172 million in 2015, driven by increases across most of business segments, particularly in consumer and SMEs financing. Portfolio quality improved with continued reductions in the Group's NPL ratio which reached 9.9% at the end of 2016 compared to 10.8% a year ago. At the same time Group's 90 days past due ratio decreased down to 3.6% at the end of 2016 compared to 4.8% a year ago. Cost of risk increased slightly for the year due to the change in portfolio mix to Retail lending.

Net interest income increased by 9% to EUR 66.2 million (Bank: 4% to EUR 50.1 million) as a result of the growth in the size and yield of the loan portfolio. The increasing yield in the loan portfolio was mostly driven by a notable increase in the size of the high-yielding consumer loan portfolio.

Net commission income grew by 13% to EUR 40.1 million (Bank: 7% to EUR 27.1 million). The growth was mostly driven by an increasing customer and merchant base which benefited Group's payment card and merchant businesses. Additionally, revenues generated from payment transfers also increased.

Operating expense increased by EUR 3.9 million (Bank: EUR 1.2 million). This was mainly the result of increased spending for the Group's personnel base and their development, as well as expenditures for marketing and consulting. The number of active employees decreased to 1,603 at the end of 2016 (Bank: 1,110), compared to 1,625 at the end of 2015 (Bank: 1,263). The decrease in the bank employee count was due to the transfer of employees from the employment in the Bank to the employment in a separate group company "CBL Cash Logistics".

During the year customer **deposits** within the Group increased by 13% reaching EUR 2,919 million (Bank: EUR 2,149) at the end of 2016 compared to EUR 2,583 million (Bank: EUR 2,037 million) a year ago. Deposits remained the key funding source for the Group and ensured a strong liquidity position for the company. Group's loans-to-deposits ratio was 42% (Bank: 47%) at the end of 2016, compared to 45% (Bank: 48%) at the end of 2015. Group's non-resident deposits ratio as a percentage of total deposits decreased to 44% (Bank: 37%), compared to 46% (Bank: 42%) a year ago. Group's number of primary customers also grew in 2016 resulting in a yearly increase by more than 18%.

The **capital position** for the Group remained strong and continued to improve throughout the year. Common tier 1 ratio and the capital adequacy ratio reached 13.5% and 16.5% accordingly, as at 31 December 2016 (Bank: 15.4% and 19.0% accordingly). This was an increase of 1.80pp and 3.10pp (Bank: 2.30pp and 3.90pp) compared to 31 December 2015. The significant increase in capital ratios was driven by the profit from Group's operations, as well the successful issuance of EUR 40 million in subordinated bonds at the end of 2016.

Private individuals in Latvia

Latvia's private individuals' loan portfolio showed a 12% growth against the previous year, increasing the loan portfolio by EUR 33 million, with overall balance reaching EUR 315 million at the end of 2016.

To drive growth, Citadele re-designed the entire consumer loan application process and introduced a new online Credit Rating Tool in May 2016. By using this easy-to-use online tool, potential customers could gather data about their creditworthiness as well as the amount of funds and personalised interest rate that could be available for a personal loan. Citadele is able to provide this information based on the data submitted by prospective customers via the website, without the need to submit formal paper forms or registration. Due to this convenience and transparent communication, Citadele issued approx. 3.5 times more consumer loans in 2016 as compared to 2015.

Corporates and SMEs in Latvia

Citadele granted EUR 155 million in loans to corporates and SMEs in Latvia in 2016. This represented a 19% yearly increase compared to 2015. The largest amounts have been issued to companies in transport, real estate and trade segments, with the highest number of loan agreements signed with clients working in agriculture. In addition, there has been an evident increase in financing for real estate development projects, which is now recovering with the support of EU financing and new ownership. New projects for farmers have also been supported by co-financing from Latvia's Rural Support Service.

The Group's priority is the financing of small and medium enterprises, which has grown during 2016. In the first half of 2016, Citadele launched a series of "Business 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 without the requirement for collateral.

In the 3rd quarter of 2016, Citadele was the first commercial bank to conclude an agreement with Latvia's development financial institution 'ALTUM' in order to provide co-financing for housing renovation programs.

Estonian Banking

Citadele continues to increase its presence in the Estonian market with the total loan portfolio reaching EUR 97 million at the end of 2016 – a growth of 20% in comparison to 2015. Additionally, the Estonian branch was actively working on increasing its customer base. During 2016 the number of active customers increased by more than 20%. While the key area in Estonia remains growing MSME customers, 2016 marked a significant growth in the Private Banking segment as well.

Lithuanian Banking

The operating income of AB Citadele Bankas reached EUR 14.4 million, which was a EUR 2.0 million increase compared to 2015. Citadele's Lithuanian bank operations closed the year with a net profit of EUR 2.5 million. This was EUR 0.9 million less than in the prior year mostly due to more prudent loan provisioning in 2016.

The continuous development of the core business in Lithuania resulted in the loan portfolio increasing by 17%, reaching EUR 278 million at the end of 2016. During the year AB Citadele bankas managed to attract significant customer funds and increased the deposit portfolio by 24%, reaching EUR 420 million. Citadele intends to continue to expand relationships with SME and private individual customers in Lithuania.

Swiss Private Bank

AP Anlage & Privatbank AG ended the year with a profit of EUR 1.7 million, which was a significant increase of EUR 1.2 million versus the previous year. This growth was driven by higher activity in the company's core business that resulted in an operating income increase of EUR 2.1 million compared to 2015, primarily due to higher net commission income. Additionally, in 2016 AP Anlage & Privatbank AG attracted more client funds with deposits increasing by 36% and assets under management by 19% compared to 2015.

Baltic Leasing

As leasing services become more integrated within the MSME model for the Bank, this segment continued to grow at a steady pace. Baltic's leasing portfolio reached EUR 151 million at the end of 2016, representing a 14.5% increase compared to 2015. During the year, Latvia grew its leasing portfolio by 18%, reaching EUR 67 million. Meanwhile, Lithuanian leasing achieved a 32% increase in its portfolio, reaching a EUR 52 million. The Estonian leasing portfolio remained stable, ending the year with EUR 32 million.

The total profit of the leasing segment in 2016 reached EUR 0.9 million, which was a EUR 0.8 million increase compared to 2015.

Asset Management

2016 was a successful year for IPAS CBL Asset Management, with its net profit reaching EUR 2.4 million. This was a EUR 0.7 million increase compared to the prior year, mostly driven by exceptional performance in fund management. Throughout the year IPAS CBL Asset Management increased both the number of its clients and the amount of assets under management, which increased 5% during 2016 to reach EUR 668 million.

AWARDS

During 2016, the Citadele group received several recognitions that confirmed the professionalism of our employees and shareholders.

Citadele has been declared as "Central and Eastern Europe's Best Bank Transformation" by Euromoney magazine in its annual "Euromoney Awards of Excellence" survey. The following is a statement by Euromoney: "Restructured, recapitalized 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."

The international investment fund research company Lipper has again acknowledged the Citadele Group's investment fund "CBL Eastern European Bond Fund – USD", registered in Latvia, as the best fund in 2016 in terms of profitability and risks in the European developing countries bond category over a three and five year period. The fund managed by IPAS CBL Asset Management, which invests in bonds issued by Eastern European governments and companies, has reached investment returns of 5.2% and 20.4% in a three and five year period respectively.

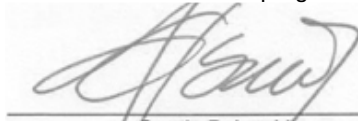
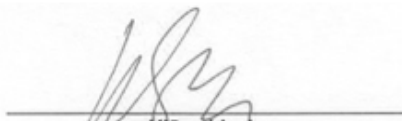
In 2016 Citadele banking entities in Lithuania and Latvia received a high rating by the client service research company "Dive" that conducts an annual study on services provided by the banks in the Baltic States. In Lithuania Citadele was recognized as the best bank in the customer service between the banks in Lithuania, while in Latvia it was recognized as having the second best level of service.

SOCIAL RESPONSIBILITY

Citadele provided the Latvian and Lithuanian Paralympic teams with financial and organisational support in order for them to prepare for the Summer Paralympic Games in Rio de Janeiro. This has been Citadele's fifth year supporting the Latvian Paralympic Committee. In 2016 Citadele also began supporting Lithuania's Paralympians with the goal to promote the integration of athletes with disabilities into society, and reduce prejudices and obstacles. With the help of active communication Citadele has been successful in fighting for equal recognition for Paralympians' achievements - since the London Paralympic games, Latvian athletes have received the same cash prizes for excellent results as the athletes in the Olympic games.

Citadele engaged in long term cooperation with Latvian basketball star Kristaps Porzingis of New York Knicks in 2016. Kristaps agreed to become Brand Ambassador and engage with Citadele to inspire Latvia and especially young generation to believe in their capabilities. By using Kristaps as role model, we have now significant presence in Riga airport, welcoming all returning Latvians and being proud of their Small Big Latvia. Together we held emotional "Meet the Star" event for school kids from all Latvia, able to play and score against Kristaps, participated in charity game in his hometown Liapaja and are also committed to build several open basketball courts for young players.

Further in a year, another Knicks star Mindaugas Kuzminskas from Lithuania became brand ambassador for Citadele in Lithuania with similar program.


Guntis Bejavskis
Chairman of the Management Board
Klāvs Vasks
Member of the Supervisory Board

Riga,
28 February 2017

CORPORATE GOVERNANCE

AS Citadele banka ("the Bank" or "Citadele bank" or "Citadele") is the parent company of Citadele Group ("the Group"). Citadele bank is a joint stock company. 75% plus one share in Citadele bank is owned by a consortium of international investors led by Ripplewood Advisors LLC. The European Bank for Reconstruction and Development (EBRD) owns 25% minus one share.

The Statement of Corporate Governance is published on the Bank's website www.cblgroup.com.

The Supervisory Board of the Bank:

| Name | Current Position | Date of first appointment |
|--------------------------|---|---------------------------|
| Timothy Clark Collins | Chairman of the Supervisory Board | 20 April 2015 |
| Elizabeth Critchley | Deputy chairperson of the Supervisory Board | 20 April 2015 |
| James Laurence Balsillie | Member of the Supervisory Board | 20 April 2015 |
| Dhananjaya Dvivedi | Member of the Supervisory Board | 20 April 2015 |
| Lawrence Neal Lavine | Member of the Supervisory Board | 20 April 2015 |
| David Shuman* | Member of the Supervisory Board | 20 April 2015 |
| Klāvs Vasks | Member of the Supervisory Board | 30 June 2010 |
| Nicholas Dominic Haag | Member of the Supervisory Board | 19 December 2016 |
| Karina Saroukhanian | Member of the Supervisory Board | 19 December 2016 |

On 19 December 2016, after Financial and Capital Market Commission's approval, Nicholas Dominic Haag and Karina Saroukhanian were appointed as Members of the Supervisory Board. Geoffrey Richard Dunn and Sylvia Yumi Gansser-Potts, the former members of the Supervisory Board, resigned as of 1 November 2016 and 23 November 2016, respectively.

*Subsequent to the period end, David Shuman resigned in February 2017.

Timothy C. Collins is the Chief Executive Officer of Ripplewood Advisors LLC, an investment firm based in the US. Over the last 20 years, Ripplewood has successfully invested in and grown companies globally, including in Europe, the Middle East and Asia. Before founding Ripplewood, Mr. Collins held executive positions with Onex Corporation, Lazard Freres & Company, Booz Allen & Hamilton and Cummins Engine Company. He currently serves on the Board of Directors of Palm Hills Developments SAE. Mr Collins holds a BA in Philosophy from DePauw University and an MBA in Public & Private Management from Yale University.

Elizabeth Critchley is a Partner of Ripplewood Advisors Limited. Prior to Ripplewood, Mrs Critchley was a Founding Partner of Resolution Operations, which raised £660 million via a listed vehicle at the end of 2008, and went on to make three acquisitions from the financial services sector. Until forming Resolution Operations, Mrs Critchley was a Managing Director at Goldman Sachs International where she ran the European FIG Financing business. She has structured, advised, or invested in transactions with more than fifty global financials and corporates. Mrs Critchley holds a First Class Honours Degree in Mathematics from University College London.

James L. Balsillie chairs the Board of Directors at the Sustainable Development Technology Canada (SDTC), an initiative that funds clean tech projects. Mr Balsillie was appointed to this role by the Canadian government in 2013. Mr Balsillie is a former Chairman and co-CEO of Research In Motion (BlackBerry) and founder of the Centre for International Governance Innovation (CIGI). He is also the founder of the Balsillie School of International Affairs (BSIA), Arctic Research Foundation, and co-founder of Communitech. Mr Balsillie was the private sector representative on the UN Secretary General's High Panel for Sustainability. His awards include: Mobile World Congress Lifetime Achievement Award, India's Priyadarshni Academy Global Award, Time Magazine World's 100 Most Influential People, and three times Barron's list of "World's Top CEOs". Mr Balsillie holds a Bachelor of Commerce from the University of Toronto, an MBA from Harvard Business School, and is a Fellow of the Institute of Chartered Accountants Ontario.

Dhananjaya Dvivedi headed the Banking Infrastructure Group and was the Corporate Executive Officer of Shinsei Bank from 2000 to 2010. Mr Dvivedi was instrumental in transforming Shinsei's IT platform as part of its strategy to improve customer service with conveniences such as online banking, 24-hr ATMs, and real-time data, while maintaining cost control. He has also served as the External Director of SIGMAXYZ Inc. from 2008 until 2011 and has since been involved in various research and advisory capacities for the development of new technologies to benefit society. Mr Dvivedi holds an engineering degree from the Madhav College of Engineering in India and an MBA from the Indian Institute of Management.

Lawrence N. Lavine is a Senior Managing Director of Ripplewood Advisors LLC following a 28-year career in investment banking. At Ripplewood, he focuses primarily on companies in the financial services and telecommunications industries. Mr Lavine was previously a Managing Director of Credit Suisse First Boston (CSFB) in its Mergers and Acquisitions Group. He joined CSFB in 2000 as part of the acquisition of Donaldson, Lufkin & Jenrette where he had been a managing director in M&A since 1987. Mr Lavine started his career on Wall Street at Kidder Peabody & Co. in 1976. He holds a BS from Northeastern University and an MBA from Harvard Business School.

Klāvs Vasks was Chairman of the Supervisory Board from the restructuring the bank in 2010 until April 2015. He has 20 years of experience in the banking sector. He was vice president of the SEB Bank Latvia as well as director of the Restructuring Department and Large Company Services Department. From 2010 to 2015, he chaired the Latvian Guarantee Agency. Mr Vasks holds a bachelor's degree from the Banking University College and an MBA degree from the Riga School of Business of the Riga Technical University.

David Shuman is a private investor focusing on media and technology companies. Mr Shuman founded Northwoods Capital Management LLC, a New York-based investment fund that invests in global equity markets, as well as select private equity and venture capital opportunities. He is a life member at the Council on Foreign Relations, where he serves on the Advisory Board of the Center for Preventative Action, and is a Trustee of the Solomon R. Guggenheim Foundation, where he serves on the Collections Council. Mr Shuman holds a BA from Williams College and an MBA from Harvard Business School. Subsequent to the period end, David Shuman resigned in February 2017.

Nicholas D. Haag is an independent non-executive director and chairman of the audit committee of TBC Bank Group PLC, the largest Georgian bank. He is an INED and chairs the audit, risk and compliance committee of Bayport Management Ltd., the holding company for a leading African and Latin American financial solutions provider. Prior to that, he was a Member of the Supervisory Board of Credit Bank of Moscow PJSC. Mr. Haag has a 30 year banking career, half at Managing Director level, with various financial institutions including Barclays, Banque Paribas, ABN AMRO and Royal Bank of Scotland, specialising in technology finance and equity capital markets. Mr. Haag holds a First Class Honours Degree from the University of Oxford.

Karina Saroukhanian is a senior banker in the Financial Institutions Team at the EBRD. She has over 15 years' industry experience, with recent focus on financial institutions sector. At the EBRD, Karina specialises in complex equity transactions, working with financial sponsors in multiple jurisdictions. Prior to joining the EBRD Karina was an Associate Director in the M&A group at Nomura International in London and a Vice President at Sindicatum, a specialist financial advisory and asset management firm. Karina holds an MSc in Economics from the London School of Economics and the New Economic School, Moscow as well as BSc in Mathematical Economics from the Moscow State University.

The Management Board of the Bank:

| Name | Current position | Responsibility |
|---------------------|---|---|
| Guntis Beļavskis | Chairman of the Management Board, per procura | Chief Executive Officer |
| Valters Ābele | Member of the Management Board, per procura | Chief Risk Officer |
| Kaspars Cikmačs | Member of the Management Board | Chief Operations Officer |
| Santa Purgaile | Member of the Management Board | Chief Business Officer |
| Vladislavs Mironovs | Member of the Management Board | Group's business strategy implementation and business development |

On 16 December 2016, after Financial and Capital Market Commission's approval, Vladislavs Mironovs was appointed as Member of the Management Board. Aldis Paegle, the former Member of the Management Board, resigned as of 23 November 2016.

Guntis Beļavskis, Chief Executive Officer (CEO) and Chairman of the Management Board

Mr Beļavskis is Member of the Management Board since 30 June 2010 and Chairman since 1 May 2012.

Mr Beļavskis has 13 years of experience in the banking sector and over 23 years of experience in business operations. In 2002, he was invited to head the sales department of Parex banka. One year later he became the head of sales and marketing, and after another year – the head of retail and SME services network. In December 2008, when the Latvian State took over Parex banka, Guntis Beļavskis was invited to work in the new Management Board of the bank, and after the successful split-up, he assumed the same post in Citadele. He acquired his bachelor degree in business management at the Riga Transport and Telecommunications Institute.

Valters Ābele, Risk Director

Mr Ābele has been a Board member since 30 June 2010.

Valters Ābele is responsible for risk analysis functions at Citadele Bank and runs the Risk and Compliance Department. Previously Mr. Ābele managed the Credit Risk Department at Parex banka. In December 2008, when the Latvian State took over Parex banka, Valters Ābele was invited to work in the new board of the bank, and after the successful split-up, he assumed the same post in the board of Citadele. Valters Ābele has acquired extensive experience in auditing and financial consulting at companies such as Ernst & Young and Arthur Andersen. He is a member of Latvian Association of Sworn Auditors and Association of Chartered Certified Accountants. Mr. Ābele acquired his master degree in business management and international economic relations at the University of Latvia.

Santa Purgaile

Ms Purgaile has been a Board member since 19 September 2012.

Santa Purgaile is responsible for the development and management of the banking group's business in Latvia and the Baltic States in relation to various aspects of client services. Santa has 18 years of experience in the banking sector,

including nine years at the management level in various areas of business. Prior to joining the Citadele board, Santa ran SEB Bank's private banking business in Latvia and the Baltic States. She has also served as director of SEB Bank's SME Business Support and before that as director of Vidzeme region. Santa holds a bachelor's degree in business administration from the Turība School of Business and a master's degree in international economics and business from the University of Latvia.

Kaspars Cikmačs

Mr Cikmačs has been a Board member since 21 September 2010.

Kaspars Cikmačs is responsible for administrative services as well as IT, record-keeping, security, encashment and bank operations at Citadele Bank. Kaspars has worked in banking since 1996. Previously, he has headed the Help Desk at Hansabanka and run Baltic IT Monitoring Department and IT maintenance processes. Later Kaspars became the Head of IT Operations Department at Swedbank Baltic Banking. He has a bachelor's degree in Computer technologies from the University of Latvia, has graduated from the Business Leadership Programme for top-performing managers at INSEAD University in France, and has an Executive MBA degree from the Stockholm School of Economics.

Vladislavs Mironovs

Mr Mironovs has been a Board member since 16 December 2016.

Vladislavs Mironovs is responsible for Group's business strategy implementation and business development. He joined AS Citadele banka in July 2015 as Head of Strategic projects. His former experience includes various positions in GE Money Bank. The last two years before joining Citadele, he worked as Strategic Initiatives Leader in GE Capital HQ in USA, leading the projects and assisting in developing global strategy around trade finance and multinational clients. Vladislavs Mironovs held a position of Business Development Manager in GE Capital, UK (2012-2013) and Sales and Marketing Director in GE Money Bank Latvia (2010-2012). Vladislavs Mironovs holds Executive MBA from Riga Business School.

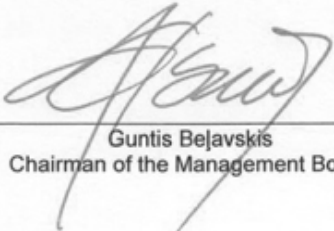
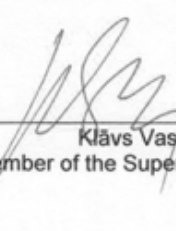
STATEMENT OF THE MANAGEMENT'S RESPONSIBILITY

The Management of AS Citadele banka (hereinafter – the Bank) are responsible for the preparation of the financial statements of the Bank as well as for the preparation of the consolidated financial statements of the Bank and its subsidiaries (hereinafter – the Group).

The financial statements set out on pages 11 to 75 are prepared in accordance with the source documents and present fairly the financial position of the Bank and the Group as at 31 December 2016 and 2015 and the results of their operations, changes in shareholders' equity and cash flows for the years then ended. The management report set out on pages 4 to 9 presents fairly the financial results of the reporting period and future prospects of the Bank and the Group.

The financial statements are prepared on a going concern basis in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board as adopted by the European Union. Appropriate accounting policies have been applied on a consistent basis. Prudent and reasonable judgments and estimates have been made by the Management in the preparation of the financial statements.

The Management of AS Citadele banka is responsible for the maintenance of proper accounting records, the safeguarding of the Group's assets and the prevention and detection of fraud and other irregularities in the Group. They are also responsible for operating the Bank in compliance with the Law on Credit Institutions, regulations of the Financial and Capital Market Commission and other legislation of the Republic of Latvia applicable for credit institutions.

| | |
|---|---|
|  |  |
| Guntis Belavskis Chairman of the Management Board | Klāvs Vasks Member of the Supervisory Board |

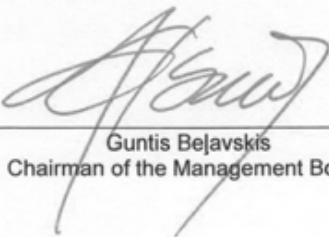

Riga,
28 February 2017

INCOME STATEMENTS

| | | EUR 000's | | | |
|--|-------|---------------|---------------|---------------|---------------|
| | Notes | 2016 Group | 2015 Group | 2016 Bank | 2015 Bank |
| Interest income | 5 | 84,737 | 79,148 | 66,113 | 63,695 |
| Interest expense | 5 | (18,542) | (18,682) | (15,966) | (15,595) |
| Net interest income | | 66,195 | 60,466 | 50,147 | 48,100 |
| Commission and fee income | 6 | 57,398 | 51,208 | 42,178 | 38,576 |
| Commission and fee expense | 6 | (17,253) | (15,671) | (15,033) | (13,313) |
| Net commission and fee income | | 40,145 | 35,537 | 27,145 | 25,263 |
| Gain on transactions with financial instruments, net | 7 | 25,324 | 13,625 | 21,840 | 11,082 |
| Other income | 19 | 2,651 | 3,048 | 8,012 | 2,081 |
| Other expense | 8 | (981) | (5,299) | (261) | (4,556) |
| Administrative expenses | 8,9 | (75,431) | (67,892) | (56,780) | (51,780) |
| Amortisation and depreciation charge | | (4,654) | (4,000) | (2,178) | (1,689) |
| Impairment charges and reversals, net | 10 | (10,121) | (6,241) | (10,163) | (6,232) |
| Profit before taxation | | 43,128 | 29,244 | 37,762 | 22,269 |
| Corporate income tax | 11 | (2,440) | (3,173) | (1,484) | (2,723) |
| Net profit for the period | | 40,688 | 26,071 | 36,278 | 19,546 |
| Basic earnings per share in EUR | | 0.26 | 0.17 | 0.23 | 0.13 |
| Weighted average number of shares outstanding during the period in thousands | 26 | 156,556 | 153,542 | 156,556 | 153,542 |

The notes on pages 16 to 75 are an integral part of these financial statements.

The financial statements on pages 11 to 75 have been approved and authorised for issue by the Management Board and Supervisory Board and signed on their behalf by:

| | |
|---|---|
|  Guntis Bejavskis Chairman of the Management Board |  Klāvs Vasks Member of the Supervisory Board |
|---|---|

STATEMENTS OF COMPREHENSIVE INCOME

| | EUR 000's | | | |
|---|----------------|---------------|----------------|---------------|
| | 2016 Group | 2015 Group | 2016 Bank | 2015 Bank |
| Net profit for the period | 40,688 | 26,071 | 36,278 | 19,546 |
| Other comprehensive income items that are or may be reclassified to profit or loss: | | | | |
| <i>Fair value revaluation reserve</i> | | | | |
| Fair value revaluation reserve charged to statement of income | (11,288) | (4,746) | (10,589) | (2,811) |
| Change in fair value and amortisation | 4,655 | 9,525 | 3,323 | 9,048 |
| Deferred income tax charged / (credited) directly to equity | 212 | 275 | (17) | 62 |
| <i>Other reserves</i> | | | | |
| Foreign exchange revaluation and other reserves | 195 | 1,935 | - | - |
| Other comprehensive income / (loss) for the period | (6,226) | 6,989 | (7,283) | 6,299 |
| Total comprehensive income for the period | 34,462 | 33,060 | 28,995 | 25,845 |



The notes on pages 16 to 75 are an integral part of these financial statements.

BALANCE SHEETS

| | | EUR 000's | | | |
|---|-------|---------------------|---------------------|--------------------|--------------------|
| | Notes | 31/12/2016 Group | 31/12/2015 Group | 31/12/2016 Bank | 31/12/2015 Bank |
| Assets | | | | | |
| Cash and balances with central banks | 12 | 799,198 | 555,078 | 647,606 | 348,960 |
| Balances due from credit institutions | 13 | 141,691 | 181,145 | 154,419 | 301,280 |
| Securities held for trading: | | | | | |
| - fixed income | 14 | 7,699 | 11,081 | - | - |
| - shares and other non-fixed income | 14 | 5,786 | 4,991 | - | - |
| Derivative financial instruments | 27 | 4,583 | 4,907 | 4,710 | 4,960 |
| Financial assets designated at fair value through profit or loss: | | | | | |
| - fixed income | 14 | 110,337 | 91,764 | - | - |
| - shares and other non-fixed income | 14 | 22,989 | 19,323 | - | - |
| Available for sale securities: | | | | | |
| - fixed income | 14 | 890,185 | 590,166 | 681,946 | 469,559 |
| - shares and other non-fixed income | 14 | 13,004 | 19,864 | 12,988 | 19,847 |
| Loans and receivables from customers | 15,16 | 1,240,516 | 1,172,345 | 1,008,506 | 983,425 |
| Held to maturity securities | 14 | - | 203,718 | - | 165,293 |
| Property and equipment | 17 | 43,947 | 43,111 | 4,968 | 4,393 |
| Intangible assets | 18 | 3,075 | 2,538 | 2,762 | 2,213 |
| Investment property | | - | 189 | - | - |
| Investments in subsidiaries | 19 | - | - | 61,884 | 61,580 |
| Current income tax assets | | 135 | 259 | - | - |
| Deferred income tax assets | 11 | 26,301 | 27,769 | 24,685 | 26,157 |
| Other assets | 20 | 40,069 | 32,215 | 25,136 | 21,333 |
| Total assets | | 3,349,515 | 2,960,463 | 2,629,610 | 2,409,000 |
| Liabilities | | | | | |
| Derivative financial instruments | 27 | 1,817 | 1,901 | 1,923 | 1,897 |
| Financial liabilities designated at fair value through profit or loss | 21 | 39,678 | 33,915 | - | - |
| Balances due to credit institutions and central banks | 22 | 13,346 | 41,635 | 129,930 | 87,778 |
| Deposits from customers | 23 | 2,918,892 | 2,583,030 | 2,149,223 | 2,037,349 |
| Current income tax liabilities | | 581 | 233 | - | - |
| Deferred income tax liabilities | 11 | 136 | - | - | - |
| Other liabilities | 24 | 26,224 | 25,263 | 15,789 | 18,119 |
| Subordinated liabilities | 25 | 94,608 | 54,715 | 94,608 | 54,715 |
| Total liabilities | | 3,095,282 | 2,740,692 | 2,391,473 | 2,199,858 |
| Equity | | | | | |
| Share capital | 26 | 156,556 | 156,556 | 156,556 | 156,556 |
| Reserves | | 1,552 | 7,565 | 1,010 | 8,293 |
| Retained earnings | | 96,125 | 55,650 | 80,571 | 44,293 |
| Total equity | | 254,233 | 219,771 | 238,137 | 209,142 |
| Total liabilities and equity | | 3,349,515 | 2,960,463 | 2,629,610 | 2,409,000 |
| Off-balance sheet items | | | | | |
| Contingent liabilities | 27 | 28,204 | 38,517 | 22,997 | 34,242 |
| Financial commitments | 27 | 216,025 | 178,121 | 243,452 | 176,181 |

The notes on pages 16 to 75 are an integral part of these financial statements.

The financial statements on pages 11 to 75 have been approved and authorised for issue by the Management Board and Supervisory Board and signed on their behalf by:

| | |
|---|---|
|  Guntis Bejavskis Chairman of the Management Board |  Klāvs Vasks Member of the Supervisory Board |
|---|---|

STATEMENTS OF CHANGES IN EQUITY

Changes in the Group's equity:

Changes in the Group's equity:

| | EUR 000's | | | | | | |
|--|--|--|--------------------------------------|-------------------------|-------------------------------|----------------------|-----------------|
| | Attributable to equity holders of the Bank | | | | | | |
| | Issued Share capital | Securities fair value revaluation reserve | Foreign currency retranslation | Other reser- -ves | Restruc- turing reserve | Retained earnings | Total equity |
| Balance as at 31/12/2014 | 146,556 | 3,062 | 1,934 | 259 | (4,710) | 29,610 | 176,711 |
| Total comprehensive income for the period | | | | | | | |
| Net profit for the period | - | - | - | - | - | 26,071 | 26,071 |
| Other comprehensive income / (loss) for the period | - | 5,054 | 1,895 | - | - | 40 | 6,989 |
| Transactions with shareholders | | | | | | | |
| Transfer to reserves (Note 19) | - | - | - | 12 | 59 | (71) | - |
| Shares issued (see Note 26) | 10,000 | - | - | - | - | - | 10,000 |
| Balance as at 31/12/2015 | 156,556 | 8,116 | 3,829 | 271 | (4,651) | 55,650 | 219,771 |
| Total comprehensive income for the period | | | | | | | |
| Net profit for the period | - | - | - | - | - | 40,688 | 40,688 |
| Other comprehensive income / (loss) for the period | - | (6,421) | 195 | - | - | - | (6,226) |
| Transactions with shareholders | | | | | | | |
| Transfer to reserves (Note 19) | - | - | - | 244 | (31) | (213) | - |
| Balance as at 31/12/2016 | 156,556 | 1,695 | 4,024 | 515 | (4,682) | 96,125 | 254,233 |

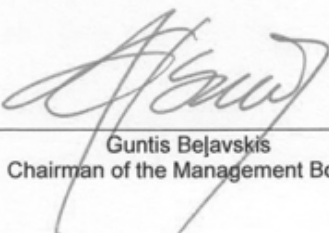
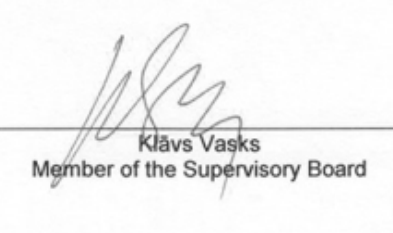
Changes in the Bank's equity:

change in the Bank's equity.

| | EUR 000's | | | |
|--|--|--|----------------------|-----------------|
| | Attributable to equity holders of the Bank | | | |
| | Issued share capital | Securities fair value revaluation reserve | Retained earnings | Total equity |
| Balance as at 31/12/2014 | 146,556 | 1,994 | 24,747 | 173,297 |
| Total comprehensive income for the period | | | | |
| Net profit for the period | - | - | 19,546 | 19,546 |
| Other comprehensive income / (loss) for the period | - | 6,299 | - | 6,299 |
| Transactions with shareholders | | | | |
| Shares issued (see Note 26) | 10,000 | - | - | 10,000 |
| Balance as at 31/12/2015 | 156,556 | 8,293 | 44,293 | 209,142 |
| Total comprehensive income for the period | | | | |
| Net profit for the period | - | - | 36,278 | 36,278 |
| Other comprehensive income / (loss) for the period | - | (7,283) | - | (7,283) |
| Balance as at 31/12/2016 | 156,556 | 1,010 | 80,571 | 238,137 |

The notes on pages 16 to 75 are an integral part of these financial statements.

The financial statements on pages 11 to 75 have been approved and authorised for issue by the Management Board and Supervisory Board and signed on their behalf by:

| | |
|---|--|
|  Guntis Belavskis Chairman of the Management Board |  Klāvs Vasks Member of the Supervisory Board |
|---|--|

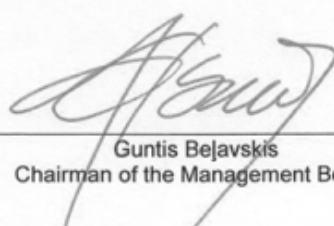
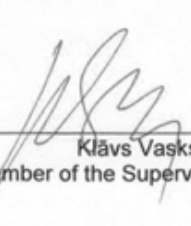
STATEMENTS OF CASH FLOWS

| | | EUR 000's | | | |
|--|-------|-----------------|-----------------|-----------------|-----------------|
| | Notes | 2016 Group | 2015 Group | 2016 Bank | 2015 Bank |
| Cash flows from operating activities | | | | | |
| Profit before tax | | 43,128 | 29,244 | 37,762 | 22,269 |
| Dividends income | | - | - | (5,127) | (238) |
| Amortisation of intangible assets, depreciation of property, equipment and investment property | | 4,654 | 4,000 | 2,178 | 1,689 |
| Change in impairment allowances and other provisions | 10 | 10,121 | 6,241 | 10,163 | 6,232 |
| Interest income | 5 | (84,737) | (79,148) | (66,113) | (63,695) |
| Interest expense | 5 | 18,542 | 18,682 | 15,966 | 15,595 |
| Other non-cash items* | | (12,560) | (31,903) | (15,064) | (21,066) |
| Cash flows before changes in assets and liabilities | | (20,852) | (52,884) | (20,235) | (39,214) |
| Change in derivative financial instruments | | 240 | 1,276 | 276 | (667) |
| (Increase) / decrease in other assets | | (8,704) | 21,840 | (4,354) | 22,131 |
| Increase / (decrease) in other liabilities | | 961 | 2,957 | (2,330) | 3,666 |
| (Increase) / decrease in trading investments and items designated at fair value through profit or loss | | (13,889) | 3,561 | - | - |
| (Increase) / decrease in balances due from credit institutions | | 9,814 | 338,148 | 7,755 | 108,730 |
| (Increase) / decrease in loans and receivables from customers | | (82,015) | (104,988) | (37,240) | (48,761) |
| Increase / (decrease) in balances due to credit institutions and central banks | | (16,952) | 17,670 | 49,361 | 16,814 |
| Increase / (decrease) in deposits from customers | | 335,048 | 51,702 | 111,500 | 87,694 |
| Cash generated from operating activities before corporate income tax | | 203,651 | 279,282 | 104,733 | 150,393 |
| Interest received during the period | | 86,275 | 79,380 | 67,734 | 63,988 |
| Interest paid during the period | | (17,581) | (18,378) | (15,329) | (15,196) |
| Corporate income tax paid during the period | | (444) | (336) | (29) | - |
| Net cash flows from operating activities | | 271,901 | 339,948 | 157,109 | 199,185 |
| Cash flows from investing activities | | | | | |
| Purchase of property, equipment and intangible assets | | (4,953) | (3,944) | (3,454) | (3,265) |
| Proceeds from disposal of property and equipment | | 97 | 153 | 321 | 33 |
| Purchase of held to maturity securities | | (205,886) | (81,528) | (203,975) | (80,173) |
| Proceeds from held to maturity securities | | 236,848 | 109,268 | 227,436 | 106,789 |
| Purchase of available for sale securities | | (626,540) | (351,556) | (455,481) | (261,907) |
| Cash inflows from available for sale securities | | 514,606 | 336,689 | 400,496 | 245,592 |
| Dividends received | | - | - | 5,127 | 238 |
| Investments in subsidiaries | | - | - | (435) | (1) |
| Net cash flows from investing activities | | (85,828) | 9,082 | (29,965) | 7,306 |
| Cash flows from financing activities | | | | | |
| Issued share capital | | - | 10,000 | - | 10,000 |
| Issued / (repaid) of subordinated liabilities | | 39,720 | (18,400) | 39,720 | (18,400) |
| Net cash flows from financing activities | | 39,720 | (8,400) | 39,720 | (8,400) |
| Net cash flows for the period | | 225,793 | 340,630 | 166,864 | 198,091 |
| Cash and cash equivalents at the beginning of the period | | 709,641 | 369,011 | 617,316 | 419,225 |
| Cash and cash equivalents at the end of the period | 30 | 935,434 | 709,641 | 784,180 | 617,316 |

* Other non-cash items from operating activities in the year ended 31 December 2015 mostly relate to foreign exchange revaluation of securities.

The notes on pages 16 to 75 are an integral part of these financial statements.

The financial statements on pages 11 to 75 on have been approved and authorised for issue by the Management Board and Supervisory Board and signed on their behalf by:

| | |
|--|--|
|  Guntis Beļavskis Chairman of the Management Board |  Klāvs Vasks Member of the Supervisory Board |
|--|--|

NOTES TO THE FINANCIAL STATEMENTS

If not mentioned otherwise, referral to Group's policies and procedures should be also considered as referral to the respective Bank's policies and procedures. Figures in parenthesis represent amounts as at 31 December 2015 or for the year ended 31 December 2015, unless stated otherwise.

NOTE 1. AUTHORISATION OF THE FINANCIAL STATEMENTS

These financial statements have been authorised for issuance by the Management Board on 9 February 2017 and the Supervisory Board on 28 February 2017 and comprise the financial information of AS Citadele banka (hereinafter – the Bank) and its subsidiaries (together – the Group). In accordance with the Commercial Law of the Republic of Latvia, the shareholders' meeting has the right to make the decision on the approval of these financial statements.

NOTE 2. GENERAL INFORMATION

The Bank was registered as a joint stock company on 30 June 2010. The Bank commenced its operations on 1 August 2010.

The Bank's head office is located in Riga, Latvia. The legal address of the Bank is Republikas laukums 2a, Riga, LV-1010. As at 31 December 2016, the Bank was operating a total of 33 (2015: 35) branches and client service centres in Riga and throughout Latvia. The Bank has 1 (2015: 2) foreign branch in Tallinn (Estonia). The Bank owns directly and indirectly 24 (2015: 25) subsidiaries, which operate in various financial markets sectors. The Bank is the parent company of the Group.

The Group's main areas of operation include accepting deposits from customers, granting short-term and long-term loans to a wide range of customers, servicing cards, providing finance leases, and foreign exchange transactions. The Group also offers its clients trust management and private banking services, local and international payments, as well as a wide range of other financial services.

As at 31 December 2016, the Group had 1,603 (2015: 1,625) and the Bank had 1,110 (2015: 1,263) full time equivalent active employees.

NOTE 3. RESTRUCTURING

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

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

NOTE 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Certain new IFRSs became effective for the Group from 1 January 2016. Listed below are those new or amended standards or interpretations which the Group has adopted in preparation of these financial statements.

The following guidance with effective date of 1 January 2016 did not have any material impact on these consolidated financial statements:

- IFRS 11 – Accounting for Acquisitions of Interests in Joint Operations
- IAS 1 – Presentation of Financial Statements
- IAS 16 – Property, Plant and Equipment and IAS 38 – Intangible Assets
- IAS 19 – Defined Benefit Plans: Employee Contributions
- IAS 27 – Separate Financial Statements
- Annual Improvements to IFRSs.

Certain new standards, amendments to standards and interpretations have been published that become endorsed for the annual accounting periods beginning after 1 January 2017 or are not yet effective in the EU and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early.

- IFRS 9 – Financial Instruments (replaces IAS 39). Effective for annual periods beginning on or after 1 January 2018; to be applied retrospectively with some exemptions. The restatement of prior periods is not required, and is permitted only if information is available without the use of hindsight. Early application is

permitted. As of issuance of these financial statements, the Group is in the process of developing the necessary processes, systems, models and capabilities for the implementation of IFRS 9. These are expected to be evolving until the initial application of IFRS 9. The Group has started an internal implementation project. The team is dealing with direct accounting and presentation aspects of the new standard as well as related aspects like IT requirements, necessary procedures and instructions as well as development of relevant expected credit loss models. The project is Group wide. External competence is attracted where and when deemed necessary. The Group is in the final stage of the IFRS 9 implementation impact assessment. Certain system and process gaps have been identified; though, the work is still ongoing. The next state is expected to centre on initial model development and IT system requirement establishment, system and process update, followed by final documentation, instructions, employee training and subsequently testing and validation of the systems, processes and models. The Group intends to leverage on existing definitions, processes, systems, models and data used for regulatory and risk management purposes in order to implement IFRS 9 impairment requirements, although in many areas new models and revisions to the existing models will be necessary. The Group has identified that collection of sufficient historic data to support forward looking impairment models will take substantial resources.

The Group has assessed assets and liabilities which currently are accounted at amortised cost and which relate to the major products for solely payment of principal and interest (SPPI) principle for amortised cost classification under the new standard. Based on SPPI assessment and preliminary re-assessment of business models, the impact of the change in classification and measurement requirements would not affect the Group's loans significantly if the new standard was early implemented as at the period end. For security exposures, implementation of the new standard would permit amortised cost classification for certain security classes which currently are classified as available for sale. Part of financial assets designated at fair value through profit or loss would need to be reclassified to fair value through other comprehensive income category. This would impact the carrying value of certain assets and the way revaluation gains are recognised in comprehensive income.

For measurement of expected credit losses the Group intends to use EAD x PD x LGD approach. To estimate probability weighted cash flows the group plans to use single scenario expected cash flow method with overlays for alternative scenarios. A new impairment assessment models will be developed for both lifetime expected credit loss calculation and also for 12-months expected credit loss calculations. Model validation is planned to include reviews of input data, underlying assumptions used for Expected Credit Loss estimation, and review of model outputs by comparing them to back-testing results. Back-testing is planned to be performed by comparing the actual historical performance of portfolio to the Expected Credit Loss estimation results as per developed models. It is expected that 30 days past due will be one of the main quantitative indicators intended to be used to assess the "significant increase in credit risk" (proxy for transferring from stage 1 to stage 2) augmented by other additional risk factors (e.g. payment discipline, internal credit rating grade, watch-list, restructuring, industry or market conditions, collateral). Significant increase in credit risk in comparison to the initial credit risk is expected to be the criteria for transfer between impairment stages. The 'default' is expected to be defined in line with the prudential definition of the default: exposure delayed 90 and more days, insolvency or bankruptcy or similar legal proceedings started and other unlikelihood to pay indicators. The precise impact on impairment allowances due to introductions of the expected credit loss concept is still under assessment.

- *IFRS 16 – Leases (replaces IAS 17, IFRIC 4, SIC-15, SIC-27).* Effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted if the entity also applies IFRS 15. The new standard establishes principles for the recognition, measurement, presentation and disclosure of leases in a way that is different to the currently applied accounting treatment. For qualifying lease assets, upon lease commencement, a lessee has to recognise a right-of-use asset and a lease liability. The right-of-use asset is initially measured at the amount of the lease liability plus any initial direct costs. Subsequently the right-of-use asset is measured using a cost model, unless specific other conditions persists. A right-of-use asset is measured at cost less any accumulated depreciation and impairment. The lease liability is initially measured as a discounted value of payments agreed over the lease term. A discount rate which discounts future payments to estimated present value is applied. For lessors classification of lease as an operating lease or a finance lease remains; therefore, the Group as a lessor estimates no significant direct effect from the new standard if it was early implemented as at the period end. For the Group as a lessee the major class of current operating lease contracts which would likely qualify for right-of-use asset are rent agreements for branch network and certain other premises used for operating needs. The estimated right-of-use asset and corresponding lease liability which would be recognised if the new standard was early adopted as at the period end would be c.a. EUR 4.8 million for the Bank and EUR 0.4 million for the Group. Most of the contracts may be early terminated, but this is not considered in the estimate as currently there is no such intention.
- *IFRS 15 – Revenue from contracts with customers.* Effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted. The new Standard provides a framework that replaces existing revenue recognition guidance in IFRS. Entities will adopt a five-step model to determine when to recognise revenue, and at what amount. The new model specifies that revenue should be recognised when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised 1) over time, in a manner that depicts the entity's performance; or 2) at a point in time, when control of the goods or services is transferred to the customer. IFRS 15 also establishes the principles that an entity shall apply to provide qualitative and quantitative disclosures which provide useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a

customer. Although it has not yet fully completed its initial assessment of the potential impact of IFRS 15 on the Entity's financial statements, management does not expect that the new Standard, when initially applied, will have material impact on the Entity's financial statements. The timing and measurement of the Entity's revenues are not expected to change under IFRS 15 because of the nature of the Entity's operations and the types of revenues it earns.

- *Amendments to IFRS 2 - Classification and Measurement of Share-based Payment Transactions.* Effective for annual periods beginning on or after 1 January 2018; to be applied prospectively. Early application is permitted. The amendments clarify share-based payment accounting on the following areas 1) the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; 2) share-based payment transactions with a net settlement feature for withholding tax obligations; and 3) a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity settled.
- *Amendments to IFRS 4 – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts.* Effective for annual periods beginning on or after 1 January 2021; to be applied prospectively. The amendments address concerns arising from implementing IFRS 9 before implementing the replacement standard that the IASB is developing for IFRS 4. The amendments introduce two optional solutions. One solution is a temporary exemption from IFRS 9, effectively deferring its application for some insurers. The other is an overlay approach to presentation to alleviate the volatility that may arise when applying IFRS 9 before the forthcoming insurance contracts standard.
- *Amendments to IFRS 10 and IAS 28 - Sale or contribution of assets between an investor and its associate or joint venture.* The effective date has not yet been determined by the IASB, however earlier adoption is permitted. The Amendments clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business, such that a full gain or loss is recognised when a transaction between an investor and its associate or joint venture involves the transfer of an asset or assets which constitute a business (whether it is housed in a subsidiary or not), while a partial gain or loss is recognised when a transaction between an investor and its associate or joint venture involves assets that do not constitute a business, even if these assets are housed in a subsidiary.
- *Amendments to IAS 7.* Effective for annual periods beginning on or after 1 January 2017, to be applied prospectively. Early application is permitted. The amendments require new disclosures that help users to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes (such as the effect of foreign exchange gains or losses, changes arising for obtaining or losing control of subsidiaries, changes in fair value).
- *Amendments to IAS 12 - Recognition of Deferred Tax Assets for Unrealised Losses.* Effective for annual periods beginning on or after 1 January 2018; to be applied prospectively. The amendments clarify how and when to account for deferred tax assets in certain situations and clarifies how future taxable income should be determined for the purposes of assessing the recognition of deferred tax assets.
- *Amendments to IAS 40 – Transfers of Investment Property.* The amendments reinforce the principle for transfers into, or out of, investment property in IAS 40 *Investment Property* to specify that such a transfer should only be made when there has been a change in use of the property. Based on the amendments a transfer is made when and only when there is an actual change in use – i.e. an asset meets or ceases to meet the definition of investment property and there is evidence of the change in use. A change in management intention alone does not support a transfer.
- *IFRIC 22 – Foreign Currency Transactions and Advance Consideration.* Effective for annual periods beginning on or after 1 January 2018. The Interpretation clarifies how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. In such circumstances, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.
- *Annual Improvements to IFRSs.* Annual improvements to IFRSs 2014-2016 cycle were issued on 8 December 2016 and introduce two amendments to two standards and consequential amendments to other standards and interpretations that result in accounting changes for presentation, recognition or measurement purposes. The amendments on *IFRS 12 Disclosure of Interest in Other Entities* are effective for annual periods beginning on or after 1 January 2017 and amendments on *IAS 28 Investments in Associates and Joint Ventures* are effective for annual periods beginning on or after 1 January 2018; to be applied retrospectively. Earlier application is permitted.

The Group is in the process of evaluating the potential effect if any of other changes from these new standards and interpretations.

a) *Basis of preparation*

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union on a going concern basis. The financial statements are prepared under the historical cost convention, except for available for sale financial assets, financial assets and financial liabilities designated at fair value through profit or loss, trading securities and all derivative contracts, which have been measured at fair value.

Having reassessed the main risks, the Management considers it appropriate to adopt going concern basis of

accounting in preparing these financial statements; there are no material uncertainties with regard to applying going concern basis of accounting. The Group's financial and capital position, business activities, its risk management objectives and policies as well as the major risks to which the Group is exposed to are disclosed in the Risk Management section of these financial statements. Liquidity risk management is particularly important in respect to the going concern convention, as a failure to have a sufficient funding to meet payment obligations due may result in an extraordinary borrowing at excessive cost, regulatory requirement breach, delays in day-to-day settlements activities or cause the Group to no longer be a going concern; for more details refer to *Liquidity risk management* section. Regulatory compliance, especially capital adequacy requirements, is also significant to the going concern of the Group. The Group conducts and plans the scale of its business in accordance with available capital and in line with other regulatory requirements. For capital adequacy calculation as at period end, more information on the current and known forthcoming capital adequacy requirements refer to *Capital management* section. The Group has implemented a comprehensive liquidity risk management and capital planning framework besides policies and procedures for other risk.

The preparation of financial statements in conformity with IFRS as adopted by the EU requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on the Management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

Previously, group reported certain special purpose financing received from government related agencies as other financial liabilities at amortised cost. In order to simplify balance sheet and as these balances qualify for deposit presentation, since 2016 interim financial statements these liabilities are presented within deposits form state and municipality owned enterprises. Comparatives as at 31 December 2015 have been adjusted accordingly.

b) Functional and presentation currency

The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The functional currency of the Bank, its Latvian subsidiaries, and the Group's presentation currency, is the official currency of the Republic of Latvia, Euro ("EUR"). The functional currency of many of the Group's foreign subsidiaries is also Euro. The accompanying financial statements are presented in thousands of Euros (EUR 000's).

c) Accounting for restructuring / transfer of undertaking

When determining the assets and liabilities that were eligible for the transfer of undertaking that took place at the beginning of 1 August 2010, the composition of assets and the liabilities were determined on the parent bank, i.e. AS Parex Banka stand-alone accounts basis. Any differences in the carrying value of investments in subsidiaries that were transferred to AS Citadele banka and their net equity as at the date of transfer are treated as restructuring reserve in the consolidated financial statements of AS Citadele banka. Group's financial statements incorporate the transferred subsidiaries' results only from the date on which the restructuring between entities under common control occurred, i.e. 1 August 2010.

The transfer transaction was accounted using predecessor accounting i.e. the transferred assets and liabilities were initially recognised at their carrying amount as in the predecessor bank and assessed for impairment as at transfer date.

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

d) Basis of consolidation

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. The investments in the subsidiaries are presented in the Bank's financial statements at acquisition cost. More detailed information on the Group's subsidiaries is presented in Note 19.

The financial statements of AS Citadele banka and its subsidiaries are consolidated in the Group's financial statements on a line by line basis by adding together like items of assets and liabilities as well as income and expenses. For the purposes of consolidation, intra-group balances and intra-group transactions, including interest income and expense as well as unrealised profits and loss resulting from intra-group transactions, are eliminated in the Group's financial statements. However, intra-group losses may indicate an impairment that requires recognition in the Group's financial statements.

e) Income and expense recognition

Interest income and expense items are recognised on an accrual basis using the effective interest rate.

Commissions in respect of the acquisition of financial assets or the issue of financial liabilities that are not at fair value through profit or loss are deferred and recognised as an adjustment to the effective yield on the respective asset or

liability. Other commissions and fees are credited and/ or charged to the statement of income as services are provided or on the execution of a significant act, as applicable, under the line "commission and fee income" or "commission and fee expense", as appropriate.

Penalty income is recognised on cash-received basis.

f) Foreign currency translation

Transactions denominated in foreign currencies are recorded in Euros at actual rates of exchange effective at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency, such as investments in equity instruments, are translated using the exchange rates at the date, when the fair value was determined and the impact from changes in foreign exchange rates are treated as foreign exchange gain/loss in the statement of income, with exception of available for sale non-monetary financial assets for which any foreign exchange gain or loss is recognised in other comprehensive income. Monetary assets and liabilities denominated in foreign currencies are translated into Euros at the official rate of exchange prevailing at the end of the year. Any gain or loss resulting from a change in rates of exchange subsequent to the date of the transaction is included in the statement of income as profit or loss from revaluation of foreign currency positions.

The results and financial position of all the Group's entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each statement of income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
- all resulting exchange differences are recognised as other comprehensive income.

g) Taxation

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current corporate income tax assets and liabilities are measured at the amount expected to be obtained from or paid to tax authorities. Several Group companies pay income tax on profit distribution (e.g. dividends). Correspondingly, with regards to Group companies registered in these jurisdictions, income tax on profit distribution is recognised as expense at the moment dividends are declared.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill which is not deductible for tax purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group and only if certain criteria are met. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

The carrying amount of deferred corporate income tax asset, if any, is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. The future taxable profits and the amount of tax benefits that are probable in the future are based on a medium term financial forecast prepared by management and extrapolated results thereafter. The financial forecast is based on management expectations that are believed to be reasonable under the circumstances.

h) Financial instruments

The Group recognises financial asset on its balance sheet when, and only when, the Group becomes a party to the contractual provisions of the instrument.

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, or available for sale financial assets, as appropriate. At initial recognition, the financial assets are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable incremental transaction costs. The classification of investments between the categories is determined at acquisition based on the guidelines established by the Management. For financial asset classification in particular category, the Group at inception has to determine that the asset meets the relevant description and criteria. All "regular way" purchases and sales of investments are recognised using settlement date accounting. The settlement date is the date when an asset is delivered to or by the Group. Settlement date accounting refers to the recognition of an asset on the day it is transferred to the Group and to the derecognition of an asset, on the day that it is transferred by the Group.

Financial assets and liabilities held for trading

Financial assets and liabilities classified as held for trading are included in the category "financial assets/ liabilities at fair value through profit or loss". Financial assets and/ or liabilities are classified as held for trading if they are either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are included in a portfolio in which a pattern of short-term profit taking exists. Held for trading financial assets and liabilities are subsequently re-measured at fair value based on available market prices or quotes of brokers. The result of re-measuring trading financial assets and liabilities at fair value is charged directly to the statement of income.

Financial assets/ liabilities designated at fair value through profit or loss

Included in this category are (a) unit-linked investment contract liabilities and respective investments and (b) certain assets and liabilities, which are managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy. According to unit-linked investment contract term, the credit risk associated with the investments made by the insurance underwriter is fully attributable to the counterparty entering the insurance agreement and not the underwriter. As such, by designating both assets acquired and liabilities undertaken at fair value through profit or loss, potential accounting mismatch is avoided.

Excluding interest on interest rate swaps, interest on financial assets at fair value through profit or loss held on own account is included in net interest income. Revaluation and trading gains and losses arising from changes in fair value of the respective assets, as well as interest on interest rate swaps are included directly in the statement of income's line "Gain on transactions with financial instruments, net".

Held to maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity if the Group has both the positive intent and ability to hold these investments to maturity. Held to maturity financial assets are carried at amortised cost using the effective interest rate method, less any allowance for impairment.

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. The amount of the impairment loss for assets carried at amortised cost is calculated as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial instrument's original effective interest rate.

When available for sale assets are reclassified to held to maturity category, the fair value of the reclassified available for sale asset as at the date of reclassification further becomes the amortised cost. The fair value as of the date of reclassification is the deemed cost of the reclassified assets. The fair value revaluation reserve attributable to reclassified assets are amortised until the asset's maturity using effective interest rate method. If there is objective evidence that the value of reclassified assets has been impaired, the unamortised negative fair value revaluation reserve that has been recognised directly in equity is charged to the statement of income.

No financial assets are classified as held to maturity if, during the current financial year or during the two preceding financial years, more than an insignificant amount of held to maturity investments has been sold or reclassified before maturity. In such case, any remaining investments previously classified as held to maturity are reclassified as available for sale. The difference between their carrying amount and their fair value is recognised in other comprehensive income until the financial asset is derecognised.

Available for sale financial assets

Available for sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified in any of the three preceding categories or as loans and receivables. The Group's available for sale financial assets are intended to be held for an undefined period of time and may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Available for sale financial assets are subsequently re-measured at fair value based on available market prices or quotes of brokers. The result of fair value revaluation of available for sale securities is recognised in statement of other comprehensive income. For debt securities the difference between the initial carrying amount and amortised cost determined by the effective interest rate method is treated as interest income. Dividends on available for sale equity instruments are recognised in the statement of income. When the securities are disposed of, the related accumulated fair value revaluation is included in the statement of income as profit/ (loss) from sale of securities available for sale.

If an available for sale financial asset is determined to be impaired, the cumulative gain or loss previously recognised in the statement of comprehensive income is recognised in the statement of income. However, interest is calculated using the effective interest method, and foreign currency gains and losses on monetary assets classified as available for sale are recognised in the consolidated statement of income.

In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in the recognition of an impairment loss. If any such evidence exists for available for sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised

in profit or loss – is removed from equity and recognised in the statement of income. Impairment losses recognised in the statement of income on equity instruments are not reversed through the statement of income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the statement of income.

Derivative Financial Instruments

In the ordinary course of business, the Group engages as a party to contracts for forward foreign exchange rate, currency and interest rate swap instruments and other derivative financial instruments. All derivatives are classified as held for trading.

Subsequent to initial recognition, outstanding forward foreign exchange rate contracts, currency swaps and other derivative financial instruments are carried in the balance sheet at their fair value. The fair value of these instruments is recognised on the balance sheet under designated assets and liabilities caption "Derivative financial instruments".

Embedded derivatives are separated from the host contract and accounted for separately if certain criteria are met.

Gains or losses from changes in the fair value of outstanding forward foreign exchange rate contracts, currency and interest rate swaps and other derivative financial instruments are recognised in the statement of income as they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in statement of income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Loans and receivables are recognised on drawdown. From the date of signing a contractual agreement till drawdown they are accounted for as loan commitments off balance sheet.

When the loans or receivables cannot be recovered, they are written-off and charged against impairment for credit losses. The management of the Group makes the decision on writing-off loans. Recoveries of loans previously written-off are credited to the statement of income.

Included in the category of "loans and receivables" are such financial instruments: a) cash and deposits with central banks, b) balances due from credit institutions and c) loans and receivables from customers.

i) Sale and repurchase agreements

These agreements are accounted for as financing transactions. Under sale and repurchase agreements, where the Group is the transferor, assets transferred remain on the Group's balance sheet and are subject to the Group's usual accounting policies, with the purchase price received included as a liability owed to the transferee. Assets in the balance sheet are shown separately from other assets when the transferee has the right by contract or custom to sell or repledge the collateral.

Where the Group is the transferee, the assets are not included in the Group's balance sheet, but the purchase price paid by it to the transferor is included as an asset. Interest income or expense arising from outstanding sale and repurchase agreements is recognised in the statement of income over the term of the agreement.

j) Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- the Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Collateral (shares and bonds) furnished by the Group under standard repurchase agreements and securities lending and borrowing transactions is not derecognised because the Group retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Issued debt, subordinated liabilities and other borrowed funds

The Group recognises financial liabilities on its balance on drawdown.

After initial measurement, being fair value minus directly attributable transaction costs, debt issued, subordinated liabilities and borrowings are measured at amortised cost and any difference between net proceeds and value at redemption is recognised in the statement of income over the period of borrowings using the effective interest rate.

k) Leases

Finance leases – Group as lessor

Finance leases, which transfer substantially all the risks and rewards incidental to ownership of the assets, are recognised as assets at amounts equal at the inception of the lease to the net investment in the lease. The finance income is allocated to periods during the lease term to produce a constant periodic return on the net investments outstanding in respect of the finance leases.

For the purposes of these financial statements, finance lease receivables are included in loans and receivables from customers.

Operating leases – Group as lessor

The Group presents assets subject to operating leases in the balance sheets according to the nature of the asset. Lease income from operating leases is recognised in statement of income on a straight-line basis over the lease term as other income. The aggregate cost of incentives provided to lessees is recognised as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

The depreciation policy for depreciable leased assets is consistent with the lessor's normal depreciation policy for similar assets, and depreciation is calculated in accordance with accounting policies, used for the Group's property, plant and equipment.

Operating leases – Group as lessee

Leases of assets under which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as expenses on a straight-line basis over the lease term and included into administrative expenses.

l) Renegotiated loans and debt forbearances

For economic or legal reasons the Group might enter into a forbearance agreement with borrowers in financial difficulties in order to ease the contractual obligation for a limited period of time. By taking into account exposure specifics, a case by case approach is practised. Generally debt forbearance will take a form of payment deferral to a later time with the amount payable and interest due re-compensated at a later date. Renegotiated loans are considered non-overdue as long as contractual payments are made on contractually due dates. Impairment assessment for renegotiated and forborne exposures also applies and such exposures are impaired depending on their recoverability assessment.

m) Impairment of loans and receivables from customers

The Group issues commercial and consumer loans to customers. The economic conditions of the markets the Group operates in may have an impact on the borrowers' ability to repay their debts. The Management of the Group have considered both specific and portfolio-level risks in determining the balance of impairment allowance for incurred credit losses.

The Management of the Group assess at each balance sheet date whether there is objective evidence that a loan or portfolio of loans and receivables from customers is impaired. A loan or portfolio of loans and receivables from customers is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the loan and that loss event (or events) has had an impact such that the estimated present value of future cash flows is less than the current carrying value of the loan or portfolio of loans and receivables from customers, and can be reliably estimated.

Objective evidence that a loan or portfolio of loans and receivables from customers is potentially impaired includes the following observable data that comes to the attention of the Group:

- significant financial difficulty of the borrower;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the granting to the borrower of a concession, for economic or legal reasons relating to the borrower's financial difficulty, that the Group would not otherwise consider;
- it becoming probable that the insolvency process may be initiated against the borrower, or the borrower will enter other financial reorganisation;

- the worsening of economic conditions in the market segment, where the borrower operates; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans and receivables from customers since the initial recognition of those loans and receivables, although the decrease cannot yet be identified with the individual loans in the portfolio, including:
 - adverse changes in the payment status of borrowers in the portfolio; or
 - national or local economic conditions that correlate with defaults on the loans and receivables in the portfolio.

The Group first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed loan, whether significant or not, it includes that loan in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Collectively assessed impairment losses represent an interim step pending the identification of impairment losses on individual loans in a group of loans and receivables. As soon as information is available that specifically identifies losses on individually impaired loans in a group, those loans are removed from the group. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

For loans and receivables, the amount of impairment loss is measured as the difference between the loan's carrying amount and the present value of estimated future cash flows discounted at the loan's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The calculation of the present value of the estimated future cash flows of a collateralised loan reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. The amount of the loss is recognised in the statement of income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was initially recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of the impairment loss is recognised in the statement of income, to the extent that the carrying value of the loan does not exceed what its amortised cost would have been absent the impairment at the reversal date.

When a borrower fails to make a contractually due payment of interest or principal, but the Group believes that impairment is not appropriate on the basis of the level of security/ collateral available and/ or the stage of collections of amounts owed to the Group, the carrying amount of the loan is classified as past due but not impaired.

Fully impaired loans and receivables, recovery of which may become economically unviable, may be written-off and charged against impairment allowance. They are not written-off until the necessary legal procedures have been completed and the amount of the loss is finally determined. When a loan or receivable is written-off, the claim against the borrower normally is not forgiven. Subsequent recoveries of amounts previously written-off are reported in the statement of income as other operating income.

In addition, the Group estimates collective impairment losses to cover losses inherent in the loan portfolio where there is objective evidence to suggest that it contains impaired loans, although the individual impaired loans cannot yet be identified. The collective impairment losses take account of observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans and receivables with similar credit risk characteristics, although the decrease cannot yet be identified within individual loans in the portfolio.

Future cash flows in a portfolio of loans and receivables that are collectively evaluated for impairment are estimated on the basis of historical loss experience for loans and receivables with credit risk characteristics similar to those in the portfolio. Historical loss experience is adjusted for current observable market data using the Group's experienced judgement to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

n) Impairment of available for sale and held to maturity securities

Evidence of impairment is assessed by reference to the most up to date market valuations, market depth of the respective security, past trading performance and all other available information. The determination of whether or not objective evidence of impairment is present requires the exercise of management judgement. If the Group does not have market valuations, the evidence of impairment is assessed based on credit risk triggers (event of insolvency, any delay of payments, restructuring of debt) and individual credit risk analysis of the issuer.

o) Intangible assets

Intangible assets comprise software, both purchased and internally generated. Separately acquired intangible assets are measured at cost. The cost of separately acquired intangible assets also comprises directly attributable costs of preparing the asset for its intended use. These include payroll and professional fees arising directly from bringing the asset to its working condition and costs of testing whether the asset is functioning properly.

The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition.

Subsequent to the initial recognition, intangible assets are carried at cost less accumulated amortisation and any

accumulated impairment loss. Leasehold rights are amortised over the remaining lease contract on a straight-line basis. Annual amortisation rates applied on a straight-line basis to software and other intangible assets range from 10% to 33%. All intangible assets, except for goodwill, are with definite lives.

p) Property and equipment

Property and equipment is recorded at historical cost less accumulated depreciation less any impairment losses. Property and equipment is periodically reviewed for impairment as discussed in the note on Impairment of non-financial assets. If the recoverable value of an asset is lower than its carrying amount, the respective asset is written down to its recoverable amount.

Depreciation is calculated using straight-line method based on the estimated useful life of the asset. The following depreciation rates have been applied:

| Category | Annual depreciation rate |
|--------------------|--------------------------|
| Buildings | 1% - 10% |
| Transport vehicles | 14% - 20% |
| Other | 14% - 33% |

Leasehold improvements are capitalised and depreciated over the remaining lease contract period on a straight-line basis. Land and assets under construction are not depreciated.

Certain reconstruction and renovation costs of buildings, which improve their quality and performance, are capitalised and amortised over the estimated useful life on a straight-line basis.

Maintenance and repair costs are charged to the statement of income as incurred.

q) Inventories

From time to time the Group repossesses from its customers certain assets serving as collateral, when the customer cannot otherwise meet his payment obligations and other loan work-out measures have been unsuccessful. Such repossessed assets which are expected to be sold in the ordinary course of business and are not held for capital appreciation or rental income are classified as inventories. Inventories mainly encompass real estate purchased and held for sale in near future by the Group's real estate workout companies. Group's inventories are accounted at individual cost. The cost of inventories comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present condition. Inventories are held at the lower of purchase cost or net realizable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The amount of write-down of inventories to net realisable value is recognised as expense in the period the write-down occurs. When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised.

r) Non-current assets held for sale

The Group classifies non-current assets as held for sale if their carrying amount is to be recovered through a sale transaction rather than continuing use and the management has committed to an active plan that is expected to result in a complete sale within one year from the date of classification. Non-current assets classified as held for sale also include assets of a class that an entity would normally regard as non-current that are acquired exclusively with a view to resell in the near term, but are not expected to be sold in the ordinary course of business. Assets classified as held for sale are stated at the lower of their carrying amount and fair value less costs to sell of the non-current asset. At least at each reporting date, the Group assesses, whether the value of the non-current assets classified as held for sale is impaired. The impairment loss reduces carrying amount of the asset and is included in the statement of income's line "Impairment charges and reversals, net". In the same line of the statement of income a gain from any subsequent increase in fair value less cost to sell of an asset is recognised, but not in excess of the cumulative impairment loss that has been recognised either for non-current asset held for sale or previously for the non-current asset.

s) Investment properties

Properties that are held for long-term rental yields or for capital appreciation or both, and that are not occupied by the Group are classified as investment properties. The Group initially measures investment properties at cost, including transaction costs. For subsequent measurements the Group has opted for a cost model which requires an investment property to be measured at depreciated cost. Depreciation is calculated using the straight-line method based on the estimated useful life of the respective asset. Depreciation method and rates as for Group's property and equipment are applicable, except for buildings where depending on the type and condition up to 50% annual depreciation rate may be applied. Investment properties are periodically reviewed for impairment. If the recoverable value of an asset is lower than its carrying amount, the respective asset is written down to its recoverable amount. Any subsequent reversal of the impairment loss is recognised in the statement of income, to the extent that the carrying amount of an asset does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

t) Insurance business

Group's exposure to insurance relates to life insurance contracts. Life insurance contracts may contain both financial and insurance risk. The part of contracts that do not contain significant insurance risk is accounted as investment contracts. The corresponding liability to clients is accounted at fair value and is shown in the financial statements as liabilities designated at fair value through profit or loss. Insurance reserves are shown as other liabilities. The Group monitors the underlying assumptions in the calculations of insurance related risks regularly and seeks risk mitigation measures such as reinsurance, if the Group deems this appropriate. Insurance risk in view of the management is not material to accounts of the Group.

u) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

v) Off-balance sheet financial commitments and contingent liabilities

In the ordinary course of business, the Group is involved with off-balance sheet financial commitments and contingent liabilities comprising commitments to extend loans and receivables from customers, commitments for unutilised credit lines or credit card limits, financial guarantees and commercial letters of credit.

Such financial instruments are recorded in the financial statements as follows:

- commitment to extend loans and advances, credit card and overdraft facilities are recognised on drawdown; and
- financial guarantees and letters of credit are recognised when the related fee received as consideration is recognised.

Commitments to extend loans and receivables and commitments for unutilised credit lines or credit card limits represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiration dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

On initial recognition financial guarantee contracts are measured at fair value. Subsequently, they are carried at the higher of the amount initially recognised less cumulative amortisation over the life of the guarantee and the amount determined in accordance with the accounting policy for provisions when enforcement of the guarantee has become probable.

The methodology for provisioning against possible losses arising from off-balance sheet financial commitments and contingent liabilities is consistent with that described in paragraph u).

w) Non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than biological assets, investment property, inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows. Discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

x) Trust activities

Funds managed by the Group on behalf of individuals, corporate customers, trusts and other institutions are not regarded as assets of the Group and, therefore, are not separately included in the balance sheet. Funds under trust management are presented in these financial statements only for disclosure purposes. Commission for holding assets is recognised on accrual basis and generally is dependent on the volume of assets managed.

y) Fair values of financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk. Where available and reasonably reliable, fair values are determined by reference to observable market prices. Where representative market prices are not available or are unreliable, fair values are determined by using valuation techniques which refer to observable market data. These include prices obtained from independent market surveys, comparisons with similar financial instruments, discounted cash flow analyses and other valuation techniques commonly accepted and used by market participants.

Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements, when determinable. Further, changes and movement in market conditions may affect accuracy of the fair value calculations so that the actual outcome of the transactions in value is different from the one reported in the financial statements. Also, when changed, management estimates used in preparing these financial statements could impact the reported result of the Group.

z) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents are defined as the amounts comprising cash and balances with central banks and other credit institutions with an insignificant risk of changes in value and a remaining maturity of not more than 3 months from the date of acquisition, less demand deposits due to credit institutions and central banks.

aa) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a currently enforceable legal right to set off the recognised amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

bb) Staff costs and related contributions

The Group's personnel expenses relate only to short term benefits and related tax expense. The Group and the Bank pays social security contributions to state pension insurance and to the state funded pension scheme in accordance with Latvian and relevant foreign regulations. In accordance with the Rules of the Cabinet of Ministers of Latvia a part of the social insurance contributions are used to fund the state defined contribution pension system. State funded pension scheme is a defined contribution plan under which the Group and the Bank pay fixed contributions determined by law and will have no legal or constructive obligation to pay further contributions if the state pension insurance system or state funded pension scheme are not able to settle their liabilities to employees. The social security contributions are accrued in the year in which the associated services are rendered by the employees of the group.

cc) Events after the balance sheet date

Post-year-end events that provide additional information about the Bank's position at the balance sheet date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes if material.

dd) Customer loyalty programmes

To reward and promote customers to actively use Group's products, the Group has implemented several customer loyalty programs. All benefits awarded to customers are expensed to income statement at the moment the benefits are awarded to customers. Any unredeemed award credits are accrued at full until settlement or expiry.

ee) Use of estimates and judgements in the preparation of financial statements

The preparation of financial statements in conformity with International Financial Reporting Standards as adopted by EU, requires management to make estimates and judgements that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies. The management has applied reasonable and prudent estimates and judgments in preparing these financial statements. The significant areas of estimation used in the preparation of the accompanying financial statements relate to evaluation of impairment for financial asset losses, determining fair values of the financial assets and liabilities as explained in note y) above, impairment of non-financial assets, estimating future periods' taxable profits in order to assess amount of deferred tax assets that can be utilised and, as such, recognised and determination of the control of investees for consolidation purposes.

Impairment of loans

The Group regularly reviews its loans and receivables for assessment of impairment. The estimation of potential impairment losses is inherently uncertain and dependent upon many factors. On an on-going basis potential issues are identified promptly as a result of individual loans being regularly monitored. Impairment losses are calculated on an individual basis with reference to expected future cash flows including those arising from the realisation of

collateral. The Group uses its experienced judgement to estimate the amount of any impairment loss considering matters such as future economic conditions and the resulting trading performance of the borrower and the value of collateral, for which there may not be a readily accessible market. As a result, the impairment losses can be subject to significant variation as time progresses and the circumstances become clearer. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Changes in net present value of estimated future cash flows of specifically impaired loans and receivables from customers by +/-5% would result in EUR -0.3 million lower or EUR 0.1 million higher specific impairment allowance for the Bank (2015: EUR -0.2 million lower or EUR 0.3 million higher) and EUR -0.3 million lower or EUR 0.2 million higher specific impairment allowance for the Group. If estimated value of collaterals of specifically impaired loans and receivables from customers would differ by +/-5% the estimated specific impairment allowance for loans and receivables would differ by EUR -2.9 million lower or EUR 2.8 million higher for the Bank (2015: EUR -1.9 million or EUR +2.8 million) and by EUR -3.1 million lower or EUR 3.1 million higher for the Group.

In addition, the Group estimates collective impairment losses to cover losses inherent in the loan portfolio where there is objective evidence to suggest that it contains impaired loans, although the individual impaired loans cannot yet be identified. The collective impairment losses take account of observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans and receivables with similar credit risk characteristics, although the decrease cannot yet be identified with the individual loans in the portfolio.

Future cash flows in a portfolio of loans and receivables that are collectively evaluated for impairment are estimated on the basis of historical loss experience for loans and receivables with credit risk characteristics similar to those in the portfolio. Historical loss experience is adjusted for current observable market data using the Group's experienced judgement to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

The future credit quality of the loan portfolio for which the collective impairment losses are estimated is subject to uncertainties that could cause actual credit losses to differ materially from reported impairment losses. These uncertainties include factors such as international and local economic conditions, borrower specific factors, industry and market trends, interest rates, unemployment rates and other external factors. Changes in LGD ratio by 500 basis points would result in increase/ decrease in collectively assessed impairment by ca. EUR +2.3/-2.5 million for the Bank and EUR +3.5/-3.6 million for the Group (2015: EUR +/-2.3 million for the Bank and EUR +/-3.5 million for the Group). The bank entities within the Group apply a judgmental element to probability of default rates that incorporates the Group's management's judgment on the level of incurred losses within the current loan portfolio. Changes in the PD ratio relating to not overdue category by 100 basis points would result in increase/ decrease in collectively assessed impairment by ca. EUR +/-2.3 million for the Bank and EUR +/-2.6 million for the Group (2015: EUR +/-2.2 million for the Bank and EUR +/-2.4 million for the Group).

Impairment of securities classified as available for sale

The Group regularly conducts an impairment test for securities held on its books. A number of principles are defined for classifying any bond or fund either as performing or having evidence of impairment. Besides conventional impairment indicators (e.g. missed payment or material deterioration of creditworthiness), the Group assesses other factors such as prevailing credit spreads (estimation of securities' spreads and spreads on securities rated Caa1 and below) and liquidity of the instrument (frequency of available quotes, traded volumes). When estimating impairment amount for securities with triggered indicators for value erosion, appropriate assumptions are made with respect to timeframe needed for and the volume of recovery.

The future credit quality of the securities for which the impairment losses are estimated is subject to uncertainties that could cause actual credit losses to differ materially from reported impairment losses. These uncertainties include factors such as international, regional and local economic conditions, issuer specific factors, market activity and depth, interest rates and other external factors. As at 31 December 2016, increase or decrease in credit spread delta by 200 basis points would not change Group's impairment (2015: nil). For additional information on fixed and non-fixed income securities fair value assessment refer to Note 34.

Impairment of other financial and non-financial assets

The Bank and the Group at the end of each reporting period assesses whether there is any indication that a non-financial asset may be impaired other than inventory and deferred tax. If any such indication exists, the recoverable amount of the particular asset or cash generating unit is estimate. Recoverable amount estimates depend on uncertainties in future free cash flow estimates and discount rates applied. For more details on the approach and key assumptions in recoverable amount estimates of the Bank's investments in subsidiaries and Group's property and plant refer to Note 19 and Note 17 respectively.

Deferred tax asset

The future taxable profits and the amount of tax benefits that are probable in the future are based on a medium term financial forecast prepared by management and extrapolated results thereafter. The aforementioned forecasts indicate that the Bank will have sufficient taxable profits in the future periods to realise the recognised deferred tax asset. For more details refer to Note 11 (*Taxation*).

Consolidation group

The Group consolidates all entities where it controls the investee. The Group controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. For list of investees included in the consolidation group refer to Note 19. For investments in securities which are not consolidated refer to Note 14. In the ordinary course of business IPAS CBL Asset Management (CBL AM) provides management services to several funds where its interest held is only fees from servicing. The Bank has made an investment solely with a view to diversify its securities portfolio also in funds managed by CBL AM. According to the prospectus of the funds, the investment decisions are made collectively by CBL AM Investment Committee. The Bank has no intention to participate in decision making regarding the asset allocation of any of the funds. Moreover, interfering with Investment Committee's decision making process would be against the corporate governance principles maintained by that Bank since its inception. As such, the Bank believes it does not have the control over the funds, as per IFRS 10, and the funds should not be consolidated.

NOTE 5. INTEREST INCOME AND EXPENSE

| | EUR 000's | | | |
|---|-----------------|-----------------|-----------------|-----------------|
| | 2016 Group | 2015 Group | 2016 Bank | 2015 Bank |
| Interest income on: | | | | |
| - financial assets measured at amortised cost: | 74,834 | 70,626 | 59,413 | 58,547 |
| - <i>loans and receivables from customers</i> | 72,042 | 63,864 | 57,318 | 52,757 |
| - <i>balances due from credit institutions and central banks</i> | 803 | 815 | 710 | 728 |
| - <i>held to maturity securities</i> | 1,989 | 5,947 | 1,385 | 5,062 |
| - available for sale securities | 8,551 | 7,138 | 6,700 | 5,148 |
| - held for trading securities | 237 | 366 | - | - |
| - financial assets designated at fair value through profit or loss | 1,115 | 1,018 | - | - |
| Total interest income | 84,737 | 79,148 | 66,113 | 63,695 |
| Interest expense on: | | | | |
| - financial liabilities measured at amortised cost: | (18,191) | (18,382) | (15,966) | (15,595) |
| - <i>deposits from customers</i> | (10,584) | (12,495) | (8,158) | (9,534) |
| - <i>subordinated liabilities</i> | (4,184) | (4,432) | (4,184) | (4,432) |
| - <i>balances due to credit institutions and central banks</i> | (2,482) | (1,144) | (2,683) | (1,319) |
| - <i>other interest expense</i> | (941) | (311) | (941) | (310) |
| - interest expense on financial liabilities designated at fair value through profit or loss | (351) | (300) | - | - |
| Total interest expense | (18,542) | (18,682) | (15,966) | (15,595) |
| Net interest income | 66,195 | 60,466 | 50,147 | 48,100 |

In the current economic environment the overall effective interest rate on some high quality liquid assets has turned negative. The Group is affected by negative interest rates applied on certain balances due from central banks and some credit institutions. As the interest resulting from a negative effective interest rate on financial assets reflects an outflow of economic benefits, this is presented as interest expense. This was offset by growth in the size and yield of the loan portfolio, resulting in an increase in net interest income in 2016.

| | EUR 000's | | | |
|---|---------------|---------------|--------------|--------------|
| | 2016 Group | 2015 Group | 2016 Bank | 2015 Bank |
| Interest income recognised on impaired assets | 2,932 | 2,152 | 2,509 | 1,575 |

NOTE 6. COMMISSION AND FEE INCOME AND EXPENSE

| | EUR 000's | | | |
|---|---------------|---------------|---------------|---------------|
| | 2016 Group | 2015 Group | 2016 Bank | 2015 Bank |
| Commission and fee income: | | | | |
| - transactions with cards | 23,291 | 21,496 | 21,418 | 19,636 |
| - payment transfers | 12,199 | 10,602 | 9,209 | 8,344 |
| - custody, trust and asset management fees | 9,260 | 7,882 | 1,492 | 1,336 |
| - account maintenance | 4,213 | 3,396 | 2,937 | 2,244 |
| - cash collection | 2,367 | 2,259 | 1,826 | 2,259 |
| - cash operations | 1,335 | 1,253 | 1,160 | 1,037 |
| - review of loan applications and collateral evaluation | 894 | 675 | 891 | 672 |
| - securities, financial instrument brokerage fees | 887 | 746 | 669 | 646 |
| - letters of credit and guarantees | 608 | 495 | 411 | 327 |
| - other fees | 2,344 | 2,404 | 2,165 | 2,075 |
| Total commission and fee income | 57,398 | 51,208 | 42,178 | 38,576 |

| | EUR 000's | | | |
|--|-----------------|-----------------|-----------------|-----------------|
| | 2016 Group | 2015 Group | 2016 Bank | 2015 Bank |
| Commission and fee expense: | | | | |
| - fees related to cards | (13,694) | (12,426) | (12,540) | (11,317) |
| - fees related to correspondent accounts | (1,462) | (1,467) | (1,300) | (1,195) |
| - brokerage and custodian fees: | (966) | (815) | (565) | (599) |
| - other fees | (1,131) | (963) | (628) | (202) |
| Total commission and fee expense | (17,253) | (15,671) | (15,033) | (13,313) |
| Net commission and fee income | 40,145 | 35,537 | 27,145 | 25,263 |

Net commission income increased in 2016 due to an increasing customer and merchant base that benefited the Group's payment card and merchant businesses, and increases in payment transfer.

NOTE 7. GAIN ON TRANSACTIONS WITH FINANCIAL INSTRUMENTS, NET

| | EUR 000's | | | |
|---|---------------|---------------|---------------|---------------|
| | 2016 Group | 2015 Group | 2016 Bank | 2015 Bank |
| Gain from foreign exchange trading and revaluation of open positions, net | 13,830 | 8,959 | 11,471 | 7,420 |
| Gain / (loss) from disposal of available for sale securities, net | 11,288 | 4,746 | 10,589 | 2,811 |
| Gain / (loss) from trading and revaluation of securities and derivatives held for trading purposes, net | 111 | 720 | (220) | 851 |
| Gain / (loss) on financial assets and financial liabilities designated at fair value through profit or loss | 95 | (800) | - | - |
| Gain on transactions with financial instruments, net | 25,324 | 13,625 | 21,840 | 11,082 |

| | EUR 000's | | | |
|---|---------------|---------------|---------------|---------------|
| | 2016 Group | 2015 Group | 2016 Bank | 2015 Bank |
| Net gain / (loss) on financial instruments not at fair value through profit or loss | 11,288 | 4,746 | 10,589 | 2,811 |
| Net gain on financial instruments at fair value through profit or loss | 14,036 | 8,879 | 11,251 | 8,271 |
| Gain on transactions with financial instruments, net | 25,324 | 13,625 | 21,840 | 11,082 |

In the reporting period a gain of EUR 11.3 million was recognised on the disposal of Citadele's available for sale share in Visa Europe to Visa Inc. The consideration included a cash transfer of EUR 9.0 million, deferred cash payment of EUR 0.8 million, and an equity interest in Visa Inc. For more information on valuation of preference stocks in Visa Inc. which were received as part of the consideration refer to the Fair value disclosure section of Note 34 (*Risk Management*).

Result from disposal of available for sale securities also includes EUR -1.8 million loss on a sale of a single AFS (former HTM) security exposure before its maturity.

NOTE 8. ADMINISTRATIVE AND OTHER EXPENSES

| | EUR 000's | | | |
|--|---------------|---------------|---------------|---------------|
| | 2016 Group | 2015 Group | 2016 Bank | 2015 Bank |
| Personnel | 47,031 | 41,998 | 34,475 | 31,098 |
| Consulting and professional services | 6,556 | 5,465 | 4,957 | 4,211 |
| IT expense | 4,083 | 3,695 | 2,814 | 2,560 |
| Rent, utilities, maintenance | 3,707 | 3,645 | 5,006 | 4,835 |
| Non-refundable value added tax | 3,692 | 3,731 | 2,856 | 3,003 |
| Advertising, marketing and sponsorship | 3,301 | 2,755 | 2,616 | 2,153 |
| Office administration | 736 | 780 | 506 | 558 |
| Communications | 673 | 631 | 387 | 404 |
| Other | 5,652 | 5,192 | 3,163 | 2,958 |
| Total administrative expenses | 75,431 | 67,892 | 56,780 | 51,780 |
| Other expense | 981 | 5,299 | 261 | 4,556 |
| Total administrative and other expenses | 76,412 | 73,191 | 57,041 | 56,336 |

Total operating expenses increased in 2016 as a result of an increased spending for the Group's personnel and their development, as well as an increase in consulting and marketing costs over the prior year. In 2015, due to the postponed initial public offering (IPO) process one-time cost in the amount of EUR 5.0 million was recognised in other expense and administrative expenses' non-refundable value added tax caption.

Audit and other fees paid to the independent auditor company which has audited these financial statements are presented within administrative expenses. These fees by the type of service provided may be specified as follows:

| | EUR 000's | | | |
|---|---------------|---------------|--------------|--------------|
| | 2016 Group | 2015 Group | 2016 Bank | 2015 Bank |
| Annual and interim audit fees | 338 | 403 | 120 | 184 |
| Other audit and similar fees | 11 | 147 | 9 | 145 |
| Tax advisory fees | 12 | - | 4 | - |
| Other advisory, training and similar fees | 33 | 16 | 33 | 15 |

NOTE 9. PERSONNEL EXPENSE

Personnel expense in these financial statements is presented within administrative expenses. Personnel expense includes remuneration for work to the personnel and related social security contributions and bonuses and other short-term benefit costs. Part of the remuneration for the work as stipulated in the law is deferred up to the period of three years and subsequent pay-outs may be conditional. As at 31 December 2016 the Group and the Bank has a compulsory deferred remuneration commitment (including related social security and solidarity tax contributions) to its employees in the amount of EUR 414 thousand and EUR 267 thousand which will become payable in 2017 if certain conditions are met (2015: EUR 248 thousand and EUR 170 thousand, respectively). Compulsory deferred remuneration commitments as at period end mostly relate to work performed in the year prior to the reporting period.

| | EUR 000's | | | |
|---|---------------|---------------|---------------|---------------|
| | 2016 Group | 2015 Group | 2016 Bank | 2015 Bank |
| Remuneration: | | | | |
| - management | 2,692 | 2,715 | 1,195 | 1,236 |
| - other personnel | 34,505 | 30,818 | 25,791 | 23,415 |
| Total remuneration for work | 37,197 | 33,533 | 26,986 | 24,651 |
| Social security and solidarity tax contributions: | | | | |
| - management | 490 | 342 | 242 | 106 |
| - other personnel | 8,299 | 6,923 | 6,343 | 5,239 |
| Total social security and solidarity tax contributions | 8,789 | 7,265 | 6,585 | 5,345 |
| Other personnel expense* | 1,045 | 1,200 | 904 | 1,102 |
| Total personnel expense | 47,031 | 41,998 | 34,475 | 31,098 |
| Number of full time equivalent employees at the end of the period | 1,603 | 1,625 | 1,110 | 1,263 |

* Other personnel expense includes health insurance, training, education and similar expenditure.

NOTE 10. IMPAIRMENT CHARGES AND REVERSALS, NET

Total net impairment allowance charged to statement of income:

| | EUR 000's | | | |
|---|-----------------|----------------|-----------------|----------------|
| | 2016 Group | 2015 Group | 2016 Bank | 2015 Bank |
| Loans – specifically assessed impairment | (9,361) | (7,243) | (7,514) | (6,450) |
| Loans – collectively assessed impairment | (3,432) | (1,391) | (3,401) | (144) |
| Available for sale securities | 109 | (510) | 109 | (510) |
| Other financial and non-financial assets | 996 | 1,603 | (683) | (165) |
| Recovered written-off assets | 1,567 | 1,300 | 1,326 | 1,037 |
| Total impairment allowance and provisions charged to income statement, net | (10,121) | (6,241) | (10,163) | (6,232) |

Fully impaired assets, recovery of which may become economically unviable, may be written-off. When a loan is written-off, the claim against the borrower normally is not forgiven. From time to time previously written-off assets are recovered due to repayment, sale of pool of overdue assets to companies specialising in recoveries of balances in arrears or as a result of other resolution. Such recoveries are reported as recovered written-off assets.

Total impairments increased in 2016 due to changes in portfolio mix toward consumer lending and SME. This resulted in an increase in cost of risk to 0.9% in 2016 from 0.6% in 2015. Cost of risk ratio (COR) is calculated as the sum of net collective and specific loans' impairment charges, net provisions for off-balance sheet credit risk products, and recovered written-off assets divided by the average of gross loans at the beginning and the end of the period.

Change in allowances for impairment of loans and receivables:

| | EUR 000's | | | |
|---|-----------------|----------------|-----------------|----------------|
| | 2016 Group | 2015 Group | 2016 Bank | 2015 Bank |
| Total impairment allowance at the beginning of the period: | 90,175 | 88,707 | 73,662 | 69,767 |
| - loans – specifically assessed impairment | 67,751 | 67,676 | 55,135 | 51,383 |
| - loans – collectively assessed impairment | 22,424 | 21,031 | 18,527 | 18,384 |
| Charge: | 20,663 | 16,418 | 15,979 | 12,127 |
| - loans – specifically assessed impairment | 14,046 | 10,743 | 10,543 | 8,561 |
| - loans – collectively assessed impairment | 6,617 | 5,675 | 5,436 | 3,566 |
| Release: | (7,870) | (7,784) | (5,064) | (5,533) |
| - loans – specifically assessed impairment | (4,685) | (3,500) | (3,029) | (2,111) |
| - loans – collectively assessed impairment | (3,185) | (4,284) | (2,035) | (3,422) |
| Allowance charged to the statement of income, net: | 12,793 | 8,634 | 10,915 | 6,594 |
| - loans – specifically assessed impairment | 9,361 | 7,243 | 7,514 | 6,450 |
| - loans – collectively assessed impairment | 3,432 | 1,391 | 3,401 | 144 |
| Change of allowance due to write-offs | (20,548) | (7,433) | (14,012) | (2,964) |
| Effect of changes in currency exchange rates: | 109 | 267 | 107 | 265 |
| - loans – specifically assessed impairment | 106 | 265 | 106 | 266 |
| - loans – collectively assessed impairment | 3 | 2 | 1 | (1) |
| Total impairment allowance at the end of the period: | 82,529 | 90,175 | 70,672 | 73,662 |
| - loans – specifically assessed impairment | 56,670 | 67,751 | 48,743 | 55,135 |
| - loans – collectively assessed impairment | 25,859 | 22,424 | 21,929 | 18,527 |

During the ordinary course of business recoverability of some loans deteriorate while for others improve; also loans which cannot be recovered are written-off. This directly affects specifically assessed impairment allowance for loans which has decreased in the reporting period both for the Group and the Bank. Change in charges for collectively assessed impairment allowance for loans in the reporting period mainly represents a growth in the Bank's lending business, particularly retail segment, while for the Group also fluctuations in past due days of unimpaired loan balances of the loan portfolio.

Change in impairment of other assets:

| | EUR 000's | | | |
|---|----------------|----------------|----------------|---------------|
| | 2016 Group | 2015 Group | 2016 Bank | 2015 Bank |
| Total impairment allowance at the beginning of the period: | 25,921 | 28,775 | 61,441 | 61,641 |
| - available for sale securities | 6,924 | 7,062 | 6,924 | 7,062 |
| - due from credit institutions | 950 | 852 | 950 | 852 |
| - other financial and non-financial assets | 18,047 | 20,861 | 53,567 | 53,727 |
| Charge: | 1,207 | 1,225 | 683 | 798 |
| - available for sale securities | - | 510 | - | 510 |
| - other financial and non-financial assets | 1,207 | 715 | 683 | 288 |
| Release: | (2,312) | (2,318) | (109) | (123) |
| - available for sale securities | (109) | - | (109) | - |
| - other financial and non-financial assets | (2,203) | (2,318) | - | (123) |
| Allowance charged to the statement of income, net: | (1,105) | (1,093) | 574 | 675 |
| - available for sale securities | (109) | 510 | (109) | 510 |
| - other financial and non-financial assets | (996) | (1,603) | 683 | 165 |
| Change of allowance due to write-offs: | (8,582) | (1,169) | (7,790) | (325) |
| - available for sale securities | (5,044) | - | (5,044) | - |
| - other financial and non-financial assets | (3,538) | (1,169) | (2,746) | (325) |
| Effect of changes in currency exchange rates: | (111) | (592) | (100) | (550) |
| - available for sale securities | (131) | (648) | (131) | (648) |
| - due from credit institutions | 31 | 98 | 31 | 98 |
| - other financial and non-financial assets | (11) | (42) | - | - |
| Total impairment allowance at the end of the period: | 16,123 | 25,921 | 54,125 | 61,441 |
| - available for sale securities | 1,640 | 6,924 | 1,640 | 6,924 |
| - due from credit institutions | 981 | 950 | 981 | 950 |
| - other financial and non-financial assets | 13,502 | 18,047 | 51,504 | 53,567 |

Changes in impairment allowance of non-financial assets consist mostly of changes in impairment for property and equipment mainly relating to the reduction in impairment allowance for the Citadele headquarters building. Based on the re-estimate of the fair value a reversal of impairment took place.

NOTE 11. TAXATION

Corporate income tax expense comprises the following items:

| | EUR 000's | | | |
|---|---------------|---------------|--------------|--------------|
| | 2016 Group | 2015 Group | 2016 Bank | 2015 Bank |
| Current corporate income tax | 595 | 511 | - | - |
| Deferred income tax | 1,816 | 2,579 | 1,455 | 2,640 |
| Tax withheld abroad | 29 | 83 | 29 | 83 |
| Total corporate income tax expense | 2,440 | 3,173 | 1,484 | 2,723 |

Reconciliation of the Bank's and the Group's pre-tax profit for the period to the corporate income tax expense for the period:

| | EUR 000's | | | |
|---|---------------|---------------|--------------|--------------|
| | 2016 Group | 2015 Group | 2016 Bank | 2015 Bank |
| Profit before corporate income tax | 43,128 | 29,244 | 37,762 | 22,269 |
| Corporate income tax (at 15%) | 6,469 | 4,387 | 5,664 | 3,340 |
| Effect of tax rates in foreign jurisdictions | 245 | 179 | - | - |
| Non-deductible expense | 636 | 1,700 | 401 | 851 |
| Non-taxable income | (4,037) | (3,053) | (3,553) | (1,773) |
| Other tax differences, net (incl. changes in unrecognised deferred tax assets and prior period adjustments) | (873) | (40) | (1,028) | 305 |
| Total effective corporate income tax | 2,440 | 3,173 | 1,484 | 2,723 |

As 2016 earnings include a non-taxable gain from sale of Citadele's share in Visa Europe to Visa Inc. (the Group and the Bank) and dividends received from subsidiaries (the Bank only), the effective tax rate for the year ended 31 December 2016 is considerably lower than for the same period in 2015.

Movements in deferred corporate income tax asset / (liability):

| | EUR 000's | | | |
|--|---------------|---------------|---------------|---------------|
| | 2016 Group | 2015 Group | 2016 Bank | 2015 Bank |
| As at the beginning of the year | 27,769 | 30,073 | 26,157 | 28,735 |
| Charge to statement of income | (1,816) | (2,579) | (1,455) | (2,640) |
| Charge to statement of comprehensive income | 212 | 275 | (17) | 62 |
| Total deferred income tax asset at the end of the year, net | 26,165 | 27,769 | 24,685 | 26,157 |

Recognised deferred corporate income tax assets and liabilities:

| | EUR 000's | | | |
|---|---------------------|---------------------|--------------------|--------------------|
| | 31/12/2016 Group | 31/12/2015 Group | 31/12/2016 Bank | 31/12/2015 Bank |
| <i>Deferred tax assets / (liabilities):</i> | | | | |
| Accumulated excess of tax depreciation over accounting depreciation | (821) | (700) | (750) | (698) |
| Temporary differences due to accrual | 1,302 | 1,139 | 880 | 837 |
| Revaluation of securities and derivatives | (255) | (97) | (109) | (97) |
| Temporary impairment allowance differences | 2,969 | 2,779 | 2,808 | 2,779 |
| Recognised unutilised tax losses | 22,970 | 24,590 | 21,856 | 23,304 |
| Other deferred tax assets | - | 58 | - | 32 |
| Net deferred corporate income tax asset | 26,165 | 27,769 | 24,685 | 26,157 |

Part of the Group's unutilised tax losses are not recognised for deferred tax asset purposes as there is uncertainty about availability of sufficient future taxable profits with which to offset accumulated tax losses at particular subsidiary level. There are legal limitations on transferability of unutilised tax losses both between entities operating in the same jurisdiction as well as operating in different jurisdictions. The Bank and the Group expects to utilise recognised unutilised tax losses carry forward in approximately seven years' time.

The Group's and the Bank's unutilised tax losses by expiry date can be specified as follows:

| | EUR 000's | | | |
|--|---------------------|---------------------|--------------------|--------------------|
| | 31/12/2016 Group | 31/12/2015 Group | 31/12/2016 Bank | 31/12/2015 Bank |
| Total unutilised tax losses with undated expiry date as per current tax legislation | 211,183 | 223,246 | 145,708 | 155,363 |
| <i>Including part unrecognised as deferred tax asset</i> | 58,050 | 59,313 | - | - |

NOTE 12. CASH AND BALANCES WITH CENTRAL BANKS

| | EUR 000's | | | |
|---|---------------------|---------------------|--------------------|--------------------|
| | 31/12/2016 Group | 31/12/2015 Group | 31/12/2016 Bank | 31/12/2015 Bank |
| Cash | 54,048 | 51,270 | 48,518 | 46,737 |
| Balances with the Bank of Latvia | 573,670 | 299,091 | 573,670 | 299,091 |
| Balances with other central banks | 171,480 | 204,717 | 25,418 | 3,132 |
| Total cash and balances with central banks | 799,198 | 555,078 | 647,606 | 348,960 |

Credit institutions should comply with the compulsory reserve requirement calculated on the basis of attracted funding. The Bank's compulsory reserve must be exceeded by a credit institution's average monthly EUR balance on its correspondent account with the Bank of Latvia. Similar requirements also apply to the funding attracted by the Bank's branch in Estonia and subsidiaries in Lithuania and Switzerland. During the reporting year, the Group's banks were in compliance with these requirements.

Demand deposits with other central banks include balances with central banks of Lithuania, Switzerland and Estonia. As at 31 December 2016 and 31 December 2015 no amounts due from central banks were overdue.

NOTE 13. BALANCES DUE FROM CREDIT INSTITUTIONS

| | EUR 000's | | | |
|---|---------------------|---------------------|--------------------|--------------------|
| | 31/12/2016 Group | 31/12/2015 Group | 31/12/2016 Bank | 31/12/2015 Bank |
| Due from credit institutions registered in other OECD countries | 130,130 | 168,160 | 146,028 | 291,936 |
| Due from credit institutions registered in Latvia | 2,839 | 3,945 | 558 | 1,024 |
| Due from credit institutions registered in non-OECD countries | 9,703 | 9,990 | 8,814 | 9,270 |
| Total gross balances due from credit institutions | 142,672 | 182,095 | 155,400 | 302,230 |
| <i>Incl. impaired balances</i> | 981 | 950 | 981 | 950 |
| Impairment allowance | (981) | (950) | (981) | (950) |
| Total net balances due from credit institutions | 141,691 | 181,145 | 154,419 | 301,280 |

The above balances represent the maximum credit risk exposure to the Group and the Bank respectively. As at 31 December 2016 and 2015, none of the non-impaired amounts due from credit institutions were past due. For more details on credit quality of the Group's neither past due nor-impaired balances due from credit institutions refer to Credit risk section of the Note 34 (*Risk Management*).

NOTE 14. FIXED AND NON-FIXED INCOME SECURITIES

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

| | EUR 000's 31/12/2016 | | | | |
|--|-------------------------|--------------------|--------------------------|---------------------------|------------------|
| | Government bonds | Municipality bonds | Credit institution bonds | Corporate and other bonds | Total |
| Held for trading | 795 | 3,610 | - | 3,294 | 7,699 |
| Financial assets designated at fair value through profit or loss | 19,839 | 1,434 | 39,828 | 49,236 | 110,337 |
| Available for sale | 399,312 | - | 216,989 | 273,884 | 890,185 |
| Total fixed income securities | 419,946 | 5,044 | 256,817 | 326,414 | 1,008,221 |

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

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

| | EUR 000's 31/12/2016 | | | | |
|--------------------------------------|-------------------------|--------------------|--------------------------|---------------------------|----------------|
| | Government bonds | Municipality bonds | Credit institution bonds | Corporate and other bonds | Total |
| Available for sale | 317,385 | - | 141,654 | 222,907 | 681,946 |
| Total fixed income securities | 317,385 | - | 141,654 | 222,907 | 681,946 |

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

As at 31 December 2016, there are no Group's and Bank's fixed-income securities on which payments are past due or which were restructured during the reporting period (2015: EUR nil). In 2016 no fixed income securities were impaired (2015: nil). The above tables represent the maximum credit risk exposure to the Group and the Bank from fixed income securities.

On 31 October 2016 the Bank changed its intention to hold to maturity a certain exposure. As a result of the change in intention, it was no longer appropriate to classify this exposure as held to maturity and the exposure was reclassified to available for sale category and sold in short time. The embedded, but separately accounted for credit derivative was also sold. As this reclassification represented more than an insignificant amount of held to maturity investments, all remaining Bank's and Group's held to maturity classified financial instruments were also reclassified to available for sale category and re-measured at fair value. On re-measurement the difference between carrying amount and fair value of financial instruments was recognised in other comprehensive income. The carrying amount of reclassified held to maturity securities as at reclassification date was EUR 139,499 thousand for the Bank and EUR 170,423 thousand for the Group.

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

| | EUR 000's | | | | | |
|--|------------------|------------------|------------------|------------------|------------------|----------------|
| | 31/12/2016 | | | 31/12/2015 | | |
| | Government bonds | Other securities | Total | Government bonds | Other securities | Total |
| Latvia | 253,580 | 7,847 | 261,427 | 232,246 | 4,378 | 236,624 |
| Netherlands | 4,992 | 83,783 | 88,775 | - | 56,681 | 56,681 |
| United States | 10,592 | 76,794 | 87,386 | 7,773 | 90,510 | 98,283 |
| Lithuania | 72,665 | - | 72,665 | 56,454 | - | 56,454 |
| Canada | 6,105 | 42,867 | 48,972 | 3,681 | 24,521 | 28,202 |
| Germany | 7,181 | 37,995 | 45,176 | - | 67,140 | 67,140 |
| United Kingdom | - | 40,868 | 40,868 | - | 38,578 | 38,578 |
| Sweden | 11,797 | 26,041 | 37,838 | 15,573 | 19,787 | 35,360 |
| Finland | 15,871 | 14,943 | 30,814 | 13,066 | 19,188 | 32,254 |
| Singapore | - | 28,947 | 28,947 | - | 24,481 | 24,481 |
| Australia | - | 28,127 | 28,127 | - | 23,635 | 23,635 |
| France | 9,722 | 18,192 | 27,914 | 1,514 | 10,732 | 12,246 |
| Norway | - | 24,676 | 24,676 | - | 25,648 | 25,648 |
| Multilateral development banks | - | 52,439 | 52,439 | - | 27,407 | 27,407 |
| Other countries* | 27,441 | 106,719 | 134,160 | 25,798 | 116,623 | 142,421 |
| Total fixed income securities and shares, net | 419,946 | 590,238 | 1,010,184 | 356,105 | 549,309 | 905,414 |
| Investments in managed funds** | - | 39,816 | 39,816 | - | 35,493 | 35,493 |
| Total securities, net | 419,946 | 630,054 | 1,050,000 | 356,105 | 584,802 | 940,907 |

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

| | EUR 000's | | | | | |
|--|------------------|------------------|----------------|------------------|------------------|----------------|
| | 31/12/2016 | | | 31/12/2015 | | |
| | Government bonds | Other securities | Total | Government bonds | Other securities | Total |
| Latvia | 240,367 | 3,511 | 243,878 | 218,930 | 3,189 | 222,119 |
| United States | 8,680 | 47,936 | 56,616 | 7,773 | 48,813 | 56,586 |
| Netherlands | 4,992 | 47,868 | 52,860 | - | 35,223 | 35,223 |
| Germany | 7,181 | 25,177 | 32,358 | - | 54,588 | 54,588 |
| Canada | 6,105 | 22,598 | 28,703 | 3,681 | 20,767 | 24,448 |
| Singapore | - | 27,202 | 27,202 | - | 22,790 | 22,790 |
| Sweden | 1,897 | 24,476 | 26,373 | 6,431 | 19,787 | 26,218 |
| United Kingdom | - | 26,235 | 26,235 | - | 25,899 | 25,899 |
| Lithuania | 25,948 | - | 25,948 | 10,804 | - | 10,804 |
| Finland | 9,269 | 14,943 | 24,212 | 9,276 | 17,807 | 27,083 |
| Multilateral development banks | - | 40,710 | 40,710 | - | 21,615 | 21,615 |
| Other countries* | 12,946 | 85,852 | 98,798 | 11,998 | 104,149 | 116,147 |
| Total fixed income securities and shares, net | 317,385 | 366,508 | 683,893 | 268,893 | 374,627 | 643,520 |
| Investments in managed funds** | - | 11,041 | 11,041 | - | 11,179 | 11,179 |
| Total securities, net | 317,385 | 377,549 | 694,934 | 268,893 | 385,806 | 654,699 |

* Largest Group's and Bank's exposure to a single country within this group as at period end is EUR 13,628 thousand and EUR 12,735 thousand respectively (2015: EUR 13,667 thousand and EUR 19,682 thousand).

** Investments in managed funds are not presented by their issuer's country but shown separately.

All fixed income securities as at 31 December 2016 and 31 December 2015 are listed.

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

| | EUR 000's | | | | | | | |
|--|------------------|------------------|-------------------------|---------------|------------------|------------------|-------------------------|---------------|
| | 31/12/2016 | | | | 31/12/2015 | | | |
| | Foreign equities | Latvian equities | Mutual investment funds | Total | Foreign equities | Latvian equities | Mutual investment funds | Total |
| Held for trading | - | - | 5,786 | 5,786 | - | - | 4,991 | 4,991 |
| Financial assets designated at fair value through profit or loss | - | - | 22,989 | 22,989 | - | - | 19,323 | 19,323 |
| Available for sale | 1,839 | 124 | 11,041 | 13,004 | 8,585 | 100 | 11,179 | 19,864 |
| Total non-fixed income securities, net | 1,839 | 124 | 39,816 | 41,779 | 8,585 | 100 | 35,493 | 44,178 |

All exposures in mutual investment funds which are classified as financial assets designated at fair value through profit or loss are unit-linked insurance plan assets. According to unit-linked investment contract terms, the risk associated with the investments made by the insurance underwriter is fully attributable to the counterparty entering the insurance agreement and not the underwriter. As at

31 December 2016 EUR 22,989 thousand (2015: EUR 19,323 thousand) of financial assets designated at fair value through profit or loss relate to this.

The Bank's shares and other non-fixed income securities by issuers profile and classification:

| | EUR 000's | | | | | | | |
|---|------------------|------------------|-------------------------|---------------|------------------|------------------|-------------------------|---------------|
| | 31/12/2016 | | | | 31/12/2015 | | | |
| | Foreign equities | Latvian equities | Mutual investment funds | Total | Foreign equities | Latvian equities | Mutual investment funds | Total |
| Available for sale | 1,823 | 124 | 11,041 | 12,988 | 8,568 | 100 | 11,179 | 19,847 |
| Total non-fixed income securities, net | 1,823 | 124 | 11,041 | 12,988 | 8,568 | 100 | 11,179 | 19,847 |

Investments in mutual funds are not analysed by their ultimate issuer and are classified as non-fixed income securities.

There are no off-balance sheet commitments bearing credit risk that are related to the issuers of the above securities. Further, no payments on the above instruments are past due. As at 31 December 2016, the carrying amount of the Group's and Bank's securities, which were impaired but not past due amounted to EUR 0 thousand (2015: EUR 910 thousand).

As at 31 December 2016 the Bank and Group has investments in mutual investment funds with carrying amount of EUR 6.1 million (2015: EUR 6.5 million) and EUR 20.7 million (2015: EUR 19.5 million) which are managed by IPAS CBL Asset Management or its subsidiaries. EUR 12.5 million of these Group's investments relate to unit-linked contracts where the risk associated with the investments made is fully attributable to the counterparty entering the insurance agreement and not the underwriter.

These exposures have been acquired only with investment intentions.

NOTE 15. LOANS AND RECEIVABLES FROM CUSTOMERS

The following table represents the current classes of the Group's loans:

| | EUR 000's | | | | | |
|---|----------------------|-----------------------------------|-----------------------------|----------------------|-----------------------------------|-----------------------------|
| | 31/12/2016 | | | 31/12/2015 | | |
| | Balance sheet amount | Off-balance sheet credit exposure | Total gross credit exposure | Balance sheet amount | Off-balance sheet credit exposure | Total gross credit exposure |
| Regular loans | 978,455 | 48,702 | 1,027,157 | 924,016 | 35,706 | 959,722 |
| Utilised credit lines and overdraft facilities | 129,867 | 62,723 | 192,590 | 140,878 | 47,266 | 188,144 |
| Finance leases | 148,543 | - | 148,543 | 134,455 | - | 134,455 |
| Debit balances on cards | 53,553 | 87,189 | 140,742 | 54,329 | 86,853 | 141,182 |
| Factoring | 7,438 | 17,411 | 24,849 | 5,197 | 7,790 | 12,987 |
| Due from investment counterparties | 5,189 | - | 5,189 | 3,645 | - | 3,645 |
| Total loans and receivables from customers | 1,323,045 | 216,025 | 1,539,070 | 1,262,520 | 177,615 | 1,440,135 |
| Impairment allowance and provisions | (82,529) | - | (82,529) | (90,175) | - | (90,175) |
| Total net loans and receivables from customers | 1,240,516 | 216,025 | 1,456,541 | 1,172,345 | 177,615 | 1,349,960 |

Off-balance sheet credit exposure comprises various committed financing facilities to the borrowers.

The following table represents the current classes of the Bank's loans:

| | EUR 000's | | | | | |
|---|----------------------|-----------------------------------|-----------------------------|----------------------|-----------------------------------|-----------------------------|
| | 31/12/2016 | | | 31/12/2015 | | |
| | Balance sheet amount | Off-balance sheet credit exposure | Total gross credit exposure | Balance sheet amount | Off-balance sheet credit exposure | Total gross credit exposure |
| Regular loans | 819,514 | 38,448 | 857,962 | 784,808 | 32,820 | 817,628 |
| Utilised credit lines and overdraft facilities | 206,277 | 129,531 | 335,808 | 219,836 | 69,110 | 288,946 |
| Debit balances on cards | 48,819 | 75,473 | 124,292 | 49,384 | 74,251 | 123,635 |
| Due from investment counterparties | 4,568 | - | 4,568 | 3,035 | - | 3,035 |
| Finance leases | - | - | - | 24 | - | 24 |
| Total loans and receivables from customers | 1,079,178 | 243,452 | 1,322,630 | 1,057,087 | 176,181 | 1,233,268 |
| Impairment allowance and provisions | (70,672) | - | (70,672) | (73,662) | - | (73,662) |
| Total net loans and receivables from customers | 1,008,506 | 243,452 | 1,251,958 | 983,425 | 176,181 | 1,159,606 |

Loans and advances by customer profile:

| | EUR 000's | | | |
|---|------------------|------------------|------------------|------------------|
| | 31/12/2016 Group | 31/12/2015 Group | 31/12/2016 Bank | 31/12/2015 Bank |
| Privately held companies | 757,312 | 748,585 | 668,430 | 696,658 |
| Private individuals | 544,399 | 489,309 | 394,311 | 342,108 |
| Municipality owned enterprises | 8,310 | 7,876 | 7,135 | 6,417 |
| State owned enterprises | 5,932 | 8,127 | 5,930 | 7,551 |
| Local municipalities | 4,359 | 5,661 | 839 | 1,465 |
| Public and religious institutions | 2,718 | 2,962 | 2,533 | 2,888 |
| Government | 15 | - | - | - |
| Total gross loans and receivables from customers | 1,323,045 | 1,262,520 | 1,079,178 | 1,057,087 |
| Impairment allowance | (82,529) | (90,175) | (70,672) | (73,662) |
| Total net loans and receivables from customers | 1,240,516 | 1,172,345 | 1,008,506 | 983,425 |

The borrowers' industry profile of the gross loans and receivables to other than private individuals:

| | EUR 000's | | | |
|---|------------------|------------------|-----------------|-----------------|
| | 31/12/2016 Group | 31/12/2015 Group | 31/12/2016 Bank | 31/12/2015 Bank |
| Real estate purchase and management | 176,218 | 171,161 | 197,606 | 199,835 |
| Manufacturing | 126,317 | 139,205 | 87,053 | 106,682 |
| Trade | 108,565 | 122,001 | 59,126 | 82,216 |
| Transport and communications | 106,541 | 101,682 | 64,461 | 70,973 |
| Agriculture and forestry | 89,214 | 77,711 | 67,620 | 59,098 |
| Construction | 36,215 | 39,867 | 23,374 | 27,698 |
| Electricity, gas and water supply | 30,953 | 37,186 | 28,202 | 33,673 |
| Hotels, restaurants | 22,277 | 15,101 | 17,799 | 11,316 |
| Financial intermediation | 17,039 | 14,070 | 111,919 | 105,264 |
| Other industries | 65,307 | 55,227 | 27,707 | 18,224 |
| Total gross loans and receivables from corporate customers | 778,646 | 773,211 | 684,867 | 714,979 |

Geographical profile of loans and receivables from customers by the place of customers' reported residence:

| | EUR 000's | | | |
|---|------------------|------------------|------------------|------------------|
| | 31/12/2016 Group | 31/12/2015 Group | 31/12/2016 Bank | 31/12/2015 Bank |
| Latvian residents | 827,188 | 802,794 | 878,639 | 852,330 |
| OECD region residents | 162,614 | 152,282 | 147,443 | 141,428 |
| Non-OECD region residents | 333,243 | 307,444 | 53,096 | 63,329 |
| Total gross loans and receivables from customers | 1,323,045 | 1,262,520 | 1,079,178 | 1,057,087 |
| Impairment allowance | (82,529) | (90,175) | (70,672) | (73,662) |
| Total net loans and receivables from customers | 1,240,516 | 1,172,345 | 1,008,506 | 983,425 |

As at 31 December 2016 and 31 December 2015, the Group's and the Bank's exposures with non-consolidated single group of connected parties did not exceed 5% of total gross loans and receivables from customers. As at 31 December 2016 and 31 December 2015, the Group and the Bank were in compliance with FCMC requirements on credit exposures with single group of connected parties.

Group's loan portfolio by overdue days:

| | EUR 000's | | | | | |
|---|------------------|----------------------|---------------------|------------------|----------------------|---------------------|
| | 31/12/2016 | | | 31/12/2015 | | |
| | Gross Loans | Impairment allowance | Net carrying amount | Gross loans | Impairment allowance | Net carrying amount |
| Not past due – not impaired | 1,143,363 | - | 1,143,363 | 1,078,334 | - | 1,078,334 |
| Not past due – impaired | 72,647 | (24,406) | 48,241 | 59,263 | (24,747) | 34,516 |
| Total not past due loans | 1,216,010 | (24,406) | 1,191,604 | 1,137,597 | (24,747) | 1,112,850 |
| Past due loans - not impaired | | | | | | |
| Delayed days: | | | | | | |
| =< 29 | 36,461 | - | 36,461 | 31,999 | - | 31,999 |
| 30-59 | 8,453 | - | 8,453 | 12,812 | - | 12,812 |
| 60-89 | 3,544 | - | 3,544 | 3,247 | - | 3,247 |
| 90 and more | 10,122 | - | 10,122 | 9,618 | - | 9,618 |
| Total past due loans - not impaired | 58,580 | - | 58,580 | 57,676 | - | 57,676 |
| Past due loans – impaired | | | | | | |
| Delayed days: | | | | | | |
| =< 89 | 10,320 | (5,159) | 5,161 | 16,076 | (5,896) | 10,180 |
| 90 and more | 38,135 | (27,105) | 11,030 | 51,171 | (37,108) | 14,063 |
| Total past due loans - impaired | 48,455 | (32,264) | 16,191 | 67,247 | (43,004) | 24,243 |
| Total loans and receivables from customers | 1,323,045 | (56,670) | 1,266,375 | 1,262,520 | (67,751) | 1,194,769 |
| Collective impairment allowance | | (25,859) | (25,859) | | (22,424) | (22,424) |
| Total net loans and receivables from customers | | | 1,240,516 | | | 1,172,345 |

Bank's loan portfolio by overdue days:

| | EUR 000's | | | | | |
|---|------------------|----------------------|---------------------|------------------|----------------------|---------------------|
| | 31/12/2016 | | | 31/12/2015 | | |
| | Gross loans | Impairment allowance | Net carrying amount | Gross loans | Impairment allowance | Net carrying amount |
| Not past due – not impaired | 940,768 | - | 940,768 | 918,927 | - | 918,927 |
| Not past due – impaired | 73,930 | (21,923) | 52,007 | 57,264 | (22,281) | 34,983 |
| Total not past due loans | 1,014,698 | (21,923) | 992,775 | 976,191 | (22,281) | 953,910 |
| Past due loans - not impaired | | | | | | |
| Delayed days: | | | | | | |
| =< 29 | 14,628 | - | 14,628 | 15,036 | - | 15,036 |
| 30-59 | 3,216 | - | 3,216 | 6,391 | - | 6,391 |
| 60-89 | 1,970 | - | 1,970 | 979 | - | 979 |
| 90 and more | 5,774 | - | 5,774 | 5,993 | - | 5,993 |
| Total past due loans - not impaired | 25,588 | - | 25,588 | 28,399 | - | 28,399 |
| Past due loans – impaired | | | | | | |
| Delayed days: | | | | | | |
| =< 89 | 7,938 | (3,997) | 3,941 | 13,397 | (4,954) | 8,443 |
| 90 and more | 30,954 | (22,823) | 8,131 | 39,100 | (27,900) | 11,200 |
| Total past due loans – impaired | 38,892 | (26,820) | 12,072 | 52,497 | (32,854) | 19,643 |
| Total loans and receivables from customers | 1,079,178 | (48,743) | 1,030,435 | 1,057,087 | (55,135) | 1,001,952 |
| Collective impairment allowance | | (21,929) | (21,929) | | (18,527) | (18,527) |
| Total net loans and receivables from customers | | | 1,008,506 | | | 983,425 |

All Group's loan portfolio exposures, which are not specifically impaired, are collectively evaluated for impairment, including those which are past due.

Certain loan portfolio's financial ratios

| | EUR 000's | | | |
|---|---------------------|---------------------|--------------------|--------------------|
| | 31/12/2016 Group | 31/12/2015 Group | 31/12/2016 Bank | 31/12/2015 Bank |
| Non-performing loans ratio ¹⁾ | 9.9% | 10.8% | 11.0% | 11.0% |
| Non-performing loans coverage ratio ²⁾ | 62.9% | 66.2% | 59.6% | 63.6% |
| 90 days past due ratio ³⁾ | 3.6% | 4.8% | 3.4% | 4.3% |
| 90 days past due coverage ratio ⁴⁾ | 171% | 148% | 192% | 163% |

1) Non-performing loans ratio is calculated as non-performing loans divided by total gross loans and receivables from customers as at the end of the relevant period. Non-performing loans are defined as total gross loans and receivables from customers that are 90 days or more overdue or that are specifically impaired as at the end of the relevant period.

2) Non-performing loans coverage ratio is calculated as total allowance for impairment for loans and receivables from customers at the end of the relevant period, divided by gross non-performing loans, as at the end of the relevant period.

3) 90 days past due ratio is calculated as gross loans and receivables from customers that are 90 or more days overdue divided by total gross loans and receivables from customers as at the end of the relevant period.

4) 90 days past due coverage ratio is calculated as total allowance for loan impairment, divided by total gross loans and receivables from customers that are 90 or more days overdue, each as at the end of the relevant period.

NOTE 16. LEASES

The following table represents finance leases by type of assets funded:

| | EUR 000's | | | |
|--|---------------------|---------------------|--------------------|--------------------|
| | 31/12/2016 Group | 31/12/2015 Group | 31/12/2016 Bank | 31/12/2015 Bank |
| Transport vehicles | 108,367 | 89,727 | - | 24 |
| Manufacturing equipment | 17,377 | 20,833 | - | - |
| Real estate | 4,151 | 4,459 | - | - |
| Other | 18,648 | 19,436 | - | - |
| Total present value of finance lease payments, excluding impairment | 148,543 | 134,455 | - | 24 |
| Impairment allowance | (6,281) | (9,453) | - | - |
| Net present value of finance lease payments | 142,262 | 125,002 | - | 24 |

In 2016, Group's finance leases in the amount of EUR 4,070 thousand were written-off (2015: EUR 786 thousand). As a result, accumulated impairment allowance for finance lease contracts has decreased during the period. For more information on impairment movement refer to Note 10.

The following table represents reconciliation between the gross investment in the finance leases and the present value of minimum lease payments receivable:

| | EUR 000's | | | |
|---|---------------------|---------------------|--------------------|--------------------|
| | 31/12/2016 Group | 31/12/2015 Group | 31/12/2016 Bank | 31/12/2015 Bank |
| Gross investment in finance leases receivable: | | | | |
| within 1 year | 63,629 | 57,471 | - | - |
| later than 1 year and no later than in 5 years | 97,228 | 86,814 | - | 24 |
| later than in 5 years | 9 | 1,819 | - | - |
| Total gross investment in finance leases | 160,866 | 146,104 | - | 24 |
| Unearned finance income receivable: | | | | |
| within 1 year | 5,889 | 5,541 | - | - |
| later than 1 year and no later than in 5 years | 6,434 | 6,101 | - | - |
| later than in 5 years | - | 7 | - | - |
| Total | 12,323 | 11,649 | - | - |
| Present value of minimum lease payments receivable: | | | | |
| within 1 year | 57,740 | 51,930 | - | - |
| later than 1 year and no later than in 5 years | 90,794 | 80,713 | - | 24 |
| later than in 5 years | 9 | 1,812 | - | - |
| Total | 148,543 | 134,455 | - | 24 |

NOTE 17. PROPERTY AND EQUIPMENT

| | EUR 000's | | | |
|---|---------------------|---------------------|--------------------|--------------------|
| | 31/12/2016 Group | 31/12/2015 Group | 31/12/2016 Bank | 31/12/2015 Bank |
| Leasehold improvements | 587 | 179 | 480 | 179 |
| Land and buildings | 38,926 | 38,978 | 901 | 926 |
| Transport vehicles | 605 | 623 | 189 | 288 |
| IT and other equipment | 3,814 | 3,284 | 3,384 | 2,962 |
| Total excluding prepayments | 43,932 | 43,064 | 4,954 | 4,355 |
| Prepayments for property and equipment | 15 | 47 | 14 | 38 |
| Total net book value of property and equipment | 43,947 | 43,111 | 4,968 | 4,393 |

Changes in the Group's property and equipment excluding prepayments:

| | EUR 000's | | | | |
|--|------------------------|--------------------|--------------------|------------------------|-----------------------------|
| | Leasehold improvements | Land and buildings | Transport vehicles | IT and other equipment | Total excluding prepayments |
| <i>Historical cost</i> | | | | | |
| As at 31 December 2014 | 4,787 | 71,244 | 2,046 | 30,128 | 108,205 |
| Additions | 79 | 26 | 184 | 2,040 | 2,329 |
| Disposals | (206) | (128) | (257) | (1,788) | (2,379) |
| As at 31 December 2015 | 4,660 | 71,142 | 1,973 | 30,380 | 108,155 |
| Additions | 509 | 29 | 445 | 2,159 | 3,142 |
| Disposals | (4,127) | - | (1,326) | (3,055) | (8,508) |
| As at 31 December 2016 | 1,042 | 71,171 | 1,092 | 29,484 | 102,789 |
| <i>Accumulated depreciation</i> | | | | | |
| As at 31 December 2014 | 4,504 | 16,942 | 1,328 | 27,365 | 50,139 |
| Charge for the year | 109 | 1,982 | 198 | 1,038 | 3,327 |
| Impairment release/(charge) | - | 566 | - | - | 566 |
| Reversal due to disposals | (132) | (97) | (222) | (1,680) | (2,131) |
| As at 31 December 2015 | 4,481 | 19,393 | 1,304 | 26,723 | 51,901 |
| Charge for the year | 100 | 2,105 | 186 | 1,349 | 3,740 |
| Impairment release/(charge) | - | 445 | - | - | 445 |
| Reversal due to disposals | (4,126) | - | (1,048) | (2,803) | (7,977) |
| As at 31 December 2016 | 455 | 21,943 | 442 | 25,269 | 48,109 |
| <i>Impairment allowance</i> | | | | | |
| As at 31 December 2014 | - | (15,181) | (59) | (316) | (15,556) |
| Net reversal and write-offs | - | 2,410 | 13 | (57) | 2,366 |
| As at 31 December 2015 | - | (12,771) | (46) | (373) | (13,190) |
| Net reversal and write-offs | - | 2,469 | 1 | (28) | 2,442 |
| As at 31 December 2016 | - | (10,302) | (45) | (401) | (10,748) |
| <i>Net book value (incl. impairment allowance)</i> | | | | | |
| As at 31 December 2014 | 283 | 39,121 | 659 | 2,447 | 42,510 |
| As at 31 December 2015 | 179 | 38,978 | 623 | 3,284 | 43,064 |
| As at 31 December 2016 | 587 | 38,926 | 605 | 3,814 | 43,932 |

Impairment allowance for Group's land and buildings is calculated internally as the value which is determined as discounted expected future cash flow generated by the property adjusted for capital expenditure. Key assumptions are discount rate of 9.5% (2015: 9.5%) and expected net cash flows generated by the property. If discount rate would change by +/-100 basis points the carrying value of the property would change by EUR -3.9 million and EUR +5.0 million respectively (2015: EUR -4.1 million and EUR +5.4 million). If net cash flows adjusted for capital expenses would change by +/-10% the carrying value of the property would change by EUR +/-3.6 million (2015: EUR +/-3.8 million).

Changes in the Bank's property and equipment excluding prepayments:

| | EUR 000's | | | | |
|---------------------------------|---------------------------|-----------------------|-----------------------|------------------------------|-----------------------------------|
| | Leasehold Improvements | Land and buildings | Transport vehicles | IT and other equipment | Total excluding prepayments |
| <i>Historical cost</i> | | | | | |
| As at 31 December 2014 | 4,787 | 1,213 | 1,291 | 21,613 | 28,904 |
| Additions | 79 | 26 | 143 | 1,701 | 1,949 |
| Disposals | (206) | - | (86) | (1,557) | (1,849) |
| As at 31 December 2015 | 4,660 | 1,239 | 1,348 | 21,757 | 29,004 |
| Additions | 382 | - | 34 | 1,741 | 2,157 |
| Disposals | (4,127) | - | (855) | (2,768) | (7,750) |
| As at 31 December 2016 | 915 | 1,239 | 527 | 20,730 | 23,411 |
| <i>Accumulated depreciation</i> | | | | | |
| As at 31 December 2014 | 4,504 | 289 | 1,030 | 19,431 | 25,254 |
| Charge for the year | 110 | 24 | 112 | 920 | 1,166 |
| Reversal due to disposals | (133) | - | (82) | (1,556) | (1,771) |
| As at 31 December 2015 | 4,481 | 313 | 1,060 | 18,795 | 24,649 |
| Charge for the year | 81 | 25 | 100 | 1,200 | 1,406 |
| Reversal due to disposals | (4,127) | - | (822) | (2,649) | (7,598) |
| As at 31 December 2016 | 435 | 338 | 338 | 17,346 | 18,457 |
| <i>Net book value</i> | | | | | |
| As at 31 December 2014 | 283 | 924 | 261 | 2,182 | 3,650 |
| As at 31 December 2015 | 179 | 926 | 288 | 2,962 | 4,355 |
| As at 31 December 2016 | 480 | 901 | 189 | 3,384 | 4,954 |

NOTE 18. INTANGIBLE ASSETS

| | EUR 000's | | | |
|--|---------------------|---------------------|--------------------|--------------------|
| | 31/12/2016 Group | 31/12/2015 Group | 31/12/2016 Bank | 31/12/2015 Bank |
| Software | 2,804 | 2,113 | 2,568 | 1,968 |
| Other intangible assets | 129 | 109 | 94 | 65 |
| Total excluding prepayments | 2,933 | 2,222 | 2,662 | 2,033 |
| Prepayments for intangible assets | 142 | 316 | 100 | 180 |
| Total net book value of intangible assets | 3,075 | 2,538 | 2,762 | 2,213 |

Movements in the Group's intangible assets excluding prepayments:

| | EUR 000's | | |
|--|---------------|-------------------------|-----------------------------|
| | Software | Other intangible assets | Total excluding prepayments |
| <i>Historical cost</i> | | | |
| As at 31 December 2014 | 15,137 | 1,192 | 16,329 |
| Additions | 1,803 | 19 | 1,822 |
| Disposals | (172) | (53) | (225) |
| As at 31 December 2015 | 16,768 | 1,158 | 17,926 |
| Additions | 1,634 | 149 | 1,783 |
| Disposals | (13) | (3) | (16) |
| As at 31 December 2016 | 18,389 | 1,304 | 19,693 |
| <i>Accumulated amortisation</i> | | | |
| As at 31 December 2014 | 13,408 | 930 | 14,338 |
| Charge for the year | 621 | 42 | 663 |
| Impairment release/(charge) | 248 | - | 248 |
| Reversal due to disposals | (130) | (31) | (161) |
| As at 31 December 2015 | 14,147 | 941 | 15,088 |
| Charge for the year | 870 | 38 | 908 |
| Impairment release/(charge) | 248 | - | 248 |
| Reversal due to disposals | (8) | (3) | (11) |
| As at 31 December 2016 | 15,257 | 976 | 16,233 |
| <i>Impairment allowance</i> | | | |
| As at 31 December 2014 | (724) | (128) | (852) |
| Write-offs | 276 | 22 | 298 |
| Net impairment | (60) | (2) | (62) |
| As at 31 December 2015 | (508) | (108) | (616) |
| Write-offs | 248 | - | 248 |
| Net impairment | (68) | (91) | (159) |
| As at 31 December 2016 | (328) | (199) | (527) |
| <i>Net book value (incl. impairment allowance)</i> | | | |
| As at 31 December 2014 | 1,005 | 134 | 1,139 |
| As at 31 December 2015 | 2,113 | 109 | 2,222 |
| As at 31 December 2016 | 2,804 | 129 | 2,933 |

Lithuanian banking business at the consolidated level is considered a separate cash generating unit. For details of the value in use calculation please refer to Note 19 (*Investments in Subsidiaries*). The calculation shows that the cash generating unit is impaired, thus Lithuanian banking business' non-financial assets for which observable market value is not available have been impaired; these are all intangible assets and certain property and equipment items of Lithuanian banking subsidiary.

Movements in the Bank's intangible assets excluding prepayments:

| | EUR 000's | | |
|--|---------------|-------------------------|-----------------------------|
| | Software | Other intangible assets | Total excluding prepayments |
| <i>Historical cost</i> | | | |
| As at 31 December 2014 | 13,697 | 108 | 13,805 |
| Additions | 1,631 | 17 | 1,648 |
| Disposals | (4) | - | (4) |
| As at 31 December 2015 | 15,324 | 125 | 15,449 |
| Additions | 1,345 | 57 | 1,402 |
| As at 31 December 2016 | 16,669 | 182 | 16,851 |
| <i>Accumulated amortisation</i> | | | |
| As at 31 December 2014 | 12,247 | 31 | 12,278 |
| Charge for the year | 493 | 31 | 524 |
| Impairment release/(charge) | 248 | - | 248 |
| Reversal due to disposals | (4) | (2) | (6) |
| As at 31 December 2015 | 12,984 | 60 | 13,044 |
| Charge for the year | 745 | 28 | 773 |
| Impairment release/(charge) | 248 | - | 248 |
| As at 31 December 2016 | 13,977 | 88 | 14,065 |
| <i>Impairment allowance</i> | | | |
| As at 31 December 2014 | (620) | - | (620) |
| Write-offs | 248 | - | 248 |
| As at 31 December 2015 | (372) | - | (372) |
| Write-offs | 248 | - | 248 |
| As at 31 December 2016 | (124) | - | (124) |
| <i>Net book value (incl. impairment allowance)</i> | | | |
| As at 31 December 2014 | 830 | 77 | 907 |
| As at 31 December 2015 | 1,968 | 65 | 2,033 |
| As at 31 December 2016 | 2,568 | 94 | 2,662 |

NOTE 19. INVESTMENTS IN SUBSIDIARIES

In 2016 than Bank has recognised EUR 5,127 thousand in dividend income from subsidiaries which in the income statement is shown as other income (2015: EUR 238 thousand). On dividend pay-out subsidiaries in certain jurisdiction have to retain part of that amount or part of standalone profit as a reserve. Such reserves in the Group's financial statements are presented as other reserves.

Changes in the Bank's investments in subsidiaries:

| | EUR 000's | |
|--|---------------|---------------|
| | 2016 | 2015 |
| Balance at the beginning of the period, net | 61,580 | 61,605 |
| Equity investments in existing subsidiaries | 435 | 1 |
| Impairment, net | (131) | (26) |
| Balance at the end of the period, net | 61,884 | 61,580 |

Based on the forecasted performance of the repossessed asset management companies and SIA CBL Cash Logistics, share capital in some of these subsidiaries was impaired (net) by EUR 131 thousand in 2016 (EUR 26 thousand in 2015). On 16 March 2016 the legal name of SIA Hortus LH was changed to SIA CBL Cash Logistics and subsequently its share capital was increased by EUR 435 thousand.

As SIA E & P Baltic Properties had no ongoing operations, the management decided to terminate 50% participation in this company. On 20 December 2016 Enterprise Register of Republic of Latvia confirmed Citadele's termination of its former 50% participation share in SIA E & P Baltic Properties. Starting from this date, SIA E & P Baltic Properties and its transactions are excluded from the consolidation group.

As at 31 December 2016 total Bank's gross investment in subsidiaries is EUR 111,680 thousand (2015: EUR 111,245 thousand).

As at 31 December 2016 and 2015 the Bank held the following direct and indirect investments which are consolidated:

| Company | Country of registration | Business profile | 31/12/2016 | | | 31/12/2015 | | | Carrying value EUR 000's | |
|--|-------------------------|---------------------------------|----------------------------|-----------------------|--------------------------|----------------------------|-----------------------|--------------------------|-----------------------------|---------------|
| | | | Share capital EUR 000's | The Group's share (%) | % of total voting rights | Share capital EUR 000's | The Group's share (%) | % of total voting rights | 31/12/2016 | 31/12/2015 |
| AB Citadele bankas | Lithuania | Banking | 43,112 | 100 | 100 | 43,112 | 100 | 100 | 40,025 | 40,025 |
| AP Anlage & Privatbank AG | Switzerland | Banking | 9,312 | 100 | 100 | 8,317 | 100 | 100 | 13,805 | 13,805 |
| SIA Citadele Līzings un Faktoringas | Latvia | Leasing | 19,351 | 100 | 100 | 19,351 | 100 | 100 | 709 | 709 |
| OU Citadele Leasing & Factoring | Estonia | Leasing | 500 | 100 | 100 | 500 | 100 | 100 | 445 | 445 |
| UAB Citadele faktoringas ir lizingas | Lithuania | Leasing | 434 | 100 | 100 | 434 | 100 | 100 | - | - |
| IPAS CBL Asset Management | Latvia | Finance | 5,905 | 100 | 100 | 5,905 | 100 | 100 | 5,906 | 5,906 |
| AS CBL Atklātais Pensiju Fonds | Latvia | Pension fund | 640 | 100 | 100 | 640 | 100 | 100 | 646 | 646 |
| AAS CBL Life | Latvia | Life insurance | 4,269 | 100 | 100 | 4,269 | 100 | 100 | - | - |
| SIA E&P Baltic Properties | Latvia | Finance | - | - | - | 28 | 50 | 50 | - | - |
| SIA PR Speciālie Projekti | Latvia | Misc.* | 3 | 100 | 100 | 3 | 100 | 100 | - | - |
| Calenia Investments Limited | Cyprus | Misc.* | 2 | 100 | 100 | 2 | 100 | 100 | - | - |
| OOO Mizush Asset Management Ukraina | Ukraine | Finance | 683 | 100 | 100 | 618 | 100 | 100 | - | - |
| SIA Citadele Express Kredīts | Latvia | Leasing | 45 | 100 | 100 | 45 | 100 | 100 | 38 | 38 |
| SIA Rīgas Pirmā Garāža | Latvia | Real estate rent and management | 19,372 | 100 | 100 | 19,372 | 100 | 100 | - | - |
| SIA RPG Interjers | Latvia | Misc.* | 1,355 | 100 | 100 | 1,355 | 100 | 100 | - | - |
| SIA CBL Cash Logistics | Latvia | Misc.* | 438 | 100 | 100 | 3 | 100 | 100 | 310 | 2 |
| SIA Hortus Commercial | Latvia | Misc.* | 3 | 100 | 100 | 3 | 100 | 100 | - | - |
| SIA Hortus Land | Latvia | Misc.* | 3 | 100 | 100 | 3 | 100 | 100 | - | - |
| SIA Hortus TC | Latvia | Misc.* | 428 | 100 | 100 | 428 | 100 | 100 | - | 3 |
| SIA Hortus Residential | Latvia | Misc.* | 203 | 100 | 100 | 203 | 100 | 100 | - | - |
| SIA Hortus MD | Latvia | Misc.* | 3 | 100 | 100 | 3 | 100 | 100 | - | - |
| SIA Hortus JU | Latvia | Misc.* | 3 | 100 | 100 | 3 | 100 | 100 | - | - |
| SIA Hortus RE | Latvia | Misc.* | 3 | 100 | 100 | 3 | 100 | 100 | - | 1 |
| SIA Hortus BR | Latvia | Misc.* | 403 | 100 | 100 | 403 | 100 | 100 | - | - |
| SIA Hortus NI | Latvia | Misc.* | 3 | 100 | 100 | 3 | 100 | 100 | - | - |
| Total investments in subsidiaries | | | | | | | | | 61,884 | 61,580 |

* Misc. – the companies are providing various support services.

Carrying value of investment in subsidiary SIA Rīgas Pirmā Garāža depends directly on the value of the major assets of the company, being the office building and furniture therein, which in the Group's consolidated accounts are accounted for as property and equipment. For impairment assessment methodology of Group's property and equipment refer to Note 17.

Carrying value of investment in AB Citadele bankas (100% owned banking subsidiary of the Bank) is based on a model where expected free equity distributable to shareholders is estimated. The key assumptions of the model are discount rate of 14.0% (2015: 18.0%), minimum target capital adequacy ratio and future profitability of the operations of the entity. Changing applied discount rate by +/-100 basis points would result in EUR -3.8 million loss or EUR +4.7 million gain respectively (2015: EUR -2.1 million loss or EUR 2.4 million gain); adjusting minimum target capital adequacy ratio by +/-100 basis points would result in EUR -4.9 million loss or EUR 4.9 million gain (2015: EUR -4.2 million loss or EUR 4.2 million gain); fluctuation in forecasted profitability by +/-10% would result in EUR -6.4 million loss or EUR +6.4 million gain (2015: EUR -4.1 million loss or EUR -4.1 million gain).

NOTE 20. OTHER ASSETS

| | EUR 000's | | | |
|---|---------------------|---------------------|--------------------|--------------------|
| | 31/12/2016 Group | 31/12/2015 Group | 31/12/2016 Bank | 31/12/2015 Bank |
| Deposits with card payment system companies | 13,002 | 12,653 | 13,002 | 12,653 |
| Money in transit | 9,198 | 5,190 | 7,135 | 4,309 |
| Prepayments | 3,217 | 3,371 | 1,600 | 1,443 |
| Inventories | 8,731 | 6,658 | 944 | 1,110 |
| Other assets * | 8,148 | 8,481 | 4,039 | 5,349 |
| Total gross other assets | 42,296 | 36,353 | 26,720 | 24,864 |
| Impairment allowance | (2,227) | (4,138) | (1,584) | (3,531) |
| Total net other assets | 40,069 | 32,215 | 25,136 | 21,333 |

* As at 31 December 2016, carrying amount of delayed other assets was EUR nil (2015: EUR nil). As at 31 December 2016, the impaired other assets mostly related to capitalised debt collection expenditure: EUR 2,227 thousand (2015: EUR 5,898 thousand) for the Group and EUR 1,584 thousand (2015: EUR 5,046 thousand) for the Bank. These amounts carried impairment allowances of EUR 2,227 thousand for the Group (2015: EUR 3,816 thousand) and EUR 1,584 thousand for the Bank (2015: EUR 3,531 thousand).

NOTE 21. FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

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

| | EUR 000's | | | |
|--|---------------------|---------------|---------------------|---------------|
| | 2016 Unit-linked | 2016 Other | 2015 Unit-linked | 2015 Other |
| Balance as at the beginning of the period | 19,341 | 14,574 | 12,784 | 11,810 |
| Premiums received | 6,457 | 4,066 | 8,253 | 3,503 |
| Commissions and risk charges | (382) | (291) | (436) | (298) |
| Paid to policyholders | (3,422) | (1,966) | (1,602) | (815) |
| Other | 736 | 227 | 2 | 360 |
| Currency revaluation result | 334 | 4 | 340 | 14 |
| Balance as at the end of the period | 23,064 | 16,614 | 19,341 | 14,574 |

All unit-linked insurance plan liabilities are covered by certain financial assets designated at fair value through profit or loss. According to unit-linked investment contract terms, the risk associated with the investments made by the insurance underwriter is fully attributable to the counterparty entering the insurance agreement and not the underwriter.

In 2016 from financial liabilities designated at fair value through profit or loss which are not unit-linked the Group has recognised net revaluation result of EUR +117 thousand in the statement of income (2015: EUR -86 thousand). Most of the insurance business the Group is involved in relates to investment contracts rather than insurance risk, therefore, premiums received are recognised as liabilities of the Group since settlement in due course is expected. The amount of insurance risk generated by the Group currently is immaterial and, therefore, not further disclosed in detail in these financial statements.

NOTE 22. BALANCES DUE TO CREDIT INSTITUTIONS AND CENTRAL BANKS

| | EUR 000's | | | |
|--|---------------------|---------------------|--------------------|--------------------|
| | 31/12/2016 Group | 31/12/2015 Group | 31/12/2016 Bank | 31/12/2015 Bank |
| Due to credit institutions registered in Latvia | 11,147 | 39,463 | 11,147 | 39,463 |
| Due to credit institutions registered in non-OECD countries | 2,157 | 2,137 | 15,842 | 25,372 |
| Due to credit institutions registered in other OECD countries | 42 | 35 | 102,941 | 22,943 |
| Total balances due to credit institutions and central banks | 13,346 | 41,635 | 129,930 | 87,778 |

NOTE 23. DEPOSITS FROM CUSTOMERS

Deposits from customers according to customer profile:

| | EUR 000's | | | |
|--|---------------------|---------------------|--------------------|--------------------|
| | 31/12/2016 Group | 31/12/2015 Group | 31/12/2016 Bank | 31/12/2015 Bank |
| Privately held companies | 1,286,817 | 1,180,403 | 823,390 | 850,492 |
| Private individuals | 1,206,807 | 1,072,706 | 903,822 | 860,243 |
| Financial institutions | 253,656 | 129,796 | 268,083 | 144,397 |
| State and municipality owned enterprises | 116,199 | 116,775 | 113,999 | 102,404 |
| Municipalities | 18,757 | 10,853 | 18,757 | 10,853 |
| Public and religious institutions | 18,469 | 66,458 | 16,466 | 64,432 |
| Government | 18,187 | 6,039 | 4,706 | 4,528 |
| Total deposits from customers | 2,918,892 | 2,583,030 | 2,149,223 | 2,037,349 |

Certain special purpose financing received from government related agencies previously presented as other financial liabilities at amortised cost since 2016 interim financial statements is presented within deposits from state and municipality owned enterprises.

| | EUR 000's | | | |
|--------------------------------------|---------------------|---------------------|--------------------|--------------------|
| | 31/12/2016 Group | 31/12/2015 Group | 31/12/2016 Bank | 31/12/2015 Bank |
| Demand deposits | 2,113,175 | 1,872,294 | 1,641,388 | 1,510,265 |
| Term deposits: | | | | |
| due within 1 month | 108,566 | 242,256 | 67,654 | 196,598 |
| due within 2-3 months | 174,183 | 71,325 | 86,599 | 49,133 |
| due within 4-6 months | 138,396 | 71,150 | 84,027 | 37,761 |
| due within 7-12 months | 229,387 | 164,814 | 148,746 | 118,433 |
| due within 2-5 years | 146,262 | 154,895 | 115,420 | 121,718 |
| due in more than 5 years | 8,923 | 6,296 | 5,389 | 3,441 |
| Total term deposits | 805,717 | 710,736 | 507,835 | 527,084 |
| Total deposits from customers | 2,918,892 | 2,583,030 | 2,149,223 | 2,037,349 |

As at 31 December 2016 and 31 December 2015 the largest Bank's exposure with single group of connected parties did not exceed 5% of the total deposit portfolio.

NOTE 24. OTHER LIABILITIES

| | EUR 000's | | | |
|---|---------------------|---------------------|--------------------|--------------------|
| | 31/12/2016 Group | 31/12/2015 Group | 31/12/2016 Bank | 31/12/2015 Bank |
| Accrued expense | 14,334 | 14,702 | 10,532 | 11,772 |
| Suspense liabilities and money in transit | 3,237 | 2,882 | 2,428 | 2,573 |
| Amounts due to suppliers | 1,471 | 3,246 | 1,336 | 2,811 |
| Deferred income | 331 | 231 | - | - |
| Other liabilities | 6,851 | 4,202 | 1,493 | 963 |
| Total other liabilities | 26,224 | 25,263 | 15,789 | 18,119 |

Suspense liabilities comprise funds received by the Group and the Bank as at year end, but not yet transferred to ultimate beneficiaries due to unclear or incomplete details of the supporting documentation.

NOTE 25. SUBORDINATED LIABILITIES

On 6 December 2016, Citadele completed EUR 40 million 10 year Tier 2 capital qualifying subordinated bond issuance. Bonds were issued within the framework of the First Unsecured Subordinated Bonds programme. These bonds carry a coupon of 6.25% and are used to further strengthen the Group's overall capital position, to facilitate the execution of the Bank's growth strategy across the Baltics and to repay the subordinated debt owed to the Privatisation Agency. For more details on repayment of EUR 34.7 million subordinated debt owed to Privatisation Agency refer to Note 35 (*Events after the Balance Sheet Date*). The Group's and the Bank's capitalisation was positively affected by the attracted Tier 2 capital. For more details on capital adequacy refer to *Capital Management* section of Note 34 (*Risk Management*).

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

| Debt issuance programme or counterparty | Currency | Interest rate | Maturity date | Principal (EUR 000's) | Amortised cost (EUR 000's) | |
|---|----------|------------------|------------------|--------------------------|-------------------------------|---------------|
| | | | | | 31/12/2016 | 31/12/2015 |
| Publicly listed unsecured subordinated bonds | EUR | 6.25% | 06/12/2026 | 40,000 | 39,901 | - |
| Privatisation Agency | EUR | 6.82% | 20/12/2017* | 34,728 | 35,688 | 35,701 |
| EBRD | EUR | 8.30% | 08/08/2020 | 18,400 | 19,019 | 19,014 |
| | | | | | 94,608 | 54,715 |

* Agreed with Privatisation Agency and repaid earlier on 4 January 2017. See Note 35 (*Events after the Balance Sheet Date*).

NOTE 26. SHARE CAPITAL

As at 31 December 2016, the Bank's registered and paid-in share capital was EUR 156,556 thousand (2015: EUR 156,556 thousand). All shares as at 31 December 2016 and 31 December 2015 were issued and fully paid. As at 31 December 2016 and 31 December 2015, the Bank did not possess any of its own shares. No dividends were proposed and paid during the year ended 31 December 2016 or 2015.

On 5 April 2016, Citadele's share structure was reverted to a single class share capital structure with nominal of each share in the amount of one EUR, and each single class share having one voting right, equal dividend rights and equal liquidation quota. The total number of ordinary shares with voting rights is 156,555,796.

Bank's shareholders as at 31 December 2016:

| | 31/12/2016 | |
|--|-----------------------------|---------------------------------|
| | 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 ¹ | 35,082,302 | 35,082,302 |
| Delan S.A.R.L. ² | 15,597,160 | 15,597,160 |
| EMS LB LLC ³ | 13,864,142 | 13,864,142 |
| NNS Luxembourg Investments S.a.r.l. ⁴ | 13,864,142 | 13,864,142 |
| Amolino Holdings Inc. ⁵ | 13,863,987 | 13,863,987 |
| Shuco LLC ⁶ | 10,998,979 | 10,998,979 |
| Other shareholders | 14,146,136 | 14,146,136 |
| Total | 156,555,796 | 156,555,796 |

¹ RA Citadele Holdings LLC (United States) is a wholly owned subsidiary of Ripplewood Advisors LLC and is beneficially owned by Mr Timothy Collins

² Delan S.A.R.L is beneficially owned by the Baupost Group LLC

³ EMS LB LLC is beneficially owned by Mr Edmond M. Safra

⁴ NNS Luxembourg Investments S.a.r.l. is beneficially owned by Mr Nassef O. Sawiris

⁵ Amolino Holdings Inc. is beneficially owned by Mr James L. Balsilie

⁶ Shuco LLC is beneficially owned by Mr Stanley S. Shuman

All shares other than these owned by European Bank for Reconstruction and Development and RA Citadele Holdings LLC are owned by an international consortium of twelve investors led by Ripplewood Advisors LLC.

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

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

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

In April 2015 Citadele's share capital was increased by EUR 10 million with corresponding increase in number of shares outstanding. This change in the number of shares is reflected in calculation of weighted average number of shares outstanding during the year ended 31 December 2015.

In the year ended 31 December 2016 the share structure of Citadele was changed from three categories of shares with differentiated dividend rights and nominal to a single category share structure with equal dividend rights and equal nominal. As there were no cash dividend payments to shareholders in the year ended 31 December 2016 and since the share structure has been simplified considerably during the period, for more transparent presentation purposes the earnings per share calculation uses the same number of shares outstanding for 31 December 2016 and for 31 December 2015.

NOTE 27. OFF-BALANCE SHEET ITEMS

Off-balance sheet items comprise contingent liabilities, financial commitments, notional amounts payable or receivable from transactions with foreign exchange contracts and other derivative financial instruments.

Contingent liabilities (showing maximum credit exposure) and financial commitments outstanding as at 31 December 2016 and 2015:

| | EUR 000's | | | |
|--|---------------------|---------------------|--------------------|--------------------|
| | 31/12/2016 Group | 31/12/2015 Group | 31/12/2016 Bank | 31/12/2015 Bank |
| Contingent liabilities: | | | | |
| Outstanding guarantees | 24,937 | 38,517 | 19,729 | 34,242 |
| Outstanding letters of credit | 3,267 | - | 3,268 | - |
| Total contingent liabilities | 28,204 | 38,517 | 22,997 | 34,242 |
| Financial commitments: | | | | |
| Loans granted, not fully drawn down | 48,796 | 33,879 | 38,542 | 32,820 |
| Unutilised credit lines and overdraft facilities | 60,733 | 47,267 | 127,540 | 69,110 |
| Card commitments | 89,085 | 86,853 | 77,370 | 74,251 |
| Factoring commitments | 17,411 | 7,790 | - | - |
| Bank placement commitments | - | 2,332 | - | - |
| Total financial commitments | 216,025 | 178,121 | 243,452 | 176,181 |

Notional amounts and fair values of foreign exchange contracts and derivative financial instruments:

Group:

| | Notional amount EUR 000's | | Fair value EUR 000's | | | |
|---|------------------------------|----------------|-------------------------|----------------|--------------|----------------|
| | 31/12/2016 | 31/12/2015 | 31/12/2016 | | 31/12/2015 | |
| | | | Assets | Liabilities | Assets | Liabilities |
| Foreign exchange contracts: | | | | | | |
| Forwards | 553 | 68,049 | 27 | - | 595 | (91) |
| Swaps | 463,482 | 610,854 | 4,556 | (1,817) | 4,311 | (1,810) |
| Total foreign exchange contracts | 464,035 | 678,904 | 4,583 | (1,817) | 4,907 | (1,901) |
| Derivative financial instruments | 464,035 | 678,904 | 4,583 | (1,817) | 4,907 | (1,901) |

Bank:

| | Notional amount EUR 000's | | Fair value EUR 000's | | | |
|---|------------------------------|----------------|-------------------------|----------------|--------------|----------------|
| | 31/12/2016 | 31/12/2015 | 31/12/2016 | | 31/12/2015 | |
| | | | Assets | Liabilities | Assets | Liabilities |
| Foreign exchange contracts: | | | | | | |
| Forwards | 553 | 66,880 | 27 | (1) | 592 | (87) |
| Swaps | 524,050 | 621,887 | 4,683 | (1,922) | 4,368 | (1,810) |
| Total foreign exchange contracts | 524,603 | 688,767 | 4,710 | (1,923) | 4,960 | (1,897) |
| Derivative financial instruments | 524,603 | 688,767 | 4,710 | (1,923) | 4,960 | (1,897) |

The Group's banks use derivative foreign exchange instruments to manage their currency positions, which arise also due to derivative foreign exchange contracts concluded with the banks' clients. Before entering into derivative foreign currency agreement with private individual or company, the Group's entities assess the counterparty's ability to meet the contractual provisions. As at 31 December 2016, more than 66% (2015: 74%) of the fair value of derivative assets on foreign exchange contracts is attributable to credit and finance institutions. As at 31 December 2016, none (2015: nil) of the payments receivable arising out of derivative transactions was past due.

NOTE 28. FUNDS UNDER TRUST MANAGEMENT

The table below provides analysis of the fair value of funds managed on behalf of customers by investment type:

| | EUR 000's | | | |
|---|---------------------|---------------------|--------------------|--------------------|
| | 31/12/2016 Group | 31/12/2015 Group | 31/12/2016 Bank | 31/12/2015 Bank |
| Fixed income securities: | | | | |
| Government bonds | 147,032 | 158,013 | - | - |
| Corporate bonds | 69,161 | 75,257 | - | - |
| Credit institution bonds | 23,498 | 30,086 | - | - |
| Other financial institution bonds | 14,102 | 5,347 | - | - |
| Foreign municipality bonds | - | 1,750 | - | - |
| Total investments in fixed income securities | 253,793 | 270,453 | - | - |
| Other investments: | | | | |
| Investment funds | 256,942 | 273,033 | 6,486 | 6,733 |
| Loans | 54,618 | 54,698 | 54,618 | 54,698 |
| Deposits with credit institutions | 36,479 | 25,999 | 1,815 | 1,956 |
| Shares | 24,846 | 21,131 | - | - |
| Real estate | 1,774 | 4,269 | - | - |
| Other | 108,164 | 32,901 | - | - |
| Total other investments | 482,823 | 412,031 | 62,919 | 63,387 |
| Total assets under trust management agreements | 736,616 | 682,484 | 62,919 | 63,387 |

The table below provides an analysis of the customer profile on whose behalf the funds are managed:

| | EUR 000's | | | |
|--|---------------------|---------------------|--------------------|--------------------|
| | 31/12/2016 Group | 31/12/2015 Group | 31/12/2016 Bank | 31/12/2015 Bank |
| Pension Plans | 386,509 | 332,274 | - | - |
| Insurance companies, investment and pension funds | 114,273 | 117,347 | - | - |
| Other companies | 183,178 | 178,926 | 62,919 | 63,387 |
| Private individuals | 52,656 | 53,937 | - | - |
| Total liabilities under trust management agreements | 736,616 | 682,484 | 62,919 | 63,387 |

NOTE 29. FINANCIAL ASSETS PLEDGED

| | EUR 000's | | | |
|--|---------------------|---------------------|--------------------|--------------------|
| | 31/12/2016 Group | 31/12/2015 Group | 31/12/2016 Bank | 31/12/2015 Bank |
| Due from credit institutions and central banks | 5,430 | 7,158 | 4,359 | 5,028 |
| Loans to customers | 2,482 | 1,341 | 1,861 | 731 |
| Securities | 1,912 | 30,115 | - | 30,115 |
| Other assets | 13,090 | 12,822 | 13,090 | 12,750 |
| Total financial assets pledged | 22,914 | 51,436 | 19,310 | 48,624 |
| Total liabilities secured by pledged financial assets | - | - | - | - |

All pledged amounts consist of several placements to secure various Bank's and Group's transactions in the ordinary course of business.

NOTE 30. CASH AND CASH EQUIVALENTS

The table below provides a breakdown of cash and cash equivalents as at 31 December 2016 and 31 December 2015:

| | EUR 000's | | | |
|--|---------------------|---------------------|--------------------|--------------------|
| | 31/12/2016 Group | 31/12/2015 Group | 31/12/2016 Bank | 31/12/2015 Bank |
| Cash and balances with central banks | 799,198 | 555,078 | 647,606 | 348,960 |
| Balances with other credit institutions* | 138,797 | 168,457 | 153,870 | 292,973 |
| Demand balances due to other credit institutions | (2,561) | (13,894) | (17,296) | (24,617) |
| Total cash and cash equivalents | 935,434 | 709,641 | 784,180 | 617,316 |

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

NOTE 31. SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Management board of the Bank is the chief operating decision maker.

The internal reporting of operating segments is continually evolving with business objectives and developments in the markets in which the Group operates. Recently the Management has reviewed the allocation of revenue and costs to each of the segments. This is fully implemented in the segment disclosures. Comparatives for 2015 have been prepared by applying the up to date principles thus these reflect the current segment measurement approach.

All transactions between business segments are carried on an arm's length basis. The calculation of the net interest income of each business is performed by applying the internal transfer rates to both the asset and liability entries. These internal transfer rates take into account various components: maturity, currency and timing of the transaction, as well as mandatory charges. These rates do not contain the cost of capital component. Income and expenses are reported in the segments by originating unit and at estimated market prices. Both direct and indirect expenses are allocated to the business segments, including non-recurring items and those items for which there is no clearly defined link to the business. Operating expenses are attributed to the individual segments on the basis of cost causation. The indirect expenses arising in connection with internal services are charged to the user of the service and credited to the segment performing the service. The provision of intra-group services is charged at estimated market prices or at full cost. The inter-segment revenues are defined as internal interest income and expense related to the funding of the operating segments.

Main business segments of the Group are:

Retail

Has overall responsibility for providing services to private individuals and small and medium-sized companies in Latvia. Offers full banking and advisory services through branches, internet bank and mobile bank.

Corporate

Has overall responsibility for providing services to customers with either yearly turnover over EUR 7 million, assets over EUR 15 million or risk exposure over EUR 2 million and those with needs of complex financing solutions.

Private Capital Management

Has overall responsibility for providing private banking, advisory and transaction services to local and foreign high net-worth individuals and foreign companies.

Estonia

Has overall responsibility for providing banking services to all types of companies and individuals in Estonia.

Lithuania

Banking services to all types of companies and individuals provided by AB Citadele bankas (Lithuania).

Switzerland

Has overall responsibility for providing private banking services to high-net worth individuals outside Latvia, Lithuania and Estonia.

Asset Management

Has overall responsibility for providing investment, wealth management, life insurance and advisory services to all types of companies and individuals.

Leasing

Has overall responsibility for providing finance and operating lease and factoring services to all types of companies and individuals in the Latvia, Lithuania and Estonia.

Other

Includes support to business units within own area of expertise and includes results of subsidiaries who offer non-banking services. The major function in the Banking group contributing to this segment is treasury.

For the year ended 31/12/2016 and as at 31/12/2016

EUR '000

| | Banking | | | | | | | Other business lines | | | Eliminations and consolidation adjustments | Group, consolidated |
|--|---------------|---------------|----------------------------|--------------|---------------|---------------|--------------|----------------------|--------------|--------------|--|---------------------|
| | Retail | Corporate | Private Capital Management | Estonia | Other | Lithuania | Switzerland | Asset management | Leasing | Other | | |
| Net interest income | 25,989 | 12,267 | 5,829 | 3,697 | 2,365 | 10,020 | 2,144 | (12) | 5,234 | (1,387) | 49 | 66,195 |
| Net commission and fee income | 7,023 | 3,040 | 11,390 | 1,551 | 4,141 | 2,274 | 3,280 | 6,686 | 31 | 781 | (52) | 40,145 |
| Gain on transactions with financial instruments, net | 1,033 | 371 | 4,344 | 918 | 3,844 | 1,502 | 1,315 | 524 | (41) | - | 184 | 13,994 |
| Other income | 134 | 39 | 74 | 6 | 7,759 | 594 | - | 197 | 517 | 5,915 | (12,584) | 2,651 |
| Operating income | 34,179 | 15,717 | 21,637 | 6,172 | 18,109 | 14,390 | 6,739 | 7,395 | 5,741 | 5,309 | (12,403) | 122,985 |
| Administrative and other expense | (29,678) | (6,357) | (10,432) | (3,062) | (7,512) | (10,780) | (4,603) | (4,094) | (3,600) | (3,658) | 7,364 | (76,412) |
| Amortisation and depreciation charge | (469) | (16) | (20) | (25) | (1,648) | (77) | (82) | (40) | (164) | (2,117) | 4 | (4,654) |
| Impairment charges and reversals, net | (4,353) | (2,857) | (131) | (718) | (2,103) | (995) | - | (145) | (1,032) | 2,181 | 32 | (10,121) |
| Segment result (excl. Visa*) | (321) | 6,487 | 11,054 | 2,367 | 6,846 | 2,538 | 2,054 | 3,116 | 945 | 1,715 | (5,003) | 31,798 |
| Gain on transactions with financial instruments, net | - | - | - | - | 11,330 | - | - | - | - | - | - | 11,330 |
| Segment result (incl. Visa*) | (321) | 6,487 | 11,054 | 2,367 | 18,176 | 2,538 | 2,054 | 3,116 | 945 | 1,715 | (5,003) | 43,128 |
| <i>of which internal transactions</i> | 1,515 | (1,898) | 6,868 | 804 | (4,972) | 1,510 | 1,319 | (1,648) | (5,718) | 2,220 | - | - |
| Segment assets | 407,514 | 301,491 | 40,472 | 96,726 | 1,783,407 | 503,072 | 315,445 | 58,237 | 157,044 | 47,677 | (361,570) | 3,349,515 |
| Segment liabilities | 661,805 | 281,339 | 921,786 | 226,899 | 299,644 | 453,624 | 294,152 | 43,093 | 149,731 | 56,295 | (293,086) | 3,095,282 |

*2016 adjusted for one-time income in the amount of EUR 11.3 million due to sale of Citadele's share in Visa Europe to Visa Inc.

For the year ended 31/12/2015 and as at 31/12/2015

EUR '000

| | Banking | | | | | | | Other business lines | | | Eliminations and consolidation adjustments | Group, consolidated |
|--|---------------|---------------|----------------------------|--------------|---------------|---------------|--------------|----------------------|--------------|--------------|--|---------------------|
| | Retail | Corporate | Private Capital Management | Estonia | Other | Lithuania | Switzerland | Asset management | Leasing | Other | | |
| Net interest income | 21,182 | 9,933 | 7,501 | 2,589 | 6,895 | 7,173 | 2,237 | 76 | 4,201 | (1,388) | 67 | 60,466 |
| Net commission and fee income | 7,177 | 2,184 | 11,016 | 503 | 4,383 | 2,193 | 2,462 | 5,690 | (10) | (1) | (60) | 35,537 |
| Gain on transactions with financial instruments, net | 893 | 292 | 4,187 | 613 | 5,097 | 2,810 | (74) | 2 | 11 | - | (206) | 13,625 |
| Other income | 382 | 65 | 61 | 10 | 1,563 | 199 | - | 316 | 454 | 6,065 | (6,067) | 3,048 |
| Operating income | 29,634 | 12,474 | 22,765 | 3,715 | 17,938 | 12,375 | 4,625 | 6,084 | 4,656 | 4,676 | (6,266) | 112,676 |
| Administrative and other expense | (26,607) | (5,766) | (10,243) | (3,243) | (10,477) | (8,877) | (3,897) | (3,944) | (2,653) | (3,141) | 5,657 | (73,191) |
| Amortisation and depreciation charge | (303) | (2) | (9) | (21) | (1,354) | (29) | (158) | (24) | (112) | (1,977) | (11) | (4,000) |
| Impairment charges and reversals, net | (2,849) | (1,237) | (162) | (557) | (1,427) | 20 | - | (114) | (1,808) | 2,058 | (165) | (6,241) |
| Segment result | (125) | 5,469 | 12,351 | (106) | 4,680 | 3,489 | 570 | 2,002 | 83 | 1,616 | (785) | 29,244 |
| <i>of which internal transactions</i> | 513 | (3,198) | 8,313 | 1,022 | (5,381) | 1,529 | 675 | (1,357) | (4,186) | 2,070 | - | - |
| Segment assets | 360,930 | 341,339 | 37,972 | 80,282 | 1,588,477 | 405,299 | 358,733 | 52,200 | 139,065 | 43,666 | (447,500) | 2,960,463 |
| Segment liabilities | 601,250 | 274,632 | 871,488 | 236,041 | 216,448 | 358,681 | 338,691 | 35,719 | 132,680 | 54,433 | (379,371) | 2,740,692 |

NOTE 32. LITIGATIONS AND CLAIMS

In the ordinary course of business, the Bank and the Group either as claimant, defendant or a third party are involved in a number of legal proceedings against customers and other counterparties, in Latvia and abroad, including among other matters proceedings to seek to recover collateral or outstanding balances, as well as related interest and expenses from defaulted credit customers and interbank counterparties.

The management of the Bank believes that any legal proceedings pending as at 31 December 2016 will not result in material losses for the Group in addition to amounts already provided for in these financial statements.

NOTE 33. RELATED PARTIES

Related parties are defined as shareholders who have significant influence over the Group, members of the Supervisory Board and Management Board, key Management personnel, their close relatives and companies in which they have a controlling interest as well as the Group's subsidiaries and associated companies. For the purpose of this disclosure, the key management of the Group's companies and the Bank and their related companies are stated in one line, accordingly. All transactions with related parties were made on terms equivalent to those that prevail in arm's length transactions.

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

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

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

| | EUR 000's | | | |
|---|---------------------|---------------------|--------------------|--------------------|
| | 31/12/2016 Group | 31/12/2015 Group | 31/12/2016 Bank | 31/12/2015 Bank |
| <u>Credit exposures to other related parties, net</u> | | | | |
| Loans and receivables from customers and balances due from credit institutions, net | | | | |
| - Management | 66 | 418 | 39 | 155 |
| - Consolidated subsidiaries | - | - | 205,493 | 309,461 |
| Investments in subsidiaries, net | - | - | 61,884 | 61,580 |
| Derivatives with subsidiaries | - | - | 127 | 55 |
| Other assets | - | - | 655 | 268 |
| Financial commitments and guarantees outstanding | 103 | 70 | 73,459 | 29,756 |
| Credit exposures to related parties, net | 169 | 488 | 341,657 | 401,275 |
| <u>Liabilities to other related parties</u> | | | | |
| Deposits from customers and balances due to credit institutions | | | | |
| - Management | 813 | 875 | 532 | 468 |
| - Consolidated subsidiaries | - | - | 33,706 | 29,631 |
| Subordinated liabilities (EBRD) | 19,019 | 18,995 | 19,019 | 18,995 |
| Derivatives with subsidiaries | - | - | 105 | - |
| Other liabilities | 97 | - | 107 | 122 |
| Liabilities to related parties | 19,929 | 19,870 | 53,469 | 49,216 |

As at 31 December 2016 a specific impairment allowance of EUR 781 thousand (EUR 570 thousand) was recognised on loans and receivables from consolidated subsidiaries which are engaged in managing properties that are bought in auctions as a result of foreclosure processes undertaken by the Group. The ultimate recoverability of loans issued to these subsidiaries depends on the holding period and sales price of the properties in the portfolio. For information on investments in subsidiaries refer to Note 19 (*Investments in Subsidiaries*).

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

| | EUR 000's | | | |
|--|---------------|---------------|--------------|--------------|
| | 2016 Group | 2015 Group | 2016 Bank | 2015 Bank |
| Interest income | | | | |
| - Management | 7 | 5 | 5 | 4 |
| - Consolidated subsidiaries | - | - | 3,641 | 3,371 |
| Interest expense | | | | |
| - Management | (3) | (3) | (1) | (1) |
| - Subordinated liabilities (ERAB) | (1,573) | (1,281) | (1,573) | (1,281) |
| - Consolidated subsidiaries | - | - | (1,063) | (815) |
| Commission and fee income | 13 | 13 | 1,633 | 1,462 |
| Commission and fee expense | (3) | (2) | (257) | (10) |
| Gain on transactions with financial instruments, net | - | - | (132) | (1,642) |
| Dividends received from consolidated subsidiaries | - | - | 5,127 | 238 |
| Other income | - | - | 2,466 | 1,310 |

For information on management's remuneration refer to Note 9 (*Personnel Expense*). During 2016 the Group's and the Bank's other

administrative expense with related parties amounted to EUR 2.3 million and EUR 5.7 million, respectively (2015: EUR 2.2 million and EUR 5.6 million). This mostly relates to rent and utility fees paid to the Group's companies and Advisory Service Agreement fee. In May 2015, the Bank has entered into the Advisory Services Agreement with Ripplewood Advisors LLC, where Ripplewood is paid EUR 2 million per annum for the services provided to the Bank. These advisory services include business plan development, risk management, capital allocation, strategic analysis, operating efficiency, human resource management, and other services.

NOTE 34. RISK MANAGEMENT

Risk management policies

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.

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 an 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 decisions are 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, taking 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 groups 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.

Group's loan portfolio delinquencies:

| EUR 000's | | | | | | | |
|---|------------------|---|-------------------|----------------------------|--------------|--|------------------|
| 31/12/2016 | | | | | | | |
| | Regular loans | Utilised credit lines and overdraft facilities | Finance leases | Debit balances on cards | Factoring | Due from investment counterparties | Total |
| Not delayed - not impaired | 835,732 | 122,064 | 129,133 | 46,282 | 6,248 | 3,904 | 1,143,363 |
| Not delayed - impaired | 63,203 | 3,762 | 4,397 | - | - | 1,285 | 72,647 |
| Total not delayed loans | 898,935 | 125,826 | 133,530 | 46,282 | 6,248 | 5,189 | 1,216,010 |
| Past due loans - not impaired | | | | | | | |
| Delayed days: | | | | | | | |
| =< 29 | 24,115 | 399 | 9,026 | 1,776 | 1,145 | - | 36,461 |
| 30-59 | 4,759 | 363 | 2,963 | 368 | - | - | 8,453 |
| 60-89 | 2,924 | 232 | 175 | 213 | - | - | 3,544 |
| 90 and more | 8,344 | 1,630 | 103 | - | 45 | - | 10,122 |
| Total past due loans - not impaired | 40,142 | 2,624 | 12,267 | 2,357 | 1,190 | - | 58,580 |
| Total past due loans - impaired | 39,378 | 1,417 | 2,746 | 4,914 | - | - | 48,455 |
| Total gross loans and receivables from customers | 978,455 | 129,867 | 148,543 | 53,553 | 7,438 | 5,189 | 1,323,045 |
| Impairment allowance | (61,896) | (5,958) | (6,279) | (6,976) | (143) | (1,277) | (82,529) |
| Total net loans and receivables from customers | 916,559 | 123,909 | 142,264 | 46,577 | 7,295 | 3,912 | 1,240,516 |

| EUR 000's | | | | | | | |
|---|------------------|---|-------------------|----------------------------|--------------|--|------------------|
| 31/12/2015 | | | | | | | |
| | Regular loans | Utilised credit lines and overdraft facilities | Finance leases | Debit balances on cards | Factoring | Due from investment counterparties | Total |
| Not delayed - not impaired | 789,476 | 126,353 | 109,762 | 46,838 | 3,727 | 2,178 | 1,078,334 |
| Not delayed - impaired | 50,549 | 2,877 | 4,370 | - | - | 1,467 | 59,263 |
| Total not delayed loans | 840,025 | 129,230 | 114,132 | 46,838 | 3,727 | 3,645 | 1,137,597 |
| Past due loans - not impaired | | | | | | | |
| Delayed days: | | | | | | | |
| =< 29 | 20,361 | 1,017 | 8,161 | 1,428 | 1,032 | - | 31,999 |
| 30-59 | 7,629 | 630 | 4,090 | 438 | 25 | - | 12,812 |
| 60-89 | 2,012 | 63 | 997 | 175 | - | - | 3,247 |
| 90 and more | 7,384 | 1,053 | 906 | 275 | - | - | 9,618 |
| Total past due loans - not impaired | 37,386 | 2,763 | 14,154 | 2,316 | 1,057 | - | 57,676 |
| Total past due loans - impaired | 46,605 | 8,885 | 6,169 | 5,175 | 413 | - | 67,247 |
| Total gross loans and receivables from customers | 924,016 | 140,878 | 134,455 | 54,329 | 5,197 | 3,645 | 1,262,520 |
| Impairment allowance | (58,981) | (12,445) | (9,462) | (7,542) | (478) | (1,267) | (90,175) |
| Total net loans and receivables from customers | 865,035 | 128,433 | 124,993 | 46,787 | 4,719 | 2,378 | 1,172,345 |

Bank's loan portfolio delinquencies:

| EUR 000's 31/12/2016 | | | | | |
|---|----------------|--|-------------------------|------------------------------------|------------------|
| | Regular loans | Utilised credit lines and overdraft facilities | Debit balances on cards | Due from investment counterparties | Total |
| Not delayed - not impaired | 700,667 | 194,481 | 42,337 | 3,283 | 940,768 |
| Not delayed - impaired | 62,195 | 10,450 | - | 1,285 | 73,930 |
| Total not delayed loans | 762,862 | 204,931 | 42,337 | 4,568 | 1,014,698 |
| Past due loans - not impaired | | | | | |
| Delayed days: | | | | | |
| =< 29 | 13,257 | 239 | 1,132 | - | 14,628 |
| 30-59 | 2,788 | 101 | 327 | - | 3,216 |
| 60-89 | 1,712 | 81 | 177 | - | 1,970 |
| 90 and more | 5,307 | 467 | - | - | 5,774 |
| Total past due loans - not impaired | 23,064 | 888 | 1,636 | - | 25,588 |
| Total past due loans - impaired | 33,588 | 458 | 4,846 | - | 38,892 |
| Total gross loans and receivables from customers | 819,514 | 206,277 | 48,819 | 4,568 | 1,079,178 |
| Impairment allowance | (57,545) | (4,943) | (6,907) | (1,277) | (70,672) |
| Total net loans and receivables from customers | 761,969 | 201,334 | 41,912 | 3,291 | 1,008,506 |

| EUR 000's 31/12/2015 | | | | | | |
|---|----------------|--|----------------|-------------------------|------------------------------------|------------------|
| | Regular loans | Utilised credit lines and overdraft facilities | Finance leases | Debit balances on cards | Due from investment counterparties | Total |
| Not delayed - not impaired | 672,817 | 201,913 | 24 | 42,605 | 1,568 | 918,927 |
| Not delayed - impaired | 48,895 | 6,902 | - | - | 1,467 | 57,264 |
| Total not delayed loans | 721,712 | 208,815 | 24 | 42,605 | 3,035 | 976,191 |
| Past due loans - not impaired | | | | | | |
| Delayed days: | | | | | | |
| =< 29 | 13,450 | 683 | - | 903 | - | 15,036 |
| 30-59 | 5,442 | 570 | - | 379 | - | 6,391 |
| 60-89 | 810 | 9 | - | 160 | - | 979 |
| 90 and more | 4,845 | 873 | - | 275 | - | 5,993 |
| Total past due loans - not impaired | 24,547 | 2,135 | - | 1,717 | - | 28,399 |
| Total past due loans - impaired | 38,549 | 8,886 | - | 5,062 | - | 52,497 |
| Total gross loans and receivables from customers | 784,808 | 219,836 | 24 | 49,384 | 3,035 | 1,057,087 |
| Impairment allowance | (52,983) | (11,984) | - | (7,428) | (1,267) | (73,662) |
| Total net loans and receivables from customers | 731,825 | 207,852 | 24 | 41,956 | 1,768 | 983,425 |

Changes in the Group's specific loan portfolio impairment by classes:

| | Regular loans | Utilised credit lines and overdraft facilities | Finance leases | Debit balances on cards | Factoring | Due from investment counterparties | Total |
|---|---------------|--|----------------|-------------------------|-------------|------------------------------------|---------------|
| Outstanding specific impairment as at 31/12/2014 | 39,535 | 13,021 | 7,063 | 6,468 | 255 | 1,334 | 67,676 |
| Impairment charge for the reported period - specific | 8,138 | 312 | 1,155 | 784 | 155 | 199 | 10,743 |
| Release of previously established impairment allowance - specific | (2,837) | (114) | (245) | (304) | - | - | (3,500) |
| Impairment charged to the statement of income, net | 5,301 | 198 | 910 | 480 | 155 | 199 | 7,243 |
| Change of impairment allowance due to write-offs, net | (4,443) | (1) | (786) | (1,791) | - | (412) | (7,433) |
| Change of impairment allowance due to change in loan class | 3,272 | (3,272) | - | - | - | - | - |
| Change of impairment allowance due to currency fluctuations | 179 | (61) | - | 7 | - | 140 | 265 |
| Outstanding specific impairment as at 31/12/2015 | 43,844 | 9,885 | 7,187 | 5,164 | 410 | 1,261 | 67,751 |
| Impairment charge for the reported period - specific | 9,096 | 1,983 | 2,307 | 649 | - | 11 | 14,046 |
| Release of previously established impairment allowance - specific | (3,332) | (81) | (1,126) | (101) | (10) | (35) | (4,685) |
| Impairment charged to the statement of income, net | 5,764 | 1,902 | 1,181 | 548 | (10) | (24) | 9,361 |
| Change of impairment allowance due to write-offs, net | (5,733) | (8,999) | (4,070) | (1,316) | (400) | (30) | (20,548) |
| Change of impairment allowance due to currency fluctuations | 37 | (17) | - | 18 | - | 68 | 106 |
| Outstanding specific impairment as at 31/12/2016 | 43,912 | 2,771 | 4,298 | 4,414 | - | 1,275 | 56,670 |

Changes in the Bank's specific loan portfolio impairment by classes:

| | Regular loans | Utilised credit lines and overdraft facilities | Debit balances on cards | Due from investment counterparties | Total |
|---|---------------|--|-------------------------|------------------------------------|---------------|
| Outstanding specific impairment as at 31/12/2014 | 33,078 | 12,077 | 4,897 | 1,331 | 51,383 |
| Impairment charge for the reported period - specific | 6,717 | 894 | 751 | 199 | 8,561 |
| Release of previously established impairment allowance - specific | (1,989) | (119) | (3) | - | (2,111) |
| Impairment charged to the statement of income, net | 4,728 | 775 | 748 | 199 | 6,450 |
| Change of impairment allowance due to write-offs, net | (1,962) | - | (589) | (413) | (2,964) |
| Change of impairment allowance due to change in loan class | 3,272 | (3,272) | - | - | - |
| Change of impairment allowance due to currency fluctuations | 177 | (61) | 7 | 143 | 266 |
| Outstanding specific impairment as at 31/12/2015 | 39,293 | 9,519 | 5,063 | 1,260 | 55,135 |
| Impairment charge for the reported period - specific | 8,523 | 1,397 | 611 | 12 | 10,543 |
| Release of previously established impairment allowance - specific | (2,717) | (173) | (104) | (35) | (3,029) |
| Impairment charged to the statement of income, net | 5,806 | 1,224 | 507 | (23) | 7,514 |
| Change of impairment allowance due to write-offs, net | (4,206) | (8,551) | (1,225) | (30) | (14,012) |
| Change of impairment allowance due to currency fluctuations | 37 | (15) | 16 | 68 | 106 |
| Outstanding specific impairment as at 31/12/2016 | 40,930 | 2,177 | 4,361 | 1,275 | 48,743 |

In the table below estimated fair value of loan collateral is presented separately for those assets where collateral and other credit enhancements exceed carrying value of the asset (LTV < 100%) and those assets where collateral and other credit enhancements are equal to or less than the carrying value of the asset (LTV ≥ 100%).

Group:

| | EUR 000's | | | | | | | |
|--|--------------------------|------------------------------------|--------------------------|------------------------------------|--------------------------|------------------------------------|--------------------------|------------------------------------|
| | 31/12/2016 | | | | 31/12/2015 | | | |
| | LTV < 100% | | LTV ≥ 100% and unsecured | | LTV < 100% | | LTV ≥ 100% and unsecured | |
| | Carrying value of assets | Estimated fair value of collateral | Carrying value of assets | Estimated fair value of collateral | Carrying value of assets | Estimated fair value of collateral | Carrying value of assets | Estimated fair value of collateral |
| Regular loans | 720,833 | 1,549,788 | 195,726 | 112,849 | 735,677 | 1,566,223 | 129,360 | 78,082 |
| Utilised credit lines and overdraft facilities | 104,716 | 240,174 | 19,193 | 4,143 | 116,681 | 295,263 | 11,752 | 9,348 |
| Finance leases | 141,860 | 145,217 | 402 | 402 | 120,142 | 124,629 | 4,851 | 4,755 |
| Debit balances on cards | 218 | 1,396 | 46,359 | 1 | 189 | 1,317 | 46,598 | 2 |
| Factoring | 5,863 | 6,379 | 1,434 | - | 4,482 | 4,884 | 235 | 2 |
| Due from investment counterparties | 644 | 1,368 | 3,268 | - | - | - | 2,378 | - |
| Total net loans | 974,134 | 1,944,322 | 266,382 | 117,395 | 977,171 | 1,992,316 | 195,174 | 92,189 |

Bank:

| | EUR 000's | | | | | | | |
|--|--------------------------|------------------------------------|--------------------------|------------------------------------|--------------------------|------------------------------------|--------------------------|------------------------------------|
| | 31/12/2016 | | | | 31/12/2015 | | | |
| | LTV < 100% | | LTV ≥ 100% and unsecured | | LTV < 100% | | LTV ≥ 100% and unsecured | |
| | Carrying value of assets | Estimated fair value of collateral | Carrying value of assets | Estimated fair value of collateral | Carrying value of assets | Estimated fair value of collateral | Carrying value of assets | Estimated fair value of collateral |
| Regular loans | 556,857 | 1,139,971 | 158,612 | 97,781 | 596,114 | 1,221,321 | 87,215 | 46,262 |
| Utilised credit lines and overdraft facilities | 87,012 | 178,596 | 9,743 | 2,621 | 99,149 | 230,512 | 10,616 | 8,415 |
| Finance leases | - | - | - | - | 24 | 282 | - | - |
| Debit balances on cards | 191 | 1,332 | 41,721 | - | 179 | 1,298 | 41,776 | 2 |
| Due from investment counterparties | 644 | 1,368 | 2,647 | - | - | - | 1,768 | - |
| Loans to subsidiaries | - | - | 151,079 | 43,218 | - | - | 146,584 | 39,265 |
| Total net loans | 644,704 | 1,321,267 | 363,802 | 143,620 | 695,466 | 1,453,413 | 287,959 | 93,944 |

For loans that are not development projects, collateral value is determined using both estimated fair value of the real estate and 50% of all assets, excluding fixed assets, under commercial pledge. For development projects future loan-to-value ratio is used. Mostly, loans falling into categories "regular loans" and "utilised credit lines" are secured by collateral or commercial pledges. In general, card loans are granted to clients on a basis of their cash flows' assessment and no collateral is required in most cases. Similarly consumer lending products, which are presented as regular loans, are unsecured and granted based on client's credit assessment. Finance leases are secured by the respective property leased out as are factoring balances, which in certain cases are insured instead. Insurance coverage is not considered collateral for purposes of this disclosure.

Group's fixed income securities portfolio quality:

| | EUR 000's | | | | |
|--------------------------------------|------------------|--|--------------------|------------------|------------------|
| | 31/12/2016 | | | | |
| | Held for trading | Financial assets designated at fair value through profit or loss | Available for sale | Held to maturity | Total |
| Investment grade: | | | | | |
| AAA/Aaa | - | 22,982 | 156,122 | - | 179,104 |
| AA/Aa | - | 42,533 | 216,856 | - | 259,389 |
| A | 4,736 | 30,343 | 436,997 | - | 472,076 |
| BBB/Baa | 2,963 | 13,470 | 75,379 | - | 91,812 |
| Other lower ratings | - | 1,009 | 4,831 | - | 5,840 |
| Not rated | - | - | - | - | - |
| Total fixed income securities | 7,699 | 110,337 | 890,185 | - | 1,008,221 |

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

Bank's fixed income securities portfolio quality:

| EUR 000's | | | | | | |
|--|--------------------|----------------|------------------|--------------------|----------------|----------------|
| 31/12/2016 | | | 31/12/2015 | | | |
| Held to maturity | Available for sale | Total | Held to maturity | Available for sale | Total | |
| Investment grade: | | | | | | |
| AAA/Aaa | - | 132,114 | 132,114 | 2,739 | 109,890 | 112,629 |
| AA/Aa | - | 135,990 | 135,990 | - | 105,779 | 105,779 |
| A | - | 355,112 | 355,112 | 128,104 | 186,074 | 314,178 |
| BBB/Baa | - | 55,374 | 55,374 | - | 59,271 | 59,271 |
| Other lower ratings | - | 3,356 | 3,356 | - | 3,548 | 3,548 |
| Not rated | - | - | - | 34,450 | 4,997 | 39,447 |
| Total net fixed income securities | - | 681,946 | 681,946 | 165,293 | 469,559 | 634,852 |

Credit quality of due from credit institutions balances:

| EUR 000's | | | | |
|---|----------------|----------------|----------------|----------------|
| | 2016 Group | 2015 Group | 2016 Bank | 2015 Bank |
| Investment grade: | | | | |
| AA/Aa | 29,006 | 29,494 | 5,463 | 5,845 |
| A | 82,841 | 62,588 | 78,768 | 59,288 |
| BBB/Baa | 14,637 | 72,431 | 8,322 | 63,131 |
| Other lower ratings | 7,042 | 8,219 | 6,854 | 8,198 |
| Not rated Baltic registered credit institutions | 3,437 | 2,573 | 572 | 1,024 |
| Citadele Group's banks | - | - | 54,414 | 162,877 |
| Other not rated credit institutions | 4,728 | 5,840 | 26 | 917 |
| Total balances due from credit institutions, net | 141,691 | 181,145 | 154,419 | 301,280 |

GEOGRAPHICAL PROFILE

The carrying amount of the Group's assets, liabilities and memorandum items by geographical profile. The grouping is done based on information about the reported residence of the respective counterparties:

| | EUR 000's | | | | | | |
|---|------------------|----------------|----------------|--------------------|----------------|-----------------|------------------|
| | 31/12/2016 | | | | | | |
| | Latvia | Lithuania | Estonia | Other EU countries | CIS countries | Other countries | Total |
| Assets | | | | | | | |
| Cash and balances with central banks | 619,913 | 39,912 | 27,694 | - | - | 111,679 | 799,198 |
| Balances due from credit institutions | 2,839 | 760 | 14 | 24,490 | 7,961 | 105,627 | 141,691 |
| Securities held for trading | 6,430 | - | 1,128 | 5,374 | - | 553 | 13,485 |
| Financial assets designated at fair value through profit or loss | 12,496 | - | - | 73,939 | - | 46,891 | 133,326 |
| Available for sale securities | 263,239 | 72,665 | 4,165 | 274,458 | - | 288,662 | 903,189 |
| Loans and receivables from customers | 764,050 | 294,417 | 135,033 | 13,753 | 17,570 | 15,693 | 1,240,516 |
| Derivative financial instruments | 2,434 | - | - | 1,603 | 8 | 538 | 4,583 |
| Other assets | 90,656 | 5,561 | 2,202 | 13,152 | 105 | 1,851 | 113,527 |
| Total assets | 1,762,057 | 413,315 | 170,236 | 406,769 | 25,644 | 571,494 | 3,349,515 |
| Liabilities | | | | | | | |
| Financial liabilities designated at fair value through profit or loss | 32,374 | - | - | 364 | 6,940 | - | 39,678 |
| Balances due to credit institutions and central banks | 11,147 | 2,150 | 36 | - | 7 | 6 | 13,346 |
| Deposits from customers | 1,271,334 | 319,966 | 100,877 | 391,069 | 234,744 | 600,902 | 2,918,892 |
| Subordinated liabilities | 75,589 | - | - | 19,019 | - | - | 94,608 |
| Derivative financial instruments | 674 | - | - | 536 | 52 | 555 | 1,817 |
| Other liabilities | 20,545 | 3,572 | 873 | 183 | 59 | 1,709 | 26,941 |
| Total liabilities | 1,411,663 | 325,688 | 101,786 | 411,171 | 241,802 | 603,172 | 3,095,282 |
| Off-balance sheet items | | | | | | | |
| Contingent liabilities | 17,594 | 6,184 | 307 | 894 | 850 | 2,375 | 28,204 |
| Financial commitments | 151,379 | 49,626 | 11,925 | 1,046 | 930 | 1,119 | 216,025 |

For additional information on geographical distribution of securities exposures please refer to Note 14 (*Fixed and Non-fixed Income Securities*). EUR 111.7 million of Group's cash and deposit with central banks balances presented as "Other countries" is with Swiss National Bank (2015: EUR 177.2 million). From Group's balances due from credit institutions presented as "Other countries" EUR 32.5 million are with Swiss credit institutions (2015: EUR 58.5 million) and EUR 58.5 million with United States registered credit institutions (2015: EUR 24.8 million).

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

The carrying amount of the Bank's assets, liabilities and memorandum items by geographical profile. The grouping is done based on information about the reported residence of the respective counterparties:

| 31/12/2016, EUR 000's | | | | | | | |
|---|------------------|---------------|----------------|--------------------|----------------|-----------------|------------------|
| | Latvia | Lithuania | Estonia | Other EU countries | CIS countries | Other countries | Total |
| Assets | | | | | | | |
| Cash and balances with central banks | 619,913 | - | 27,693 | - | - | - | 647,606 |
| Balances due from credit institutions | 558 | 65 | - | 17,490 | 7,767 | 128,539 | 154,419 |
| Available for sale securities | 250,026 | 25,948 | 4,165 | 207,485 | - | 207,310 | 694,934 |
| Loans and receivables from customers | 815,605 | 23,322 | 131,339 | 9,763 | 16,806 | 11,671 | 1,008,506 |
| Derivative financial instruments | 2,434 | 29 | - | 1,603 | 8 | 636 | 4,710 |
| Other assets | 51,077 | 40,031 | 1,312 | 13,143 | 27 | 13,845 | 119,435 |
| Total assets | 1,739,613 | 89,395 | 164,509 | 249,484 | 24,608 | 362,001 | 2,629,610 |
| Liabilities | | | | | | | |
| Balances due to credit institutions and central banks | 11,147 | 15,836 | 36 | - | 6 | 102,905 | 129,930 |
| Deposits from customers | 1,280,461 | 4,987 | 103,615 | 238,815 | 149,935 | 371,410 | 2,149,223 |
| Subordinated liabilities | 75,589 | - | - | 19,019 | - | - | 94,608 |
| Derivative financial instruments | 674 | 4 | - | 536 | 52 | 657 | 1,923 |
| Other liabilities | 15,315 | 3 | 272 | 111 | 10 | 78 | 15,789 |
| Total liabilities | 1,383,186 | 20,830 | 103,923 | 258,481 | 150,003 | 475,050 | 2,391,473 |
| Off-balance sheet items | | | | | | | |
| Contingent liabilities | 17,573 | 2,677 | 307 | 315 | 443 | 1,682 | 22,997 |
| Financial commitments | 181,823 | 16,665 | 43,122 | 279 | 930 | 633 | 243,452 |

For additional information on geographical distribution of securities exposures please refer to Note 14 (*Fixed and Non-fixed Income Securities*). From Bank's balances due from credit institutions presented as "Other countries" EUR 55.8 million are with Swiss credit institutions and EUR 58.0 million with United States registered credit institutions.

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

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.

The following table represents the impact of a parallel change in all interest rates and security yields by 1.0% on the Group's and the Bank's profit before taxation (over 12-month period) and the available for sale securities' fair value revaluation reserve in equity. Scenarios incorporate interest rate 'floors' at 0% if such a condition exists in customer loan agreement. Customer deposit rates are assumed to be constrained by a zero lower bound. Group's figures are estimated from companies that bear significant interest rate risk: AS Citadele banka, AB Citadele (bankas), and AP Anlage & Privatbank AG.

| | EUR 000's | | | |
|---|---------------------|---------------------|--------------------|--------------------|
| | 31/12/2016 Group | 31/12/2015 Group | 31/12/2016 Bank | 31/12/2015 Bank |
| Scenario: +1% | | | | |
| Total for all currencies | | | | |
| Profit / (loss) before taxation | 15,312 | 7,100 | 12,685 | 6,040 |
| Securities fair value revaluation reserve | (12,999) | (9,953) | (8,528) | (5,958) |
| EUR only | | | | |
| Profit / (loss) before taxation | 11,238 | 5,420 | 9,783 | 4,416 |
| Securities fair value revaluation reserve | (6,073) | (3,184) | (3,790) | (1,779) |
| USD only | | | | |
| Profit / (loss) before taxation | 3,040 | 3,039 | 2,535 | 2,922 |
| Securities fair value revaluation reserve | (3,775) | (6,312) | (4,585) | (4,108) |
| Scenario: -1% | | | | |
| Total for all currencies | | | | |
| Profit / (loss) before taxation | (9,361) | (7,129) | (8,299) | (6,068) |
| Securities fair value revaluation reserve | 13,355 | 9,953 | 8,884 | 6,201 |
| EUR only | | | | |
| Profit / (loss) before taxation | (5,403) | (5,839) | (5,498) | (4,438) |
| Securities fair value revaluation reserve | 6,239 | 3,264 | 3,956 | 1,859 |
| USD only | | | | |
| Profit / (loss) before taxation | (2,933) | (3,073) | (2,415) | (2,928) |
| Securities fair value revaluation reserve | 6,547 | 6,473 | 4,770 | 4,269 |

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.

In the event of exchange rates for the following currencies in which the Group and the Bank has open positions adversely change as per scenario below, the potential total decrease in the Group's and Bank's total equity (ignoring any tax effect) would amount approximately to the following:

| Scenario: | Group EUR 000's | | | | | |
|-------------------|--------------------|-----|------------------|------------|-----|------------------|
| | 31/12/2016 | | | 31/12/2015 | | |
| | USD | CHF | Other currencies | USD | CHF | Other currencies |
| 2% adverse change | 30 | 127 | 68 | 34 | 114 | 22 |
| 5% adverse change | 76 | 317 | 169 | 84 | 285 | 55 |

| Scenario: | Bank EUR 000's | | | | | |
|-------------------|-------------------|-----|------------------|------------|-----|------------------|
| | 31/12/2016 | | | 31/12/2015 | | |
| | USD | CHF | Other currencies | USD | CHF | Other currencies |
| 2% adverse change | 24 | 1 | 18 | 7 | 2 | 15 |
| 5% adverse change | 61 | 2 | 44 | 18 | 4 | 39 |

During 2016 and 2015 the Bank was in compliance with the currency position limits.

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

| | Group as at 31/12/2016, EUR 000's | | | | | |
|---|-----------------------------------|------------------|------------------|----------------|----------------|------------------|
| | EUR | USD | CHF | RUB | Other | Total |
| Assets | | | | | | |
| Cash and balances with central banks | 679,086 | 3,482 | 111,946 | 236 | 4,448 | 799,198 |
| Balances due from credit institutions | 20,292 | 78,664 | 7,420 | 7,000 | 28,315 | 141,691 |
| Securities held for trading | 13,016 | 469 | - | - | - | 13,485 |
| Financial assets designated at fair value through profit or loss | 54,278 | 61,272 | 13,626 | - | 4,150 | 133,326 |
| Available for sale securities | 317,924 | 566,254 | - | - | 19,011 | 903,189 |
| Loans and receivables from customers | 1,199,101 | 40,964 | - | 297 | 154 | 1,240,516 |
| Derivative financial instruments | 4,583 | - | - | - | - | 4,583 |
| Other assets | 100,035 | 12,854 | 364 | 50 | 224 | 113,527 |
| Total assets | 2,388,315 | 763,959 | 133,356 | 7,583 | 56,302 | 3,349,515 |
| Liabilities | | | | | | |
| Financial liabilities designated at fair value through profit or loss | 32,361 | 7,317 | - | - | - | 39,678 |
| Balances due to credit institutions and central banks | 3,495 | 8,690 | - | 6 | 1,155 | 13,346 |
| Deposits from customers | 1,914,413 | 907,458 | 19,573 | 16,620 | 60,828 | 2,918,892 |
| Subordinated liabilities | 94,608 | - | - | - | - | 94,608 |
| Derivative financial instruments | 1,817 | - | - | - | - | 1,817 |
| Other liabilities | 22,947 | 1,898 | 1,591 | 242 | 263 | 26,941 |
| Total liabilities | 2,069,641 | 925,363 | 21,164 | 16,868 | 62,246 | 3,095,282 |
| Equity | 255,614 | (1,364) | - | - | (17) | 254,233 |
| Total liabilities and equity | 2,325,255 | 923,999 | 21,164 | 16,868 | 62,229 | 3,349,515 |
| Net long/ (short) position for balance sheet items | 63,060 | (160,040) | 112,192 | (9,285) | (5,927) | - |
| Off-balance sheet claims arising from foreign exchange | | | | | | |
| Spot exchange contracts | 2,292 | 1,460 | 362 | (39) | (4,081) | (6) |
| Forward foreign exchange contracts | (526) | 553 | - | - | - | 27 |
| Swap exchange contracts | (69,321) | 156,506 | (106,224) | 9,338 | 12,563 | 2,862 |
| Net long/ (short) positions on foreign exchange | (67,555) | 158,519 | (105,862) | 9,299 | 8,482 | 2,883 |
| Net long/ (short) total position | (4,495) | (1,521) | 6,330 | 14 | 2,555 | 2,883 |

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

| Bank as at 31/12/2016, EUR 000's | | | | | | |
|---|------------------|------------------|-----------------|----------------|----------------|------------------|
| | EUR | USD | CHF | RUB | Other | Total |
| Assets | | | | | | |
| Cash and balances with central banks | 640,495 | 3,030 | 240 | 236 | 3,605 | 647,606 |
| Balances due from credit institutions | 5,620 | 60,891 | 55,063 | 6,816 | 26,029 | 154,419 |
| Available for sale securities | 255,171 | 420,752 | - | - | 19,011 | 694,934 |
| Loans and receivables from customers | 973,264 | 34,676 | - | 297 | 269 | 1,008,506 |
| Derivative financial instruments | 4,710 | - | - | - | - | 4,710 |
| Other assets | 94,052 | 11,374 | 13,807 | 5 | 197 | 119,435 |
| Total assets | 1,973,312 | 530,723 | 69,110 | 7,354 | 49,111 | 2,629,610 |
| Liabilities | | | | | | |
| Balances due to credit institutions and central banks | 13,818 | 106,009 | 765 | 688 | 8,650 | 129,930 |
| Deposits from customers | 1,489,816 | 589,621 | 6,477 | 15,230 | 48,079 | 2,149,223 |
| Subordinated liabilities | 94,608 | - | - | - | - | 94,608 |
| Derivative financial instruments | 1,923 | - | - | - | - | 1,923 |
| Other liabilities | 13,725 | 1,734 | 5 | 78 | 247 | 15,789 |
| Total liabilities | 1,613,890 | 697,364 | 7,247 | 15,996 | 56,976 | 2,391,473 |
| Equity | 239,506 | (1,352) | - | - | (17) | 238,137 |
| Total liabilities and equity | 1,853,396 | 696,012 | 7,247 | 15,996 | 56,959 | 2,629,610 |
| Net long/ (short) position for balance sheet items | 119,916 | (165,289) | 61,863 | (8,642) | (7,848) | - |
| Off-balance sheet claims arising from foreign exchange | | | | | | |
| Spot exchange contracts | 2,700 | 938 | 362 | 100 | (4,103) | (3) |
| Forward foreign exchange contracts | (526) | 553 | - | - | - | 27 |
| Swap exchange contracts | (117,821) | 162,585 | (62,265) | 8,520 | 11,863 | 2,882 |
| Net long/ (short) positions on foreign exchange | (115,647) | 164,076 | (61,903) | 8,620 | 7,760 | 2,906 |
| Net long/ (short) total position | 4,269 | (1,213) | (40) | (22) | (88) | 2,906 |

| Bank as at 31/12/2015, EUR 000's | | | | | | |
|---|------------------|------------------|------------------|----------------|----------------|------------------|
| | EUR | USD | CHF | RUB | Other | Total |
| Assets | | | | | | |
| Cash and balances with central banks | 342,669 | 2,267 | 329 | 161 | 3,534 | 348,960 |
| Balances due from credit institutions | 34,809 | 47,599 | 162,900 | 8,001 | 47,971 | 301,280 |
| Available for sale securities | 151,499 | 314,648 | - | - | 23,259 | 489,406 |
| Loans and receivables from customers | 942,084 | 37,585 | 3,460 | 178 | 118 | 983,425 |
| Held to maturity securities | 165,293 | - | - | - | - | 165,293 |
| Derivative financial instruments | 4,960 | - | - | - | - | 4,960 |
| Other assets | 90,656 | 10,857 | 13,819 | - | 344 | 115,676 |
| Total assets | 1,731,970 | 412,956 | 180,508 | 8,340 | 75,226 | 2,409,000 |
| Liabilities | | | | | | |
| Balances due to credit institutions and central banks | 8,673 | 68,111 | 143 | 2,091 | 8,760 | 87,778 |
| Deposits from customers | 1,342,682 | 609,377 | 10,164 | 15,940 | 59,186 | 2,037,349 |
| Subordinated liabilities | 54,715 | - | - | - | - | 54,715 |
| Derivative financial instruments | 1,897 | - | - | - | - | 1,897 |
| Other liabilities | 15,124 | 2,708 | 5 | 128 | 154 | 18,119 |
| Total liabilities | 1,423,091 | 680,196 | 10,312 | 18,159 | 68,100 | 2,199,858 |
| Equity | 209,964 | (819) | - | - | (3) | 209,142 |
| Total liabilities and equity | 1,633,055 | 679,377 | 10,312 | 18,159 | 68,097 | 2,409,000 |
| Net long/ (short) position for balance sheet items | | | | | | |
| | 98,915 | (266,421) | 170,196 | (9,819) | 7,129 | - |
| Off-balance sheet claims arising from foreign exchange | | | | | | |
| Spot exchange contracts | 17,980 | (20,707) | (366) | (472) | 3,454 | (111) |
| Forward foreign exchange contracts | (66,169) | (2) | - | - | 66,676 | 505 |
| Swap exchange contracts | (49,324) | 287,487 | (169,909) | 10,345 | (76,710) | 1,889 |
| Net long/ (short) positions on foreign exchange | (97,513) | 266,778 | (170,275) | 9,873 | (6,580) | 2,283 |
| Net long/ (short) total position | 1,402 | 357 | (79) | 54 | 549 | 2,283 |

The investment in the Group's Swiss subsidiary AP Anlage & Privatbank AG, which is carried at cost, is shown as a CHF exposure, as the recoverability of this asset will ultimately depend on the Swiss currency's performance. As a result during the reporting period a revaluation result from changes in CHF exchange rate were recognised in Group's other comprehensive income.

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 a 30 day 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.

In 2016 and 2015 the Bank was in compliance with liquidity ratio requirements and met mandatory reserve requirements in the Bank of Latvia.

The following table contains Bank's liquidity ratios calculated in accordance with FCMC requirements:

| Year | Highest | Lowest | Average | Year-end |
|------|---------|--------|---------|----------|
| 2016 | 70% | 57% | 61% | 70% |
| 2015 | 63% | 55% | 59% | 57% |

Liquidity ratio is calculated as liquid assets divided by all liabilities with remaining contractual maturity of 30 days or less. Liquid assets for the purpose of the calculation are cash, balances due from Bank of Latvia and solvent credit institutions placed on demand and up to 30 days and balances redeemable before maturity with insignificant contractual penalties and investments in securities that can be sold in short time or pledged to obtain a loan.

Regulation (EC) No 575/2013 introduced the concept of liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) as measurements of the Bank's and the Group's liquidity position. Since 1 October 2016 LCR is calculated according to Commission Delegated Regulation (EU) 2015/61. European Union's regulations on NSFR are not yet finalised. Therefore, the Group when calculating NSFR has applied non-final legislation and guidelines published by Basel's Committee on Banking Supervision.

| | EUR 000's | | | |
|--------------------------|---------------------|---------------------|--------------------|--------------------|
| | 31/12/2016 Group | 31/12/2015 Group | 31/12/2016 Bank | 31/12/2015 Bank |
| Liquidity coverage ratio | 253% | 239% | 318% | 366% |
| Net stable funding ratio | 152% | 136% | 147% | 128% |

Group's assets, liabilities and off-balance sheet items by contractual maturity as at 31 December 2016

| | Group as at 31/12/2016, EUR 000's | | | | | | Total |
|---|-----------------------------------|----------------|----------------|----------------|------------------|-----------------------------------|------------------|
| | Within 1 month | 2-3 months | 4-6 months | 7-12 months | 2-5 years | Over 5 years and undated | |
| Assets | | | | | | | |
| Cash and balances with central banks | 799,198 | - | - | - | - | - | 799,198 |
| Balances due from credit institutions | 140,416 | 390 | - | 366 | 519 | - | 141,691 |
| Securities held for trading | 806 | 208 | - | 462 | 3,563 | 8,446 | 13,485 |
| Financial assets designated at fair value through profit or loss | 499 | 4,156 | 8,309 | 14,387 | 76,351 | 29,624 | 133,326 |
| Available for sale securities | 30,003 | 151,019 | 42,252 | 112,782 | 528,008 | 39,125 | 903,189 |
| Loans and receivables from customers | 52,780 | 60,297 | 87,260 | 193,236 | 557,331 | 289,612 | 1,240,516 |
| Derivative financial instruments | 1,766 | 2,705 | 112 | - | - | - | 4,583 |
| Other assets | 10,831 | 278 | 2,138 | 1,346 | 436 | 98,498 | 113,527 |
| Total assets | 1,036,299 | 219,053 | 140,071 | 322,579 | 1,166,208 | 465,305 | 3,349,515 |
| Liabilities | | | | | | | |
| Financial liabilities designated at fair value through profit or loss | 306 | 5,457 | 1,540 | 4,481 | 22,365 | 5,529 | 39,678 |
| Balances due to credit institutions and central banks | 12,516 | 690 | 140 | - | - | - | 13,346 |
| Deposits from customers | 2,221,741 | 174,183 | 138,396 | 229,387 | 146,262 | 8,923 | 2,918,892 |
| Subordinated liabilities | 35,688 | 619 | 179 | - | 18,400 | 39,722 | 94,608 |
| Derivative financial instruments | 1,614 | 122 | 81 | - | - | - | 1,817 |
| Other liabilities | 21,404 | 466 | 1,237 | 588 | 521 | 2,725 | 26,941 |
| Total liabilities | 2,293,269 | 181,537 | 141,573 | 234,456 | 187,548 | 56,899 | 3,095,282 |
| Equity | - | - | - | - | - | 254,233 | 254,233 |
| Total liabilities and equity | 2,293,269 | 181,537 | 141,573 | 234,456 | 187,548 | 311,132 | 3,349,515 |
| Net balance sheet position – long/ (short) | (1,256,970) | 37,516 | (1,502) | 88,123 | 978,660 | 154,173 | - |
| Off-balance sheet items | | | | | | | |
| Contingent liabilities | 28,204 | - | - | - | - | - | 28,204 |
| Financial commitments | 216,025 | - | - | - | - | - | 216,025 |

All Bank's and Group's subordinated liabilities payable are shown as per contractual terms effective as at 31 December 2016. Early repayment of a subordinated funding from Privatisation Agency in the amount of EUR 34.7 million was agreed before year end and repaid before initial maturity subsequent to the year end. For more details refer to Note 25 (*Subordinated Liabilities*) and Note 35 (*Events after the Balance Sheet Date*).

Group's contractual undiscounted cash flows of the financial liabilities as at 31 December 2016

| | EUR 000's | | | | | | Carrying amount |
|---|----------------|------------|------------|-------------|-------------|-----------|-----------------|
| | Within 1 month | 2-3 months | 4-6 months | 7-12 months | Over 1 year | Total | |
| Financial liabilities designated at fair value through profit or loss | 306 | 5,457 | 1,540 | 4,481 | 28,041 | 39,825 | 39,678 |
| Financial liabilities measured at amortised cost* | 2,270,058 | 176,062 | 140,408 | 233,154 | 251,401 | 3,071,083 | 3,026,846 |
| <u>Off-balance sheet items</u> | | | | | | | |
| Contingent liabilities | 28,204 | - | - | - | - | 28,204 | 28,204 |
| Financial commitments | 216,025 | - | - | - | - | 216,025 | 216,025 |

* Includes Balances due to credit institutions and central banks, Deposits from customers, and Subordinated liabilities. For other liabilities undiscounted contractual cash flows equal carrying value.

Group's assets, liabilities and off-balance sheet items by contractual maturity as at 31 December 2015

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

Group's contractual undiscounted cash flows of the financial liabilities as at 31 December 2015

| | EUR 000's | | | | | | Carrying amount |
|---|----------------|------------|------------|-------------|-------------|-----------|-----------------|
| | Within 1 month | 2-3 months | 4-6 months | 7-12 months | Over 1 year | Total | |
| Financial liabilities designated at fair value through profit or loss | 67 | 283 | 493 | 2,690 | 30,585 | 34,118 | 33,915 |
| Financial liabilities measured at amortised cost* | 2,161,414 | 114,975 | 73,930 | 172,065 | 226,076 | 2,748,460 | 2,679,380 |
| <u>Off-balance sheet items</u> | | | | | | | |
| Contingent liabilities | 38,517 | - | - | - | - | 38,517 | 38,517 |
| Financial commitments | 178,121 | - | - | - | - | 178,121 | 178,121 |

* Includes Balances due to credit institutions and central banks, Deposits from customers, and Subordinated liabilities. For other liabilities undiscounted contractual cash flows equal carrying value.

Bank's assets, liabilities and off-balance sheet items by contractual maturity as at 31 December 2016

| | EUR 000's | | | | | | |
|---|-------------------|----------------|----------------|----------------|----------------|-----------------------------------|------------------|
| | Within 1 month | 2-3 months | 4-6 months | 7-12 months | 2-5 years | Over 5 years and undated | Total |
| <u>Assets</u> | | | | | | | |
| Cash and balances with central banks | 647,606 | - | - | - | - | - | 647,606 |
| Balances due from credit institutions | 154,419 | - | - | - | - | - | 154,419 |
| Available for sale securities | 29,497 | 141,108 | 20,965 | 92,826 | 377,949 | 32,589 | 694,934 |
| Loans and receivables from customers | 27,994 | 133,544 | 59,989 | 149,567 | 379,533 | 257,879 | 1,008,506 |
| Derivative financial instruments | 1,892 | 2,706 | 112 | - | - | - | 4,710 |
| Other assets | 7,894 | - | - | - | - | 111,541 | 119,435 |
| Total assets | 869,302 | 277,358 | 81,066 | 242,393 | 757,482 | 402,009 | 2,629,610 |
| <u>Liabilities</u> | | | | | | | |
| Balances due to credit institutions and central banks | 44,666 | 60,282 | 17,068 | 4,477 | 3,437 | - | 129,930 |
| Deposits from customers | 1,709,041 | 86,599 | 84,028 | 148,746 | 115,420 | 5,389 | 2,149,223 |
| Subordinated liabilities | 35,688 | 619 | 179 | - | 18,400 | 39,722 | 94,608 |
| Derivative financial instruments | 1,720 | 122 | 81 | - | - | - | 1,923 |
| Other liabilities | 14,966 | - | - | - | - | 823 | 15,789 |
| Total liabilities | 1,806,081 | 147,622 | 101,356 | 153,223 | 137,257 | 45,934 | 2,391,473 |
| Equity | - | - | - | - | - | 238,137 | 238,137 |
| Total liabilities and equity | 1,806,081 | 147,622 | 101,356 | 153,223 | 137,257 | 284,071 | 2,629,610 |
| Net balance sheet position – long/ (short) | (936,779) | 129,736 | (20,290) | 89,170 | 620,225 | 117,938 | - |
| <u>Off-balance sheet items</u> | | | | | | | |
| Contingent liabilities | 22,997 | - | - | - | - | - | 22,997 |
| Financial commitments | 243,452 | - | - | - | - | - | 243,452 |

Bank's contractual undiscounted cash flows of the financial liabilities as at 31 December 2016

| | EUR 000's | | | | | | Carrying amount |
|---|----------------|------------|------------|-------------|-------------|-----------|-----------------|
| | Within 1 month | 2-3 months | 4-6 months | 7-12 months | Over 1 year | Total | |
| Financial liabilities measured at amortised cost* | 1,789,410 | 147,833 | 102,752 | 156,307 | 214,440 | 2,410,742 | 2,373,761 |
| Off-balance sheet items | | | | | | | |
| Contingent liabilities | 22,997 | - | - | - | - | 22,997 | 22,997 |
| Financial commitments | 243,452 | - | - | - | - | 243,452 | 243,452 |

* Includes Balances due to credit institutions and central banks, Deposits from customers, and Subordinated liabilities. For other liabilities undiscounted contractual cash flows equal carrying value.

Bank's assets, liabilities and off-balance sheet items by contractual maturity as at 31 December 2015

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

Bank's contractual undiscounted cash flows of the financial liabilities as at 31 December 2015

| | EUR 000's | | | | | | Carrying amount |
|---|----------------|------------|------------|-------------|-------------|-----------|-----------------|
| | Within 1 month | 2-3 months | 4-6 months | 7-12 months | Over 1 year | Total | |
| Financial liabilities measured at amortised cost* | 1,788,099 | 56,076 | 42,853 | 125,112 | 191,978 | 2,204,118 | 2,179,842 |
| Off-balance sheet items | | | | | | | |
| Contingent liabilities | 34,242 | - | - | - | - | 34,242 | 34,242 |
| Financial commitments | 176,181 | - | - | - | - | 176,181 | 176,181 |

* Includes Balances due to credit institutions and central banks, Deposits from customers, and Subordinated liabilities. For other liabilities undiscounted contractual cash flows equal carrying value.

Derivative financial liabilities settled on a net basis and contractual undiscounted cash flows arising from derivatives settled on a gross basis.

| | | | | | | | |
|---|-------------------|---------------|---------------|----------------|--------------|-----------------|-----------|
| gross basis: | Group, 31/12/2016 | | | | | | |
| | EUR 000's | | | | | | |
| | Within 1 month | 2-3 months | 4-6 months | 7-12 months | 2-5 years | Over 5 years | Total |
| Derivatives settled on a net basis | | | | | | | |
| Foreign exchange derivatives | (27) | 1,045 | - | - | - | - | 1,018 |
| Derivatives settled on a gross basis | | | | | | | |
| Foreign exchange derivatives: | | | | | | | |
| outflow | (11,573) | (31,528) | (12,731) | - | - | - | (55,832) |
| inflow | 11,747 | 33,104 | 12,793 | - | - | - | 57,644 |
| | Group, 31/12/2015 | | | | | | |
| | EUR 000's | | | | | | |
| | Within 1 month | 2-3 months | 4-6 months | 7-12 months | 2-5 years | Over 5 years | Total |
| Derivatives settled on a net basis | | | | | | | |
| Foreign exchange derivatives | 1,325 | 102 | 195 | - | 851 | - | 2,473 |
| Derivatives settled on a gross basis | | | | | | | |
| Foreign exchange derivatives: | | | | | | | |
| outflow | (145,568) | (37,708) | (12,955) | - | - | - | (196,231) |
| inflow | 145,664 | 38,198 | 12,915 | - | - | - | 196,777 |

| | | Bank, 31/12/2016 | | | | | |
|---|--|------------------|------------|------------|-------------|-----------|--------------|
| | | EUR 000's | | | | | |
| | | Within 1 month | 2-3 months | 4-6 months | 7-12 months | 2-5 years | Over 5 years |
| Derivatives settled on a net basis | | | | | | | |
| Foreign exchange derivatives | | (19) | 1,045 | - | - | - | - |
| Derivatives settled on a gross basis | | | | | | | |
| Foreign exchange derivatives: | | | | | | | |
| outflow | | (72,157) | (31,528) | (12,731) | - | - | - |
| inflow | | 72,343 | 33,104 | 12,793 | - | - | - |
| | | Within 1 month | 2-3 months | 4-6 months | 7-12 months | 2-5 years | Over 5 years |
| | | | | | | | |
| Derivatives settled on a net basis | | | | | | | |
| Foreign exchange derivatives | | 1,381 | 102 | 195 | - | 851 | - |
| Derivatives settled on a gross basis | | | | | | | |
| Foreign exchange derivatives: | | | | | | | |
| outflow | | (142,211) | (37,542) | (12,153) | - | - | - |
| inflow | | 142,304 | 38,032 | 12,115 | - | - | - |

Comparison of contractual undiscounted cash flows and carrying values of derivatives

| | | EUR 000's | | | |
|--|--|------------|------------|-----------|-----------|
| | | 2016 Group | 2015 Group | 2016 Bank | 2015 Bank |
| Contractual undiscounted cash flows of derivatives | | 2,830 | 3,019 | 2,860 | 3,074 |
| Carrying value of derivatives | | 2,766 | 3,006 | 2,787 | 3,063 |

Capital management

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 up to date global standards on bank capital (the Basel III agreement) into EU law.

Capital adequacy refers to the sufficiency of the Group's capital resources to cover the credit risks and market risks arising from the portfolio of assets and the off-balance sheet exposures and other operational risks. The Financial and Capital Markets Commission's (FCMC's) regulations require Latvian banks to maintain a total capital adequacy ratio based on financial statements prepared under IFRS as adopted by EU of 8.0% of the total risk weighted exposure amounts. The CRD IV rules also introduce 4.5% minimum common equity Tier 1 capital ratio and 6.0% minimum Tier 1 capital ratio. Additionally a 2.5% capital conservation buffer is established, limiting dividend pay-out and certain other Tier 1 equity instrument buy-back, effectively implying well capitalised bank Tier 1 capital ratio target of 8.5% and total capital ratio target of 10.5%. Besides this, countercyclical buffer norms apply as well based on the risk exposure by geographical distribution. FCMC has also calculated the Bank's individual capital adequacy ratio based on FCMC policies and guidelines. The 2016 results of the calculation indicated that the minimum capital adequacy ratio that corresponds to the Bank's business model should be at least 10.9%. The same ratio is applicable as at 31 December 2016. The increase in the ratio is related to the business with non-Baltic customers of the Bank. The ratio should also be applied on the consolidated level.

The Bank has subsidiaries, which are financial institutions and need to comply with the regulatory requirements based on both the Group's level and the Bank's level as a stand-alone entity. As at 31 December 2016, the Group's and the Bank's regulatory capital complies with these FCMC's requirements.

FCMC identified the Bank as "other systemically important institution" (O-SII) at the end of 2015. In 2016, FCMC informed the Bank about the plans to introduce the capital buffer for systemically important institutions in Latvia. There are six such institutions and the buffer requirements range from 1.5% to 2.0%. The Bank's O-SII capital buffer requirement is 1.5%, however it will be introduced in two steps – 0.75% capital buffer requirement will be introduced as of 30 June 2017, while the compliance with full buffer requirements will have to be ensured as of 30 June 2018. The O-SII buffer requirement has to be ensured by Tier 1 capital. If the buffer requirement were effective as at 31 December 2016, the Bank's and Group's Tier 1 ratio would have to be at least 10.4%, to meet all the requirements: (1) Common equity tier 1 ratio of 4.5%, (2) additional tier 1 ratio of 1.5%, (3) capital conservation buffer of 2.5%, (4) individual capital buffer of 0.4%, as determined by FCMC and (5) O-SII capital buffer of 1.5%. As at 31 December 2016, both, the Bank and Group have sufficient Tier 1 capital to comply with the full O-SII buffer requirements.

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

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

| | EUR 000's | | | |
|--|----------------------|----------------------|--------------------|--------------------|
| | 31/12/2016 Group* | 31/12/2015 Group* | 31/12/2016 Bank | 31/12/2015 Bank |
| Common equity Tier 1 capital | | | | |
| Paid up capital instruments | 156,556 | 156,556 | 156,556 | 156,556 |
| Retained earnings and eligible profits | 95,568 | 55,431 | 80,571 | 44,293 |
| Deductible other intangible assets | (3,052) | (2,506) | (2,762) | (2,213) |
| Other capital components, deductions and transitional adjustments, net | (7,069) | (3,915) | (5,221) | (432) |
| Tier 2 capital | | | | |
| Eligible part of subordinated liabilities | 53,254 | 30,633 | 53,254 | 30,633 |
| Total own funds | 295,257 | 236,199 | 282,398 | 228,837 |
| Risk weighted exposure amounts for credit risk, counterparty credit risk and dilution risk | 1,556,442 | 1,526,061 | 1,302,112 | 1,332,798 |
| Total exposure amounts for position, foreign currency open position and commodities risk | 9,894 | 28,983 | 4,598 | 19,250 |
| Total exposure amounts for operational risk | 223,140 | 206,687 | 177,374 | 165,649 |
| Total exposure amounts for credit valuation adjustment | 1,109 | 1,067 | 1,109 | 1,060 |
| Total risk exposure amount | 1,790,585 | 1,762,798 | 1,485,193 | 1,518,757 |
| Total capital adequacy ratio | 16.5% | 13.4% | 19.0% | 15.1% |
| Common equity Tier 1 capital ratio | 13.5% | 11.7% | 15.4% | 13.1% |

* The consolidation group for regulatory purposes is different from the consolidation group for accounting purposes. As per regulatory requirements AAS CBL Life, a licensed insurer, is not included in the consolidation group for capital adequacy purposes. Consequently, it is excluded from own funds calculation and individual assets of AAS CBL Life are not included as risk exposures in the Group's capital adequacy calculation. Instead, the carrying value of the Group's investment in AAS CBL Life constitutes a risk exposure in the Group's capital adequacy ratio calculation.

Capital adequacy calculation of the Bank and the Group in accordance with FCMC regulations implies several transitional adjustments as implemented by the EU and FCMC. Some of the transitional adjustments are expected to have a diminishing favourable impact on the Bank's and the Group's capital adequacy ratio until 31 December 2023. The Bank's and the Group's fully loaded (i.e. excluding any transitional adjustments) capital adequacy ratio:

| | 31/12/2016 Group | 31/12/2015 Group | 31/12/2016 Bank | 31/12/2015 Bank |
|---|---------------------|---------------------|--------------------|--------------------|
| Common equity Tier 1 capital, fully loaded | 227,027 | 191,816 | 213,418 | 183,234 |
| Tier 2 capital | 53,254 | 30,633 | 53,254 | 30,633 |
| Total own funds, fully loaded | 280,281 | 222,449 | 266,672 | 213,867 |
| Total risk exposure amount, fully loaded | 1,790,585 | 1,762,798 | 1,485,193 | 1,518,757 |
| Total capital adequacy ratio, fully loaded | 15.7% | 12.6% | 18.0% | 14.1% |
| Common equity Tier 1 capital ratio, fully loaded | 12.7% | 10.9% | 14.4% | 12.1% |

Fair values of financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

For illiquid financial assets and liabilities, including loans and advances to customers, there are, by definition, no active markets. Accordingly, fair value has been estimated using appropriate valuation techniques. The methods used to determine the fair value of balance sheet items are as follows:

Cash and demand deposits with central banks

The fair value of cash and balances with central banks is their carrying amount as these balances may be withdrawn without notice.

Balances due from credit institutions/ Balances due to credit institutions and central banks

The fair value of on-demand balances with credit institutions is their carrying amount as these balances may be withdrawn without notice. The fair value of overnight placements is their carrying amount. The fair value of other amounts due from banks is calculated by discounting expected cash flows using current market rates. The carrying value is a close representation of fair value due to short-term maturity profiles and low interest rates

Loans and receivables from customers

The fair value of loans and advances to customers is calculated by discounting expected future cash flows. The discount rates consist of money market rates as at the end of year and credit margins, which are adjusted for current market conditions. If all the assumed discount rates would change by 10%, the fair value of the loan portfolio would change by EUR 11.4 million (2015: EUR 10.0 million).

Held to maturity securities

Held to maturity securities are valued using unadjusted quoted prices in active markets, where available. In other instances, either

quotes of market participants are used or if unavailable value of securities is determined using valuation models employing observable or non-observable market inputs.

Available for sale securities

Most available for sale securities are valued using unadjusted quoted prices in active markets.

Investments in available for sale securities include Citadele's equity interest in Visa Inc. which has been valued by reference to consideration, which is contingent upon future events. The valuation is dependent on exchange rate, Visa Inc. stock price and preferred stocks' conversion ratio as well as liquidity discount of 50%. The Level 3 presented preference stocks in Visa Inc. are part of consideration received for the sale of Citadele's share in Visa Europe to Visa Inc.

As at 31 December 2016 Citadele is not anymore exposed to possible loss in value of available for sale classified closed-end fund investments' as a result of fluctuations in real estate prices (2015: if market prices for similar real estate properties would have decreased by 10%, the fair value of these closed-end fund investments' would have decreased by EUR -91 thousand).

Derivatives

As at 31 December 2016 the Bank and the Groups has only currency derivatives, which are valued using unadjusted current market prices. In previous periods fair value of other derivatives was determined using valuation models employing non-observable market inputs.

Customer deposits

The fair value of customer deposits repayable on demand is their carrying amount. The fair value of other deposits is calculated by discounting expected cash flows using average market interest rates close to or at period-end. If all the assumed discount rates would change by 10%, the fair value of the deposit portfolio would change by EUR 0.14 million (2015: EUR 0.12 million).

Subordinated liabilities

The fair value of publicly listed unsecured subordinated bonds is estimated based on the quoted prices. The fair value of unlisted subordinated borrowing from EBRD is estimated by discounting expected future cash with the yield of the publicly listed unsecured subordinated bonds. The fair value of subordinated borrowing from Privatisation Agency is estimated as its carrying amount as before year end an early payment which took place in the beginning of January 2017 was agreed.

Financial liabilities designated at fair value through profit or loss

The fair value of unit-linked investment contract liabilities is their notional amount which equals fair value of unit-linked insurance plan assets. The fair value of other financial liabilities designated at fair value through profit is calculated by discounting expected cash flows using current effective finance rates. If the assumed discount rates would change by 10%, the fair value of the portfolio would change by EUR 7 thousand and EUR -6 thousand respectively (2015: EUR 15 thousand and EUR -11 thousand respectively).

Fair value hierarchy

Quoted market prices (Level 1)

Financial instruments are valued using unadjusted quoted prices in active markets.

Valuation technique - observable market inputs (Level 2)

Financial instruments are valued using techniques based on observable market data. In some instances, valuations received from independent third party are used.

Valuation technique - non-market observable inputs (Level 3)

Financial instruments are valued using techniques for which significant inputs are not based on observable market data.

Fair values of Group's financial assets and liabilities as at 31 December 2016.

| | Carrying value | Total fair value | Fair value hierarchy (where applicable) | | |
|---|------------------|------------------|---|---|--|
| | | | Quoted market prices | Valuation technique - observable inputs | Valuation technique - non-market observable inputs |
| Held for trading securities | 13,485 | 13,485 | 13,485 | - | - |
| Financial assets designated at fair value through profit or loss | 133,326 | 133,326 | 133,326 | - | - |
| Derivatives | 4,583 | 4,583 | - | 4,583 | - |
| Available for sale securities | 903,189 | 903,189 | 901,225 | - | 1,964 |
| <i>Financial assets not measured at fair value:</i> | | | | | |
| Cash and deposits with central banks | 799,198 | 799,198 | - | - | - |
| Balances due from credit institution | 141,691 | 141,691 | - | - | - |
| Loans and receivables from customers | 1,240,516 | 1,242,408 | - | - | 1,242,408 |
| Total assets | 3,235,988 | 3,237,880 | 1,048,036 | 4,583 | 1,244,372 |
| Derivatives | 1,817 | 1,817 | - | 1,817 | - |
| Financial liabilities designated at fair value through profit or loss | 39,678 | 39,678 | 23,064 | - | 16,614 |
| <i>Financial liabilities not measured at fair value:</i> | | | | | |
| Balances due to credit institutions and central banks | 13,346 | 13,346 | - | - | - |
| Customer deposits | 2,918,892 | 2,921,555 | - | - | 2,921,555 |
| Subordinated liabilities | 94,608 | 95,869 | - | 95,869 | - |
| Total liabilities | 3,068,341 | 3,072,265 | 23,064 | 97,686 | 2,938,169 |

Fair values of Group's financial assets and liabilities as at 31 December 2015.

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

Fair values of Bank's financial assets and liabilities as at 31 December 2016.

| | Carrying value | Total fair value | Fair value hierarchy (where applicable) | | |
|--|------------------|------------------|---|---|--|
| | | | Quoted market prices | Valuation technique - observable inputs | Valuation technique – non-market observable inputs |
| Derivatives | 4,710 | 4,710 | - | 4,710 | - |
| Available for sale securities | 694,934 | 694,934 | 692,987 | - | 1,947 |
| <i>Financial assets not measured at fair value:</i> | | | | | |
| Cash and deposits with central banks | 647,606 | 647,606 | - | - | - |
| Balances due from credit institution | 154,419 | 154,419 | - | - | - |
| Loans and receivables from customers | 1,008,506 | 1,001,445 | - | - | 1,001,445 |
| Total assets | 2,510,175 | 2,503,114 | 692,987 | 4,710 | 1,003,392 |
| Derivatives | 1,923 | 1,923 | - | 1,923 | - |
| <i>Financial liabilities not measured at fair value:</i> | | | | | |
| Balances due to credit institutions and central banks | 129,930 | 129,930 | - | - | - |
| Customer deposits | 2,149,223 | 2,152,315 | - | - | 2,152,315 |
| Subordinated liabilities | 94,608 | 95,869 | - | 95,869 | - |
| Total liabilities | 2,375,684 | 2,380,037 | - | 97,792 | 2,152,315 |

Fair values of Bank's financial assets and liabilities as at 31 December 2015.

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

Changes in fair value of derivatives categorised as Level 3

| | EUR 000's | | | |
|---|------------|------------|------------|------------|
| | 2016 Group | 2015 Group | 2016 Bank | 2015 Bank |
| As at the beginning of the period, net | 851 | - | 851 | - |
| Gain / (loss) on derivatives | (231) | 1,596 | (231) | 1,596 |
| Settlement on derivatives | (620) | (745) | (620) | (745) |
| As at the end of the period, net | - | 851 | - | 851 |

Changes in fair value of other available for sale securities categorised as Level 3

| | EUR 000's | | | |
|--|--------------|--------------|--------------|--------------|
| | 2016 Group | 2015 Group | 2016 Bank | 2015 Bank |
| As at the beginning of the period, net | 9,595 | 1,636 | 9,578 | 1,620 |
| Other comprehensive income | | | | |
| Revaluation gain in other comprehensive income | 2,987 | 8,469 | 2,987 | 8,468 |
| Transfer to income statement on derecognition | (11,330) | - | (11,330) | - |
| Impairment charges, net | 109 | (510) | 109 | (510) |
| Gain in income statement | 11,330 | - | 11,330 | - |
| Settlement on non-fixed income securities | (12,349) | - | (12,349) | - |
| Additions | 1,622 | - | 1,622 | - |
| As at the end of the period, net | 1,964 | 9,595 | 1,947 | 9,578 |

Fair value of available for sale securities for which fair value is calculated based on non-market observable inputs is categorised as Level 3 as these shares and investments in mutual investment funds are not listed on an exchange and there are insufficient recent observable transactions on the market. Similarly fair value of derivatives for which valuation was based on valuation models employing non-observable market inputs was categorised as Level 3 in fair value hierarchy.

Operational risk

The Group has adopted the Basel Committee on Banking Supervision's definition of operational risk: the probability of incurring 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.

NOTE 35. EVENTS AFTER THE BALANCE SHEET DATE

Early repayment of subordinated liabilities to Privatisation Agency

On 4 January 2017, AS Citadele banka made an early repayment of the EUR 34.7 million subordinated loan outstanding and the accrued interest of EUR 0.98 million to the State Joint Stock Company Privatisation agency. This was made possible by previously issued subordinated bonds in the amount of EUR 40 million. According to the Base Prospectus, the aim of the subordinated bond issuance, among others, was early repayment of the outstanding amount of subordinated debt to SJSC Privatisation agency. The remaining proceeds from the issuance is planned to be used to strengthen the overall capital of AS Citadele banka and to facilitate the execution of the Bank's growth strategy across the Baltics.

Sale of the subsidiary SIA Hortus MD

On 17 February 2017, AS Citadele banka sold its subsidiary SIA Hortus MD. The subsidiary was a part of a businesses managing the Group's repossessed assets. As the client was acquiring real estate portfolio of the particular subsidiary in its entirety, the whole company was sold. The consideration exceeded the Group's net exposure with this subsidiary as at the sales date.



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Independent Auditors' Report

To the shareholders of AS "Citadele banka"

Our Opinion on the Separate and Consolidated Financial Statements

We have audited the accompanying separate financial statements of AS "Citadele banka" ("the Bank") and accompanying consolidated financial statements of the Bank and its subsidiaries ("the Group") set out on pages 11 to 75 of the accompanying separate and consolidated Annual Report, which comprise:

- the separate and consolidated balance sheet as at 31 December 2016,
- the separate and consolidated income statement for the year then ended,
- the separate and consolidated statement of comprehensive income for the year then ended,
- the separate and consolidated statement of changes in equity for the year then ended,
- the separate and consolidated statement of cash flows for the year then ended, and
- the notes to the separate and consolidated financial statements, which include a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying separate and consolidated financial statements give a true and fair view of the separate and consolidated financial position of the Bank and the Group as at 31 December 2016, and of their respective separate and consolidated financial performance and their respective separate and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Basis for Opinion

In accordance with the 'Law on Audit Services' of the Republic of Latvia we conducted our audit in accordance with International Standards on Auditing adopted in the Republic of Latvia (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Separate and Consolidated Financial Statements* section of our report.

We are independent of the Bank and Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and independence requirements included in the 'Law on Audit Services' of the Republic of Latvia that are relevant to our audit of the separate and consolidated financial statements in the Republic of Latvia. We have also fulfilled our other professional ethics responsibilities and objectivity requirements in accordance with the IESBA Code and 'Law on Audit Services' of the Republic of Latvia.

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



Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate and consolidated financial statements of the current period. These matters were addressed in the context of our audit of the separate and consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our report.

| Impairment of loans (Consolidated and separate financial statements) | |
|---|--|
| Key audit matter | Our response |
| <p><i>The gross carrying amount of loans in the consolidated financial statements as at 31 December 2016: EUR 1 323.1 million; impairment losses recognised in 2016: EUR 12.8 million; total impairment loss as at 31 December 2016: EUR 82.5 million. The gross carrying amounts of loans in the separate financial statements at 31 December 2016: EUR 1 079.2 million; impairment losses recognised in 2016: EUR 10.9 million; total impairment loss as at 31 December 2016: EUR 70.7 million.</i></p> <p><i>We refer to the financial statements: Note 4 (m) and (ee) (accounting policy), Notes 10, 15 and 34 (financial disclosures).</i></p> <p>We identified this area as a key audit matter during our audit because recognition of allowances for loan impairment is associated with estimation uncertainty as it requires the management to exercise judgment and develop assumptions about both the timing of recognition and the amounts of such impairment.</p> <p>Individual impairment allowances recognized by the Bank and other entities within the Group mostly relate to large, individually monitored, corporate exposures. The assessment is therefore based on the knowledge of each individual borrower and often on estimation of the fair value of the related collateral.</p> <p>Collective allowances are predominantly related to mortgage-type loan exposures and reflect both already existing credit losses and also losses that have been incurred but are not yet identifiable on an individual exposure level. Collective impairment is estimated mainly based on historical pattern of losses and changes in loan risk characteristics based on qualitative and quantitative indicators.</p> | <p>Our audit procedures included, among others:</p> <ul style="list-style-type: none"> • testing of controls over the approval, recording and monitoring of loans, including, but not limited to, those over loan risk monitoring, identification of loss events, and the calculation of the impairment allowances. <p>For corporate loans:</p> <ul style="list-style-type: none"> • For a sample of loans with higher risk characteristics, such as individually significant exposures to related borrower groups, watchlist exposures, restructured loans or exposures with delinquencies, critically assessing, by reference to the underlying loan files, and through discussion with loan officers and credit risk management personnel, the existence of any impairment triggers; • where impairment triggers had been identified, evaluating key assumptions applied, such as discount rates, collateral values (by involving our valuation specialists), forecasted business performance as well as, where applicable, collateral sales costs and sales periods used in the forecasts of future cash flows provided as a basis for the assessment of loan impairment. <p>For loans to individuals and other exposures assessed for collective impairment:</p> <ul style="list-style-type: none"> • testing the underlying collective impairment models, including back testing performed and the completeness and accuracy of underlying data for calculation, and assessing the key parameters such as the probability of default and loss given default. |



| | |
|---|---|
| | <ul style="list-style-type: none"> where model adjustments were made to reflect recent loss experience and current market conditions, we assessed the appropriateness of such adjustments. |
| Deferred tax asset recoverability (Consolidated and separate financial statements) | |
| Key audit matter | Our response |
| <p><i>The carrying amount of deferred tax asset in the consolidated financial statements as at 31 December 2016: EUR 26.2 million. The carrying amounts of deferred tax asset in the separate financial statements at 31 December 2016: EUR 24.7 million.</i></p> <p><i>We refer to the financial statements: Note 4 (g) and (ee) (accounting policy), Note 11 (financial disclosures).</i></p> <p>The recognition of deferred tax assets relies on the application of judgement by management in respect of assessing the probability and sufficiency of future taxable profits and future reversals of existing taxable temporary differences. Due to the size of the Group's and Bank's deferred tax assets and the associated uncertainty in respect of its recoverability, this is considered a key audit risk.</p> <p>The deferred tax assets requiring further assessment include those in the Bank and its subsidiary AB Citadele bankas.</p> | <p>Our procedures included, among others:</p> <ul style="list-style-type: none"> Assessing assumptions used in projecting the Group's and Bank's future taxable profits within the relevant jurisdictions and components, as well as assumptions over certainty of taxable profit availability where realisation is planned over a longer period of time. assessing whether the Group's and Bank's disclosures of the application of judgement in estimating recognised and unrecognised deferred tax asset balances appropriately reflect the Group's and Bank's deferred tax position. |
| Impairment of investments in subsidiaries (Separate financial statements) | |
| Key audit matter | Our response |
| <p><i>The gross carrying amount of investments in subsidiaries in the separate financial statements as at 31 December 2016: EUR 111.7 million; impairment loss recognised in 2016: EUR 0.1 million; total impairment loss as at 31 December 2016: EUR 49.8 million.</i></p> <p><i>We refer to the financial statements: Note 4 (w) and (ee) (accounting policy), Note 10 and 19 (financial disclosures).</i></p> <p>The determination of investments in subsidiaries recoverable amounts is a process that requires management to make subjective judgements, including those in respect of future operating cash</p> | <p>Our procedures included, among others:</p> <ul style="list-style-type: none"> checking the mathematical accuracy of the model used; evaluating the reasonableness of management's judgments as to the existence of impairment indicators, and consequently, the requirement to perform related impairment tests. This included, but was not limited to, discussing the subsidiaries' performance with the Bank's Finance function officers, and assessing their strategies and historical growth rates against past forecasts; assessing the Bank's models and estimates applied to determine impairment losses |



| | |
|--|---|
| <p>flows, growth rates and discount rates. Accordingly, we have identified this area as a key audit matter.</p> <p>The above estimation uncertainty was particularly high in respect of the Bank's subsidiary in Lithuania, AB Citadele bankas. The subsidiary has a carrying amount of EUR 43.8 million and a recognised impairment allowance of EUR 3.8 million. It is a bank operating in Lithuania, focusing mostly on retail banking.</p> | <p>recognised, consulting with our internal valuations specialists. This included, among other things, challenging the forecasted growth rates, and other key assumptions such as the discount rate used in the model;</p> <ul style="list-style-type: none">• performing analysis of the sensitivity of the impairment tests' results to changes in key assumptions and evaluating adequacy of impairment related disclosures. |
|--|---|

Reporting on Other Information

The Bank management is responsible for the other information. The other information comprises:

- Key figures, as set out on page 2 of the accompanying Annual Report
- the Management Report, as set out on pages 4 to 9 of the accompanying Annual Report,
- the Statement of Management Responsibility, as set out on page 10 of the accompanying Annual Report, and
- the Statement of Corporate Governance, as set out in a separate statement prepared by management available on Bank's website www.citadele.lv.

Our opinion on the financial statements does not cover the other information included in the Annual Report, and we do not express any form of assurance conclusion thereon, except as described in the *Other reporting responsibilities in accordance with the legislation of the Republic of Latvia* section of our report.

In connection with our audit of the financial statements⁴, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed and in light of the knowledge and understanding of the Bank, Group and its environment obtained, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Other reporting responsibilities in accordance with the legislation of the Republic of Latvia

In addition, in accordance with the 'Law on Audit Services' of the Republic of Latvia with respect to the Management Report, our responsibility is to consider whether the Management Report is prepared in accordance with the requirements of the Financial and Capital Market Commission of the Republic of Latvia – regulation No. 46 'Regulations on the Preparation of Annual Reports and Annual Consolidated Accounts for Banks, Investment Brokerage Firms and Investment Management Companies'.

Based solely on the work required to be undertaken in the course of our audit, in our opinion:

- the information given in the Management Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Management Report has been prepared in accordance with the Financial and Capital Market Commission of the Republic of Latvia requirements – regulation No.



46 'Regulations on the Preparation of Annual Reports and Annual Consolidated Accounts for Banks, Investment Brokerage Firms and Investment Management Companies'.

In accordance with the Law on Audit Services of the Republic of Latvia with respect to the Statement of Corporate Governance, our responsibility is to consider whether the Statement of Corporate Governance includes the information required in section 56.², third paragraph, clause 1 of the 'Financial Instruments Market Law' of the Republic of Latvia.

In our opinion, the Statement of Corporate Governance includes the information required in section 56.², third paragraph, clause 1 of the 'Financial Instruments Market Law' of the Republic of Latvia.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditors' Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's and Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves a fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and objectivity, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The responsible certified auditor on the audit resulting in this independent auditors' report is Rainers Vilāns.

KPMG Baltics SIA
Licence No 55

Ondrej Fikrle
Partner pp KPMG Baltics SIA
Riga, Latvia
28 February 2017

Rainers Vilāns
Sworn Auditor
Certificate No 200

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