

AS Citadele banka

# Public Financial Information

4th Quarter 2016

Prepared in accordance with the Financial and Capital Market  
Commision's regulation No. 145 "Regulation on Perparation  
of Public Quarterly Reports of Credit Institutions"

## 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 as the successful issuance of EUR 40 million in subordinated bonds at the end of 2016.

Sincerely,

Guntis Beļavskis  
Chairman of the Management Board

## Income Statement

<i>EUR th.</i>	Jan-Dec 2016 <i>Audited Group</i>	Jan-Dec 2015 <i>Audited Group</i>	Jan-Dec 2016 <i>Audited Bank</i>	Jan-Dec 2015 <i>Audited Bank</i>
Interest income	84,737	79,148	66,113	63,695
Interest expense	(18,542)	(18,682)	(15,966)	(15,595)
Dividends received	7	-	5,134	238
Commission and fee income	57,398	51,208	42,178	38,576
Commission and fee expense	(17,253)	(15,671)	(15,033)	(13,313)
Net gain/ (loss) on financial assets and financial liabilities measured at amortised cost	-	-	-	-
Net gain/ (loss) on available for sale financial assets and financial liabilities	11,288	4,746	10,589	2,811
Net gain/ (loss) on held for trading financial assets and financial liabilities	111	720	(220)	851
Net gain/ (loss) on financial assets or financial liabilities designated at fair value through profit and loss	95	(800)	-	-
Fair value change in the hedge accounting	-	-	-	-
Gain/ (loss) from foreign exchange trading and revaluation of open positions	13,831	8,959	11,470	7,420
<b>Net financial profit</b>	<b>131,672</b>	<b>109,628</b>	<b>104,265</b>	<b>84,683</b>
Net gain/ (loss) on disposal of property, plant and equipment, investment property and intangible assets	5	20	-	-
Other income	2,639	3,049	2,878	1,843
Other expense	(970)	(5,355)	(139)	(4,556)
Administrative expense	(75,431)	(67,892)	(56,780)	(51,780)
Amortisation and depreciation charge	(4,654)	(4,000)	(2,178)	(1,689)
Provisions, net	(11)	35	(122)	-
Impairment charge and reversals, net	(10,122)	(6,241)	(10,162)	(6,232)
<b>Profit before taxation</b>	<b>43,128</b>	<b>29,244</b>	<b>37,762</b>	<b>22,269</b>
Corporate income tax	(2,440)	(3,173)	(1,484)	(2,723)
<b>Net profit for the period</b>	<b>40,688</b>	<b>26,071</b>	<b>36,278</b>	<b>19,546</b>

## Statement of Comprehensive Income

<i>EUR th.</i>	Jan-Dec 2016 <i>Audited Group</i>	Jan-Dec 2015 <i>Audited Group</i>	Jan-Dec 2016 <i>Audited Bank</i>	Jan-Dec 2015 <i>Audited Bank</i>
Net change in fair value revaluation reserve of securities and other reserves	(6,226)	6,989	(7,283)	6,298
Other comprehensive income/ (loss) for the period	(6,226)	6,989	(7,283)	6,298
<b>Total comprehensive income for the period</b>	<b>34,462</b>	<b>33,060</b>	<b>28,995</b>	<b>25,844</b>

Auditor: SIA "KPMG Baltics". For audited financial reports, please refer to the Bank's web page's sections "[Financial reports](#)".

## Balance Sheet

<i>EUR th.</i>	<b>31/12/2016</b> <i>Audited</i> <b>Group</b>	<b>31/12/2015</b> <i>Audited</i> <b>Group</b>	<b>31/12/2016</b> <i>Audited</i> <b>Bank</b>	<b>31/12/2015</b> <i>Audited</i> <b>Bank</b>
Cash and demand balances with central banks	799,198	555,078	647,606	348,960
Demand deposits due from credit institutions	138,988	131,098	153,870	254,481
Financial assets held for trading	18,068	20,979	4,710	4,960
Financial assets designated at fair value through profit and loss	133,326	111,088	-	-
Available for sale financial assets	903,190	610,030	694,934	489,406
Loans and receivables, net	1,243,220	1,222,392	1,009,055	1,030,223
Held to maturity investments	-	203,718	-	165,293
Change in the fair value of the portfolio hedged against interest rate risk	-	-	-	-
Prepayments and accrued income	5,766	4,623	2,027	1,745
Property and equipment	43,947	43,111	4,968	4,393
Investment property	-	189	-	-
Intangible assets	3,075	2,538	2,762	2,213
Investments in subsidiaries	-	-	61,884	61,580
Income tax assets	26,436	28,029	24,685	26,157
Other assets	34,301	27,590	23,109	19,589
<b>Total assets</b>	<b>3,349,515</b>	<b>2,960,463</b>	<b>2,629,610</b>	<b>2,409,000</b>
Due to central banks	7	6	6	6
Demand liabilities to credit institutions	8,616	13,888	23,352	24,617
Financial liabilities held for trading	1,817	1,901	1,923	1,897
Financial liabilities designated at fair value through profit and loss	39,678	33,915	-	-
Financial liabilities measured at amortised cost	3,018,223	2,665,486	2,350,403	2,155,219
Amounts payable under repurchase agreements	-	-	-	-
Change in the fair value of the portfolio hedged against interest rate risk	-	-	-	-
Accrued expenses and deferred income	14,665	14,932	10,532	11,772
Provisions	601	583	122	-
Income tax liabilities	717	233	-	-
Other liabilities	10,958	9,748	5,135	6,347
<b>Total liabilities</b>	<b>3,095,282</b>	<b>2,740,692</b>	<b>2,391,473</b>	<b>2,199,858</b>
Shareholders' equity	254,233	219,771	238,137	209,142
<b>Total liabilities and shareholders' equity</b>	<b>3,349,515</b>	<b>2,960,463</b>	<b>2,629,610</b>	<b>2,409,000</b>
<b>Memorandum items</b>				
Contingent liabilities	28,204	38,517	22,997	34,242
Financial commitments	216,025	178,121	243,452	176,181

Auditor: SIA "KPMG Baltics". For audited financial reports, please refer to the Bank's web page's sections "[Financial reports](#)".

## Key Ratios

	Jan-Dec 2016 Group	Jan-Dec 2015 Group	Jan-Dec 2016 Bank	Jan-Dec 2015 Bank
Return on equity (ROE) (%)*	17.17%	13.15%	16.22%	10.22%
Return on assets (ROA) (%)*	1.29%	0.90%	1.44%	0.82%

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

## Investments in Securities by Issuer's Country

<i>EUR th.</i>	Group			
	31/12/2016		31/12/2015	
	Government bonds	Other securities	Government bonds	Other securities
Latvia	253,580	7,847	232,246	4,378
Netherlands	4,992	83,783	-	56,681
United States	10,592	76,794	7,773	90,510
Lithuania	72,665	-	56,454	-
Canada	6,105	42,867	3,681	24,521
Germany	7,181	37,995	-	67,140
United Kingdom	-	40,868	-	38,578
Sweden	11,797	26,041	15,573	19,787
Finland	15,871	14,943	13,066	19,188
Singapore	-	28,947	-	24,481
Australia	-	28,127	-	23,635
France	9,722	18,192	1,514	10,732
Norway	-	24,676	-	25,648
Multilateral development banks	-	52,439	-	27,407
Other countries**	27,441	146,535	25,798	152,116
<b>Total securities, net</b>	<b>419,946</b>	<b>630,054</b>	<b>356,105</b>	<b>584,802</b>

<i>EUR th.</i>	Bank			
	31/12/2016		31/12/2015	
	Government bonds	Other securities	Government bonds	Other securities
Latvia	240,367	3,511	218,930	3,189
United States	8,680	47,936	7,773	48,813
Netherlands	4,992	47,868	-	35,223
Germany	7,181	25,177	-	54,588
Canada	6,105	22,598	3,680	20,767
Singapore	-	27,202	-	22,790
Sweden	1,897	24,476	6,431	19,787
United Kingdom	-	26,235	-	17,430
Lithuania	25,948	-	10,804	-
Finland	9,269	14,943	9,276	17,807
Multilateral development banks	-	40,710	-	21,615
Other countries**	12,946	96,893	11,999	123,797
<b>Total securities, net</b>	<b>317,385</b>	<b>377,549</b>	<b>268,893</b>	<b>385,806</b>

\*\* Each country's issuers' total exposure as at 31/12/2016 is less than 10% from the eligible capital used for capital adequacy calculation purposes. Investments in managed funds are included in line "Other countries".

As at the period end the Bank and the Group has no securities classified as held to maturity. Market value of the total Bank's and Group's held to maturity securities as at 31 December 2015 was EUR 167,837 thousand and EUR 206,473 thousand, respectively. During the reporting period the Bank and the Group has released EUR 109 thousand impairment allowance for available for sale securities (2015: nil EUR); total recognised impairment allowance for available for sale securities as at the period end is EUR 1,640 thousand (2015: EUR 6,924 thousand).

## Liquidity Ratio Calculation

		<b>31/12/2016</b>	<b>31/12/2015</b>
	<i>EUR th.</i>	<b>Bank</b>	<b>Bank</b>
<b>1</b>	<b>Liquid assets (1.1.+1.2.+1.3.+1.4.)</b>	<b><u>1,377,221</u></b>	<b><u>1,127,770</u></b>
1.1	Cash	48,518	46,737
1.2	Due from Bank of Latvia	573,670	299,091
1.3	Due from with solvent credit institutions	175,474	292,120
1.4	Liquid securities	579,559	489,822
<b>2</b>	<b>Liabilities (with remaining maturity up to 30 days)</b> <b>(2.1.+2.2.+2.3.+2.4.+2.5.+2.6.)</b>	<b><u>1,959,690</u></b>	<b><u>1,971,971</u></b>
2.1	Due to credit institutions	44,501	75,803
2.2	Deposits	1,671,592	1,672,730
2.3	Issued debt securities	-	-
2.4	Cash in transit	38,410	36,638
2.5	Other current liabilities	17,421	20,180
2.6	Off balance sheet liabilities	187,766	166,620
<b>3</b>	<b>Liquidity ratio (1.:2.) (%)</b>	<b><u>70%</u></b>	<b><u>57%</u></b>
<b>4</b>	<b>Minimum liquidity ratio</b>	<b><u>30%</u></b>	<b><u>30%</u></b>

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

## Capital Adequacy Report

	31/12/2016 <i>Audited</i> Group	31/12/2015 <i>Audited</i> Group	31/12/2016 <i>Audited</i> Bank	31/12/2015 <i>Audited</i> Bank
<i>EUR th.</i>				
<b>1</b>	<b>Own funds</b>			
1.1	295,257	236,199	282,398	228,837
1.1.1	242,003	205,566	229,144	198,204
1.1.1.1	242,003	205,566	229,144	198,204
1.1.2	-	-	-	-
1.2	53,254	30,633	53,254	30,633
<b>2</b>	<b>Total risk exposure amount (2.1.+2.2.+2.3.+2.4.+2.5.+2.6.+2.7.)</b>			
2.1	1,790,585	1,762,798	1,485,193	1,518,757
2.1	Risk weighted exposure amounts for credit, counterparty credit and dilution risks and free deliveries	1,556,442	1,526,061	1,302,112
2.2	Total risk exposure amount for settlement/delivery	-	-	-
2.3	Total risk exposure amount for position, foreign exchange and commodities risks	9,894	28,983	4,598
2.4	Total risk exposure amount for operational risk	223,140	206,687	177,374
2.5	Total risk exposure amount for credit valuation adjustment	1,109	1,067	1,109
2.6	Total risk exposure amount related to large exposures in the trading book	-	-	-
2.7	Other risk exposure amounts	-	-	-
<b>3</b>	<b>Capital adequacy ratios</b>			
3.1	<b>Common equity Tier 1 capital ratio (1.1.1./2.*100)</b>			
3.1	13.5%	11.7%	15.4%	13.1%
3.2	Surplus (+)/ deficit (-) of Common equity Tier 1 capital (1.1.1.-2.*4.5%)			
3.2	161,427	126,240	162,310	129,860
3.3	<b>Tier 1 capital ratio (1.1./2.*100)</b>			
3.3	13.5%	11.7%	15.4%	13.1%
3.4	Surplus (+)/ Deficit (-) of Tier 1 capital (1.1.-2.*6%)			
3.4	134,568	99,798	140,032	107,079
3.5	<b>Total capital ratio (1./2.*100)</b>			
3.5	16.5%	13.4%	19.0%	15.1%
3.6	Surplus (+)/ Deficit (-) of total capital (1.-2.*8%)			
3.6	152,010	95,175	163,582	107,337
<b>4</b>	<b>Combined buffer requirements (4.1.+4.2.+4.3.+4.4.+4.5.)</b>			
4.1	2.5%	2.5%	2.5%	2.5%
4.1	Capital conservation buffer (%)	2.5%	2.5%	2.5%
4.2	Institution specific countercyclical buffer (%)			
4.2	0.0%	-	0.0%	-
4.3	Systemic risk buffer (%)			
4.3	-	-	-	-
4.4	Systemically important institution buffer (%)			
4.4	-	-	-	-
4.5	Other systemically important institution buffer (%)			
4.5	-	-	-	-
<b>5</b>	<b>Capital adequacy ratios, including adjustments</b>			
5.1	Impairment or asset value adjustments for capital adequacy ratio purposes			
5.1	-	-	-	-
5.2	Common equity tier 1 capital ratio including line 5.1 adjustments			
5.2	13.5%	11.7%	15.4%	13.1%
5.3	Tier 1 capital ratio including line 5.1 adjustments			
5.3	13.5%	11.7%	15.4%	13.1%
5.4	Total capital ratio including line 5.1 adjustments			
5.4	16.5%	13.4%	19.0%	15.1%

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

Auditor: SIA "KPMG Baltics". For audited financial reports, please refer to the Bank's web page's sections "[Financial reports](#)".



## Consolidation Group as at 31 December 2016

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

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

On 16 March 2016, the legal name of SIA "Hortus LH" was changed to SIA "CBL Cash Logistics". 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. On 17 February 2017, AS "Citadele banka" sold its subsidiary SIA "Hortus MD".

## Shareholders as at 31 December 2016

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.

Bank's shareholders as at 31 December 2016:

	<b>31/12/2016</b>	
	<b>Paid-in share capital (EUR)</b>	<b>Total shares with voting rights</b>
European Bank for Reconstruction and Development	39,138,948	39,138,948
RA Citadele Holdings LLC	35,082,302	35,082,302
Other shareholders *	82,334,546	82,334,546
<b>Total</b>	<b>156,555,796</b>	<b>156,555,796</b>

\* These shares are owned by an international consortium of twelve investors led by Ripplewood Advisors LLC.

## Management of the Bank as at 31 December 2016

### *Supervisory Board of the Bank*

<u>Name</u>	<u>Position</u>
Timothy Clark Collins	Chairman of the Supervisory Board
Elizabeth Critchley	Deputy chairperson of the Supervisory Board
James Laurence Balsillie	Member of the Supervisory Board
Dhananjaya Dvivedi	Member of the Supervisory Board
Lawrence Neal Lavine	Member of the Supervisory Board
David Shuman	Member of the Supervisory Board
Klāvs Vasks	Member of the Supervisory Board
Nicholas Haag	Member of the Supervisory Board
Karina Saroukhanian	Member of the Supervisory Board

On 19 December 2016, after Financial and Capital Market Commission's approval, Nicholas 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.

### *Management Board of the Bank*

<u>Name</u>	<u>Position</u>
Guntis Beļavskis	Chairman of the Management Board, per procura
Valters Ābele	Member of the Management Board, per procura
Kaspars Cikmačs	Member of the Management Board
Santa Purgaile	Member of the Management Board
Vladislavs Mironovs	Member of the Management Board

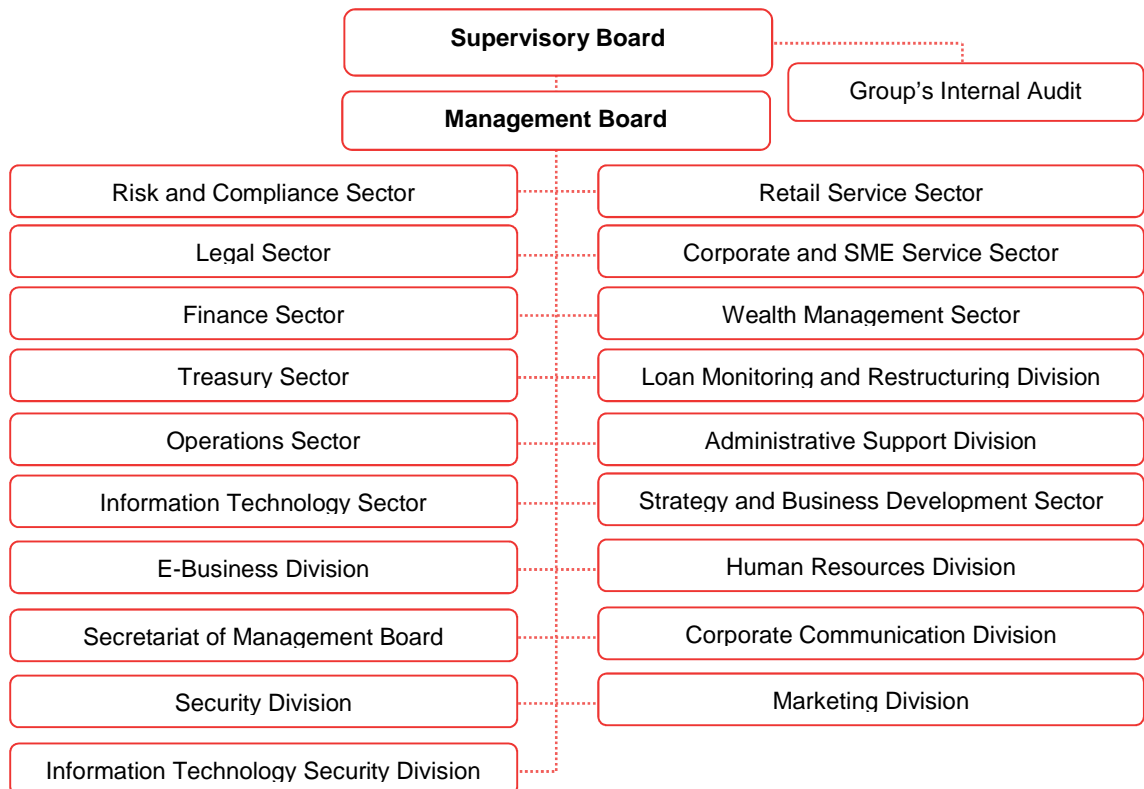
On 16 December 2016, after Financial and Capital Market Commission's approval, Vladislavs Mironovs was appointed as Member of the Management Board. Aldis Paegle, the former Member of the Management Board, resigned as of 23 November 2016.

## Business Strategy and Objectives

Information about Citadele's strategy and objectives is available in "[Values and strategy](#)" section of the Bank's web page.

## Bank's Organizational Structure

As at 31 December 2016 the Bank was operating a total of 20 branches (including 1 foreign branch), 14 mid-size client service centres (all in Latvia) and 2 representative offices. Information about Citadele's branches and client service centres is available in the Bank's web page's section "[Klientu apkalpošanas centri un filiāles](#)", about ATM – in section "[Bankomāti](#)".



## Ratings

Rating agency	Long-term rating	Short-term rating	Rating's outlook	Rating revision date
Moody's Investors Service	B1	Not Prime	Positive	09/01/2017
Moody's Investors Service	B1	Not Prime	Positive	08/07/2016
Moody's Investors Service	B1	Not Prime	Positive	08/01/2016
Moody's Investors Service	B1	Not Prime	Positive	17/06/2015
Moody's Investors Service	B2	Not Prime	Under Review	17/03/2015
Moody's Investors Service	B2	Not Prime	Negative	29/05/2014
Moody's Investors Service	B2	Not Prime	Stable	23/08/2013
Moody's Investors Service	B2	Not Prime	Negative	16/12/2011
Moody's Investors Service	Ba3	Not Prime	Under Review	20/09/2011
Moody's Investors Service	Ba3	Not Prime	Stable	06/09/2010

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

## Risk Management

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

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

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

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

### Credit Risk

Credit risk is the risk that the Group will incur a loss from debtor's non-performance or default. The Group is exposed to credit risk in its lending, investing and transaction activities, as well as in respect to guarantees issued to or received from third parties and other off-balance sheet commitments granted to third parties on behalf of the Bank's clients. Credit risk management is performed pursuant to the Credit Risk Management Policy. The goal of credit risk management is to achieve a diversified asset portfolio which generates profits that correspond to the assumed level of risk.

Credit risk management is based on an adequate assessment of a credit risk and a proper decision-making in relation to such risk. In cases when significant risk is to be undertaken, the credit risk analysis is performed by an independent unit of the Group's Risk and Compliance Sector. The credit risk analysis consists of 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.

### **Market Risk**

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

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

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

### **Interest Rate Risk**

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

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

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

### **Liquidity Risk**

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

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

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

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

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

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

The Financial and Capital Market Commission (FCMC) requires banks in Latvia to estimate and maintain a liquidity ratio of at least 30% and also sets individual liquidity ratio requirements based upon cash and cash equivalent assets available within 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. Citadele is fully compliant with current requirements and has implemented necessary measures to ensure smooth compliance with future LCR thresholds.

### **Currency Risk**

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

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

Day-to-day currency risk management is the responsibility of the Treasury Sector, while risk monitoring and reporting is the responsibility of the Risk and Compliance Sector.

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

### **Operational Risk**

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