

AS Citadele banka

Public Financial Information

1st Quarter 2017

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

Key Figures

EUR millions	Group			Bank		
	Q1 2017	Q1 2016	Change	Q1 2017	Q1 2016	Change
Net interest income	17.5	15.7	12%	13.1	12.0	9%
Net commission and fee income	9.4	8.7	8%	5.8	6.2	(6%)
Operating income ⁽¹⁾	31.6	29.6	7%	23.3	22.3	4%
Impairment charges and reversals, net	(1.4)	(1.9)	(24%)	(1.8)	(2.2)	(18%)
Net profit	9.1	7.7	19%	6.5	5.1	28%
Return on average assets (ROA) ⁽²⁾	1.10%	1.04%	0.1pp	1.01%	0.84%	0.2pp
Return on average equity (ROE) ⁽³⁾	14.1%	13.7%	0.4pp	10.8%	9.6%	1.2pp
Cost to income ratio (CIR) ⁽⁴⁾	64.3%	64.1%	0.2pp	62.1%	62.7%	(0.7pp)
Cost of risk ratio (COR) ⁽⁵⁾	0.6%	0.6%	(0.1pp)	0.7%	0.8%	(0.1pp)

EUR millions	Group			Bank		
	Q1 2017	Q4 2016	Change	Q1 2017	Q4 2016	Change
Total assets	3,310	3,350	(1%)	2,542	2,630	(3%)
Loans to customers ⁽⁶⁾	1,273	1,241	3%	1,024	1,009	2%
Deposits from customers ⁽⁶⁾	2,906	2,919	(0%)	2,135	2,149	(1%)
Shareholders' equity	264	254	4%	245	238	3%
Loan-to-deposit ratio ⁽⁷⁾	44%	42%	1pp	48%	47%	1pp
Total capital adequacy ratio (CAR)	15.8%	16.5%	(0.7pp)	18.3%	19.0%	(0.7pp)
Common equity Tier 1 capital ratio (CET1)	13.0%	13.5%	(0.5pp)	14.9%	15.4%	(0.5pp)

- (1) Operating income consists of the following income statement items: 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 have been updated accordingly.
- (6) In the Key Figures section, "Loans to customers" and "Deposits from customers" are defined consistently with audited annual and interim financial reports and excludes balances due to and from banks and subordinated liabilities. In the reported quarterly balance sheet positions herein "Loans and receivables, net" and "Financial liabilities measured at amortised cost" include balances due to and from banks and subordinated liabilities. Therefore, these may not be directly comparable.
- (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.

LETTER FROM THE MANAGEMENT

Financial performance

During the first three months of 2017, Citadele Group (“the Group”) delivered healthy and profitable growth across its key business segments.

The Group reported a 1st quarter **net profit** of EUR 9.1 million (Bank: EUR 6.5 million), which was a 19% increase compared to the same period last year. The Group continued to generate a healthy return on its capital, as demonstrated by a 14.1% **ROE** compared to 13.7% in the 1st quarter of 2016 (Bank: 10.8% and 9.6% respectively).

The Group’s **net interest income** grew by 12% year on year and now stands at EUR 17.5 million (Bank: EUR 13.1 million). This was mostly driven by a healthy growth in loan portfolio’s yield and its size across the Baltic States.

Net commission income for the Group increased by 8% to EUR 9.4 million (Bank: EUR 5.8 million) in the 1st quarter of 2017. The growth was mostly driven by the increase in fees collected from payment transfers and payment cards.

The Group’s **administrative expenses** increased 6% over the year to EUR 18.6 million (Bank: 13.6 million). This increase was mostly driven by continuous investments in the development of the Group’s personnel as well as expenses related to information technology.

Asset quality for the Group continued to improve as the NPL ratio decreased to 9.6% (Bank: 10.8%) compared to 10.0% (Bank: 10.3%) in March 2016. The Group’s impairment charge in the 1st quarter of 2017 was EUR 1.4 million which was a 24% decrease compared to the same period last year, driven by improvements in loan book delinquency, particularly within the leasing and corporate segments.

The Group’s **capital position** delivered a solid yearly improvement as demonstrated by the Group’s CAR increasing to 15.8% (Bank: 18.3%) compared to 12.9% (Bank: 14.5%) at March 2016. The Group’s liquidity position also remained strong thanks to a 13% growth in the deposit book since March 2016. The loan-to-deposit ratio remains low at 44%.

The Group’s **net loan portfolio** continued to grow, reaching EUR 1,273 million at March 2017, a 6% increase since March 2016. In line with the Group’s strategy, Group’s Baltic Retail and MSME segments were the main drivers of the growth in the loan portfolio.

Subsequent to the period end the Group has committed to a conditional sale of its subsidiary SIA CBL Cash Logistics.

Key events in the reporting period

Citadele Bank in Latvia improves payment system

In the first quarter of 2017, Citadele Bank began to issue contactless payment cards in Latvia, which was a logical step towards developing the organization’s payment system. In 2016, Citadele installed around 2,000 contactless payment terminals across Latvia to create suitable infrastructure for contactless payments in this country. By the beginning of 2017, one third of Citadele’s card terminals supported contactless payments.

Citadele has also been offering contactless payments on the Riga public transport system with its “e-talons” integrated payment cards since July 2015 and as at the reporting date more than 1.5 million public transport journeys have been paid for using the integrated contactless payment method.

Subsequent to the period end, Citadele has signed an agreement for a long-term partnership with global payments technology company Visa. The agreement anticipates close cooperation in developing new and innovative card and other payment products and services that will be introduced across all three Baltic states over the next six years. The first joint product developed by Visa and Citadele is a new brand of credit card with three card types: “X Card”, “X Platinum” and “X Infinite” specially targeting client segments covering all the Bank’s clients.

The Bank’s work has been favourably recognised

After the period end – on the 19 April 2017 – “Moody’s Investors Service” (Moody’s) increased Citadele’s long-term credit rating by two notches (from B1 to Ba2) and retained a positive outlook. This upgrade resulted from the Group’s implemented strategy to develop its business in the Baltic states as well as the Group’s increased capital levels and improved asset quality. Moody’s positively valued the Group’s development.

In the 1st quarter of 2017, Citadele’s operations in Latvia and Lithuania received the highest rating from the customer service research firm “Dive” which undertakes an annual review of the customer service of Baltic banks. Both in Latvia and in Lithuania, Citadele was recognised as the bank with the best customer service. In Lithuania, it is the second year in a row that Citadele has received this award.

Funds managed by CBL Asset Management, a subsidiary of the Citadele Banka, are multiple-time “Lipper Fund Awards” winners. In March 2017, for the second year running, international investment fund research company “Lipper” recognised CBL Eastern European Bond Fund R Acc USD as the best fund in terms of 2016 returns and risks in the European Emerging Markets Bond’s category over a three and five year period. The funds managed by CBL Asset Management, which invests in Eastern European government and corporate debt securities, have reached average annual returns on investment of 4.2% and 6.0% in a three and five year period, respectively.

The Bank develops its remote communication channels

We continue to actively invest in improving and upgrading our mobile banking application. Customers in Latvia are making approximately 10 times more payments on the Bank's mobile banking application versus the same period last year. In 2017, we also introduced additional client communication channels such as Skype (also used for mortgage consultations in Latvia), WhatsApp and iMessage. All messages and calls are served by the Bank's Call Centre, which is open 24 hours a day.

Sincerely,

Guntis Beļavskis
Chairman of the Management Board

Income Statement

<i>EUR th.</i>	Jan-Mar 2017 <i>Unaudited Group</i>	Jan-Mar 2016 <i>Unaudited Group</i>	Jan-Mar 2017 <i>Unaudited Bank</i>	Jan-Mar 2016 <i>Unaudited Bank</i>
Interest income	22,629	19,981	17,433	15,819
Interest expense	(5,102)	(4,324)	(4,298)	(3,773)
Dividends received	14	-	14	-
Commission and fee income	13,892	12,587	9,883	9,603
Commission and fee expense	(4,464)	(3,864)	(4,038)	(3,384)
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	200	1,214	181	599
Net gain/ (loss) on held for trading financial assets and financial liabilities	91	180	-	-
Net gain/ (loss) on financial assets or financial liabilities designated at fair value through profit and loss	(107)	241	-	-
Fair value change in the hedge accounting	-	-	-	-
Gain/ (loss) from foreign exchange trading and revaluation of open positions	3,588	2,948	3,091	2,741
Net financial profit	30,741	28,963	22,266	21,605
Net gain/ (loss) on disposal of property, plant and equipment, investment property and intangible assets	1	-	-	-
Other income	850	635	1,017	703
Other expense	(302)	(266)	(29)	(52)
Administrative expense	(18,613)	(17,610)	(13,643)	(13,442)
Amortisation and depreciation charge	(1,201)	(1,100)	(566)	(504)
Provisions, net	(193)	-	(211)	-
Impairment charge and reversals, net	(1,435)	(1,880)	(1,832)	(2,223)
Profit before taxation	9,848	8,742	7,002	6,087
Corporate income tax	(713)	(1,071)	(499)	(1,007)
Net profit for the period	9,135	7,671	6,503	5,080

Statement of Comprehensive Income

<i>EUR th.</i>	Jan-Mar 2017 <i>Unaudited Group</i>	Jan-Mar 2016 <i>Unaudited Group</i>	Jan-Mar 2017 <i>Unaudited Bank</i>	Jan-Mar 2016 <i>Unaudited Bank</i>
Net change in fair value revaluation reserve of securities and other reserves	730	1,592	486	1,419
Other comprehensive income/ (loss) for the period	730	1,592	486	1,419
Total comprehensive income for the period	9,865	9,263	6,989	6,499

Balance Sheet

<i>EUR th.</i>	31/03/2017 Unaudited Group	31/12/2016 Audited Group	31/03/2017 Unaudited Bank	31/12/2016 Audited Bank
Cash and demand balances with central banks	615,250	799,198	468,043	647,606
Demand deposits due from credit institutions	273,414	138,988	262,254	153,870
Financial assets held for trading	15,254	18,068	1,976	4,710
Financial assets designated at fair value through profit and loss	151,216	133,326	-	-
Available for sale financial assets	856,347	903,190	658,799	694,934
Loans and receivables, net	1,282,244	1,243,220	1,026,289	1,009,055
Held to maturity investments	-	-	-	-
Change in the fair value of the portfolio hedged against interest rate risk	-	-	-	-
Prepayments and accrued income	5,096	5,766	2,322	2,027
Property and equipment	43,699	43,947	4,785	4,968
Investment property	-	-	-	-
Intangible assets	3,145	3,075	2,842	2,762
Investments in subsidiaries	-	-	61,904	61,884
Income tax assets	26,188	26,436	24,460	24,685
Other assets	38,586	34,301	28,205	23,109
Total assets	3,310,439	3,349,515	2,541,879	2,629,610
Due to central banks	9	7	6	6
Demand liabilities to credit institutions	6,891	8,616	25,651	23,352
Financial liabilities held for trading	1,940	1,817	2,155	1,923
Financial liabilities designated at fair value through profit and loss	36,401	39,678	-	-
Financial liabilities measured at amortised cost	2,975,308	3,018,223	2,254,653	2,350,403
Amounts payable under repurchase agreements	-	-	-	-
Change in the fair value of the portfolio hedged against interest rate risk	-	-	-	-
Accrued expenses and deferred income	13,149	14,665	9,308	10,532
Provisions	789	601	334	122
Income tax liabilities	1,103	717	295	-
Other liabilities	10,751	10,958	4,351	5,135
Total liabilities	3,046,341	3,095,282	2,296,753	2,391,473
Shareholders' equity	264,098	254,233	245,126	238,137
Total liabilities and shareholders' equity	3,310,439	3,349,515	2,541,879	2,629,610
Memorandum items				
Contingent liabilities	31,799	28,204	23,115	22,997
Financial commitments	214,313	216,025	268,019	243,452

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

Key Ratios

	Jan-Mar 2017 Group	Jan-Mar 2016 Group	Jan-Mar 2017 Bank	Jan-Mar 2016 Bank
Return on equity (ROE) (%)*	14.10%	13.67%	10.77%	9.57%
Return on assets (ROA) (%)*	1.10%	1.04%	1.01%	0.84%

* 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			
	31/03/2017		31/12/2016	
	Government bonds	Other securities	Government bonds	Other securities
Latvia	212,900	8,033	253,580	7,847
Netherlands	-	76,029	4,992	83,783
United States	10,469	84,510	10,592	76,794
Lithuania	83,052	-	72,665	-
Canada	2,227	41,006	6,105	42,867
Germany	7,729	36,584	7,181	37,995
United Kingdom	-	40,110	-	40,868
Sweden	10,879	21,071	11,797	26,041
Finland	13,186	14,842	15,871	14,943
Singapore	-	34,055	-	28,947
Australia	-	25,975	-	28,127
France	10,593	19,808	9,722	18,192
Norway	-	23,940	-	24,676
Multilateral development banks	-	60,713	-	52,439
Other countries**	22,567	160,534	27,441	146,535
Total securities, net	373,602	647,210	419,946	630,054

<i>EUR th.</i>	Bank			
	31/03/2017		31/12/2016	
	Government bonds	Other securities	Government bonds	Other securities
Latvia	206,955	3,987	240,367	3,511
United States	6,734	50,057	8,680	47,936
Netherlands	-	45,083	4,992	47,868
Germany	3,064	24,434	7,181	25,177
Canada	2,227	21,018	6,105	22,598
Singapore	-	32,351	-	27,202
Sweden	4,841	18,653	1,897	24,476
United Kingdom	-	23,735	-	26,235
Lithuania	31,335	-	25,948	-
Finland	9,152	14,842	9,269	14,943
Multilateral development banks	-	40,626	-	40,710
Other countries**	8,002	111,704	12,946	96,893
Total securities, net	272,310	386,490	317,385	377,549

** Each country's issuers' total exposure as at 31/03/2017 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 31 March 2017 and 31 December 2016 the Bank and the Group had no securities classified as held to maturity. During the reporting period the Bank and the Group have not charged or released impairment allowance for available for sale securities (2016: null EUR); total recognised impairment allowance for available for sale securities as at the period end is EUR 1,611 thousand (2016: EUR 1,640 thousand).

Liquidity Ratio Calculation

<i>EUR th.</i>		31/03/2017	31/12/2016
		Bank	Bank
1	Liquid assets (1.1.+1.2.+1.3.+1.4.)	1,285,541	1,377,221
1.1	Cash	54,328	48,518
1.2	Due from Bank of Latvia	381,678	573,670
1.3	Due from with solvent credit institutions	290,180	175,474
1.4	Liquid securities	559,355	579,559
2	Liabilities (with remaining maturity up to 30 days) (2.1.+2.2.+2.3.+2.4.+2.5.+2.6.)	1,965,251	1,959,690
2.1	Due to credit institutions	54,226	44,501
2.2	Deposits	1,679,512	1,671,592
2.3	Issued debt securities	-	-
2.4	Cash in transit	37,931	38,410
2.5	Other current liabilities	16,086	17,421
2.6	Off balance sheet liabilities	177,496	187,766
3	Liquidity ratio (1.:2.) (%)	65%	70%
4	Minimum liquidity ratio	30%	30%

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

Capital Adequacy Report

		31/03/2017 <i>Unaudited</i> Group	31/12/2016 <i>Audited</i> Group	31/03/2017 <i>Unaudited</i> Bank	31/12/2016 <i>Audited</i> Bank
	<i>EUR th.</i>				
1	Own funds	294,470	295,257	280,565	282,398
1.1	Tier 1 capital	242,123	242,003	228,218	229,144
1.1.1	Common equity Tier 1 capital	242,123	242,003	228,218	229,144
1.1.2	Additional Tier 1 capital	-	-	-	-
1.2	Tier 2 capital	52,347	53,254	52,347	53,254
2	Total risk exposure amount (2.1.+2.2.+2.3.+2.4.+2.5.+2.6.+2.7.)	1,862,606	1,790,585	1,534,913	1,485,193
2.1	Risk weighted exposure amounts for credit, counterparty credit and dilution risks and free deliveries	1,623,386	1,556,442	1,349,420	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	14,684	9,894	6,772	4,598
2.4	Total risk exposure amount for operational risk	223,140	223,140	177,374	177,374
2.5	Total risk exposure amount for credit valuation adjustment	1,396	1,109	1,347	1,109
2.6	Total risk exposure amount related to large exposures in the trading book	-	-	-	-
2.7	Other risk exposure amounts	-	-	-	-
3	Capital adequacy ratios				
3.1	Common equity Tier 1 capital ratio (1.1.1./2.*100)	13.0%	13.5%	14.9%	15.4%
3.2	Surplus (+)/ deficit (-) of Common equity Tier 1 capital (1.1.1.-2.*4.5%)	158,306	161,427	159,147	162,310
3.3	Tier 1 capital ratio (1.1./2.*100)	13.0%	13.5%	14.9%	15.4%
3.4	Surplus (+)/ Deficit (-) of Tier 1 capital (1.1.-2.*6%)	130,367	134,568	136,123	140,032
3.5	Total capital ratio (1./2.*100)	15.8%	16.5%	18.3%	19.0%
3.6	Surplus (+)/ Deficit (-) of total capital (1.-2.*8%)	145,462	152,010	157,772	163,582
4	Combined buffer requirements (4.1.+4.2.+4.3.+4.4.+4.5.)	2.5%	2.5%	2.5%	2.5%
4.1	Capital conservation buffer (%)	2.5%	2.5%	2.5%	2.5%
4.2	Institution specific countercyclical buffer (%)	0.0%	0.0%	0.0%	0.0%
4.3	Systemic risk buffer (%)	-	-	-	-
4.4	Systemically important institution buffer (%)	-	-	-	-
4.5	Other systemically important institution buffer (%)	-	-	-	-
5	Capital adequacy ratios, including adjustments				
5.1	Impairment or asset value adjustments for capital adequacy ratio purposes	-	-	-	-
5.2	Common equity tier 1 capital ratio including line 5.1 adjustments	13.0%	13.5%	14.9%	15.4%
5.3	Tie 1 capital ratio including line 5.1 adjustments	13.0%	13.5%	14.9%	15.4%
5.4	Total capital ratio including line 5.1 adjustments	15.8%	16.5%	18.3%	19.0%

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 March 2017

No.	Name of company	Registration number	Registration address	Country of domicile	Company type*	% of total paid-in share capital	% of total voting rights	Basis for inclusion in the group**
1	AS "Citadele banka"	40103303559	Latvia, Riga LV-1010, Republikas laukums 2A	LV	BNK	100	100	MAS
2	AB "Citadele" bankas	112021619	Lithuania, Vilnius LT-03107, K.Kalinausko 13	LT	BNK	100	100	MS
3	"AP Anlage & Privatbank" AG	130.0.007.738-0	Switzerland, Limmatquai 4, CH-8001, Zurich	CH	BNK	100	100	MS
4	SIA "Citadele līzings un faktoringa"	50003760921	Latvia, Riga LV-1010, Republikas laukums 2A	LV	LIZ	100	100	MS
5	OU "Citadele Leasing & Factoring"	10925733	Estonia, Tallinn 10119, Roosikrantsi 2	EE	LIZ	100	100	MS
6	UAB "Citadele faktoringas ir lizingas"	126233315	Lithuania, Vilnius LT-03107, K.Kalinausko 13	LT	LIZ	100	100	MMS
7	IPAS "CBL Asset Management"	40003577500	Latvia, Riga LV-1010, Republikas laukums 2A	LV	IPS	100	100	MS
8	AS "CBL atklātais pensiju fonds"	40003397312	Latvia, Riga LV-1010, Republikas laukums 2A	LV	PFO	100	100	MS
9	AAS "CBL Life"	40003786859	Latvia, Riga LV-1010, Republikas laukums 2A	LV	APS	100	100	MMS
10	SIA "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 JU"	40103724855	Latvia, Riga LV-1010, Republikas laukums 2A	LV	PLS	100	100	MS
22	SIA "Hortus RE"	40103752416	Latvia, Riga LV-1010, Republikas laukums 2A	LV	PLS	100	100	MS
23	SIA "Hortus BR"	50103752441	Latvia, Riga LV-1010, Republikas laukums 2A	LV	PLS	100	100	MS
24	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 17 February 2017, AS "Citadele banka" sold its subsidiary SIA "Hortus MD".

Shareholders as at 31 March 2017

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

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

Management of the Bank as at 31 March 2017

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
Klāvs Vasks	Member of the Supervisory Board
Nicholas Haag	Member of the Supervisory Board
Karina Saroukhanian	Member of the Supervisory Board

In February 2017 David Shuman, the former Member of the Supervisory Board, resigned. In the three months period ended 31 March 2017 there were no other changes in the Supervisory board of the Bank.

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

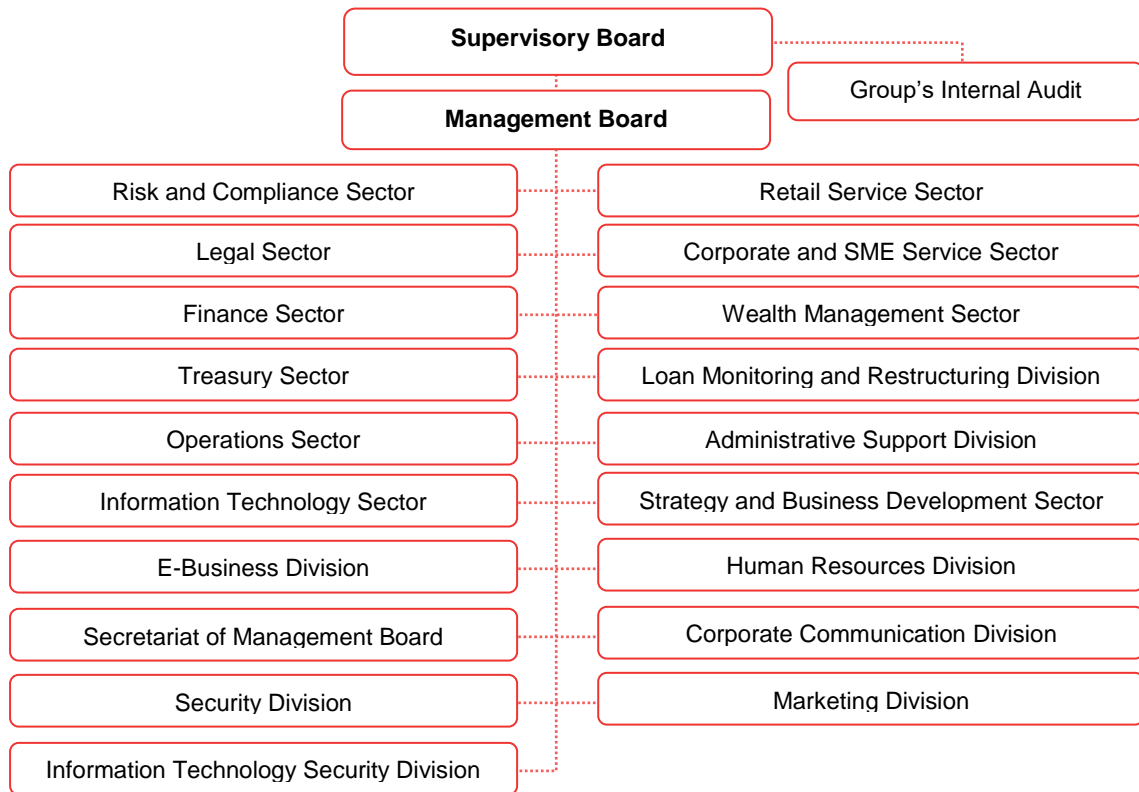
In the three months period ended 31 March 2017 there were no changes in the Management board of the Bank.

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 March 2017 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, client service centres and ATMs is available in the Bank's web page's section "[Branches and ATMs](#)".



Ratings

Rating agency	Long-term rating	Short-term rating	Rating's outlook	Rating revision date
Moody's Investors Service	Ba2	Not Prime	Positive	18/04/2017
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

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 within respective risk committees. 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 low overall risk exposure, 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/her 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. For each of these risks the Group has approved risk management policies and other internal regulations defining key risk management principles and processes, functions and responsibilities of units, risk concentration limits, as well as control and reporting system. The Group's risk management policies for each of the above mentioned risks 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 of the guarantees issued to or received from third parties and other off-balance sheet commitments to third parties. 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 independent units of the Risk and Compliance Sector. The credit risk analysis consists of an assessment of customer's creditworthiness and 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 assessment of collateral quality.

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, intra-group 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. None of the Group's derivative exposures is overdue.

Market Risk

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

Position risk of financial instruments is assessed and limits are set by the Group's Investment Committee (GIC). The decisions of 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 sensitivity against interest rate changes, 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 profiles of the portfolio 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. The Bank 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 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 requirements of 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 risk.

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.