AS Citadele banka

Public Financial Information

4th Quarter 2017

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

Citadele

Key Figures

EUR millions	Group			Bank		
	12m 2017	**12m 2016**	**Change**	**12m 2017**	**12m 2016**	**Change**
Net interest income	75.4	66.2	14%	56.5	50.1	13%
Net commission and fee income	36.7	40.1	(9%)	22.6	27.1	(17%)
Operating income(1)	132.5	134.3	(1%)	100.8	107.1	(6%)
Impairment charges and reversals, net	(4.4)	(10.1)	(56%)	(12.1)	(10.2)	19%
Net profit	16.0	40.7	(61%)	1.3	36.3	(97%)
Return on average assets (ROA)(2)	0.48%	1.29%	(0.81pp)	0.05%	1.44%	(1.39pp)
Return on average equity (ROE)(3)	6.1%	17.2%	(11.1pp)	0.5%	16.2%	(15.7pp)
Cost to income ratio (CIR)(4)	64.4%	60.4%	4.1pp	61.5%	55.3%	6.2pp
Cost of risk ratio (COR)(5)	1.0%	0.9%	(0.1pp)	1.1%	0.9%	0.2pp
Adjusted for major one-time items(6):						
Net profit	31.5	31.1	1%	20.6	21.6	(5%)
Return on average assets (ROA)(2)	0.94%	0.99%	(0.04pp)	0.80%	0.86%	(0.06pp)
Return on average equity (ROE)(3)	11.9%	13.3%	(1.4pp)	8.5%	9.9%	(1.3pp)

EUR millions	Group			Bank		
	12m 2017	**12m 2016**	**Change**	**12m 2017**	**12m 2016**	**Change**
Total assets	3,312	3,350	(1%)	2,545	2,630	(3%)
Loans to customers(7)	1,331	1,241	7%	1,117	1,009	11%
Deposits from customers(7)	2,880	2,919	(1%)	2,144	2,149	(0%)
Shareholders' equity	269	254	6%	240	238	1%
Loan-to-deposit ratio(8)	46%	42%	4pp	52%	47%	5pp
Total capital adequacy ratio (CAR)	18.4%	16.5%	1.9pp	20.0%	19.0%	1.0pp
Common equity Tier 1 capital ratio (CET1)	15.0%	13.5%	1.5pp	15.9%	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.
(6) 2017 adjusted for one-time expense in the amount of EUR 23.2 million due to the write-off of deferred tax assets in Latvia due to change in the country's corporate income tax regime (the Group and the Bank), EUR 7.7 million reversal of impairment on property and equipment (the Group only) and EUR 3.9 million income on dividends from subsidiaries (the Bank only). 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 (the Group and the Bank), EUR 5.1 million income on dividends from subsidiaries (the Bank only) and EUR -1.8 million loss on sale of a single AFS (former HTM) security exposure before maturity (the Group and the Bank).
(7) 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.
(8) 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

In 2017 Citadele Group (hereafter – the Group) maintained stable growth in its main business segments across all three Baltic states and Switzerland and continued to grow its customer base with improved asset quality metrics. AS Citadele banka (hereafter – the Bank) increased its credit portfolio in Latvia, kept deposits at a stable level, and invested in innovations and improved customer service.

The Group's net profit before one-time items was EUR 31.5 million (Bank: EUR 20.6 million). The tax reform introduced by the government of Latvia lead to a EUR 23.2 million one-time write-off of deferred tax assets. Meanwhile, re-evaluation of the Group's property and equipment allowed EUR 7.6 million reversal of impairment. Comparing against adjusted numbers for 2016 (excluding gain on VISA share sale and a loss on sale of a single security exposure), the Group's net profit grew by 1% in 2017. The Group's as reported net profit in 2017 was EUR 16.0 million (Bank: EUR 1.3 million).

Group reached adjusted ROE of 11.9% (Bank: 8.5%) and adjusted ROA of 0.94% (Bank: 0.80%). Corresponding adjusted numbers in 2016 were 13.3% (Bank: 9.9%) and 0.99% (Bank: 0.86%).

Net interest income grew by 14% compared to 2016 and reached EUR 75.4 million (Bank: EUR 56.5 million). The increase was mainly driven by higher yield and growth of the Baltic loan portfolio.

Net commission income decreased by 9% to EUR 36.7 million (Bank: EUR 22.6 million). The decrease was mainly associated with risk mitigating actions regarding USD transfers.

Administrative expense was EUR 79.0 million (Bank: EUR 59.0 million) – a 5% increase compared to 2016. This was the result from the Group's continuous investment in its personnel as well as in state-of-the-art technology solutions.

The number of full time equivalent active employees decreased to 1,540 at the end of 2017 (Bank: 1,173), compared to 1,603 at the end of 2016 (Bank: 1,110). The decrease in the employee count was due to the sale of the Group's company SIA CBL Cash Logistics in 2017.

The Group continued to improve its asset quality. Non-performing loan (NPL) ratio decreased to 8.3% (Bank: 9.0%) in comparison to 9.9% (Bank: 11.0%) in 2016. NPL ratio improved due to fewer delayed loans in retail and corporate segments. The capital position of the Group remained at a high level and the capital adequacy ratio (CAR) was 18.4% (Bank: 20.0%) at the end of 2017, compared to 16.5% (Bank: 19.0%) at the end of 2016. The Group's liquidity position remained strong without significant changes in client deposit levels. Loan-to-deposit ratio remained at a comfortable level – 46%.

The net loan portfolio maintained its growth and reached EUR 1.33 billion – a 7% increase compared to 2016. In-line with the Group's strategy, the main drivers of lending's continued growth were Baltic retail and SME operations.

Client deposits at the end of 2017 were EUR 2.88 billion, a 1% decrease compared to the previous year. The deposits in Latvia grew by 6% and reached EUR 1.99 billion. In Lithuania, deposits grew by 8% and reached EUR 453 million. Total deposits in Estonia decreased to EUR 151 million.

Product and service improvements

In 2017, Citadele Group continued to develop new offers, upgrade customer service and attract new customers among both private individuals and businesses.

The Group invested more than EUR 3 million in new innovation and digitalization of products and services in 2017. These improvements included mobile payments, new functionalities in the Bank's mobile application, improvements to the internet bank, and an automated credit scoring process for lending.

Citadele Group completed several projects to modernize its payment system. Since the beginning of 2017, Citadele began issuing contactless payment cards in order to create a suitable infrastructure for mobile payments in Latvia. By the third quarter of 2017, more than 50% of Citadele's card terminals supported contactless payments. Citadele Bank also signed an agreement for a long-term partnership with global payments company Visa in April 2017. The agreement anticipates close cooperation in developing new and innovative card and payment products and services to 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 for different client segments.

Citadele Bank was the first bank in the Baltics to introduce mobile payments using near-field communication (NFC) technology to ensure that the mobile payment solution was easy-to-use and applicable in diverse, everyday payment situations. In September, once beta-testing was complete, payments using mobile phones were made available to people who use smartphones with an Android operating system (Samsung, HTC, Huawei etc.), representing around 80% of all phone users in Latvia. For users of smartphones with other operating systems, Citadele offered alternative mobile payment solutions – bracelets and stickers with NFC technology. Currently, mobile payments using NFC technology are possible in over 15,000 places in Latvia where contactless payments are accepted. It is expected that by 2020 every payment terminal in Latvia will be fitted with contactless payment function.

Citadele Bank in Latvia continues to actively invest in improvements to its mobile application. Customers in Latvia are making 10 times more payments on the Bank's app than a year ago. This year, widening its range of communication channels, the Bank began offering mortgage consultations in Latvia over Skype, and introduced WhatsApp and iMessage as communications channels with customers.

Citadele Bank was the first bank in Latvia to join the Bank of Latvia instant-payment network. The instant-payment system was launched on November 21 and allows Citadele's clients to make instant payments to other European and Latvian banks that joined the system. The limit for each payment is set to EUR 30.00 in the system's early stages, but gradually will increase to EUR 15,000 – the maximum permitted limit of an instant payment. Instant payments are non-cash transfers provided 24 hours a day, 7 days a week, every day of the year, including public holidays and weekends, and are processed within a few seconds. This change brought significant convenience to clients, as previously payments between banks in Europe were possible only on working days and processing took multiple hours.

Moody's upgrade and other recognitions

On 19 April 2017, Moody's Investors Service (Moody's) increased Citadele's long-term credit rating by two notches (from B1 to Ba2), and maintained positive outlook. This upgrade reflected the Group's on-going strategy to develop and grow its business across the Baltic States, as well as the Group's improved capital levels and asset quality. Moody's also positively valued the Group's rapid development over the last year.

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 recognized as the bank with the best customer service. This represented the second year in a row that Citadele has received this award in Lithuania.

The Group company CBL Asset Management's managed funds are repeatedly recognized by Lipper Fund Awards. In March 2017, for the second year running, international investment fund research company Lipper recognized CBL Eastern European Bond Fund R Acc USD as the best fund in 2016 in terms of returns and risks in the European Emerging Markets Bond's category over a three and five year period.

Development in lending

In 2017, Citadele Group actively served and provided funds to private individuals and businesses across all three Baltic States.

Citadele Group's net loan portfolio grew to EUR 1.33 billion in 2017, with EUR 469 million granted in new loans a 10% more than in 2016. For private individuals, the amount of new loans granted by the Group was EUR 129 million, a 3% increase compared to the same period in 2016. For businesses, the amount of new loans was EUR 340 million, a 13% increase.

In Latvia, the net loan portfolio reached EUR 1.0 billion as the Bank granted EUR 266 million in new loans. For private individuals, EUR 89 million was granted in new loans. For businesses, EUR 177 million was granted.

In Lithuania, the net loan portfolio reached EUR 255 million in 2017, with EUR 142 million granted in new loans. For private individuals, EUR 13 million was granted in new loans. For businesses, EUR 129 million was granted.

In Estonia, the net loan portfolio grew to EUR 112 million in 2017, with EUR 64 million granted in new loans. For private individuals, EUR 26 million was granted in new loans, and for businesses EUR 38 million was granted.

The Group's **leasing entities** showed steady growth, with the total Baltic leasing portfolio reaching EUR 159 million, growing 5% compared to 2016, driven primarily by Latvia and Lithuania. The net leasing portfolio in Latvia grew by 13% compared to 2016, reaching EUR 76 million. In Lithuania the net leasing portfolio grew by 19% reaching EUR 62 million.

Regulatory compliance and other events

On 1 January 2018, IFRS 9 and IFRS 15 become effective for the Group. Throughout 2017 and also in 2018, Citadele Group has been working diligently to implement these and other upcoming accounting, compliance and regulatory requirements in a timely manner. Management is confident that the Group is on track for implementation of all known regulatory and compliance requirements. For the estimated impact of IFRS 9 and IFRS 15 requirements, refer to the Financial Statements.

In November 2017, the Bank completed its EUR 20 million issuance of subordinated debt as part of its second subordinated bonds program. The objective of the offering was to refinance the portion of the subordinated debt to the European Bank for Reconstruction and Development and to continue improving the Group's capital adequacy ratio, which reached 18.4% (Bank: 20.0%) at 31 December 2017.

Also, in October 2017, the Supervisory Board of AS Citadele banka approved Johan Akerblom as the Chief Financial Officer of the Bank. On 29 January 2018 J. Akerblom received the approval of the Financial and Capital Market Commission and on 1 February 2018 commenced his duties.

Sincerely,

Guntis Beļavskis
Chairman of the Management Board

Income Statement

EUR th.	**Jan-Dec 2017 *Unaudited* Group**	**Jan-Dec 2016 *Audited* Group**	**Jan-Dec 2017 *Unaudited* Bank**	**Jan-Dec 2016 *Audited* Bank**
Interest income	93,990	84,737	72,205	66,113
Interest expense	(18,616)	(18,542)	(15,753)	(15,966)
Dividends received	35	7	3,948	5,134
Commission and fee income	56,441	57,398	40,453	42,178
Commission and fee expense	(19,714)	(17,253)	(17,903)	(15,033)
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	236	11,288	267	10,589
Net gain/ (loss) on held for trading financial assets and financial liabilities	255	111	-	(220)
Net gain/ (loss) on financial assets or financial liabilities designated at fair value though profit and loss	(385)	95	-	-
Fair value change in the hedge accounting	-	-	-	-
Gain/ (loss) from foreign exchange trading and revaluation of open positions	15,990	13,831	13,368	11,470
Net financial profit	**128,232**	**131,672**	**96,585**	**104,265**
Net gain/ (loss) on disposal of property, plant and equipment, investment property and intangible assets	1	5	-	-
Other income	4,253	2,639	4,231	2,878
Other expense	(760)	(970)	(111)	(139)
Administrative expense	(79,016)	(75,431)	(58,953)	(56,780)
Amortisation and depreciation charge	(5,267)	(4,654)	(2,692)	(2,178)
Provisions, net	(313)	(11)	(211)	(122)
Impairment charge and reversals, net	(4,422)	(10,122)	(12,110)	(10,162)
Profit before taxation	**42,708**	**43,128**	**26,739**	**37,762**
Corporate income tax *	(26,745)	(2,440)	(25,482)	(1,484)
Net profit / loss for the period *	**15,963**	**40,688**	**1,257**	**36,278**

Statement of Comprehensive Income

EUR th.	**Jan-Dec 2017 *Unaudited* Group**	**Jan-Dec 2016 *Audited* Group**	**Jan-Dec 2017 *Unaudited* Bank**	**Jan-Dec 2016 *Audited* Bank**
Net change in fair value revaluation reserve of securities and other reserves	(1,301)	(6,226)	501	(7,283)
Other comprehensive income/ (loss) for the period	(1,301)	(6,226)	501	(7,283)
Total comprehensive income for the period	**14,662**	**34,462**	**1,758**	**28,995**

Balance Sheet

EUR th.	31/12/2017 *Unaudited* Group	31/12/2016 *Audited* Group	31/12/2017 *Unaudited* Bank	31/12/2016 *Audited* Bank
Cash and demand balances with central banks	715,468	799,198	494,848	647,606
Demand deposits due from credit institutions	138,311	138,988	204,216	153,870
Financial assets held for trading	16,180	18,068	2,481	4,710
Financial assets designated at fair value through profit and loss	146,479	133,326	-	-
Available for sale financial assets	858,861	903,190	628,738	694,934
Loans and receivables, net	1,343,560	1,243,220	1,118,266	1,009,055
Held to maturity investments	-	-	-	-
Change in the fair value of the portfolio hedged against interest rate risk	-	-	-	-
Prepayments and accrued income	5,731	5,766	2,716	2,027
Property and equipment	51,198	43,947	4,994	4,968
Investment property	-	-	-	-
Intangible assets	4,166	3,075	3,877	2,762
Investments in subsidiaries	-	-	64,725	61,884
Income tax assets	1,558	26,436	-	24,685
Other assets	30,256	34,301	20,568	23,109
Total assets	**3,311,768**	**3,349,515**	**2,545,429**	**2,629,610**
Due to central banks	16	7	6	6
Demand liabilities to credit institutions	1,724	8,616	5,045	23,352
Financial liabilities held for trading	3,166	1,817	3,168	1,923
Financial liabilities designated at fair value through profit and loss	37,150	39,678	-	-
Financial liabilities measured at amortised cost	2,961,775	3,018,223	2,277,976	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	15,066	14,665	11,047	10,532
Provisions	893	601	334	122
Income tax liabilities	1,693	717	832	-
Other liabilities	21,390	10,958	7,126	5,135
Total liabilities	**3,042,873**	**3,095,282**	**2,305,534**	**2,391,473**
Shareholders' equity	268,895	254,233	239,895	238,137
Total liabilities and shareholders' equity	**3,311,768**	**3,349,515**	**2,545,429**	**2,629,610**
Memorandum items				
Contingent liabilities	29,422	28,204	25,252	22,997
Financial commitments	236,157	216,025	287,455	243,452

Auditor: SIA “KPMG Baltics”. For audited financial reports, please refer to the Bank’s web page’s section “Financial reports”.

Key Ratios

	Jan-Dec 2017 Group	Jan-Dec 2016 Group	Jan-Dec 2017 Bank	Jan-Dec 2016 Bank
Return on equity (ROE) (%)*	6.10%	17.17%	0.53%	16.22%
Return on assets (ROA) (%)*	0.48%	1.29%	0.05%	1.44%

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

Investments in Securities by Issuer's Country

	Group			
	31/12/2017		31/12/2016	
EUR th.	Government bonds	Other securities	Government bonds	Other securities
Latvia	265,055	1,916	253,580	7,847
Lithuania	144,879	520	72,665	-
United States	12,566	80,406	10,592	76,794
Netherlands	-	84,275	4,992	83,783
Canada	2,227	34,472	6,105	42,867
Germany	7,233	26,034	7,181	37,995
United Kingdom	-	32,675	-	40,868
France	9,764	19,170	9,722	18,192
Singapore	-	24,886	-	28,947
Finland	11,722	13,208	15,871	14,943
Australia	-	23,907	-	28,127
Sweden	6,831	16,999	11,797	26,041
Multilateral development banks	-	43,604	-	52,439
Other countries**	17,306	139,459	27,441	171,211
Total securities, net	**477,583**	**541,531**	**419,946**	**630,054**

	Bank			
	31/12/2017		31/12/2016	
EUR th.	Government bonds	Other securities	Government bonds	Other securities
Latvia	249,477	1,421	240,367	3,511
United States	8,385	43,860	8,680	47,936
Netherlands	-	49,027	4,992	47,868
Lithuania	39,512	-	25,948	-
Germany	1,009	14,390	7,181	25,177
Singapore	-	23,408	-	27,202
United Kingdom	-	15,990	-	26,235
Multilateral development banks	-	24,901	-	40,710
Other countries**	23,104	134,253	30,217	158,910
Total securities, net	**321,487**	**307,250**	**317,385**	**377,549**

** Each country's issuers' (which are included in the line "Other countries") aggregated exposure as at 31/12/2017 is less than 10% from the eligible capital used for capital adequacy calculation purposes. Investments in managed funds are included in the line "Other countries".

As at 31 December 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: EUR 109 thousand release); total recognised impairment allowance for available for sale securities as at the period end is EUR 1,387 thousand (2016: EUR 1,640 thousand).

Liquidity Ratio Calculation

	EUR th.	31/12/2017 Bank	31/12/2016 Bank
1	**Liquid assets (1.1.+1.2.+1.3.+1.4.)**	**1,249,371**	**1,377,221**
1.1	Cash	48,198	48,518
1.2	Due from Bank of Latvia	419,660	573,670
1.3	Due from with solvent credit institutions	218,000	175,474
1.4	Liquid securities	563,514	579,559
2	**Liabilities (with remaining maturity up to 30 days) (2.1.+2.2.+2.3.+2.4.+2.5.+2.6.)**	**2,032,833**	**1,959,690**
2.1	Due to credit institutions	31,276	44,501
2.2	Deposits	1,746,597	1,671,592
2.3	Issued debt securities	-	-
2.4	Cash in transit	28,805	38,410
2.5	Other current liabilities	21,624	17,421
2.6	Off balance sheet liabilities	204,531	187,766
3	**Liquidity ratio (1.:2.) (%)**	**61%**	**70%**
4	**Minimum liquidity ratio**	**30%**	**30%**

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

Capital Adequacy Report

	EUR th.	**31/12/2017** ***Unaudited*** **Group**	**31/12/2016** ***Audited*** **Group**	**31/12/2017** ***Unaudited*** **Bank**	**31/12/2016** ***Audited*** **Bank**
1	**Own funds**	**320,768**	**295,257**	**294,802**	**282,398**
1.1	Tier 1 capital	260,768	242,003	234,802	229,144
1.1.1	*Common equity Tier 1 capital*	*260,768*	*242,003*	*234,802*	*229,144*
1.1.2	*Additional Tier 1 capital*	-	-	-	-
1.2	Tier 2 capital	60,000	53,254	60,000	53,254
2	**Total risk exposure amount (2.1.+2.2.+2.3.+2.4.+2.5.+2.6.+2.7.)**	**1,741,316**	**1,790,585**	**1,472,811**	**1,485,193**
2.1	Risk weighted exposure amounts for credit, counterparty credit and dilution risks and free deliveries	1,496,213	1,556,442	1,283,761	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	7,887	9,894	3,858	4,598
2.4	Total risk exposure amount for operational risk	236,078	223,140	184,054	177,374
2.5	Total risk exposure amount for credit valuation adjustment	1,138	1,109	1,138	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)**	**15.0%**	**13.5%**	**15.9%**	**15.4%**
3.2	Surplus (+)/ deficit (-) of Common equity Tier 1 capital (1.1.1.-2.*4.5%)	182,409	161,427	168,526	162,310
3.3	**Tier 1 capital ratio (1.1./2.*100)**	**15.0%**	**13.5%**	**15.9%**	**15.4%**
3.4	Surplus (+)/ Deficit (-) of Tier 1 capital (1.1.-2.*6%)	156,289	134,568	146,434	140,032
3.5	**Total capital ratio (1./2*100)**	**18.4%**	**16.5%**	**20.0%**	**19.0%**
3.6	Surplus (+)/ Deficit (-) of total capital (1.-2.*8%)	181,463	152,010	176,977	163,582
4	**Combined buffer requirements (4.1.+4.2.+4.3.+4.4.+4.5.)**	3.25%	2.5%	3.25%	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 (%)	0.75%	-	0.75%	-
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	15.0%	13.5%	15.9%	15.4%
5.3	Tie 1 capital ratio including line 5.1 adjustments	15.0%	13.5%	15.9%	15.4%
5.4	Total capital ratio including line 5.1 adjustments	18.4%	16.5%	20.0%	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 section "Financial reports".

Consolidation Group as at 31 December 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 faktorings	50003760921	Latvia, Riga LV-1010, Republikas laukums 2A	LV	LIZ	100	100	MS
5	OU Citadele Leasing & Factoring	10925733	Estonia, Tallinn 10152, Narva mnt. 63/1	EE	LIZ	100	100	MS
6	UAB Citadele faktoringas ir lizingas	126233315	Lithuania, Vilnius LT-03107, K.Kalinausko 13	LT	LIZ	100	100	MS
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	Calenia Investments Limited	HE156501	Cyprus, Nicosia 1075, 58 Arch. MakariosIII Avenue, Iris Tower, 6th floor, office 602	CY	PLS	100	100	MS
11	OOO Mizush Asset Management Ukraine	32984601	Ukraine, Kiev 03150, Gorkovo 172	UA	IBS	100	100	MMS
12	SIA Citadele Express Kredīts	40003238125	Latvia, Riga LV-1010, Republikas laukums 2A	LV	CFI	100	100	MS
13	SIA Citadeles moduļi	40003397543	Latvia, Riga LV-1010, Republikas laukums 2A	LV	PLS	100	100	MS
14	SIA RPG interjers	40103157899	Latvia, Riga LV-1010, Republikas laukums 2A	LV	PLS	100	100	MMS
15	SIA Hortus Commercial	40103460641	Latvia, Riga LV-1010, Republikas laukums 2A	LV	PLS	100	100	MS
16	SIA Hortus Land	40103460961	Latvia, Riga LV-1010, Republikas laukums 2A	LV	PLS	100	100	MS
17	SIA Hortus TC	50103460681	Latvia, Riga LV-1010, Republikas laukums 2A	LV	PLS	100	100	MS
18	SIA Hortus Residental	40103460622	Latvia, Riga LV-1010, Republikas laukums 2A	LV	PLS	100	100	MS
19	SIA Hortus JU	40103724855	Latvia, Riga LV-1010, Republikas laukums 2A	LV	PLS	100	100	MS
20	SIA Hortus RE	40103752416	Latvia, Riga LV-1010, Republikas laukums 2A	LV	PLS	100	100	MS
21	SIA Hortus BR	50103752441	Latvia, Riga LV-1010, Republikas laukums 2A	LV	PLS	100	100	MS
22	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 22 November 2017, legal name of SIA Rīgas Pirmā Garāža was changed to SIA Citadeles moduļi. In August 2017, UAB Citadele faktoringas ir lizingas was sold by AB Citadele bankas (Lithuania) to AS Citadele banka (Latvia). The transaction was between the Group's entities thus did not have an impact on the Group's consolidated figures. On 16 August 2017 consolidated subsidiary SIA PR Speciālie projekti was liquidated. On 1 August 2017, AS Citadele banka sold its wholly owned subsidiary SIA CBL Cash Logistics. On 17 February 2017, AS Citadele banka sold its subsidiary SIA Hortus MD.

Shareholders as at 31 December 2017

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

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

Management of the Bank as at 31 December 2017

Supervisory Board of the Bank

Name	Position
Timothy Clark Collins	Chairman of the Supervisory Board
Elizabeth Critchley	Deputy chairperson of the Supervisory Board
James Laurence Balsillie	Member of the Supervisory Board
Dhananjaya Dvivedi	Member of the Supervisory Board
Lawrence Neal Lavine	Member of the Supervisory Board
Klāvs Vasks	Member of the Supervisory Board
Nicholas Dominic Haag	Member of the Supervisory Board
Karina Saroukhanian	Member of the Supervisory Board
Catherine Margaret Ashton	Member of the Supervisory Board

David Shuman, a former member of the Supervisory Board, resigned on 1 February 2017. On 3 May 2017, after receiving Financial and Capital Market Commission's approval, Catherine Margaret Ashton was appointed as a Member of the Supervisory Board.

Management Board of the Bank

Name	Position
Guntis Beļavskis	Chairman of the Management Board, per procura
Valters Ābele	Member of the Management Board, per procura
Kaspars Cikmačs	Member of the Management Board
Santa Purgaile	Member of the Management Board
Vladislavs Mironovs	Member of the Management Board
Uldis Upenieks	Member of the Management Board
Slavomir Mizak	Member of the Management Board

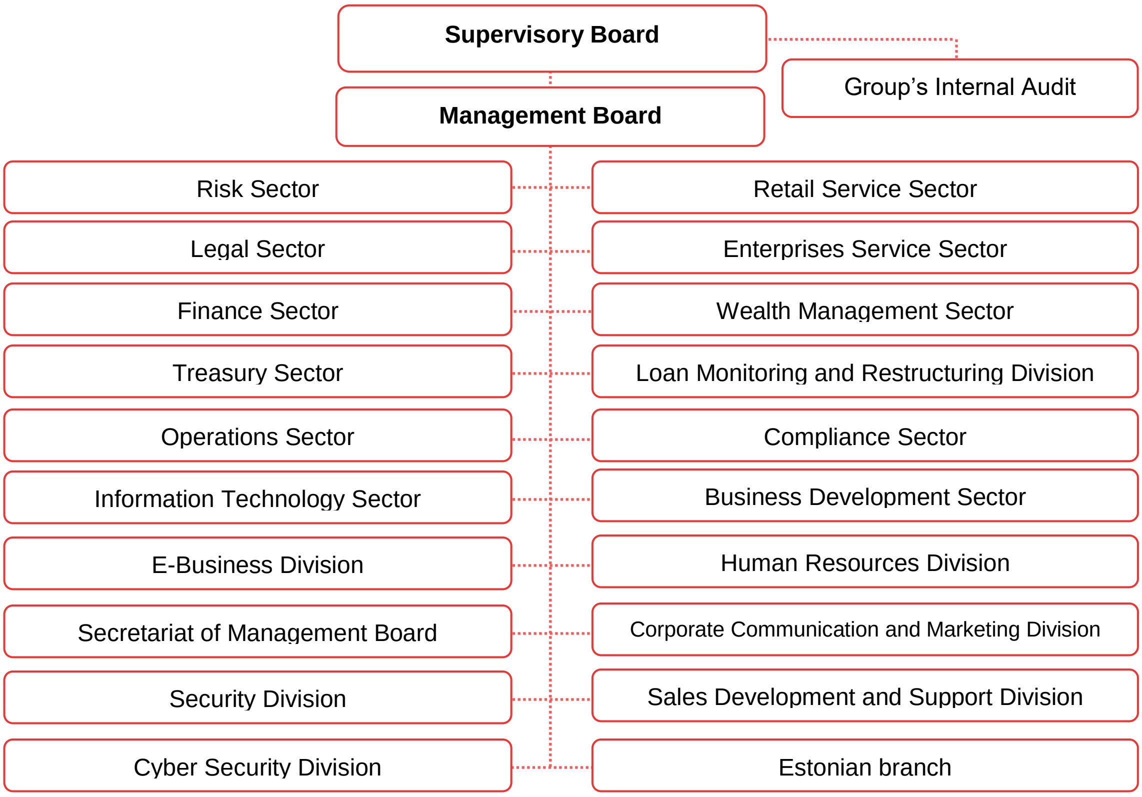
On 1 August 2017 after receiving Financial and Capital Market Commission's approval, Uldis Upenieks (Chief Compliance Officer) and Slavomir Mizak (Chief Technology Officer) were appointed as new Members of the Management Board. On 29 January 2018 the Bank received Financial and Capital Market Commission approval for Johan Akerblom's candidacy in the Citadele Management Board. On 1 February 2018 Johan Akerblom was appointed as Member of the Management Board.

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 2017 the Bank was operating a total of 20 branches (including 1 foreign branch), 12 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	27/10/2017
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 page of the rating agency: www.moodys.com

Risk Management

The Group considers risk management to be an essential component of its management process. The Group believes that it pursues prudent risk management policies that are aligned with its business and which aim to achieve effective risk mitigation. In order to assess and monitor complex risk exposures, the Group applies a wide range of risk management tools in conjunction with risk committees. Members of risk committees represent various operations of the Group in order to balance business and risk orientation 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 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 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 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 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 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 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 is 40%. 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 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.