AS Citadele banka

# Public Financial Information

2nd 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 | | |
|---|---|---|---|---|---|---|
| | 6m 2017 | 6m 2016 | Change | 6m 2017 | 6m 2016 | Change |
| Net interest income | 36.2 | 31.1 | 16% | 27.1 | 23.6 | 15% |
| Net commission and fee income | 19.3 | 18.3 | 5% | 12.1 | 13.1 | (7%) |
| Operating income(1) | 64.5 | 70.6 | (9%) | 47.6 | 55.9 | (15%) |
| Impairment charges and reversals, net | (6.4) | (5.1) | 26% | (6.7) | (5.6) | 20% |
| Net profit | 15.0 | 25.4 | (41%) | 10.3 | 20.6 | (50%) |
| Return on average assets (ROA)(2) | 0.90% | 1.66% | (0.76pp) | 0.79% | 1.68% | (0.89pp) |
| Return on average equity (ROE)(3) | 11.5% | 22.1% | (10.6pp) | 8.4% | 19.0% | (10.6pp) |
| Cost to income ratio (CIR)(4) | 64.5% | 55.8% | 8.7pp | 62.4% | 52.5% | 10.0pp |
| Cost of risk ratio (COR)(5) | 1.1% | 0.9% | 0.2pp | 1.2% | 1.0% | 0.2pp |

| EUR millions | Group | | | Bank | | |
|---|---|---|---|---|---|---|
| | 6m 2017 | 12m 2016 | Change | 6m 2017 | 12m 2016 | Change |
| Total assets | 3,291 | 3,350 | (2%) | 2,550 | 2,630 | (3%) |
| Loans to customers(6) | 1,323 | 1,241 | 7% | 1,071 | 1,009 | 6% |
| Deposits from customers(6) | 2,874 | 2,919 | (2%) | 2,141 | 2,149 | (0%) |
| Shareholders' equity | 270 | 254 | 6% | 249 | 238 | 5% |
| Loan-to-deposit ratio(7) | 46% | 42% | 4pp | 50% | 47% | 3pp |
| Total capital adequacy ratio (CAR) | 16.7% | 16.5% | 0.2pp | 19.6% | 19.0% | 0.6pp |
| Common equity Tier 1 capital ratio (CET1) | 13.8% | 13.5% | 0.3pp | 16.0% | 15.4% | 0.6pp |

(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 was adjusted and comparatives for 2016 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

In the first six months of the year, Citadele Group continued to demonstrate strong financial performance by growing its customer base across core business segments, ensuring a healthy increase in its capital base, as well as showing improvements in the Group's asset quality metrics.

The Group's **net profit** for the first six months of the year was EUR 15.0 million (Bank: EUR 10.3 million) compared to EUR 25.4 million (Bank: EUR 20.6 million) during the same period prior year, which included a EUR 11.3 million gain on the disposal of Citadele's shares in Visa Europe to Visa Inc. Excluding the one-time item from Visa, the prior year's net profit was EUR 14.0 million (Bank: EUR 9.3 million). Furthermore, the Group's operating profit demonstrated a healthy 7% growth rate year over year, driven by solid growths in net interest income and net commission income lines.

The Group's net profit numbers for the first six months of the year resulted in 11.5% **ROE** and 0.90% **ROA** (Bank: 8.4% ROE and 0.79% ROA) compared to 22.1% ROE and 1.66% ROA (Bank: 19.0% ROE and 1.68% ROA) during the same period in 2016. Excluding the gain from the sale of Citadele's shares in Visa, the Group delivered 12.1% ROE and 0.92% ROA (Bank: 8.5% ROE and 0.75% ROA) in the respective period prior year.

The Group's **net loan portfolio** increased by 8% to EUR 1,323 million in comparison to June 2016 with the consumer loan book in Latvia together with Estonian branch operations demonstrating the highest loan portfolio growth rates. Lending to MSMEs and Corporates also saw strong growth in the first half of 2017.

The Group's **asset quality** continued to improve with the NPL ratio decreasing to 9.3% as compared to 9.6% in June 2016. Similarly, the 90-days-past-due ratio continued to improve, reaching 4.5% as compared to 5.3% in June 2016. Cost of risk for the loan portfolio resulted in a slight increase, driven primarily by the continuous change in portfolio mix towards higher-yielding products in the Retail segment.

**Net interest income** increased by 16% to EUR 36.2 million (Bank: 15% to EUR 27.1 million) as a result of the growth in the size and yield of the loan portfolio. This was primarily driven by the increase in the size of the consumer, MSME and corporate loan book.

The Group's **net commission income** grew by 5% to EUR 19.3 million (Bank: -7% to EUR 12.1 million). The growth in the Group's net commission income was driven primarily by a growing Retail customer base, which positively impacted revenues received from payment cards and payment transfers. The decrease of net commission income at the Bank level was primarily due to the separation of the cash handling business into a separate legal entity.

**Operating expense** increased by 6% (Bank: 1%), which was driven by the Group's continuous investment into the size and development of its personnel, and the strengthening of the Group's information systems. The number of the Group's active employees decreased to 1,641 at the end of June 2017 (Bank: 1,138), compared to 1,666 at the end of June 2016 (Bank: 1,299). The decrease in the number of employees in the Bank was driven primarily by the transfer of employees from the Bank to a separate group company CBL Cash Logistics.

The Group's **liquidity** and **capital** position remained strong: the loan-to-deposit ratio remained at a prudent level of 46%, while Group's capital adequacy ratio continued to improve to reach 16.7% (Bank: 19.6%) by the end of June 2017. This was an increase of 4.2pp (Bank: 5.9pp) compared to June 2016. The capital adequacy ratio for June 2017 excludes the profit generated by the Group in the first half of 2017.

## Product and service improvements

In the first half of 2017, Citadele Group continued to develop new offers, upgrade customer service and attract new customers among private individuals as well as MSMEs and Corporates.

Since the very start of the year, Citadele in Latvia began issuing contactless payment cards. In order to create a suitable infrastructure in the country for contactless payments, Citadele has installed more than 5,000 contactless payment terminals throughout Latvia. With that, more than 50% of Citadele card terminals support contactless payments.

In April 2017, Citadele Bank signed an agreement for a long-term partnership with global payments company Visa. The agreement anticipates a 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 for different client segments.

Citadele Bank was also the first bank in the Baltics to introduce mobile payments using NFC. From April 2017, Citadele's mobile payment services were available for beta testing by Citadele employees and selected customer groups in order to ensure that the mobile payment solution was easy-to-use and applicable in different, everyday payment situations. 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 plans to offer alternative mobile payment solutions - bracelets and stickers with NFC (*near-field communication*) technology. Currently, mobile payments using NFC technology are possible in over 8,000 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, with the widening of 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.

## 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 implemented 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.

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 the first half of 2017, Citadele Group actively served and provided funds to private individuals and businesses across all three Baltic States.

**Citadele Group's** net loan portfolio continued to grow, reaching EUR 1,323 million, which was a growth of 8% compared to June 2016. The amount of new loans granted by the Group's banking entities in the first half of 2017 was EUR 253 million, a 27% increase compared to the same period in 2016.

For private individuals, the amount of new loans granted by the Group's banking entities in the first half of 2017 was EUR 68 million, a 7% increase compared to the same period in 2016. For MSMEs and Corporates the amount of new loans granted in the first half of 2017 was EUR 185 million, a 37% increase compared to the same period in 2016.

Client deposits in the Group reached EUR 2,874 million, showing an increase of 5% in comparison to June 2016.

**In Latvia**, the net loan portfolio continued to grow, reaching EUR 960 million, which is a growth of 4% compared to June 2016. The amount of new loans granted by the Bank in the first half of 2017 was EUR 139.6 million, which was a 30% increase compared to the same period in 2016.

For private individuals, the amount of newly granted loans in the first half of 2017 was EUR 48.3 million, which was a 3% decrease compared to the same period in 2016. For MSMEs and Corporates the amount of newly granted loans in the first half of 2017 was EUR 91.3 million, which was a 58% increase compared to the same period in 2016.

Client deposits in Latvia have remained stable at EUR 1,870 million in comparison to June 2016.

**In Lithuania**, the net loan portfolio continued to grow, reaching EUR 298 million, which was a growth of 12% compared to June 2016. The amount of new loans granted by the bank in the first half of 2017 was EUR 71.8 million, which was a 5% increase compared to the same period in 2016.

For private individuals the amount of newly granted loans in the first half of 2017 was EUR 5.6 million, which was a 60% increase compared to the same period in 2016. For MSMEs and Corporates the amount of newly granted loans in the first half of 2017 was EUR 66.2 million which was a 2% increase compared to the same period in 2016.

Client deposits in Lithuania reached EUR 406 million, which was an increase of 17% compared to June 2016.

**In Estonia**, the net loan portfolio continued to grow, reaching EUR 111 million, which was a growth of 24% compared to June 2016. The amount of new loans granted by the bank in the first half of 2017 was EUR 41.2 million, which was an 80% increase compared with the same period in 2016.

For private individuals the amount of newly granted loans in the first half of 2017 was EUR 14.1 million, which was a 33% increase compared with the same period in 2016. For MSMEs and Corporates the amount of newly granted loans in the first half of 2017 was EUR 27.1 million, which was a 122% increase compared with the same period in 2016.

Client deposits in Estonia reached EUR 222 million, which was an increase of 17% compared to June 2016.

The Group's **leasing entities** showed a steady growth in their net leasing portfolios, reaching EUR 155 million across the Baltic States. This represented a 5% growth compared to June 2016, driven primarily by Latvia and Lithuania. The net leasing portfolio in Latvia grew by 11% compared to June 2016, reaching EUR 73 million. In Lithuania the net leasing portfolio grew by 21%, compared to June 2016, reaching EUR 55 million.

## Other events

In April, Citadele signed a deal to sell its cash handling operations provided by its subsidiary CBL Cash Logistics to Lithuanian Eurocash1. After receiving all necessary approvals, the deal was closed on 1 August 2017.

Sincerely,

Guntis Beļavskis
Chairman of the Management Board

## Income Statement

| *EUR th.* | Jan-Jun 2017 *Unaudited* Group | Jan-Jun 2016 *Unaudited* Group | Jan-Jun 2017 *Unaudited* Bank | Jan-Jun 2016 *Unaudited* Bank |
|---|---|---|---|---|
| Interest income | 46,097 | 40,233 | 35,394 | 31,573 |
| Interest expense | (9,858) | (9,100) | (8,310) | (7,950) |
| Dividends received | 21 | - | 21 | - |
| Commission and fee income | 28,664 | 26,498 | 20,744 | 20,183 |
| Commission and fee expense | (9,383) | (8,208) | (8,631) | (7,114) |
| 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 | 232 | 12,728 | 214 | 12,088 |
| Net gain/ (loss) on held for trading financial assets and financial liabilities | 143 | 580 | - | 278 |
| Net gain/ (loss) on financial assets or financial liabilities designated at fair value though profit and loss | (230) | 524 | - | - |
| Fair value change in the hedge accounting | - | - | - | - |
| Gain/ (loss) from foreign exchange trading and revaluation of open positions | 7,447 | 6,057 | 6,542 | 5,428 |
| **Net financial profit** | **63,133** | **69,312** | **45,974** | **54,486** |
| Net gain/ (loss) on disposal of property, plant and equipment, investment property and intangible assets | 1 | 5 | - | - |
| Other income | 1,335 | 1,260 | 1,669 | 1,426 |
| Other expense | (466) | (430) | (66) | (85) |
| Administrative expense | (38,337) | (36,633) | (28,192) | (28,162) |
| Amortisation and depreciation charge | (2,548) | (2,296) | (1,269) | (1,089) |
| Provisions, net | (213) | - | (211) | - |
| Impairment charge and reversals, net | (6,437) | (5,110) | (6,674) | (5,583) |
| **Profit before taxation** | **16,468** | **26,108** | **11,231** | **20,993** |
| Corporate income tax | (1,446) | (755) | (975) | (394) |
| **Net profit for the period** | **15,022** | **25,353** | **10,256** | **20,599** |

## Statement of Comprehensive Income

| *EUR th.* | Jan-Jun 2017 *Unaudited* Group | Jan-Jun 2016 *Unaudited* Group | Jan-Jun 2017 *Unaudited* Bank | Jan-Jun 2016 *Unaudited* Bank |
|---|---|---|---|---|
| Net change in fair value revaluation reserve of securities and other reserves | 726 | (5,244) | 877 | (5,963) |
| Other comprehensive income/ (loss) for the period | 726 | (5,244) | 877 | (5,963) |
| **Total comprehensive income for the period** | **15,748** | **20,109** | **11,133** | **14,636** |

## Balance Sheet

| *EUR th.* | 30/06/2017 *Unaudited* Group | 31/12/2016 *Audited* Group | 30/06/2017 *Unaudited* Bank | 31/12/2016 *Audited* Bank |
|---|---|---|---|---|
| Cash and demand balances with central banks | 689,285 | 799,198 | 578,576 | 647,606 |
| Demand deposits due from credit institutions | 132,973 | 138,988 | 104,855 | 153,870 |
| Financial assets held for trading | 16,594 | 18,068 | 3,770 | 4,710 |
| Financial assets designated at fair value through profit and loss | 153,069 | 133,326 | - | - |
| Available for sale financial assets | 842,325 | 903,190 | 655,656 | 694,934 |
| Loans and receivables, net | 1,329,819 | 1,243,220 | 1,071,568 | 1,009,055 |
| Held to maturity investments | - | - | - | - |
| Change in the fair value of the portfolio hedged against interest rate risk | - | - | - | - |
| Prepayments and accrued income | 4,936 | 5,766 | 2,431 | 2,027 |
| Property and equipment | 43,416 | 43,947 | 4,632 | 4,968 |
| Investment property | - | - | - | - |
| Intangible assets | 3,082 | 3,075 | 2,801 | 2,762 |
| Investments in subsidiaries | - | - | 61,924 | 61,884 |
| Income tax assets | 25,872 | 26,436 | 24,240 | 24,685 |
| Other assets | 49,212 | 34,301 | 39,089 | 23,109 |
| **Total assets** | **3,290,583** | **3,349,515** | **2,549,542** | **2,629,610** |
| | | | | |
| Due to central banks | 7 | 7 | 6 | 6 |
| Demand liabilities to credit institutions | 8,769 | 8,616 | 21,032 | 23,352 |
| Financial liabilities held for trading | 6,057 | 1,817 | 6,105 | 1,923 |
| Financial liabilities designated at fair value through profit and loss | 36,146 | 39,678 | - | - |
| Financial liabilities measured at amortised cost | 2,942,329 | 3,018,223 | 2,257,471 | 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 | 13,868 | 14,665 | 10,236 | 10,532 |
| Provisions | 801 | 601 | 334 | 122 |
| Income tax liabilities | 1,242 | 717 | 572 | - |
| Other liabilities | 11,383 | 10,958 | 4,516 | 5,135 |
| **Total liabilities** | **3,020,602** | **3,095,282** | **2,300,272** | **2,391,473** |
| Shareholders' equity | 269,981 | 254,233 | 249,270 | 238,137 |
| **Total liabilities and shareholders' equity** | **3,290,583** | **3,349,515** | **2,549,542** | **2,629,610** |
| | | | | |
| **Memorandum items** | | | | |
| Contingent liabilities | 28,437 | 28,204 | 24,079 | 22,997 |
| Financial commitments | 221,322 | 216,025 | 258,614 | 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-Jun 2017 Group | Jan-Jun 2016 Group | Jan-Jun 2017 Bank | Jan-Jun 2016 Bank |
|---|---|---|---|---|
| Return on equity (ROE) (%)* | 11.46% | 22.06% | 8.42% | 19.03% |
| Return on assets (ROA) (%)* | 0.90% | 1.66% | 0.79% | 1.68% |

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

## Investments in Securities by Issuer's Country

| | Group | | | |
|---|---|---|---|---|
| | 30/06/2017 | | 31/12/2016 | |
| *EUR th.* | Government bonds | Other securities | Government bonds | Other securities |
| Latvia | 229,250 | 8,019 | 253,580 | 7,847 |
| Lithuania | 100,927 | - | 72,665 | - |
| United States | 9,797 | 71,185 | 10,592 | 76,794 |
| Netherlands | - | 70,850 | 4,992 | 83,783 |
| Germany | 7,178 | 43,068 | 7,181 | 37,995 |
| United Kingdom | - | 41,979 | - | 40,868 |
| Canada | 2,225 | 37,364 | 6,105 | 42,867 |
| Singapore | - | 31,833 | - | 28,947 |
| France | 10,167 | 20,557 | 9,722 | 18,192 |
| Australia | - | 28,170 | - | 28,127 |
| Sweden | 7,570 | 19,093 | 11,797 | 26,041 |
| Finland | 12,365 | 14,160 | 15,871 | 14,943 |
| Multilateral development banks | - | 58,346 | - | 52,439 |
| Other countries** | 21,141 | 163,280 | 27,441 | 171,211 |
| **Total securities, net** | **400,620** | **607,904** | **419,946** | **630,054** |

| | Bank | | | |
|---|---|---|---|---|
| | 30/06/2017 | | 31/12/2016 | |
| *EUR th.* | Government bonds | Other securities | Government bonds | Other securities |
| Latvia | 223,561 | 3,969 | 240,367 | 3,511 |
| United States | 6,289 | 36,593 | 8,680 | 47,936 |
| Netherlands | - | 39,238 | 4,992 | 47,868 |
| Lithuania | 38,156 | - | 25,948 | - |
| Germany | 1,013 | 34,243 | 7,181 | 25,177 |
| Singapore | - | 30,254 | - | 27,202 |
| United Kingdom | - | 25,349 | - | 26,235 |
| Multilateral development banks | - | 40,093 | - | 40,710 |
| Other countries** | 22,922 | 153,975 | 30,217 | 158,910 |
| **Total securities, net** | **291,941** | **363,714** | **317,385** | **377,549** |

** Each country's issuers' total exposure as at 30/06/2017 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 30 June 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 1,565 thousand (2016: EUR 1,640 thousand).

## Liquidity Ratio Calculation

| | *EUR th.* | 30/06/2017 Bank | 31/12/2016 Bank |
|---|---|---|---|
| **1** | **Liquid assets (1.1.+1.2.+1.3.+1.4.)** | **1,251,003** | **1,377,221** |
| 1.1 | Cash | 50,944 | 48,518 |
| 1.2 | Due from Bank of Latvia | 497,413 | 573,670 |
| 1.3 | Due from with solvent credit institutions | 120,998 | 175,474 |
| 1.4 | Liquid securities | 581,648 | 579,559 |
| **2** | **Liabilities (with remaining maturity up to 30 days) (2.1.+2.2.+2.3.+2.4.+2.5.+2.6.)** | **2,000,470** | **1,959,690** |
| 2.1 | Due to credit institutions | 47,692 | 44,501 |
| 2.2 | Deposits | 1,699,110 | 1,671,592 |
| 2.3 | Issued debt securities | - | - |
| 2.4 | Cash in transit | 46,146 | 38,410 |
| 2.5 | Other current liabilities | 20,169 | 17,421 |
| 2.6 | Off balance sheet liabilities | 187,353 | 187,766 |
| **3** | **Liquidity ratio (1.:2.) (%)** | **63%** | **70%** |
| **4** | **Minimum liquidity ratio** | **30%** | **30%** |

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

## Capital Adequacy Report

| | *EUR th.* | 30/06/2017 ***Unaudited*** **Group** | 31/12/2016 ***Audited*** **Group** | 30/06/2017 ***Unaudited*** **Bank** | 31/12/2016 ***Audited*** **Bank** |
|---|---|---|---|---|---|
| **1** | **Own funds** | **294,077** | **295,257** | **280,381** | **282,398** |
| 1.1 | Tier 1 capital | 242,646 | 242,003 | 228,950 | 229,144 |
| *1.1.1* | *Common equity Tier 1 capital* | *242,646* | *242,003* | *228,950* | *229,144* |
| *1.1.2* | *Additional Tier 1 capital* | - | - | - | - |
| 1.2 | Tier 2 capital | 51,431 | 53,254 | 51,431 | 53,254 |
| **2** | **Total risk exposure amount (2.1.+2.2.+2.3.+2.4.+2.5.+2.6.+2.7.)** | **1,756,883** | **1,790,585** | **1,428,505** | **1,485,193** |
| 2.1 | Risk weighted exposure amounts for credit, counterparty credit and dilution risks and free deliveries | 1,521,493 | 1,556,442 | 1,246,323 | 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 | 10,731 | 9,894 | 3,314 | 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 | 1,519 | 1,109 | 1,494 | 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)** | **13.8%** | **13.5%** | **16.0%** | **15.4%** |
| 3.2 | Surplus (+)/ deficit (-) of Common equity Tier 1 capital (1.1.1.-2.*4.5%) | 163,587 | 161,427 | 164,668 | 162,310 |
| 3.3 | **Tier 1 capital ratio (1.1./2.*100)** | **13.8%** | **13.5%** | **16.0%** | **15.4%** |
| 3.4 | Surplus (+)/ Deficit (-) of Tier 1 capital (1.1.-2.*6%) | 137,233 | 134,568 | 143,240 | 140,032 |
| 3.5 | **Total capital ratio (1./2*100)** | **16.7%** | **16.5%** | **19.6%** | **19.0%** |
| 3.6 | Surplus (+)/ Deficit (-) of total capital (1.-2.*8%) | 153,526 | 152,010 | 166,101 | 163,582 |
| **4** | **Combined buffer requirements (4.1.+4.2.+4.3.+4.4.+4.5.)** | 3.27% | 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 | 13.8% | 13.5% | 16.0% | 15.4% |
| 5.3 | Tie 1 capital ratio including line 5.1 adjustments | 13.8% | 13.5% | 16.0% | 15.4% |
| 5.4 | Total capital ratio including line 5.1 adjustments | 16.7% | 16.5% | 19.6% | 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 30 June 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 | 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 Residental" | 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 30 June 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 30 June 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 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 |

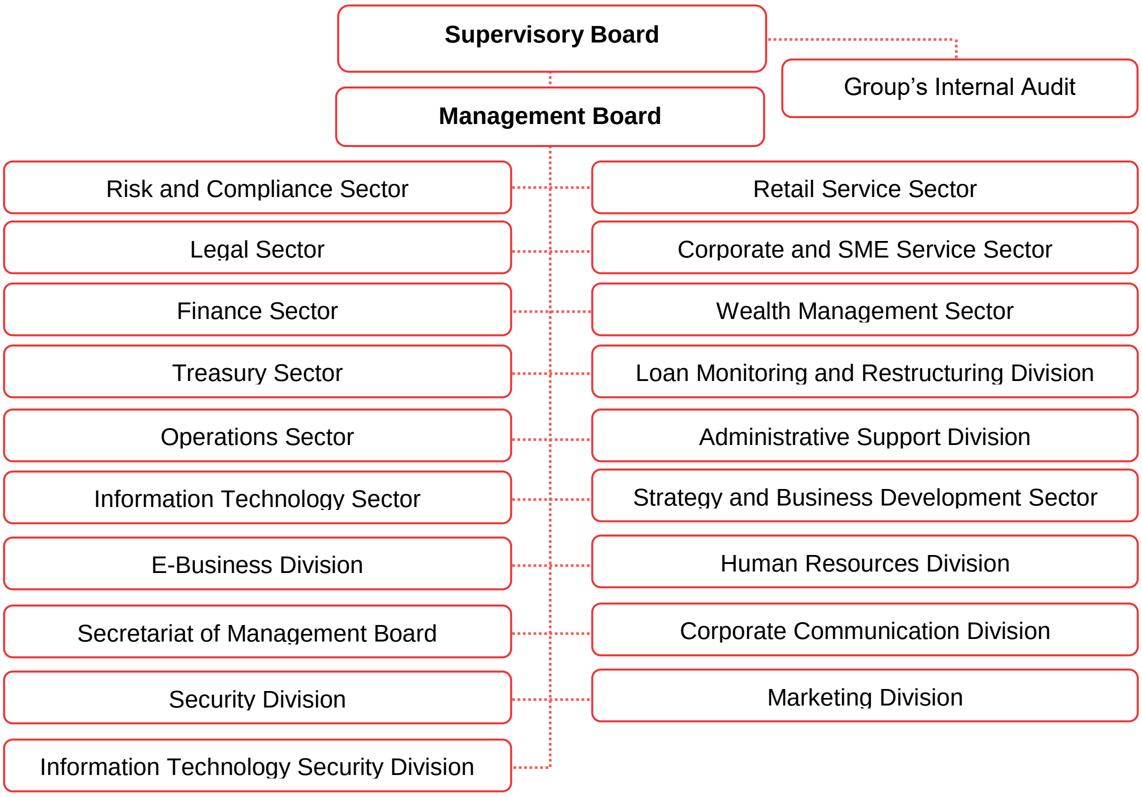
In the six months period ended 30 June 2017 there were no chnages in the Management board of the Bank.

## 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 30 June 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.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 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.