Important Notice

IMPORTANT: **You must read the following before continuing.** The following notice applies to the base prospectus (the "**Base Prospectus**") following this page, whether received by email, accessed from an internet page or otherwise received as a result of electronic communication, and you are therefore advised to read this notice carefully before reading, accessing or making any other use of the Base Prospectus. In reading, accessing or making any other use of the Base Prospectus, you agree to be bound by the following terms and conditions and each of the restrictions set out in the Base Prospectus, including any modifications made to them any time you receive any information as a result of such access.

If you are in any doubt as to what action you should take, you are recommended to seek your own personal financial advice immediately from your stockbroker, bank manager, solicitor, accountant, fund manager or other appropriately authorised independent financial adviser.

THE FOLLOWING DOCUMENT MAY NOT BE FORWARDED OR DISTRIBUTED OTHER THAN AS PROVIDED BELOW AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER.

INTENDED ADDRESSEES - THIS BASE PROSPECTUS AND ANY OFFER OF THE SECURITIES PURSUANT TO IT ARE ONLY ADDRESSED TO AND DIRECTED AT, AND MAY ONLY BE DISTRIBUTED TO OR ACTED ON BY, (i) PERSONS IN LATVIA AND LITHUANIA; AND (ii) PERSONS LOCATED IN MEMBER STATES OF THE EUROPEAN ECONOMIC AREA (THE "**EEA**") (OTHER THAN IN LATVIA AND LITHUANIA) WHO ARE QUALIFIED INVESTORS WITHIN THE MEANING OF ARTICLE 2(1)(E) OF THE PROSPECTUS DIRECTIVE (DIRECTIVE NO. 2003/71/EC AND AMENDMENTS THERETO, INCLUDING DIRECTIVE NO. 2010/73/EU, TO THE EXTENT IMPLEMENTED IN THE RELEVANT MEMBER STATE) ("**QUALIFIED INVESTORS**").

ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT, IN WHOLE OR IN PART, IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS NOTICE MAY RESULT IN A VIOLATION OF THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

IF YOU HAVE GAINED ACCESS TO THIS ELECTRONIC TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE SECURITIES DESCRIBED THEREIN.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY ANY SECURITIES OF THE ISSUER IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO.

ANY SECURITIES TO BE ISSUED HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION, AND THE SECURITIES MAY NOT BE OFFERED, SOLD OR DELIVERED AT ANY TIME, DIRECTLY OR INDIRECTLY, WITHIN THE UNITED STATES (WHICH TERM INCLUDES THE TERRITORIES, THE POSSESSIONS, AND ALL OTHER AREAS SUBJECT TO THE JURISDICTION OF THE UNITED STATES) OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED).

Confirmation of your representation: This Base Prospectus is being accessed by you via electronic transmission at your request and by accessing, reading or making any other use of the Base Prospectus, you shall be deemed to have represented to us that:

1. you have understood and agree to the terms set out herein; AND

2. that the e-mail address to which, pursuant to your request, the attached document has been delivered by electronic transmission is not located in the United States, its territories, its possessions and other areas subject to its jurisdiction; and its possessions include Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands; AND

3. you are a person in Latvia or Lithuania, or a qualified investor in the Member Sate of the EEA other than Latvia and Lithuania and you are neither a person located in the United States, nor a U.S. person and you are not purchasing any of the securities for, or for the account or benefit of, any such person; AND

4. that you consent to delivery of the Base Prospectus by electronic transmission; AND

5. you will not transmit the attached Base Prospectus (or any copy of it or part thereof) or disclose, whether orally or in writing, any of its contents to any other person except with our consent; AND

6. you acknowledge that you will make your own assessment regarding any legal, taxation or other economic considerations with respect to your decision to subscribe for or purchase any of the securities.

You are reminded that the Base Prospectus has been delivered to you on the basis that you are a person into whose possession the Base Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver the Base Prospectus to any other person and, in particular, (i) to any U.S. address nor (ii) to any other person who is not a Qualified Investor inside the EEA (except in the case of persons in Latvia or Lithuania). Failure to comply may result in a direct violation of the U.S. Securities Act of 1933, as amended or the applicable laws of another jurisdiction.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law.

Under no circumstances shall the Base Prospectus constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the securities in any jurisdiction in which such offer, solicitation or sale would be unlawful.

The Base Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and, consequently, neither Citadele, nor any person who controls any of the foregoing, nor any director, officer, employee nor agent of any of the foregoing or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Base Prospectus distributed to you in electronic format and the hardcopy version available to you on request from Citadele.

The distribution of this Base Prospectus in certain jurisdictions may be restricted by law. Persons into whose possession the attached document comes are required to inform themselves about, and to observe, any such restrictions.

You should not reply by e-mail to this announcement, and you may not purchase any securities by doing so. Any reply e-mail communications, including those you generate by using the reply function on your e-mail software, will be ignored and rejected.

Base Prospectus dated 4 November 2016

AS “Citadele banka”

(incorporated with limited liability and registered in Latvia, with registration number 40103303559)

€ 40,000,000
First Unsecured Subordinated Bonds Programme

Under this € 40,000,000 (forty million euro) First Unsecured Subordinated Bonds Programme (the “**Programme**”) described in this base prospectus (the “**Base Prospectus**”), AS “Citadele banka”, a limited company/joint stock company incorporated in, and operating under the laws of, the Republic of Latvia, and registered with the Commercial Register of Latvia under the registration number: 40103303559, legal address: Republikas laukums 2A, Riga, LV-1010, Latvia, telephone: +371 67010000, fax: +371 67010001, e-mail: info@citadele.lv, website: www.citadele.lv (“**Citadele**”), subject to compliance with all relevant laws and regulations, may issue and offer publicly in Latvia and Lithuania from time to time in one or several series (the “**Series**”) non-convertible unsecured and unguaranteed subordinated bonds denominated in EUR, having maturity from 7 to 10 years and with fixed interest rate (the “**Bonds**”). The maximum aggregate nominal amount of all Bonds outstanding issued under the Programme shall not at any time exceed € 40,000,000.

References herein to "this Base Prospectus" shall, where applicable, be deemed to be references to this Base Prospectus as supplemented or amended from time to time. To the extent not set forth in this Base Prospectus, the specific terms of any Bonds will be included in the relevant final terms (the “**Final Terms**”) (a form of which is contained herein) therefore the prospectus relating to Series issued under the Programme consists of this Base Prospectus and the respective Final Terms. The language of this Base Prospectus is English. The offering of the Bonds under the Programme pursuant to the Base Prospectus and the applicable Final Terms shall be hereinafter referred to as the “**Offer**”.

The Bonds may be issued in such denominations as may be specified in the relevant Final Terms save that the minimum denomination of each Bond shall be €10,000. The Bonds shall be governed by Latvian law. Each Series may comprise one or more tranches of Bonds (each a “**Tranche**”).

This Base Prospectus has been registered with and approved as a base prospectus by the Financial and Capital Market Commission of Latvia (In Latvian - *Finanšu un kapitāla tirgus komisija*) (the “**FCMC**”) in its capacity as the competent authority in Latvia for the purposes of Directive No 2003/71/EC, as amended, to the extent implemented in each relevant member state of the European Economic Area (the “**EEA**”) (the “**Prospectus Directive**”), in accordance with the requirements of the Financial Instruments Market Law of the Republic of Latvia, as amended (the “**Latvian Financial Instruments Market Law**”) and Regulation (EC) No 809/2004, as amended (the “**Prospectus Regulation**”). The FCMC has approved this Base Prospectus, but it is not liable for the correctness of the information presented therein. Citadele has requested that the FCMC notifies this Bases Prospectus to the competent authority in Lithuania (the Bank of Lithuania (In Lithuanian - *Lietuvos Bankas*) (the “**Bank of Lithuania**”)) and provide it with a certificate of approval attesting that this Base Prospectus has been drawn up in accordance with the Prospectus Directive.

Application will be made to the Nasdaq Riga AS, registration number: 40003167049, legal address: Vaļņu 1, Riga, LV-1050, Latvia (**“Nasdaq Riga”**) for admitting each Tranche to listing and trading on the official bond list (Baltic Bond List) of Nasdaq Riga according to the requirements of Nasdaq Riga not later than within 3 (three) months after the Issue Date of the respective Tranche. Trading of the respective Tranche on the Baltic Bond List of the Nasdaq Riga Stock Exchange is expected to commence within 1 (one) month after the above-mentioned application has been made. All dealings in the Bonds of the respective Tranche prior to the commencement of unconditional dealings on the Baltic Bond List of the Nasdaq Riga Stock Exchange may be in the form of private over-the-counter transactions and will be at the sole risk of the parties concerned. Nasdaq Riga Stock Exchange is a regulated market for the purposes of the Markets in Financial Instruments Directive 2004/39/EC as amended (**“MiFID”**). Unless the context requires otherwise, references in this Base Prospectus to Bonds being “listed” (and all related references) shall mean that such Bonds have been listed and admitted to trading on the Baltic Bond List of the Nasdaq Riga Stock Exchange as may be specified in the applicable Final Terms.

This Base Prospectus has been drawn up and published by Citadele in connection with the public offering in Latvia and Lithuania and listing of the Bonds. Except where specified otherwise, capitalised words and expressions in this Base Prospectus have the meaning given to them in the section entitled "*Glossary of Terms*". This Base Prospectus and any supplement thereto will be published on the website of (a) the FCMC (www.fktk.lv) and (b) Citadele (www.citadele.lv) and copies may be obtained at the registered office of the Citadele during normal business hours on any weekday. See the section entitled “*Important Information About This Base Prospectus”* for more information.

The Bonds shall be issued in the bearer dematerialised form and registered with the Latvian Central Depository (In Latvian - *Latvijas Centrālais Depozitārijs*), registration number: 40003242879, legal address: Vaļņu 1, Riga, LV-1050, Latvia (the

“**LCD**”) in book-entry form. Investors may hold Bonds through LCD participants, including credit institutions and investment brokerage firms. See the section entitled “*General Terms and Conditions of the Bonds*” for more information.

The Bonds are subordinated to all unsubordinated claims against Citadele at all times (for the purposes of clarity, the Bonds are not subordinated to claims that are subordinated to the Bonds or have the same ranking as the Bonds) and Citadele’s obligations under the Bonds constitute subordinated liabilities within the meaning of the Credit Institutions Law of the Republic of Latvia of 1995, as amended (the “Latvian Credit Institutions Law”). The net proceeds from the Bonds will be used by Citadele for the purposes specified in section entitled “*General Terms and Conditions of the Bonds —Reasons for the Offer and Use of Proceeds*” below and as its subordinated capital and thus the Bonds will be recognized as Tier 2 instruments within the meaning of the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, as amended (the “CRR”) or any other applicable rules. The subordination of the Bonds means that in the event of liquidation or insolvency of Citadele, all the claims arising from the Bonds shall become collectible and shall be satisfied only after full satisfaction of all unsubordinated recognised claims against Citadele but before satisfaction of the claims of Citadele’s shareholders in their capacity as Citadele’s shareholders in accordance with the applicable law. Therefore, upon liquidation or insolvency of Citadele, the holders of the Bonds (the “Bondholders”) will not be entitled to any payments due under the Bonds until full and due satisfaction of all the unsubordinated claims against Citadele, except the claims of Citadele’s shareholders in their capacity as Citadele’s shareholders. By subscribing to the Bonds, all investors unconditionally and irrecoverably agree to such subordination of claims arising from the Bonds. As long as there are no liquidation or insolvency proceedings initiated against Citadele, all claims arising from the Bonds shall be satisfied by Citadele in accordance with the general terms and conditions of the Bonds as described in the section entitled „*General Terms and Conditions of the Bonds*” (the „General Terms and Conditions of the Bonds”), the applicable Final Terms and the applicable law. Please be advised that no funds may be left to satisfy the claims of the Bondholders after all or part of unsubordinated claims have been satisfied. Accordingly, any and all restrictions applicable to the subordinated liabilities of a credit institution and Tier 2 instruments as may be provided in the Latvian Credit Institutions Law, CRR and any other applicable rules will be applicable to the Bonds and Citadele’s obligations arising out of the Bonds. The Bonds rank *pari passu* with other existing and future unsecured and unguaranteed subordinated obligations of Citadele. See the section entitled “*General Terms and Conditions of the Bonds —Ranking and Subordination”* for more information.

The Bonds may be redeemed prematurely by Citadele on the grounds set forth in this Base Prospectus. See the section entitled “*General Terms and Conditions of the Bonds —Maturity and Redemption”* for more information.

Investing in the Bonds issued under the Programme involves a high degree of risk and may not be suitable for all investors. See section entitled “*Risk Factors*” for a discussion of certain factors to be considered in connection with an investment in the Bonds. While every care has been taken to ensure that this Base Prospectus presents a fair and complete overview of the risks related to Citadele, the operations of Citadele and its subsidiaries (the “Citadele Group”) and to the Bonds, the value of any investment in the Bonds may be adversely affected by circumstances that are either not evident at the date hereof or not reflected in this Base Prospectus.

This Base Prospectus and any Final Terms do not constitute an offer to sell, or a solicitation of an offer to buy, the Bonds in any jurisdiction in which such offer or solicitation would be unlawful. The Bonds have not been and will not be registered under the United States Securities Act of 1933, as amended or the securities laws of any state of the United States or other jurisdiction, and the securities may not be offered, sold or delivered at any time, directly or indirectly, within the United States (which term includes the territories, the possessions, and all other areas subject to the jurisdiction of the United States) or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the United States Securities Act of 1933, as amended). Neither the U.S. Securities and Exchange Commission nor any state securities commission in the United States, nor any other U.S. regulatory authority, has approved or disapproved of the Bonds, or passed upon or endorsed the merits of the offer of the Bonds or determined that this Base Prospectus and any Final Terms are accurate or complete. Any representation to the contrary is a criminal offence in the United States.

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1. Important Information About This Base Prospectus

1.1. General

Each prospective investor, by accepting delivery of this Base Prospectus and any Final Terms, agrees that this Base Prospectus and any Final Terms are being furnished by Citadele solely for the purpose of enabling a prospective investor to consider the purchase of the Bonds. Any reproduction or distribution of this Base Prospectus and/or any Final Terms, in whole or in part, any disclosure of their contents or use of any information herein for any purpose other than considering an investment in the Bonds is prohibited, except to the extent that such information is otherwise publicly available.

This Base Prospectus and any Final Terms are not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by Citadele that any recipient of this Base Prospectus and any Final Terms should purchase the Bonds. Each potential purchaser of Bonds should determine for itself the relevance of the information contained in this Base Prospectus and any Final Terms, and its purchase of Bonds should be based upon such investigation, as it deems necessary.

This Base Prospectus and any Final Terms are issued in compliance with the Latvian Financial Instruments Market Law, which complies with the provisions of the Prospectus Directive and the Prospectus Regulation, for the purpose of giving information with regard to Citadele Group and the Bonds. This Base Prospectus should be read and construed together with any supplement hereto and with any other documents attached herein and with the relevant Final Terms.

In making an investment decision regarding the Bonds, prospective investors must rely on their own examination of Citadele Group and the terms of the Offer, including the merits and risks involved, and prospective investors should rely only on the information contained in this Base Prospectus and any Final Terms. Citadele and Citadele Group has not authorised any person to provide prospective investors with different information or to give any information or to make any representation not contained in this Base Prospectus and any Final Terms. If anyone provides prospective investors with different or inconsistent information or makes any such representation, prospective investors should not rely on such information and representation. Prospective investors should assume that the information appearing in this Base Prospectus and any Final Terms is accurate only as of their date. Citadele Group's business, financial condition, results of operations, prospects and the information set forth in this Base Prospectus and any Final Terms may have changed since the date hereof. Neither the delivery of this Base Prospectus and any Final Terms nor any offer, sale or delivery of the Bonds made hereunder shall, under any circumstances, create any implication that there has been no change in Citadele Group's affairs since the date hereof or that the information contained in this Base Prospectus and any Final Terms is correct as of a date after their date.

Citadele may have included its own estimates, assessments, adjustments and judgements in preparing some of the market information contained in this Base Prospectus and any Final Terms, which has not been verified by an independent third party. Market information that may be included herein is, therefore, unless otherwise attributed to a third party source, to a certain degree subjective. Whilst Citadele believes that its own estimates, assessments, adjustments and judgements are reasonable and that the market information prepared by it generally reflects the industry and the markets in which Citadele operates, there is no assurance that Citadele's own estimates, assessments, adjustments or judgements are the most appropriate for making determinations relating to market information or that market information prepared by other sources will not differ materially from the market information included herein.

Prospective investors should not consider any information in this Base Prospectus and any Final Terms to be investment, legal or tax advice. Prospective investors should consult their own counsel, accountant and other advisers for legal, tax, business, financial and related advice regarding purchasing and holding of the Bonds. None of Citadele, or any of its respective affiliates or advisers, makes any representation to any offeree or purchaser of the Bonds regarding the legality of an investment in the Bonds by such offeree or purchaser under appropriate investment or similar laws.

Citadele reserves the right to reject any offer to purchase the Bonds, in whole or in part, for any reason and to sell to any prospective investor less than full amount of the Bonds sought by such investor (other than those offers set out in "*General Terms and Conditions of the Offer —Allotment —Guaranteed Allocations*").

The Base Prospectus and any Final Terms do not constitute or form part of an offer to sell, or a solicitation of an offer to buy, any security other than the Bonds under this Base Prospectus.

1.2. Responsibility Statement

Citadele, represented by the members of its Management Board (being, at the date of this Base Prospectus, Mr. Guntis Beļavskis, Mr. Aldis Paegle, Ms. Santa Purgaile, Mr. Valters Ābele and Mr. Kaspars Cikmačs) accepts responsibility for the information contained in this Base Prospectus, and having taken all reasonable care to ensure that such is the case, Citadele and its Management Board confirm that the information contained in this Base Prospectus is, to the best of Citadele's knowledge and the knowledge of the members of the Management Board, in accordance with the facts and contains no omissions likely to affect its import.

Riga, November 4, 2016

Management Board of AS "Citadele banka":

__________________ Guntis Beļavskis

(Chairman of the Management Board, Chief Executive Officer)

__________________ Aldis Paegle

(Member of the Management Board, Chief Financial Officer)

__________________ Santa Purgaile

(Member of the Management Board, Chief Business Officer)

__________________ Valters Ābele

(Member of the Management Board, Chief Risk Officer)

__________________ Kaspars Cikmačs

(Member of the Management Board, Chief Operating Officer)

1.3. Advisors

Adviser to Citadele Concerning the Programme and Underwriter:

AS ABLV Bank
23 Elizabetes Street,
Riga, LV-1010, Latvia

Legal Adviser to Citadele:

Law Office Eversheds Bitāns
20a Lāčplēša Street
Riga, LV-1011, Latvia

Advisors to Citadele are not liable for the correctness of the information presented and any representations made in this Base Prospectus and any Final Terms.

See also the section entitled "*General Terms and Conditions of the Bonds —Underwriting*" for more information.

1.4. Documents on Display

Copies of the following documents during validity of this Base Prospectus will be available for inspection free of charge on Citadele's website: www.citadele.lv and at the registered office of the Citadele during normal business hours on any weekday:

- this Base Prospectus; and
- the Final Terms, when issued; and
- Citadele's Articles of Association; and
- Citadele's audited consolidated financial statements as at and for the year ended in 31 December 2014 (prepared according to IFRS); and
- Citadele's audited consolidated financial statements as at and for the year ended in 31 December 2015 (prepared according to IFRS); and
- Citadele's audited consolidated interim financial statements as of and for the six-month period ended 30 June 2016; and
- Certain other additional documents and information related to this Base Prospectus, if any.

The registered office of Citadele is at Republikas laukums 2A, Riga, LV-1010, Latvia.

2. Notice to Investors and Restrictions on Distribution

General

This Base Prospectus and any Final Terms have been prepared by Citadele for use in connection with the Offer in Latvia and Lithuania and the listing of the Bonds on the Baltic Bond List of Nasdaq Riga Stock Exchange. This Base Prospectus does not apply to any subsequent resale or final placement of the Bonds by financial intermediaries. This Base Prospectus has been approved by the FCMC and for the purposes of passporting the Offer to Lithuania notified to the Bank of Lithuania with a certificate of approval attesting that this Base Prospectus has been drawn up in accordance with the Prospectus Directive.

The distribution of this Base Prospectus, any Final Terms and the offer and sale of the Bonds may be restricted by law in certain other countries and jurisdictions. Any person residing outside Latvia and Lithuania may receive this Base Prospectus and any Final Terms only within the limits of applicable special provisions or restrictions. Accordingly, the Bonds may not be offered or sold, directly or indirectly, and neither this Base Prospectus and any Final Terms nor any other offering material or advertisement in connection with the Bonds may be distributed or published in or from any country or jurisdiction except under circumstances that will result in compliance with any and all applicable rules and regulations of any such country or jurisdiction. Persons into whose possession this Base Prospectus and any Final Terms come should inform themselves about and observe any restrictions on the distribution of this Base Prospectus and any Final Terms and the offer and sale of the Bonds offered in the Offer. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

Citadele and any of its respective affiliates or advisers are not making an offer to sell the Bonds or a solicitation of an offer to buy any of the Bonds to any person in any jurisdiction except where such an offer or solicitation is permitted. Accordingly, this this Base Prospectus and any Final Terms do not constitute an offer to subscribe for or buy any of the Bonds offered in the Offer to any person in any jurisdiction to whom it is unlawful to make such offer or solicitation in such jurisdiction.

Citadele or its representatives or advisers do not accept any legal responsibility whatsoever for any such violations, for any violation by any person, whether or not a prospective investor, of any such restrictions and whether or not such a person is aware of such restrictions. Prospective investors must comply with all applicable laws and regulations in force in any jurisdiction in which they purchase, offer or sell the Bonds or possess or distribute this Base Prospectus and any Final Terms. Prospective investors must obtain any consent, approval or permission required for their purchase, offer or sale of the Bonds under the laws and regulations in force in any jurisdiction to which they are subject or in which they make such purchases, offers or sales.

No action has been or will be taken in any jurisdiction that would permit a public offering of the Bonds, or distribution of this Base Prospectus, any Final Terms or any supplementary prospectus or any amendment or supplement thereto in connection with the proposed resale of the Bonds or any other offering material in any country or jurisdiction where action for that purpose is required.

This Base Prospectus and any Final Terms may not be distributed or published and, unless specifically otherwise stated in this Base Prospectus, the Bonds may not be, directly or indirectly, offered, sold, resold, transferred or delivered in such countries or jurisdictions or otherwise in such circumstances in which such offer, sale, re-sale or transfer would be unlawful or require measures other than those required under Latvian laws, including, if applicable, the United States of America. Citadele reserves the right at its sole discretion to reject subscription to the Bonds, which it believes would cause the violation or breach of any law, rule or regulation for the time being in force.

European Economic Area

This Base Prospectus has been prepared on the basis that any offer of the Bonds (other than the offer of the Bonds in Latvia and Lithuania) will be made pursuant to an exemption under Article 3 of the Prospectus Directive, as implemented in Member States of the European Economic Area (the “**EEA**”), from the requirement to produce a prospectus for offers of the Bonds.

Accordingly, any person making or intending to make an offer within the EEA of the Bonds which are the subject of an offering contemplated by the relevant Final Terms (other than the offer of the Bonds in Latvia and Lithuania) may only do so in circumstances in which no obligation arises for Citadele to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Citadele has not authorised, nor does it authorise, the making of any offer of the Bonds in circumstances in which an obligation arises for Citadele to publish or supplement a prospectus for such offer.

In relation to each Member State of the EEA which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**"), an offer of any Bonds which are the subject of the Offer contemplated herein to the public in that Relevant Member State may not be made, except in the cases of Latvia and Lithuania, and except that Citadele may make an offer to the public of the Bonds in that Relevant Member State with effect from and including the Relevant Implementation Date under the following exemptions under the Prospectus Directive:

(a) to any legal entity which is a qualified investor as defined under the Prospectus Directive, as implemented in the Relevant Member State;

(b) to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of Citadele for any such offer; or

(c) in any other circumstances falling within Article 3(2) of the Prospectus Directive, subject to obtaining the prior consent of Citadele for any such offer,

provided that no such offer of Bonds shall result in a requirement for the publication by Citadele of a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression "an offer to the public" in relation to any Bonds in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any Bonds to be offered so as to enable an investor to decide to purchase or subscribe for any Bonds, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State, the expression "Prospectus Directive" means Directive No 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression "2010 PD Amending Directive" means Directive No 2010/73/EU.

In the case of any Bonds being offered to a financial intermediary, as that term is used in Article 3(2) of the Prospectus Directive, such financial intermediary will be deemed to have represented and agreed that the Bonds acquired by it have not been acquired on a non-discretionary basis on behalf of, nor have they been acquired with a view to their offer or resale to, persons in circumstances which may give rise to an offer of any Bonds to the public other than their offer or resale in a Relevant Member State to qualified investors who are not financial intermediaries as so defined or in circumstances in which the prior consent of Citadele has been obtained to each such proposed offer or resale. Citadele and its respective affiliates, and others will rely upon the truth and accuracy of the foregoing representations, acknowledgements, and agreements. Notwithstanding the above, a person who is not a qualified investor and who has notified Citadele of such fact in writing may, with the consent of Citadele, be permitted to subscribe for or purchase the Bonds.

Each person in the Relevant Member State (other than Latvia or Lithuania) who receives any communication in respect of the Bonds or who acquires any Bonds under the offers contemplated in this Base Prospectus will be deemed to have represented, warranted and agreed to and with Citadele that it is a "qualified investor" within the meaning of Article 2(1)(e) of the Prospectus Directive; and in the case of any Bonds acquired by it as a financial intermediary as that term is used in Article 3(2) of the Prospectus Directive, such financial intermediary will also be deemed to have represented, warranted and agreed that the Bonds acquired by it have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any Relevant Member State other than qualified investors, as that term is defined in the Prospectus Directive, or in circumstances in which the prior consent of Citadele has been given to the offer or resale; or where the Bonds have been acquired by it on behalf of persons in any Relevant Member State other than qualified investors, the offer of those Bonds to it is not treated under the Prospective Directive as having been made to such persons. Citadele and its affiliates and others will rely upon the truth and accuracy of the foregoing representations, acknowledgements and agreements. Notwithstanding the above, a person who is not a qualified investor and who has notified Citadele of such fact in writing may, with the consent of Citadele, be permitted to subscribe for or purchase the Bonds.

United States

THE BONDS HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION, AND THE BONDS MAY NOT BE OFFERED, SOLD OR DELIVERED AT ANY TIME, DIRECTLY OR INDIRECTLY, WITHIN THE UNITED STATES (WHICH TERM INCLUDES THE TERRITORIES, THE POSSESSIONS, AND ALL OTHER AREAS SUBJECT TO THE JURISDICTION OF THE UNITED STATES) OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED).

NEITHER THE U.S. SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY HAS APPROVED OR DISAPPROVED OF THE BONDS OR PASSED UPON OR ENDORSED THE MERITS OF THE OFFER OF THE BONDS OR DETERMINED IF THIS BASE PROSPECTUS AND ANY FINAL TERMS ARE TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

3. Presentation of Financial and Other Information

Presentation of Financial Information

The consolidated financial information of Citadele Group and the financial information of Citadele set forth herein has, unless otherwise indicated, been derived from Citadele's audited consolidated financial statements as at and for the year ended 31 December 2014 (the „**2014 Audited Consolidated Financial Statements**"), Citadele's audited consolidated financial statements as at and for the year ended 31 December 2015 (the „**2015 Audited Consolidated Financial Statements**") and Citadele's audited consolidated interim financial statements as at and for the six months ended 30 June 2016 (the „**2016 Audited Consolidated Interim Financial Statements**", (all prepared according to International Financial Reporting Standards ("**IFRS**"), as adopted by the European Union (the "**EU**")) as set forth in the Schedules to this Base Prospectus. References in this Base Prospectus to financial information for the years 2015 or 2014 refer to financial information as at or for the years ended 31 December 2015 and 2014, respectively, and references to financial information for the first half of 2016 refer to financial information as at or for the six months ended 30 June 2016.

References to "Citadele Group" and "Citadele"

In this Base Prospectus, references to "Citadele Group" mean Citadele and its subsidiaries as listed in the section entitled "*Citadele Group —Structure of Citadele Group"*, unless the context requires otherwise. References to "Citadele" or "Issuer" are to Citadele only.

Additional Definitions

For details of certain other defined terms used in this Base Prospectus, see the section entitled "*Glossary of Terms*".

Rounding and Percentages

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

In this Base Prospectus, Citadele may have included certain percentage figures for convenience purposes in comparing changes in financial and other data over time. However, certain percentages greater than 100% may have been excluded and replaced with a dash in the applicable tables. In addition, certain percentages may not sum to 100% due to rounding.

Third Party Information and Statement by Experts and Declarations of Any Interest

2014 Audited Consolidated Financial Statements, 2015 Audited Consolidated Financial Statements and 2016 Audited Consolidated Interim Financial Statements attached to this Base Prospectus contain auditor's reports. See the section entitled "*Financial and Trend Information —Independent Auditors*" for more information on auditors.

Citadele has derived certain information in this Base Prospectus, including certain information and statistics concerning the Latvian banking market and its competitors, from private and publicly available information, including principally annual reports, industry publications, market research, press releases, filings under various securities laws and official data published by certain Latvian Government agencies. The main sources for such data used in this Base Prospectus are:

- European Commission Eurostat (ec.europa.eu/eurostat);
- Central Statistical Bureau of Latvia (www.csb.gov.lv);
- Latvian Financial and Capital Market Commission (www.fktk.lv);
- Bank of Latvia (www.bank.lv);
- International Monetary Fund (www.imf.org);
- Investment and Development Agency of Latvia (www.liaa.gov.lv);

- Association of Commercial Banks of Latvia (www.bankasoc.lv).

Where third-party information is set out, it has been sourced from official and industry sources and other sources which Citadele believes to be reliable. Such information, data and statistics have been accurately reproduced and, as far as Citadele is aware and is able to ascertain from relevant publicly available information published by the aforementioned sources, no facts have been omitted which would render the reproduced information, data and statistics inaccurate or misleading. However, information provided by different third parties may not necessarily be comparable. Prospective investors are advised to use such information with caution.

Websites

The contents of (i) Citadele's or Citadele Group's websites or any websites directly or indirectly linked to Citadele's or Citadele Group's websites and (ii) the contents of the websites listed above, do not form part of this Base Prospectus.

Currency Presentation and Exchange Rate Information

Solely for the convenience of the reader, references in this Base Prospectus to "U.S. dollars" and "U.S.$" or "USD" are to the currency of the United States; and references to "Euro" and "EUR" or "€" are to the single currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended by the Treaty on the Functioning of the European Union. References to "Swiss Francs" and "CHF" are to the currency of Switzerland. References to "Latvian Lats", "Lats" or "LVL" are to the currency of Latvia prior to its adoption of the Euro. References to "Lithuanian Litas", "Litas" or "LTL" are to the currency of Lithuania prior to its adoption of the Euro. Unless otherwise indicated, financial and statistical data included in this Base Prospectus are expressed in Euro.

2014 Audited Consolidated Financial Statements, 2015 Audited Consolidated Financial Statements and 2016 Audited Consolidated Interim Financial Statements are presented in Euro, which has been Citadele's functional and presentation currency since.

On 1 January 2014, the Republic of Latvia adopted the Euro as its official currency, replacing the Latvian Lats. Accordingly, on that date, the functional currency of Citadele and its Latvian subsidiaries, and Citadele's presentation currency, changed to EUR from LVL. The conversion from LVL to EUR was carried out at the official exchange rate of LVL 0.702804 /1 EUR. For purposes of this Base Prospectus, unless otherwise indicated, financial information originally reported in LVL for periods ending prior to 1 January 2014 has been recast from LVL to EUR using the official exchange rate.

On 1 January 2015, the Republic of Lithuania adopted the Euro as its official currency, replacing the Lithuanian Litas. Accordingly, on that date, all of Citadele's balances denominated in LTL changed to EUR. The conversion from LTL to EUR was carried out at the official exchange rate of LTL 3.45280 /1 EUR. For purposes of this Base Prospectus, unless otherwise indicated, financial information originally reported in LTL for periods ending prior to 1 January 2015 has been recast from LTL to EUR using the official exchange rate.

Forward-Looking Statements

Certain statements in this Base Prospectus are not historical facts and are forward-looking statements which are based on the Citadele's Management Board's views and understanding of the Citadele Group and its operating environment and on the assumptions made based on the factors known to the Citadele's Management Board as of the date of this Base Prospectus. Forward-looking statements are identified by words such as "believe", "anticipate", "predict", "expect", "estimate", "intend", "plan", "will", "would", "may", "might", "could", "consider" or "likely" and variations of such words or any other similar expressions and statements, but these expressions are not the exclusive means of identifying such statements. Forward-looking statements may appear, without limitation, under the headings "Risk Factors" and "Business Description". Citadele may from time to time make written or oral forward-looking statements in reports to shareholders and in other communications. Examples of such forward-looking statements include, but are not limited to:

- statements of Citadele's or Citadele Group's plans, objectives or goals, including those related to its strategy, products or services;
- statements of future economic performance of Citadele or Citadele Group or the industries and markets in which it operates; and
- statements of assumptions underlying such statements.

Forward-looking statements that may be made by Citadele Group from time to time (but that are not included in this Base Prospectus) may also include projections or expectations of revenues, income (or loss), earnings (or loss) per share, dividends, capital structure or other financial items or ratios.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that predictions, forecasts, projections and other forward-looking statements will not be achieved. Prospective investors should be aware that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include, without limitation:

- the overall economic and business conditions in Latvia, Lithuania, Estonia, Switzerland and the Eurozone and the surrounding regions;
- inflation, interest rate and exchange rate fluctuations in Latvia, Lithuania, Estonia, Switzerland and the Eurozone;
- Citadele's ability to respond to competition;
- Citadele's ability to implement its business strategy efficiently and effectively;
- Citadele's ability to attract more deposits or other sources of capital to fund growth of its loan portfolio and wider business;
- Citadele's ability to maintain and accurately assess the value of its credit portfolio and accurately determine impairment levels;
- Citadele's ability to enforce its security for credit exposures;
- Citadele's ability to manage and adapt its risk management process in relation to its business and prevent employee or customer fraud and misconduct;
- unplanned events or major disruptions affecting Citadele's network of branch offices or systems;
- changes in tax requirements, including tax rate changes, new tax laws and revised tax law interpretations (including by Latvian legislation, Latvian regulatory or governmental bodies, the Latvian courts, courts of other jurisdictions, or other competent authorities);
- the effects of, and changes in, the policies, laws or regulations of the Latvian Government or the EU;
- the effects of legal proceedings in which Citadele or another member of Citadele Group is involved;
- Citadele's ability to maintain all necessary licences and permits;
- adverse reputational impact upon Citadele or its brand;
- changes in laws, regulations, taxation or accounting standards or practices; and
- Citadele's success at managing the risks associated with the aforementioned factors.

This list of important factors is not exhaustive. When relying on forward-looking statements, prospective investors should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which Citadele operates. Such forward-looking statements speak only as of the date on which they are made. Accordingly, Citadele does not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise, except as required by law, the rules of the FCMC or the Nasdaq Riga. Citadele does not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.

The section entitled "*Risk Factors*" includes risks, uncertainties and other important factors, which may affect Citadele's and Citadele Group's business operations, financial position and/or business result. The risk factors described in the Base Prospectus do not necessarily include all risks and new risks may surface. If one or more of the risk factors described in this Base Prospectus or any other risk factors or uncertainties would materialise or any of the assumptions made would turn out to be erroneous, the Citadele's and Citadele Group's actual business result and/or financial position may differ materially from that anticipated, believed, estimated or expected.

4. Summary

Summaries are made up of disclosure requirements known as ‘Elements’. These Elements are numbered in Sections A-E, as set out below. This summary contains all the Elements required to be included in a summary for these types of securities and this type of issuer. Because some Elements are not required to be addressed, there may be gaps in the numbering sequence of the Elements. Even though an Element may be required to be inserted in the summary because of the relevant type of securities and issuer, it is possible that no relevant information can be given regarding the Element. In this case a short description of the Element is included in the summary with the mention of ‘not applicable’.

Section A - Introduction and Warnings

A.1	Introductions and warnings	This summary should be read as an introduction to this Base Prospectus (“**Base Prospectus**”). Any decision to invest in the Bonds should be based on consideration by the Investor of the Base Prospectus as a whole, including the documents attached to the Base Prospectus, and the Final Terms of the relevant Bonds. Where a claim relating to the information contained in this Base Prospectus is brought before a court in a Member State, the plaintiff Investor might, under the national legislation of the relevant Member State, have to bear the costs of translating the Base Prospectus before the legal proceedings are initiated. Civil liability attaches only to those persons who have tabled the summary, including any translation thereof, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of the Base Prospectus or it does not provide, when read together with the other parts of the Base Prospectus, key information in order to aid Investors when considering whether to invest in such securities.
A.2	Consent to use the Base Prospectus	Not applicable. Citadele has not consented to the use of the Base Prospectus for subsequent resale or final placement of the Bonds by financial intermediaries.

Section B - Issuer

B.1	Legal and commercial name	Akciju sabiedrība “Citadele banka” (“**Citadele**”). In this summary, references to “Citadele Group” mean Citadele and its subsidiaries, being entities in which Citadele directly or indirectly holds not less than 50% of the shares.
B.2	Legal form/country of incorporation/ domicile	Citadele is a limited company/joint stock company (in Latvian – *akciju sabiedrība* or *AS*) incorporated in, and operating under the laws of, the Republic of Latvia, including the Commercial Law of the Republic of Latvia of 2000, as amended (the “**Latvian Commercial Law**”) and registered with the Commercial Register of Latvia under the registration number: 40103303559 (date of registration: 30 June, 2010) and its legal address is Republikas laukums 2A, Riga, LV-1010, Latvia, telephone: +371 67010000, fax: +371 67010001, e-mail: info@citadele.lv, website: www.citadele.lv.
B.4b	Known trends	At the date of this Base Prospectus there is no information on any known trends, uncertainties, demands, commitments or events that are reasonably likely to have a material effect on the Citadele’s or the Citadele Group’s prospects and the industries in which Citadele or the Citadele Group operates in the current financial year.
B.5	Group	As at the date of this Base Prospectus, Citadele held direct or indirect interests of not less than 50% or more of the shares in 25 companies, which together comprised the other members of Citadele Group. Citadele is the parent company of Citadele Group.
B.9	Profit forecast and assessment	Not applicable; the Base Prospectus does not include a profit forecast or estimate.

B.10	Qualifications in audit report	There are no qualifications in the audit reports on the 2014 Audited Consolidated Financial Statements, 2015 Audited Consolidated Financial Statements and 2016 Audited Consolidated Interim Financial Statements audited by KPMG Baltics SIA.
B.12	Selected historical key financial information, changes in prospects and financial position	The information provided in the table below corresponds to that presented in 2015 Audited Consolidated Financial Statements and 2016 Audited Consolidated Interim Financial Statements. There are also several alternative performance measures included commonly used in market. These provide comparable holistic view of the Group, highlight key value drivers and aggregate financial information in possibly more relevant measures.

	Citadele Group				**Citadele banka**			
EUR millions	**H1 2016**	**2015**	**H1 2015**	**2014 as restated**	**H1 2016**	**2015**	**H1 2015**	**2014 as restated**
Net interest income	31.1	60.5	29.5	62.5	23.6	48.1	23.7	52.1
Net commission and fee income	18.3	35.5	17.2	33.4	13.1	25.3	12.3	24.4
Operating income (1)	70.6	112.7	54.6	111.9	55.9	86.5	41.3	90.1
Impairment charge and reversals, net	(5.1)	(6.2)	(3.1)	(9.2)	(5.6)	(6.2)	(4.4)	(10.6)
Net profit	25.4	26.1	14.9	32.4	20.6	19.5	10.1	29.2
Return on average assets (ROA) (2)	1.66%	0.90%	1.06 %	1.20%	1.68%	0.82%	0.88 %	1.31%
Return on average equity (ROE) (3)	22.1%	13.2%	15.7 %	20.2%	19.0%	10.2%	11.0 %	18.5%
Cost to income ratio (CIR) (4)	55.8%	68.5%	64.4 %	60.2%	52.5%	67.1%	62.3 %	52.3%
Cost of risk ratio (COR) (5)	1.0%	0.8%	0.9%	1.3%	1.2%	0.7%	1.1%	1.2%
Capital adequacy ratio (CAR)	12.5%	13.4%	12.8%	11.0%	13.7%	15.1%	14.7%	12.3%
Adjusted for VISA income (7)								
Net profit	14.0				9.3			
ROA(2)	0.92%				0.75%			
ROE(3)	12.2%				8.6%			
Adjusted for IPO costs (8)								
Net profit		31.1		32.4		24.5		29.2
ROA(2)		1.07%		1.20%		1.03%		1.31%
ROE(3)		15.5%		20.2%		12.7%		18.5%

	Citadele Group			Citadele banka		
EUR millions	**H1 2016**	**2015**	**2014 as restated**	**H1 2016**	**2015**	**2014 as restated**
Total assets	3,140	2,960	2,855	2,506	2,409	2,331
Loans to customers	1,231	1,172	1,076	1,013	983	941
Deposits from customers	2,748	2,570	2,517	2,098	2,037	1,949
Shareholders' equity	240	220	177	224	209	173
Loan-to-deposit ratio (6)	45%	46%	43%	48%	48%	48%

(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. ROA is a measure of the profitability of the assets.

(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. ROE is a measure of profitability of the equity.

(4) Cost to income ratio (CIR) is calculated as administrative expense plus amortization and depreciation plus other expense divided by operating income. CIR is a measurement of operating efficiency.

(5) Cost of risk ratio (COR) is calculated as net collective and specific loans impairment charges divided by the average of net loans at the beginning and the end of the period. COR is an indicator of riskiness of the loan portfolio.

(6) Loan-to-deposit ratio is calculated as the carrying value of loans and receivables from customers divided by deposits from customers at the end of the relevant period. Loan-to-deposit ratio is a measure of funding base of the loan portfolio.

(7) One-time income recognised in the statement of income of 2016 in amount of EUR 11.3 million due to sale of Citadele's share in Visa Europe to Visa Inc.

(8) One-time costs that had to be recognised in the statement of income of 2015 due to the postponed IPO process amount to EUR 5.0 million.

FCMC identified Citadele as "other systemically important institution" (O-SII) at the end of 2015. After the reporting period ending 30 June 2016, the FCMC informed Citadele about the plans to introduce the capital buffer for systemically important institutions in Latvia. There are six such institutions and the buffer requirements range from 1.5% to 2.0%. The Citadele's O-SII capital buffer requirement is 1.5%, however it will be introduced in two steps – 0.75% capital buffer requirement will be introducedas of 30 June 2017, while the compliance with full buffer requirements will have to be ensured as of 30 June 2018. The O-SII buffer requirement has to be ensured by Tier 1 capital. If the buffer requirement were effective as at 30 June 2016, the Citadele's and Citadele Group'sTier 1 ratio would have to be at least 10.4%, to meet all the requirements: (1) Common equity tier 1 ratio of 4.5%, (2) additional tier1 ratio of 1.5%, (3) capital conservation buffer of 2.5%, (4) individual capital buffer of 0.4%, as determined by the FCMC and (5) O-SII capital buffer of 1.5%. As at 30 June 2016, both, Citadele and Citadele Group have sufficient Tier 1 capital to comply with the full O-SII buffer requirements.

There has been no material adverse change in the prospects of Citadele or the Citadele Group since June 30, 2016.

There have been no significant changes in the financial or trading position of Citadele or the Citadele Group since 30 June 2016.

<table>
<tr><td>B.13</td><td>Recent events relevant to the evaluation of the solvency</td><td>In so far as Citadele is aware, there have not been any recent events particular to Citadele or Citadele Group which would be to a material extent relevant for assessing solvency of Citadele or Citadele Group.</td></tr>
<tr><td>B.14</td><td>Dependency on Group companies</td><td>Citadele is the parent company of Citadele Group and it is not dependent on any other companies within the Citadele group.</td></tr>
<tr><td>B.15</td><td>Principal activities</td><td>Citadele Group provides a wide range of banking services for a broad spectrum of customers. The three core areas of business activity undertaken by Citadele Group in Latvia are retail and SME, corporate and private capital management. Citadele Group also has operations in relation to asset management, leasing, life assurance, pension fund management and cash collection.

Key products for retail customers in Latvia are card products, deposit products, consumer loans and mortgages. Key products for SMEs in Latvia are business development loans and credit lines. Key products for corporate customers in Latvia are cash management and point of sale services, loans for business development, credit lines, guarantees, letters of credit and credit and debit cards.

Within the private capital management the affluent Latvian customers are predominantly offered premium payment cards, savings and investment products and lifestyle services, while the international customers who are individuals are predominantly offered current account and ordinary payment cards. These individuals often have an interest in brokerage transaction services and asset management services as well.

In addition to its operations in Latvia, Citadele Group has banking, leasing and private capital management operations in Lithuania and Estonia and offers private banking and wealth management services through its subsidiary in Switzerland.</td></tr>
<tr><td>B.16</td><td>Controlling shareholders</td><td>At the date of this Base Prospectus the shares in Citadele are held in the following proportions:

• 75% plus 1 share for RA Citadele Holdings, LLC and a consortium of 12 co-investors; and

• 25% less 1 share for EBRD.

The following table sets out certain information with respect to the ownership of Citadele's outstanding ordinary shares, as at the date of this Base Prospectus.
<table>
<tr><th>Shareholder</th><th>Number of shares held</th><th>Ownership (%)[7]</th></tr>
<tr><td>EBRD</td><td>39,138,948</td><td>25.00 minus one share</td></tr>
<tr><td>RA Citadele Holdings, LLC[1]</td><td>35,082,302</td><td>22.41 plus one share</td></tr>
<tr><td>Delan S.A.R.L.[2]</td><td>15,597,160</td><td>9.96</td></tr>
<tr><td>EMS LB LLC[3]</td><td>13,864,142</td><td>8.86</td></tr>
<tr><td>NNS Luxembourg Investments S.a.r.l.[4]</td><td>13,864,142</td><td>8.86</td></tr>
<tr><td>Amolino Holdings Inc.[5]</td><td>13,863,987</td><td>8.86</td></tr>
<tr><td>Shuco LLC[6]</td><td>10,998,979</td><td>7.03</td></tr>
<tr><td>Other co-investors</td><td>14,146,136</td><td>9.02</td></tr>
</table>
(1) RA Citadele Holdings, LLC is a wholly owned subsidiary of Ripplewood Advisors LLC and is beneficially owned by Mr Timothy Collins
(2) Delan S.A.R.L is beneficially owned by the Baupost Group, LLC
(3) EMS LB LLC is beneficially owned by Mr Edmond M. Safra
(4) NNS Luxembourg Investments S.a.r.l. is beneficially owned by Mr Nassef O. Sawiris
(5) Amolino Holdings Inc. is beneficially owned by Mr James L. Balsilie
(6) Shuco LLC is beneficially owned by Mr Stanley S. Shuman</td></tr>
</table>

		(7) Calculated by reference to voting interests in Citadele
B.17	Credit ratings	As at the date of this Base Prospectus, the credit rating assigned to Citadele's long term deposits by Moody's is B1 (with outlook positive). Each Tranche may, on or after the relevant issue, be assigned a rating specified in the relevant Final Terms by any rating agency which may be appointed from time to time by the Citadele in relation to any issuance of the Bonds or for the remaining duration of the Programme, to the extent that any of them at the relevant time provides ratings in respect of any Tranche. Whether or not each credit rating applied for in relation to relevant Tranche will be issued by a credit rating agency established in the European Union and registered under the CRA Regulation will be disclosed in the Final Terms. If rated, such ratings will not necessarily be the same as the rating assigned to Citadele. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Credit ratings are not a guarantee of Citadele Group's future performance. ***Issue specific summary:*** The Bonds to be issued [are not/have been/are expected to be] rated [by:[●]]

Section C - Securities

C.1	Type and the class of the securities and security identification number	The Bonds are freely transferable non-convertible unsecured and unguaranteed subordinated bonds denominated in EUR, having maturity from 7 to 10 years and with fixed interest rate, which contain unsecured, unguaranteed and subordinated payment obligations of Citadele towards the holders of the Bonds (the "**Bondholders**"). Under no circumstances shall the Bonds be convertible into ordinary shares of Citadele or other equity instruments of Citadele, except as ordered by the competent authorities in accordance with the requirements of law which, from time to time, may be applicable to Citadele and the Bonds. The nominal value (face value) of each Bond shall be specified in the Final Terms but it shall be at least EUR 10,000. The Bonds are dematerialized debt securities in bearer form and registered with the Latvian Central Depository (Latvijas Centrālais depozitārijs AS, registration number: 40003242879, legal address: Vaļņu 1, Riga, LV-1050, Latvia) (the "**LCD**") in the book-entry form. The maximum aggregate nominal amount of all Bonds outstanding issued under the € 40,000,000 First Unsecured Subordinated Bonds Programme (the "**Programme**") shall not at any time exceed € 40,000,000. The Bonds will be issued in one or several series (the "**Series**"). Each Series may comprise one or more tranches of Bonds (each a "**Tranche**"). The Final Terms must include a corresponding indication, if the respective Series will consist of only one Tranche. The Bonds of each Series will all be subject to identical terms, except specific terms and conditions specified in the applicable Final Terms may be different in respect of different Tranches. In order to identify each Series and Tranches, the Final Terms shall stipulate a serial number of a respective Series and a serial number of a respective Tranche. ***Issue specific summary:*** Series Number: [●] Tranche Number: [●]

		Before commencement of the offering of the Tranche, LCD, upon request of Citadele, will assign to the respective Tranche an ISIN (International Security Identification Number) code. Where a further Tranche is issued which is intended to form a single Series with an existing Tranche at a point after the Issue Date of the existing Tranche, the Bonds of such further Tranche shall be assigned its own ISIN code, which is different from the ISIN codes assigned to the Tranches under the same Series . The ISIN code of respective Tranche will be specified in the Final Terms. ***Issue specific summary:*** ISIN Code: [●]
C.2	Currency	The currency of the Bonds is euro (€).
C.5	Restrictions on transferability	The Bonds are freely transferrable securities and disposable without any restrictions. However, transfer of the Bonds is subject to selling and transfer restrictions under the relevant laws in certain jurisdictions applicable to the transferor or transferee. The Bonds cannot be offered, sold, resold, transferred or delivered in such countries or jurisdictions or otherwise in such circumstances in which such offer, sale, re-sale or transfer would be unlawful or require measures other than those required under Latvian laws to be taken by Citadele, including, if applicable, the United States of America.
C.8	Rights attached to the Bonds; ranking and limitations to rights	**Rights Attached to the Bonds** The only rights of the Bondholders arising from the Bonds are the right to the redemption of the Bonds on the Maturity Date (as defined below) and the right to receive interest, subject to the limitations of these rights as described in these General Terms and Conditions of the Bonds. The Bondholders are not entitled to a delay interest or any penalty fees in case of delay in making any payments due under the Bonds by Citadele. The rights arising from the Bonds can be exercised by the Bondholders in accordance with the General Terms and Conditions of the Bonds, the applicable Final Terms and the applicable rules of Latvian law. There will be no „Change of Control" obligations binding Citadele in respect of the Bonds and the Bonds will not have the benefit of and investors in Bonds will not have protection of a „Change of Control". Consequently change of control over Citadele by any means will not confer any rights whatsoever to the Bondholders. There will be no „Negative Pledge" or „Cross-Default" obligations binding Citadele in respect of the Bonds and the Bonds will not have the benefit of and investors in Bonds will not have protection of „Negative Pledge" or „Cross-Default". No Bondholder may exercise, claim or plead any right of set-off, compensation or retention in respect of any amount owed to it by Citadele arising under, or in connection with, the Bonds and each Bondholder shall, by virtue of its holding of any Bonds, be deemed to have waived all such rights of set-off, compensation or retention. By its acquisition of the Bonds, each Bondholder and beneficial owner agrees to be bound by these provisions relating to waiver of set-off. All payments made by Citadele in connection with Bonds are calculated and paid without set-off or counter-claims. There will be no restrictions on Citadele's ability to conduct its operations as it deems fit, at its sole discretion. The Bonds do not contain any provisions designed to protect the Bondholders from a reduction in the creditworthiness of Citadele. **Ranking and Subordination** The Bonds constitute direct, unsecured and unguaranteed obligations of Citadele

ranking *pari passu* without any preference among themselves.

The Bonds are subordinated to all unsubordinated claims against Citadele at all times (for the purposes of clarity, the Bonds are not subordinated to claims that are subordinated to the Bonds or have the same ranking as the Bonds) and Citadele's obligations under the Bonds constitute subordinated liabilities within the meaning of the Latvian Credit Institutions Law. The net proceeds from the Bonds will be used by Citadele for the purposes specified below and as its subordinated capital and thus the Bonds will be recognized as Tier 2 instruments within the meaning of CRR or any other applicable rules.

The subordination of the Bonds means that in the event of liquidation or insolvency of Citadele, all the claims arising from the Bonds shall become collectible and shall be satisfied only after full satisfaction of all unsubordinated recognised claims against Citadele but before satisfaction of the claims of Citadele's shareholders in their capacity as Citadele's shareholders in accordance with the applicable law. Therefore, upon liquidation or insolvency of Citadele, the Bondholders will not be entitled to any payments due under the Bonds until full and due satisfaction of all the unsubordinated claims against Citadele, except the claims of Citadele's shareholders in their capacity as Citadele's shareholders. By subscribing to the Bonds, all investors unconditionally and irrecoverably agree to such subordination of claims arising from the Bonds. As long as there are no liquidation or insolvency proceedings initiated against Citadele, all claims arising from the Bonds shall be satisfied by Citadele in accordance with the General Terms and Conditions of the Bonds, the applicable Final Terms and the applicable law. Please be advised that no funds may be left to satisfy the claims of the Bondholders after all or part of unsubordinated claims have been satisfied.

Accordingly, any and all restrictions applicable to the subordinated liabilities of a credit institution and Tier 2 instruments as may be provided in the Latvian Credit Institutions Law, CRR and any other applicable rules will be applicable to the Bonds and Citadele's obligations arising out of the Bonds, including the following restrictions stated in the Latvian Credit Institutions Law (in particular, Section 59.^{6}):

- In case a credit institution in accordance with the laws and regulations regarding aid for commercial activity receives such an aid, from the moment of granting of such aid until the end of provision of such aid, the credit institution in question is prohibited from carrying out the subordinate liabilities, including prohibited from repaying a loan, as well as from calculating, accumulating or paying out interest and other remuneration for such loan; and

- if the FCMC has determined deposit restrictions for a credit institution, from the day of determination of such restrictions until the day of their revocation, the credit institution in question is prohibited from carrying out the subordinate liabilities, including prohibited from repaying a loan, as well as from calculating, accumulating or paying out interest and other remuneration for such loan.

The Bonds rank *pari passu* with other existing and future unsecured and unguaranteed subordinated obligations of Citadele.

Bondholders' Meetings

Save as otherwise provided in respect to the amendments to technical procedures and aspects relating to the Bonds below, if Citadele intends to amend the General Terms and Conditions of the Bonds (as defined below) or the Final Terms of the Tranches of the relevant Series, Citadele shall convene a meeting of the Bondholders or the Bondholders of the relevant Series (as applicable) (the "**Bondholders' Meeting**") to decide on amendments of the General Terms and Conditions of the Bonds, the Final Terms of the Tranches of the relevant Series or other matters that may significantly affect the interests of the Bondholders. Citadele shall have a right at its sole discretion to

		amend the technical procedures and aspects relating to the Bonds in respect of payments or other similar matters without the consent of the Bondholders or the Bondholders' Meeting, if such amendments are necessitated by the changes in applicable rules of Latvian law or otherwise, if such amendments are not prejudicial to the interests of the Bondholders.
C.9	Interest, maturity date, yield and representative of the holders of the Bonds	**Interest rate** The Bonds shall carry interest at a fixed annual interest rate (the "**Annual Interest Rate**") which shall be specified in the Final Terms. The Annual Interest Rate shall be the same for each and every year until the Maturity Date (as defined below) or the Early Redemption Date (as defined below), as the case may be. Citadele has a right at its sole discretion to amend the Annual Interest Rate once or several times until the end of the applicable Offer Period (as defined below) and announce the updated Annual Interest Rate (the "**Updated Annual Interest Rate**"). If during the Offer Period (as defined below) Citadele amends the Annual Interest Rate, the final Annual Interest Rate will be reflected in the Final Terms which will be published after allotment of the Bonds to the investors. The interest on the Bonds will be paid semi-annually on the dates specified in the Final Terms ("**Interest Payment Dates**") and will be calculated on the aggregate outstanding principal amount of the Bonds of the respective Series from the Issue Date (as defined below) until the Maturity Date (as defined below) or the Early Redemption Date (as defined below), which ever occurs first. If the Offer Period (as defined below) is extended by Citadele, the final Interest Payment Dates will be rescheduled by Citadele proportionally to the length of extension of the Offer Period and specified in the Final Terms which will be published after allotment of the Bonds to the investors. Interest shall accrue for each interest period from and including the first day of the interest period to (but excluding) the last day of the interest period on the principal amount of the Bonds of the respective Series outstanding from time to time. The first interest period commences on the Issue Date (as defined below) and ends on the first closest Interest Payment Date (the "**First Interest Period**"). Each consecutive interest period begins on the previous Interest Payment Date and ends on the following Interest Payment Date. The last interest period ends on the Maturity Date (as defined below) or the Early Redemption Date (as defined below), whichever occurs first. Interest in respect of the Bonds will be calculated on the basis of the actual number of days elapsed in the relevant interest period divided by 365 (or, in the case of a leap year, 366), i.e. a day count convention Act/Act (ICMA) will be used. When interest is required to be calculated in respect of a period of less than a half year other than in respect of the First Interest Period, it shall be calculated on the basis of (a) the actual number of days in the period from and including the date from which interest begins to accrue (the ''**Accrual Date**'') to but excluding the date on which it falls due divided by (b) the actual number of days from and including the Accrual Date to but excluding the next following Interest Payment Date. ***Issue specific summary:*** Annual Interest Rate: [●] ***Issue specific summary:*** Interest Payment Dates: [●] each year **Yield to Maturity** An expected yield to maturity for the Bonds (the "**Yield to Maturity**") being offered, based on the final Issue Price and the final Annual Interest Rate, will be specified in the Final Terms which will be published after allotment of the Bonds to the investors. The Yield to Maturity is the percentage rate of return paid if the Bond is held to its Maturity Date, assuming that interest paid over the life of the Bond is reinvested at the same rate.

Maturity and Redemption

Each Series may have a maturity between 7 (seven) and 10 (ten) years. The Bonds shall be repaid in full at their nominal value on the maturity date which will be specified in the Final Terms (the "**Maturity Date**") or on the Early Redemption Date (as defined below).

If the Offer Period (as defined below) is extended by Citadele, the final Maturity Date will be rescheduled by Citadele proportionally to the length of extension of the Offer Period and specified in the Final Terms which will be published after allotment of the Bonds to the investors.

Issue specific summary:
Maturity Date: [●]

Citadele has a right to redeem the Bonds for their nominal value prematurely prior to the Maturity Date as follows:

- at any time after the lapse of 5 years period as from the Issue Date (as defined below) by notifying the Bondholders at least 30 (thirty) days in advance, provided that the competent authority (such as FCMC or the EBA, if they are in the competence thereof) has granted its consent for such early redemption of the Bonds, if required by applicable law and other relevant legal requirements (such as the conditions of Article 78(1) of the CRR, if applicable at the moment of early redemption of the Bonds) have been met; and

- prematurely before the lapse of the 5 year period as from the Issue Date (as defined below), provided that the competent authority (such as FCMC or the EBA, if they are in the competence thereof) has granted its consent for such early redemption of the Bonds, if required by applicable law and other relevant legal requirements (such as the conditions of Article 78(4) of CRR, if applicable at the moment of early redemption of the Bonds) have been met; and

- prematurely before or after the lapse of the 5 year period as from the Issue Date (as defined below), if applicable laws and rules permit such redemption, provided that all the relevant legal requirements have been met.

The decision on granting the consent may involve certain amount of discretion by the competent authority and the early redemption may be therefore beyond the control of Citadele.

If Citadele decides to exercise the right to redeem the Bonds prematurely prior to the Maturity Date as stated above, subject to receiving the necessary consents, Citadele shall specify the date on which the Bonds will be redeemed (the "**Early Redemption Date**"). Early Redemption Date will be announced through a press release and by a notice published in English and Latvian in the Central Storage of Regulated Information (www.oricgs.lv), on the Citadele's website (www.citadele.lv or www.cblgroup.com) and, after the Bonds are admitted to the regulated market, also on the news service of the Nasdaq Riga website or otherwise as prescribed by the applicable rules of Latvian law.

The Bondholders are not entitled to claim premature redemption of the Bonds before the Maturity Date under any circumstances. By purchasing the Bonds any investor unconditionally and irrevocably relinquishes the right to demand premature redemption of any Bonds, if such a right exists under applicable law.

Representative of debt security holders

Within the Programme, the rights of the Bondholders to establish and/or authorize an organization/person to represent the interests of all or a part of the Bondholders are

		not contemplated, but, on the other hand, these rights are not restricted. The Bondholders themselves should cover all costs/fees of such representative(s).
C.10	Impact of derivative component in the interest payment	Not applicable.
C.11	Admission to trading on regulated market	Application will be made to the Nasdaq Riga AS, registration number: 40003167049, legal address: Vaļņu 1, Riga, LV-1050, Latvia (**"Nasdaq Riga"**) for admitting each Tranche to listing and trading on the official bond list (Baltic Bond List) of Nasdaq Riga according to the requirements of Nasdaq Riga not later than within 3 (three) months after the Issue Date of the respective Tranche. Trading of the respective Tranche on the Baltic Bond List of the Nasdaq Riga Stock Exchange is expected to commence within 1 (one) month after the above-mentioned application has been made. All dealings in the Bonds of the respective Tranche prior to the commencement of unconditional dealings on the Baltic Bond List of the Nasdaq Riga Stock Exchange may be in the form of private over-the-counter transactions and will be at the sole risk of the parties concerned. Nasdaq Riga Stock Exchange is a regulated market for the purposes of the Markets in Financial Instruments Directive 2004/39/EC as amended.

Section D - Risks

D.2	Key risks specific to the issuer and its industry	There are a number of key risks relating to Citadele Group, the occurrence of which could have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows: - Citadele Group may not successfully implement its business strategy; - Citadele Group's business is dependent on the economic and macroeconomic conditions in the Baltic States, the Eurozone and the other regions in which it operates; - Citadele Group faces significant competition within the banking sectors of Latvia and the other Baltic States, which may have a material adverse effect on its business; - Citadele Group's ability to achieve certain targets is dependent upon certain assumptions involving factors that are beyond its control and are subject to known and unknown risks, uncertainties and other factors; - Citadele Group may be unable to attract or retain sufficient customer deposits and may be unable to access additional sources of funding; - Citadele Group may be unable to meet its minimum capital requirements; - Citadele Group is reliant upon the success of its brand and on its ability to acquire and retain customers at a reasonable cost by differentiating itself from the wider banking industry; - Changes in market interest rates may adversely affect Citadele Group's net interest income, net interest margin and profitability; - Citadele Group and its customers may be materially and adversely affected by events beyond its control having an impact on liquidity or access to funds; - Citadele Group's risk management strategies, techniques and policies may fail to adequately identify and manage the risks that Citadele faces and the losses that could result from them; - Citadele may fail to correctly evaluate the credit risk and collateral value of its security; - Citadele Group may be exposed to heightened credit risk by its lending to retail, SME and micro SME customers;

- Citadele Group’s loan portfolio is concentrated on certain borrowers and certain sectors of the Latvian economy;
- Citadele Group may not have accurately determined impairment levels for its loan portfolio;
- Collateral values, and particularly the value of residential real estate, may decline, which may materially and adversely affect Citadele Group’s loan portfolio and collateral base;
- Citadele Group may be unable to enforce its security in a timely manner or at all over collateral held outside of the EU;
- Citadele Group’s securities portfolio is concentrated in Latvian and Lithuanian government bonds and its value may decrease;
- Citadele Group is reliant on its network of branch offices in key locations;
- Citadele Group is subject to operational risks, including in particular those arising from fraud or misconduct of its employees or customers;
- Citadele Group or its customers may face restrictions on their business as a result of international sanctions on Russian persons and entities or regional geopolitical pressures;
- Citadele Group faces risks in relation to its international deposit book;
- Citadele Group may be forced to rebrand itself or certain of its subsidiaries in certain markets, which may limit its ability to compete in those markets;
- Citadele Group will no longer be able to have American Express exclusivity in Latvia and Lithuania as a result of regulatory changes;
- Citadele Group is exposed to correspondent account risk;

Citadele and the Baltic States may not be able to maintain their credit ratings;

- Citadele Group’s operations expose it to foreign exchange risk and risks associated with the use of hedging products;
- Citadele Group faces risks associated with its pension fund operations;
- Citadele Group faces risks associated with its life insurance operations;
- Citadele Group may not be able to successfully maintain or upgrade its information technology systems and security;
- Citadele Group’s ongoing success depends on its senior management team and its ability to recruit and retain key personnel;
- Citadele Group may be subject to litigation, administrative proceedings or other proceedings;
- Catastrophic or unforeseen events such as acts of war, acts of terrorism, pandemic diseases or other geopolitical events may have a material adverse effect on Citadele Group;
- Citadele Group’s insurance policies may not cover particular future losses;
- Citadele may be subject to bail-in under the BRRD and other applicable rules;
- The legal and judicial systems in some of the markets in which Citadele Group operates have less experience in certain areas of law than those of western European countries;
- Citadele Group faces risks associated with taxation and changes in taxation legislation;
- Citadele Group is subject to periodic tax audits by the Latvian tax authorities;
- Citadele Group faces risks associated with compliance with Common Reporting

		Standard; - Investors may not be able to enforce foreign court judgments against Citadele Group; - Citadele Group faces risks associated with its operations’ compliance with a wide range of laws and regulations; - Citadele Group’s measures to comply with anti-money laundering, anti-bribery and sanctions regulations may not be effective in all material respects; - Citadele Group is dependent on obtaining banking licences and satisfying other regulatory requirements in Latvia and the other jurisdictions where it operates; - Citadele Group may be impacted by Latvian and/or European banking reform initiatives; - Citadele Group may be unsuccessful in adequately implementing or satisfying the requirements of changing prudential regulation; - Citadele may fail to meet minimum requirement for own funds and eligible liabilities (MREL) under BRRD; - Citadele Group may be impacted by changes in accounting methodologies; and - Citadele Group faces risks as a result of regulatory investigations.
D.3	Key risks specific to the securities	There are a number of key risks relating to an investment in the Bonds: - The Bonds may not be a suitable investment for all investors; - Credit risk and adverse change in the financial condition or prospects of Citadele; - Citadele’s obligations under the Bonds are unsecured and unguaranteed; - Citadele’s obligations under the Bonds are subordinated obligations; - The Bonds are subject to bail-in risk; - There has been no prior trading market for the Bonds; - Citadele may be unable to list the Bonds on the Nasdaq Riga, the Bonds may be delisted from the Nasdaq Riga or trading in the Bonds may be suspended; - An active and liquid market for the Bonds may not develop; - Listing may not occur concurrently with or immediately after the settlement and investors may be unable to publicly trade the Bonds until listing of the Bonds on the Nasdaq Riga; - Citadele has no experience in complying with the requirements for publicly listed companies; - Investors in Bonds will depend on the LCD's account-based system; - Fixed interest rate and inflation may adversely affect the value of the Bonds; - Exchange rate fluctuations and interest rates may adversely affect the value of the Bonds; - Adverse change in the credit rating of Citadele and/or credit rating of the Bonds may adversely affect the trading price of the Bonds; - No assurance on change of laws or practices; - The Bonds do not carry any beneficial interest in the equity or voting rights; - No limitation on issuing additional debt by Citadele and no negative pledge

	obligations; - The Bonds do not contain covenants governing Citadele’s operations and do not limit its ability to merge, effect asset sales or otherwise effect significant transactions that may have a material adverse effect on the Bonds and the Bondholders; - Legal investment considerations may restrict certain investments in Bonds; - The transferability of the Bonds may be restricted; - The Bonds may be redeemed prematurely on the initiative of Citadele; - The Offer may be cancelled; - Amendments to the Bonds may be made and these amendments will legally bind all Bondholders; and - Bondholders may be required to comply with requests for information.

Section E - Offer

E.2b	Reasons for offer and use of proceeds	Citadele expects to receive net proceeds of up to EUR 39 million from this Offer.The net proceeds from the Offer (as defined below) are to be used by Citadele for its general corporate purposes and to strengthen further the regulatory capital structure of Citadele, including use as Citadele’s subordinated capital in accordance with the requirements of the CRR and any other applicable rules for Tier 2 capital and repaying the outstanding amount under the subordinated loan currently held by the Latvian Privatisation Agency under the LPA Subordinated Debt. Following the Offer, Citadele intends to hold discussions with the Latvian Privatisation Agency in connection with the early repayment of the LPA Subordinated Debt. Citadele anticipates a period of up to two months from receipt of the proceeds of the Offer and the requisite permissions being granted to enable the early repayment of the LPA Subordinated Debt. Citadele Group expects (on the basis of facts and data available as at the date of the Base Prospectus) the net proceeds from the Offer and the repayment of the LPA Subordinated Debt to result in its total capital adequacy ratio, calculated on a Basel III fully loaded basis, to increase by up to 160 basis points, and to reach up to 14.6% (the calculation also assumes that EUR 25 million of profit for the first half of 2016 is included in the eligible equity). If calculated on a Basel III transitional basis, Citadele Group’s total capital adequacy ratio would be expected to be up to 15.5% (the calculation also assumes that EUR 25 million of profit for the first half of 2016 is included in the eligible equity) following the repayment of the LPA Subordinated Debt. The actual changes to total capital adequacy ratio arising from the repayment of the LPA Subordinated Debt may differ from the amounts and percentages that are provided above, which have been prepared on the basis of facts and data available as at the date of this Base Prospectus. The repayment of the LPA Subordinated Debt and the consequential change to Citadele’s capital adequacy position is subject to the prior approval of the FCMC. If in respect of any particular Series, there is another particular identified use of proceeds, this will be stated in the relevant Final Terms applicable to the particular Series.
E.3	Terms and conditions of the offer	The Bonds are being offered to the public in Latvia and Lithuania in accordance with the requirements of the Financial Instrument Market Law of the Republic of Latvia (the “**Latvian Financial Instrument Market Law**”) and Commission Regulation (EC) No 809/2004 of 29 April 2004, as amended, implementing the Directive 2003/71/EC (the “**Prospectus Regulation**”).

Issue Date
The Issue Date will be specified in the Final Terms of the respective Tranche. If the Offer Period (as defined below) is extended by Citadele, the final Issue Date will be rescheduled by Citadele proportionally to the length of extension of the Offer Period and specified in the Final Terms which will be published after allotment of the Bonds to the investors.

Issue specific summary:
Issue Date: [●]

Issue Price
The Bonds may be issued at their nominal value or at a discount or a premium to their nominal value (the "**Issue Price**"). The Issue Price shall be specified in the Final Terms. Citadele has a right at its sole discretion to amend the Issue Price once or several times until the end of the applicable Offer Period (as defined below) and announce the updated Issue Price (the "**Updated Issue Price**").

Issue specific summary:
Issue Price: [●]

Aggregate principal amount
The aggregate principal amount of each Tranche shall be initialy specified in the Final Terms. Citadele has a right to increase or decrease the aggregate principal amount of the Tranche as initially set out in the Final Terms, provided that the maximum aggregate nominal amount of all Bonds outstanding issued under the Programme shall not at any time exceed € 40,000,000.

Issue specific summary:
Aggregate principal amount: [EUR [●]]

Nominal value of the Bond
The nominal value (face value) of each Bond shall be specified in the Final Terms but it shall be at least EUR 10,000.

Issue specific summary:
Nominal value of the Bond: EUR [●]

Minimum Investment Amount
The Bonds will be offered for subscription for the following minimum investment amount (the "**Minimum Investment Amount**"): at least 10 (ten) Bonds for any and all investors.

Offer Period
The Offer Period for each Tranche will be specified in the relevant Final Terms. Until the end of the applicable Offer Period, Citadele may extend the Offer Period at its sole discretion once or several times. The minimum length of any such extension should be at least 2 Business Days.

Issue specific summary:
Offer Period: [●]

Covenants
None

Depository
The Bonds will be book-entered within Latvian Central Depository (*Latvijas Centrālais depozitārijs AS*).

		Applicable Law Latvian Law. **Guaranteed Allocations** Notwithstanding Citadele's general discretion to reject any Purchase Orders, in whole or in part, for any reason at its sole discretion, ABLV, if it submits a corresponding valid Purchase Order in accordance with the Underwriting Commitment and it is a Qualifying Purchase Order (as defined below), is guaranteed to receive a number of Bonds with EUR 10,000,000 (ten million euro) in nominal value.
E.4	Material interests in the offer	In so far as Citadele is aware, no person involved in the Offer has an interest material to the Offer, nor any conflicting interests, with the exception of ABLV which has certain interests under the Underwriting Commitment. The Final Terms will contain indication as to whether these ABLV's interests are applicable to a particular Tranche.
E.7	Estimated expenses charged to investors	No expenses or taxes will be charged to the investors by Citadele in respect to the issue of the Bonds. However, the investors may be obliged to cover expenses which are related to the opening of securities accounts with the credit institutions or investment brokerage firms, as well as commissions which are charged by the credit institutions or investment brokerage firms in relation to the execution of the investor's purchase or selling orders of the Bonds, the holding of the Bonds or any other operations in relation to the Bonds. Citadele shall have no obligation whatoever to compensate the Bondholders for any such expenses.

5. Risk Factors

5.1. Introduction

Investment in the Bonds involves a high degree of risk. Prospective investors should carefully review this Base Prospectus in its entirety and should, in particular, consider, among other things, all risks inherent in making such an investment, including the following risks and uncertainties, before deciding to invest in the Bonds. Prospective investors should be aware that the value of the Bonds and any income derived from them may go down as well as up and that investors may not be able to rely on their initial investment. If any of the following risks materialise, Citadele Group's business, prospects, financial condition, results of operations or cash flows, as well as Citadele's ability to fulfil its obligations under the Bonds could be materially adversely affected. In such a case, the value and the market price of the Bonds could also decline and investors could lose all or part of their investment.

Prospective investors should note that, although the factors described below represent the principal risks inherent in investing in the Bonds, there may be additional risks and uncertainties of which Citadele Group is currently unaware or currently considers immaterial and which may also have a material adverse effect on Citadele Group's business prospects, financial condition, results of operations or cash flows, therefore Citadele does not represent that the statements below regarding the risks of acquiring and/or holding any Bonds are exhaustive. The risk factors described below are not listed in any order of priority with regard to significance or probability.

Most of these risk factors are contingencies which may or may not occur and Citadele is not in a position to assess or express a view on the likelihood of any such contingency occurring. This Base Prospectus is not, and does not purport to be, investment advice or an investment recommendation to invest in the Bonds. Prospective investors should make their own independent review, analysis and evaluations of the risks associated with an investment in the Bonds and whether an investment into the Bonds is consistent with its financial needs and investment objectives and whether such investment is consistent with any rules, requirements and restrictions as may be applicable to that investor, such as investment policies and guidelines, laws and regulations of the relevant authorities, etc. Prospective investors should consult with their own professional advisers if they consider it necessary.

5.2. Risks Relating to Citadele Group's Business

Citadele Group may not successfully implement its business strategy

According to its business strategy, Citadele Group aims to become the leading local bank of choice for individuals and businesses and to become a "domestic champion" for banking services in each of the Baltic States. There is no guarantee that Citadele Group will be successful in implementing its business strategy in any regard, and the implementation of all or any part of Citadele Group's business strategy may be less effective, less profitable or less rapid than Citadele Group anticipates. Citadele Group's business strategy is subject to a number of challenges and risks, including that Citadele Group may be unable to:

- become the primary bank of choice for mass affluent retail customers in the Baltic States, in particular as a result of a failure by Citadele Group to increase the number of its new and existing customers that use Citadele as their primary bank, develop its current account product into a key "hook" product to attract customers, expand its range of account and card products or improve the functionality of its electronic banking services and the quality of its customer service;
- successfully enhance its consumer lending product offering to its retail customers in the Baltic States, in particular as a result of a failure by Citadele Group to increase the use of card products among its existing and potential customer base, maintain its existing customer base, market share and revenue levels in the retail lending business, or leverage its IT systems and increase automation in the underwriting process while maintaining existing risk levels;
- successfully enter into and develop the micro SME (being SMEs with annual revenues of up to EUR 0.4 million) segment in the Baltic States, in particular as a result of a failure by Citadele Group to increase its product and service penetration in the micro SME segment, retain client relationships with micro SMEs that grow into larger, more complex businesses or maintain or grow its revenue levels in the micro SME segment;
- drive revenue growth from its existing SME customer base, in particular as result of a failure by Citadele Group to implement new product offerings, improve the effectiveness of its sales and distribution channels

and enhance its relationship managers' roles in its customer service process, or maintain its existing customer base, market share and revenue levels in the SME segment;

- expand its private capital management ("**PCM**"), asset management and pension product offerings to individual customers inside and outside the Baltic States, in particular as a result of a failure by Citadele to sell its product offerings across different operations between its Swiss banking operations and its PCM, asset management and pension operations, or maintain its market share and revenue levels in these segments;

- maintain its prudent liquidity and funding profile and enhance its capital base whilst delivering strong medium-term returns on average equity, in particular as a result of a failure by Citadele Group to maintain adequate liquidity, grow its customer deposit base, manage costs associated with its funding base or secure additional sources of liquidity as necessary; or
- generate sufficient profits from its operations to enable it to meet the minimum capital requirements imposed by the FCMC.

If Citadele Group fails to implement its strategy in full or in part, it may be unable to further grow its business, and even if it is successful, there is no guarantee that the successful implementation of Citadele Group's business strategy will improve Citadele Group's profitability or operating efficiency to the extent that Citadele Group desires or at all. The realisation of any of the foregoing risks may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows.

Citadele Group's business is dependent on the economic and macroeconomic conditions in the Baltic States, the Eurozone and the other regions in which it operates

Citadele Group's business and performance are affected by European and global economic conditions and future economic prospects, particularly in Latvia and the other Baltic States in which Citadele Group's revenue is predominantly generated. Weak macroeconomic conditions, recessions, the implementation of austerity measures, along with global financial market turmoil and volatility, such as experienced in the recent financial crisis, have in the past affected and may continue to affect Citadele Group's business, financial performance and the activity level and behaviour of Citadele Group's customers as well as the banking sectors in Latvia and the other Baltic States generally. External economic factors have in the past affected and may continue to affect Citadele Group in the future. These include high unemployment levels, reduced consumer and government spending levels, government monetary and fiscal policies, inflation rates, credit spreads, currency exchange rates, market indices, investor sentiment and confidence in the financial markets, reduced consumer confidence, the level and volatility of equity prices, commodity prices and interest rates, real estate prices and changes in customer behaviour. All of these factors are impacted by changes in financial markets and developments in the European and global economies, including in Latvia and the other regions where Citadele Group operates, such as Russia and the CIS countries. Furthermore, other factors or events may affect the Latvian, European and global economic conditions, such as heightened geopolitical tensions, war, acts of terrorism, natural disasters or other similar events outside Citadele Group's control.

Following the global financial crisis in 2008 and 2009, a number of countries in Europe have experienced high debt levels and a lack of economic growth. Lower private consumer spending, lower household purchasing power, high rates of unemployment, reduction of business profitability and increased insolvency of companies and/or households have contributed to slow GDP growth in many European countries. Certain of these factors arising from the global financial crisis (particularly those impacting CIS countries) have resulted in a reduced demand for financial products and services and deterioration in the asset quality of Citadele Group and have negatively influenced the capacity of Citadele Group's customers to repay loans resulting in increased loan impairment charges, in particular prior to 2013. Although the Baltic States have been in a period of economic recovery following the global financial crisis, the rate of growth in these countries, like many others in the EU, has recently slowed, and they remain highly exposed to regional or global financial instability. In addition, due to their relatively small economies, Latvia and the other Baltic States remain exposed to regional or global economic or macroeconomic events to a greater extent than many other nations.

Following the adoption of the Euro by Estonia, Latvia and Lithuania on 1 January 2011, 2014 and 2015, respectively, the Baltic States are currently all members of the Eurozone and are thus affected by economic and macroeconomic developments in the Eurozone. In particular, the UK's "Brexit" vote in June 2016 to leave the European Union has created significant uncertainty regarding the future of the EU-UK relationship. However, direct trade links between the Baltics and UK are limited as only slightly more than 5% of Latvian exports go to UK, and this share is even lower for Estonia and Lithuania, with trade mostly dominated by wood and wood products. Furthermore, less than 1% of Citadele's gross loan book represent clients who have significant end-market exposures to the UK, and Citadele has no open FX exposures to the British Pound. The Bank of Latvia has also announced that short-term macroeconomic losses from Brexit would be small and could amount to less than 1% of Latvian Gross Domestic Product. Furthermore, Greek debt remains at a high level and contentious negotiations with the European Commission (the "**EC**"), International Monetary Fund ("**IMF**") and ECB reduction in its debt levels could create significant political and economic uncertainty within the Eurozone and may have a significant negative impact on the value of the Euro. While Citadele Group's direct exposure to Greece and Greek residents is insignificant, the exit of Greece or another country from the Eurozone may result in the collapse of the Euro as the common currency in some or all of the other Eurozone countries or the destabilisation of Euro exchange rates.

Citadele Group has no control over economic or macroeconomic events and changing market conditions and may be unable to foresee, predict or adequately manage their effects. Consequently, a market downturn or a worsening of the Latvian, European or global economies may negatively impact the value of Citadele Group's assets, the ability of its clients to meet financial obligations and could cause Citadele Group's loan impairment charges to rise, any of which may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows, and severely limit Citadele's ability to implement its business strategy.

Citadele Group faces significant competition within the banking sectors of Latvia and the other Baltic States, which may have a material adverse effect on its business

Citadele Group faces significant competition from both foreign and domestic banks in Latvia and the other Baltic States. According to data published by the Association of Commercial Banks of Latvia (the "**ACBL**"), as at 30 June 2016, there were 16 banks and 8 branches of foreign banks operating in Latvia. The seven largest commercial banks in Latvia in terms of total assets (AS Swedbank, ABLV Bank, AS Rietumu Banka ("**Rietumu Banka**"), AS SEB banka ("**SEB**"), Nordea Bank AB Latvia branch, Citadele and AS DNB banka from greatest to least amount of assets) held a 82.2% combined share of total assets, a 89.0% combined share of total loans and a 80.3% combined share of total deposits as at 30 June 2016. The Latvian market is dominated by large Scandinavian banks, such as AS Swedbank, SEB, Nordea Bank AB Latvia branch and AS DNB banka, which have traditionally provided a wide range of consumer and corporate banking services in all three Baltic States, and which grew quickly before the global financial crisis in 2008 and 2009. Each of these banks has retail and corporate operations in Latvia which compete with those of Citadele Group, and due to their broader customer and funding bases are often able to offer more attractive pricing or other terms to their customers than Citadele Group. In addition to the large Scandinavian banks, Citadele Group also faces competition to a lesser extent from Latvian domestic banks, such as Rietumu Banka and ABLV Bank, which had respective market shares of 12.1% and 14.0% of the Latvian banking sector based on total assets as at 30 June 2016 according to the ACBL; whilst Citadele Group believes that the focus of these banks is predominantly on serving customers outside of Latvia, any change in the focus of their operations towards the domestic Latvian banking market may result in increased levels of competition for Citadele Group. In addition, on 25 August 2016, DNB and Nordea announced an agreement to combine their operations in Estonia, Latvia and Lithuania to create a leading bank in the Baltics that would likely become the second largest bank in Latvia on a combined basis in terms of assets. As at 30 June 2016 both banks held a total of 18.5% of banking assets in Latvia. On 3 March 2016, the ECB withdrew the authorisation of Latvian bank AS Trasta Komercbanka due to serious and sustained breaches of regulatory requirements in several areas. AS Trasta Komercbanka held 1.4% of total banking assets as at 31 December 2016 and it is currently being liquidated. Also at the end of Q1 of 2016 LHV Pank closed its branch in Latvia.

In the Lithuanian and Estonian banking sectors, in addition to the large Scandinavian banks which dominate these markets, Citadele Group faces competition from other banks operating in these areas, particularly from the local banks Šiaulių bankas in Lithuania and LHV Pank in Estonia. LHV Pank also has a limited presence in the Lithuanian market through its affiliates. As at 30 June 2016, Šiaulių bankas had a 7.0% market share in Lithuania, and LHV Pank had a 3.3% market share in Estonia, based on total assets.

Increased levels of competition in Latvia, Lithuania or Estonia may have a material adverse effect on Citadele Group's market share in the Baltic States and may limit its ability to expand its operations and product offerings to customers. Because there is only a limited pool of high quality borrowers in Latvia and the other Baltic States, Citadele Group may lose market share if its competitors seek to expand and it is unable to effectively compete. Citadele Group may be unable to offer new products or services at the same rate or level of profitability as its competitors, and Citadele Group may be unable to enhance its existing products or services before or in line with its competitors. While Citadele Group does not actively target customers in the low-interest rate segment of these markets and does not engage in so-called “interest rate wars” with other banks, should a competitor lower its interest rates on loans or increase interest rates on savings products, Citadele Group’s ability or desire to match such rates, particularly in relation to its corporate loan products, would be limited.

In addition to the competitive threat posed by traditional banks, Citadele Group also faces competition from a number of small, independent financial technology companies not only from the Baltic States, but also from elsewhere. The number of these so-called “FinTech” companies has expanded significantly in recent years, as has their product offering, and their aim is to disrupt the incumbent financial system by offering lower-cost, software-focused financial services, particularly in relation to the consumer loans, credit cards, payment transfers and foreign exchange segments of the banking sector.

Any failure by Citadele Group to successfully compete in the Baltic States may have a material adverse effect on Citadele Group’s business, prospects, financial condition, results of operations or cash flows, and may severely limit Citadele Group’s ability to implement its business strategy.

Citadele Group’s ability to achieve certain targets is dependent upon certain assumptions involving factors that are beyond its control and are subject to known and unknown risks, uncertainties and other factors

The achievement of Citadele Group’s internal targets will depend on assumptions based upon factors which are significantly or entirely beyond its control and subject to known and unknown risks, uncertainties and other factors that may result in management failing to achieve these targets. These factors include those detailed elsewhere in this section and, in particular,

- Citadele Group’s ability to successfully implement its business strategy in all respects;
- Citadele Group’s ability to successfully meet the applicable regulatory requirements;
- the economic and macroeconomic conditions, such as market interest rates, in the Baltic States, the Eurozone and other regions in which Citadele Group operates;
- the financial condition of Citadele Group’s customers;
- reductions in Citadele’s credit ratings;
- growth of the financial markets in the Baltic States, the Eurozone and the other regions in which Citadele operates;
- currency fluctuations;
- the actions of regulators;
- changes in the political, social and regulatory framework in the Baltic States, the Eurozone and the other regions in which Citadele Group operates; and
- macroeconomic or technological trends or conditions, including inflation and consumer confidence,

and other risk factors identified in this Base Prospectus. If one or more of these assumptions is inaccurate, Citadele may be unable to achieve one or more of its targets, which may have a material adverse effect on Citadele’s business, financial condition, results of operation and prospects.

Citadele Group regularly uses financial models (which are typically financial representations illustrating likely financial results based on specific financial assumptions) in the course of its operations. These financial models help inform Citadele Group of the value of certain of its assets (such as certain loans, financial instruments, including illiquid financial instruments where market prices are not readily available, goodwill or other intangible assets) and liabilities as well as Citadele’s risk exposure. These financial models also generally require Citadele to make assumptions, judgments and estimates which, in many cases, are inherently uncertain, including expected cash flows, the ability of borrowers to service debt, residential and commercial property price appreciation and depreciation, and relative levels of defaults and deficiencies. Such assumptions, judgments and estimates may need to be updated to reflect changing facts, trends and market conditions and may result in a decrease in the value of, and consequently an impairment of, Citadele’s assets, an increase in Citadele’s liabilities or an increase in Citadele’s risk exposure, any of which may have a material adverse effect on Citadele’s financial condition, results of operations and prospects.

Citadele Group may be unable to attract or retain sufficient customer deposits and may be unable to access additional sources of funding

Citadele Group's strategy is to be funded predominantly by customer deposits. Customer deposits currently represent, and are expected to continue to represent, the predominant source of Citadele Group's liquidity, and Citadele Group is substantially dependent on its ability to attract and retain customer deposits at favourable interest rates in order to provide sufficient liquidity for its operations.

Citadele Group may be unable to attract and retain customer deposits at the same volume or cost that it currently enjoys. The interest rates that Citadele Group offers on customer deposits are not only affected by current market interest rates, but are also dependent on Citadele Group's short-term and long-term liquidity targets, as well as its market position and the level of competition in the markets where it operates. Because many of Citadele Group's competitors in the Baltic States have access to broader customer bases and lower-cost funding options, they may be able to offer higher interest rates on customer deposits than Citadele Group, which may limit Citadele Group's ability to attract customer deposits. In addition, in the case of low or negative market interest rates, Citadele Group's competitors may choose to rely on other sources of funding and offer higher interest rates on customer deposits, thereby limiting Citadele Group's ability to take advantage of lower or negative market interest rates and potentially increasing its costs to attract customer deposits. In addition, recent low interest rates on customer deposits in the Eurozone have led to an increase in Citadele Group's demand deposits and a corresponding decrease in its fixed-term deposits, which has heightened the potential volatility of Citadele Group's customer deposit base. If money market interest rates set by central banks reach significantly negative levels, Citadele Group may be forced to pass this cost on to its customers. This may result in customers withdrawing funds which may have an adverse effect on Citadele Group's funding position.

If Citadele Group is unable to attract or retain sufficient customer deposits to meet its funding needs, Citadele Group may need to seek alternative sources of funding, such as the interbank or capital markets, which, if they are available at all, may be more expensive and result in decreased interest margins and profitability for Citadele Group. Citadele Group does not currently have any funding lines available from other banks. While Citadele Group may seek to issue debt or seek subordinated loans in future, there is no guarantee that it will be able to do so at favourable interest rates or at all. Citadele Group's ability to raise funds may be limited by numerous factors, including general economic and macroeconomic conditions, the availability of funding in the capital markets generally or from Citadele's shareholders, investor confidence in Citadele Group, sentiment towards the Latvian economy or the economies of the other Baltic States, and the credit rating of Citadele and the financial condition, performance and prospects of Citadele Group. Any failure by Citadele Group to attract and retain sufficient customer deposits or to access additional sources of funding at favourable interest rates may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows.

Citadele Group may be unable to meet its minimum capital requirements

Citadele Group has previously submitted a report to the FCMC following its internal capital adequacy assessment process ("**ICAAP**") detailing Citadele Group's proposals aimed at ensuring that it meets its minimum capital adequacy requirements, including its Pillar 2 target, on a Basel III transitional basis by the end of 2016. The content of this plan has been approved by the FCMC, and is based on a number of assumptions, including Citadele Group's projected revenue growth and the anticipated expansion of its asset base on the basis of its business strategy. However, whilst these assumptions, including profit forecast for the future periods, have been prepared as accurately as possible based upon information available at the time they are formed, these assumptions may prove to be inaccurate or incorrect due to factors outside of Citadele Group's control or expectation, which in turn may affect Citadele Group's ability to meet its minimum Pillar 2 target or other prudential requirements under law or regulation. Furthermore, the FCMC has recently circulated planned changes in regulations related to capital requirements proposing amendments to the treatment of mandatory capital buffers prescribed by Basel III. According to currently proposed amendments, mandatory capital buffers would be added on top of the Pillar 2 target calculated within the ICAAP, and will constitute a so-called overall capital requirement. Citadele Group's current business and capital plan ensures only a partial compliance with the aforementioned proposed changes and Citadele is continuing to dialog with the FCMC to develop a better understanding of the potential requirements. In case regulations related to capital requirements are amended by the FCMC as currently proposed, the Citadele Group may need to revise its business strategy, capital plan or both in order to ensure compliance with the aforementioned regulations. Any such revisions may have adverse implications on financial performance of Citadele Group. In order to meet its projected capital adequacy requirements, Citadele Group has assumed that its net profits available for distribution will be included as part of its Common Equity Tier 1 capital. By their very nature, profits may be volatile and unpredictable, and there is no guarantee that Citadele Group will be able to achieve the net profits that it anticipates in the future. Citadele Group's strategy to achieve growth in its focus segments will also require an increase in the amount of capital held to maintain its required capital ratios or targets. The investment of capital in projects aimed at growth may affect Citadele Group's overall capital position and may in turn affect its ability to meet the capital requirements imposed by the FCMC. See also "*—Citadele Group may be unsuccessful in adequately implementing or satisfying the requirements of changing prudential regulation"* and "*—Citadele Group may not successfully implement its business strategy*", above. Any failure by Citadele Group to meet its minimum regulatory capital requirements may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows.

Citadele Group is reliant upon the success of its brand and on its ability to acquire and retain customers at a reasonable cost by differentiating itself from the wider banking industry

Citadele Group has sought to develop its brand and reputation in Latvia and the other Baltic States on the basis of high levels of customer service and longstanding relationships with key customers. Citadele believes that the strength of its brand is a key factor in allowing it to acquire and retain customers. Citadele Group's ongoing commercial success has relied on a positive public perception of its brand in Latvia in order to grow its customer deposit base, as well as the growing recognition of its brand and products in Lithuania and Estonia. Citadele Group also relies on the ongoing success and growth of the American Express and other product brands it offers in the Baltic States (however see "*—Citadele Group will no longer be able to have American Express exclusivity in Latvia and Lithuania as a result of regulatory changes*"). Any event that has a detrimental impact upon the public perception of Citadele's brand, including, for example, any overly forceful debt collection techniques employed by debt collection companies to whom Citadele Group has sold certain of its non-performing loans, may, despite Citadele Group's best efforts to limit such impact, lead to significant damage to Citadele Group's business and reputation and may dissuade current and potential future customers from using Citadele Group's products or services, which may in turn have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows and may limit or prevent Citadele Group from successfully implementing its business strategy.

In 2014, the auction and eventual sale of Citadele's state-owned shares to a private consortium of co–investors led by RA Citadele Holdings, LLC (a wholly owned subsidiary of Ripplewood Advisors LLC) generated negative publicity within Latvia and the Baltic States. Since then several Latvian state authorities, including the Latvian Parliament, have conducted reviews of this sale and have made their conclusions about it. Latvian Parliament commissioned a report on this sale and it was published in December 2015. Furthermore, according to public information, the State Audit Office of Latvia has also reviewed the sale and has recently published its conclusions about it. Consequently, similar publicity may occur after the date of this Base Prospectus, and any such publicity, or negative association of Citadele Group with the "Parex" brand or with "Reverta", the distressed asset management company which kept the "Parex" non-performing loan portfolio, may harm Citadele Group's reputation and business and hamper Citadele Group's future growth potential in Latvia or the other Baltic States.

Changes in market interest rates may adversely affect Citadele Group's net interest income, net interest margin and profitability

In the financial periods under review in this Base Prospectus, Citadele Group has generally experienced declining market interest rates, and market interest rates remain low in most of the countries where Citadele Group operates, particularly in the Eurozone. Changes in market interest rates are influenced by a number of factors outside of Citadele Group's control, including the fiscal and monetary policies of governments and central banks, such as the ECB, and international political and economic conditions. Changes in market interest rates may change in ways that Citadele Group is unable to foresee, predict or adequately manage, and changes in market interest rates may have a disproportionate or different effect on Citadele Group relative to its competitors. Market interest rates, particularly in the Eurozone, and the trend in the change of such rates have a material impact on Citadele Group's interest income from its loan and securities portfolios. As at 30 June 2016, vast majority of Citadele Group's loan portfolio consists of floating rate loans, whilst majority of Citadele Group's securities portfolio consists of fixed rate instruments. Changes in market interest rates also have a material impact on Citadele Group's interest expense, particularly with respect to the interest rates it pays on its customer deposit base. Because Citadele Group derives the majority of its total income from net interest income, changes in market interest rates may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows.

An increase in market interest rates may increase the interest expense that Citadele Group is required to pay in order to maintain its customer deposit base, as well as the interest rates it pays to other creditors. In addition, an increase in market interest rates would have an immediate negative impact on Citadele's shareholder equity due to the revaluation of Citadele Group's available-for-sale securities portfolio, as well as a potential future negative impact on Citadele Group's income statement upon the sale of an affected security. The offsetting positive impact of increased interest income from Citadele Group's loan portfolio due to interest rate increases would not take effect for up to six months in the future for each relevant loan due to delays in interest rate changes on individual loans, which are typically tied to six-month EURIBOR rates. However, the greater the increase in interest rates on loans, the greater the risk that borrowers would be unable to keep up with their increased payments and that increased interest income would be offset by increased default and impairment rates on Citadele Group's loan portfolio. As a result, an increase in interest rates may reduce Citadele Group's net interest margin and may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows.

Citadele Group and its customers may be materially and adversely affected by events beyond its control having an impact on liquidity or access to funds

Citadele Group's business is subject to liquidity risk and may be materially and adversely affected by events beyond its control, including regional or global economic or macroeconomic events or events that cause harm to Citadele Group's reputation, including a significant and unexpected withdrawal of customer deposits. Such events often occur suddenly, and Citadele Group may not be able to foresee, predict or adequately manage the impact of such events. Any reduction in available liquidity for Citadele Group may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows.

The availability of credit to companies in the Baltic States is significantly influenced by the level of investor confidence in the Eurozone and surrounding regional markets and, as such, any factors that affect investor confidence (such as, for example, a downgrade in credit ratings, central bank or state interventions or debt restructurings in a relevant industry) could adversely affect the price or availability of funding for companies operating in any of these markets. In addition, central banks in key economies, such as the ECB in the Eurozone, may reduce the scale of their financial crisis bond and other asset purchases, as a result the liquidity may tighten. Any reduction in available liquidity for Citadele's customers may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows.

Citadele Group's risk management strategies, techniques and policies may fail to adequately identify and manage the risks that Citadele faces and the losses that could result from them

Although Citadele Group takes steps to manage the risks to which it is exposed, it may not have adequately identified the risks that it faces or the losses that could result from them. In addition, there may be other risks that Citadele Group has not yet identified, anticipated or been made aware of, and the impact of such risks, including any subsequent losses for Citadele Group, may be far greater than the impacts that Citadele Group has otherwise anticipated. The risk management systems adopted by Citadele Group may not be sufficient to protect it from the risks that it may face or the losses that it might incur now or in the future. Any change in Citadele Group's approach to risk management, including as a result of identifying new risks, may result in a higher impairment level for certain of Citadele Group's assets, which in turn may affect Citadele Group's profitability. Citadele Group calculates collective impairment losses based on the probability of default ("**PD**") for a given loan portfolio and the loss given default ratio ("**LGD**") for the loan portfolio, which describes the average credit loss incurred if an obligor in the loan portfolio defaults. To determine its PD and LGD estimates, Citadele Group employs a combination of statistical analyses including segment-specific statistics and management judgment. Any failure by Citadele Group to accurately assess or manage the risks or losses that it faces, or any change in the approach to risk management leading to higher impairments may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows.

Citadele may fail to correctly evaluate the credit risk and collateral value of its security

At the initial lending stage as well as during the life of a loan, Citadele Group's credit risk evaluation and collateral valuation models and processes may not accurately reflect the underlying risk of specific borrowers or the underlying value of their collateral, and the quality of Citadele Group's loan portfolio may deteriorate for reasons that are beyond its knowledge or control. Further, as at 30 June 2016, 30% of Citadele's loan portfolio was comprised of so-called "legacy loans", which Citadele received as part of the restructuring of Parex. Some of Citadele Group's legacy loans were issued on the basis of underwriting standards that were less stringent than those currently in effect at Citadele Group at the date of this Base Prospectus. In addition, the size of certain legacy loans may have increased since 2010 due to additional lending by Citadele Group following the acquisition of the legacy loan portfolio, although this additional lending has generally been made in accordance with Citadele Group's current underwriting standards. Citadele Group has experienced higher rates of impairment on its legacy loans than on its non-legacy loans, and its remaining legacy loan portfolio may continue to experience higher delinquency and impairment rates than its non-legacy loan portfolio. Any failure by Citadele Group to accurately assess the credit quality of its loan portfolio or the value or enforceability of its associated collateral may have a material adverse effect on Citadele's business, prospects, financial condition, results of operations or cash flows.

Citadele Group may be exposed to heightened credit risk by its lending to retail, SME and micro SME customers

Lending to retail, SME and micro SME customers generally carries a greater risk of credit exposure than lending to larger corporate customers. Loans to these customers are often more difficult to accurately price because these customers are generally less financially stable than larger corporate customers and generally have less available credit history. In particular, the financial condition of some of Citadele Group's retail, SME and micro SME customers is difficult to assess and predict, and some of these borrowers have no or very limited credit history. Financial instability within the Baltic States may affect these customers more significantly than it would larger corporate customers. In the case of wider regional or global financial instability (such as a renewed credit crisis or global recession), Citadele Group may suffer higher losses in connection with its retail, SME and micro SME loans due to the greater likelihood of SME or micro SME customers going out of business or retail customers suffering reduced income or becoming unemployed, which may lead to increases in overdue payments and reduce the ability of such customers to service their debts. Any failure by Citadele Group to accurately assess the credit risk and loan performance of its retail, SME and micro SME customers may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows.

Citadele Group's loan portfolio is concentrated on certain borrowers and certain sectors of the Latvian economy

Citadele Group's loan portfolio currently has substantial credit exposure to the manufacturing and real estate investment and management sectors in Latvia. As at 30 June 2016, the manufacturing sector constituted 17%, and the real estate investment and management sector 22%, of Citadele Group's total loan portfolio to customers other than private individuals. In the event of economic developments adversely affecting Citadele Group's customers in those sectors, or those sectors more generally, or if any such customers were to move or reduce their business with Citadele Group or were to experience financial difficulties or other difficulties servicing their loan obligations, the performance of Citadele Group's loan portfolio may be materially and adversely affected, which may in turn have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows.

Citadele Group may not have accurately determined impairment levels for its loan portfolio

As at 30 June 2016, Citadele Group's impairment allowance for loans and receivables from customers was EUR 91.7 million, and the ratio of Citadele's impairment allowance for loans and receivables from customers to total gross loans and receivables from customers was 6.9% The estimation of impairment levels is inherently uncertain and dependent upon many factors, such as historical loan performance, future economic conditions, the trading performance or future cash flows of the borrower and the value of the underlying collateral, for which there may not be a readily accessible market. Citadele Group relies substantially on management's judgment when determining estimated impairment allowances. Citadele Group may not have accurately identified impaired loans or estimated the scope of loan impairments across its loan portfolio, which may result in Citadele Group's loan portfolio performing significantly below Citadele Group's expectations. Actual credit losses may materially differ from reported impairment levels due to a number of factors, including factors that are inherently uncertain, such as international and local economic conditions, borrower specific factors, industry and market trends, interest rates, unemployment rates and other external factors. Any failure by Citadele Group to accurately determine the impairment levels of its loan portfolio may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows.

In 2015, Citadele Group's collectively assessed impairment increased by EUR 1.4 million from EUR 6.5 million in 2014, primarily due to an increase in the PD estimates for certain loans and an overall growth of loan portfolio. In 2014, Citadele Group's collectively assessed impairment increased by EUR 6.5 million, from EUR 3.4 million in 2013, primarily due to an increase in LGD for loans backed by real estate collateral and an increase in the PD estimates for certain not overdue loans. Any failure by Citadele Group to accurately assess or manage the risks or losses that it faces, or any change in the approach to risk management leading to higher impairments, may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows.

Collateral values, and particularly the value of residential real estate, may decline, which may materially and adversely affect Citadele Group's loan portfolio and collateral base

The main forms of collateral taken by Citadele Group in its lending to SME and corporate borrowers are charges in real estate and other business assets. Citadele Group also provides residential mortgages to retail borrowers in Latvia, Lithuania and Estonia, the collateral of which is charges over residential real estate. As at 30 June 2016, 18% of Citadele Group's loan portfolio comprised loans with a loan-to-value ratio of greater than 100% and unsecured loans.

Downturns in the secondary markets for such collateral or a general deterioration of economic conditions, such as that which occurred during the global financial crisis in 2008 and 2009, may result in illiquidity and a decline in the value of the collateral securing Citadele Group's loans, including a decline to levels below the outstanding principal balance of those loans. Citadele Group's loan portfolio and collateral base are particularly exposed to changes in residential real estate prices in Latvia and Lithuania, as any significant decline in the prices of residential real estate may be accompanied by an increased risk of mortgagors defaulting on their mortgage payments because declining residential real estate prices would likely be caused by adverse economic developments which would also affect the ability of Citadele Group's customers to satisfy their loan repayment obligations. In addition, in relatively small markets, such as those of the Baltic States, there is a risk that increased sales of real estate collateral may result in decreased prices of real estate, in which case sales of collateral may not be an effective way to recover losses on defaulted loans. For more information in relation to the valuation of collateral, please see the section entitled "*Citadele Group —Asset, Liability and Risk Management*" of this Base Prospectus.

Declining or unstable prices of collateral in the Baltic States may make it difficult for Citadele Group to accurately value the collateral held by it. The value of any collateral ultimately realised by Citadele Group will depend on the value Citadele Group is able to realise upon enforcement, which may be different from the current or estimated value. If the value of the collateral held by Citadele Group declines significantly in the future, Citadele Group could be required to take additional impairment charges and could experience lower than expected recovery levels on collateralised loans. Any change in the value of collateral held by Citadele Group and any failure by Citadele Group to accurately value that collateral may have a material adverse effect on Citadele Group's loan portfolio and on Citadele Group's business, prospects, financial condition, results of operations or cash flows.

Citadele Group may be unable to enforce its security in a timely manner or at all over collateral held outside of the EU

Citadele Group's operations extend beyond Latvia, with subsidiaries in Switzerland and Lithuania, a branch in Estonia, and representative offices in Ukraine, Kazakhstan, Belarus and Russia. Citadele Group holds collateral or other security over assets in all these jurisdictions (except Kazakhstan and Belarus) and also in Azerbaijan, as well as movable collateral, such as aircraft, in connection with its provision of loans, mortgages or other banking operations. In addition, while Citadele Group's current policy is not to accept collateral outside of the EU for new loans provided to customers, some of the legacy loans it received as part of the restructuring of Parex are secured by collateral held outside the EU. As at 30 June 2016, insignificant part of Citadele Group's loan portfolio was secured by collateral held outside the EU, which was composed of loans within Citadele Group's legacy loan portfolio.

The enforcement of security over assets located outside the EU is generally more difficult, more time consuming and more expensive than it is within the EU, and may be subject to different requirements and restrictions than inside the EU. Citadele Group may not be able to enforce security over collateral held outside the EU in a timely fashion or at all, particularly collateral held in certain former CIS countries where the political and legal landscape is less stable or certain, and any difficulty or failure in enforcing its collateral may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows.

Citadele Group's securities portfolio is concentrated in Latvian and Lithuanian government bonds and its value may decrease

As at 30 June 2016, 25% and 6% of Citadele Group's securities portfolio consisted of Latvian and Lithuanian government bonds, respectively. As a result of this concentration, Citadele Group's securities portfolio is particularly exposed to any default by the Latvian or Lithuanian states, including certain of its branches, departments and local municipalities. In addition, the default of a government of another Member State of the EU would also likely have a significant impact on the fiscal and political situation of the EU and the economic performance of the Eurozone, which may have a significant impact on Citadele Group's fixed income portfolio.

Similarly, any credit default by any other country to which Citadele Group has a direct credit exposure may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows.

While the majority of the securities in Citadele Group's securities portfolio have investment-grade credit ratings, such securities may fall in value or become less liquid as a result of the financial performance of their respective issuers, downgrade or loss of its credit rating or as a result of market conditions in general. Although Citadele Group assesses the fair value of its securities portfolio through the use of valuation techniques, including quoted market prices, observable market data and other data, there can be no assurance that the fair values that Citadele Group determines for its securities portfolio accurately reflect the underlying value of such instruments. In addition, the fair values of Citadele Group's securities portfolio may change rapidly and unexpectedly based on movements in markets to which Citadele Group's securities portfolio is exposed, even if Citadele Group believes that the underlying value of the securities has not changed. Any decrease in the value, liquidity or fair values of Citadele Group's securities portfolio may require Citadele Group to acquire additional sources of liquidity or capital and may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows.

Citadele Group is reliant on its network of branch offices in key locations

Citadele believes that its ability to maintain a physical presence in key locations across its operating jurisdictions through its network of branch offices, including branch offices in key shopping centres and other consumer outlets, is crucial to the successful implementation of Citadele Group's business strategy. Whilst the closure of individual branch offices on an occasional basis would be unlikely to have a material effect on Citadele Group, if a number of Citadele Group's key branch offices were forced to close within a short timeframe, or lease agreements for such branch offices were terminated or not extended, this may cause delays in Citadele Group's ability to service its customers in these areas and may negatively affect the Citadele brand or perception of Citadele Group in relation to its competitors. Such delay would be likely to persist until alternative suitable branch office locations could be found. As a result, Citadele Group may suffer negative publicity, a reduction in new customers or a loss of existing customers, which may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows, and may limit Citadele's ability to implement its business strategy.

Citadele Group is subject to operational risks, including in particular those arising from fraud or misconduct of its employees or customers

Citadele Group is exposed to the risk of fraud committed by its customers, as well as fraud or misconduct committed by employees. Such fraud or misconduct may arise or persist as a result of the failure or inadequacy of Citadele Group's risk management or corporate governance procedures or the failure of third party outsourcing contractors to identify or prevent such fraud or misconduct.

The scope of the operational risks associated with Citadele Group's employees is broad and may include risks that Citadele Group is unable to identify or mitigate in advance. Such risks include the risk of financial losses resulting from employees' lack of knowledge, appropriate training or violation of laws, rules and regulations or any other misconduct or fraudulent behaviour. Misconduct and fraud have been seen across the global financial services industry and could involve conduct such as, but not limited to, the improper use or disclosure of confidential information or the violation of laws and regulations concerning financial abuse and money laundering. The occurrence of any type of misconduct or fraud could result in penalties or sanctions being levied against Citadele Group, in addition to the risk that Citadele Group may suffer serious reputational or commercial harm as a result. In addition, there is a risk that key security and transaction documents held by Citadele, including title deeds for secured property, personal guarantees and fully executed transaction documents may be lost, misplaced or destroyed (notwithstanding Citadele Group's best efforts to prevent this). Any such documents that are lost or destroyed would reduce Citadele's ability to enforce its security or its rights against the relevant counterparty in the relevant court. The measures that Citadele Group has taken to prevent fraud or misconduct by its employees may not always be successful, and Citadele has from time to time encountered isolated incidents of employee misconduct, including in relation to fraud and recklessness by individual employees. In particular, although Citadele Group has recently upgraded its whistle blowing policy, it may not be effective in helping Citadele Group identify and prevent employee misconduct. Any violation of Citadele Group's internal risk management procedures, monitoring systems for foreign exchange transactions and control procedures on bond limits could also result in Citadele Group inadvertently entering into binding transactions that exceed authorised limits. Such events may result in unknown and unmanageable losses. In addition, in the ordinary course of its business, Citadele Group processes a number of transactions manually and in many instances cash transactions do not comply with the four eyes principle (whereby the final performance of a transaction or operation must be approved by at least two independent employees or structural units), which may further increase the risk that human error, employee tampering or manipulation will result in significant losses that may be difficult to detect. There is also a risk that human error may result in data being lost, IT systems downtime being increased, or security for Citadele Group being compromised. Additionally, Citadele Group has a cash collection service and there remain ongoing risks that its employees or contractors involved in carrying out such cash collection could suffer harm or damage and the relevant cash being transported may be lost. The occurrence of fraud or misconduct by Citadele Group's employees may have a material adverse effect on Citadele Group's business, reputation, prospects, financial condition, results of operations or cash flows.

In connection with its private capital management operations, Citadele Group has two outsourcing agreements in place in relation to the operation of customer identification procedures. Any deficiencies in the checks performed by these third parties may expose Citadele Group to reputational and money laundering risks if banking services are provided to customers who do not meet Citadele Group's eligibility criteria, and may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows.

Citadele Group or its customers may face restrictions on their business as a result of international sanctions on Russian persons and entities or regional geopolitical pressures

Russia remains a sizeable trading partner to Latvia. According to the Investment and Development Agency of Latvia, it accounted for 8% of Latvian exports for the 12 months ended 31 December 2015. Latvia is, therefore, particularly vulnerable to a slowdown in the Russian economy, the imposition of trade restrictions or other sanctions related to Russia and a weakening Rouble. International sanctions imposed by the United States and the EU on Russia and Russian persons and businesses in response to Russia's alleged support of separatist rebels in eastern Ukraine have recently been extended to include specific sectors within the Russian economy. Russia's response has included the placing of an extensive embargo on particular imports from the United States and the EU. Such increases in sanctions and retaliatory responses from Russia may halt or reduce the speed of the EU's economic recovery and may in particular impact upon the stability of international trade between Russia and Latvia and the other Baltic States. Any increases in these restrictions upon trade may have a material impact upon the financial stability of Russia, Ukraine and surrounding countries, including the Baltic States. The Baltic States are also net energy importers and rely to a significant extent on energy imports from Russia. Any impact on the Baltic States' ability to import oil and gas from Russia as a result of sanctions or deteriorations in trade relations between Russia and the EU may have an impact on the Baltic States' energy security, which in turn could have an impact on their economic growth. The ability of Citadele Group's customers to repay amounts due to Citadele Group may also be affected by such customers' exposure to the Russian market. Whilst, at the date of this Base Prospectus, Citadele Group has experienced only limited effects of sanctions applicable to certain sectors (such as agriculture), a number of loan exposures have had to be restructured as a result of these sanctions. Citadele Group has from time to time engaged, and may continue to engage, directly and indirectly in business with Russian persons and businesses in ways that Citadele Group believes comply with all applicable international sanction regimes and has ceased certain activities with certain banks as a consequence of such sanctions. Citadele Group's failure to monitor its customers' sanctions status or to comply with any applicable sanctions regimes, or any change in international sanctions or national or regional geopolitical pressures, may subject Citadele Group to significant fines, additional sanctions and harm its reputation, any of which may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows.

As at the date of this Base Prospectus, Citadele Group is in the process of winding up its asset management subsidiary operating in Ukraine, which holds a real-estate based portfolio of investments. Following the financial crisis in 2008-2009, and subsequent civil unrest in the country, the value of Ukrainian real estate has reduced substantially, and as a result, the value of the portfolio has materially reduced. Citadele Group may therefore face claims from investors who may suffer losses as a result of the reduction in value of the assets held by the subsidiary. Moreover, any withdrawal from Ukraine at a time when the civil unrest in that country is continuing may be met with negative publicity and may cause reputational damage for Citadele Group, either of which may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows.

In addition, whilst the Baltic States are all members of the North Atlantic Treaty Organization ("**NATO**"), which imposes obligations for collective defence amongst its members, Russia's recent intervention in Ukraine and the ensuing military escalation have raised fears about the nature of Russia's ambitions towards the region and the stability of the current geopolitical situation. As the home to the largest Russian minority population amongst the Baltic States, Latvia may be particularly vulnerable to the threat of both external military intervention and internal unrest, either of which could result in significant economic and political disruption which may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows. See also "*—Catastrophic or unforeseen events such as acts of war, acts of terrorism, pandemic diseases or other geopolitical events may have a material adverse effect on Citadele Group*".

Citadele Group faces risks in relation to its international deposit book

Citadele Group has a number of international depositor customers which are not resident in Latvia, particularly in connection with its private capital management business. Although Citadele Group has put in place policies and procedures to ensure sufficient checks are carried out on all customers, both Latvian and international, servicing such international depositor customers may expose Citadele Group to a greater risk of reputational, regulatory and legal harm—including, but not limited to, the imposition of fines or other penalties—due to the heightened risk of money laundering, tax avoidance or tax evasion associated with such customers and the risk that Citadele Group's checks fail or are otherwise inadequate to detect or prevent such activities. In addition, because these international depositors are concentrated in Russia or other CIS countries, in the event of an intensification of the ongoing conflict in Ukraine and corresponding EU or U.S. sanctions, or an escalation of the trade disputes between Russia and the EU, these international depositors may be forced, or may seek, to withdraw their deposits from Citadele, which may in turn trigger additional withdrawals of resident or non-resident deposits. Any reputational harm to Citadele Group resulting from its international depositors, or outflows from its international depositor book, may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows.

Citadele Group may be forced to rebrand itself or certain of its subsidiaries in certain markets, which may limit its ability to compete in those markets

Citadele has entered into an IP coexistence agreement with a third party in relation to the use of the "Citadele" name in the Baltic States, which limits Citadele Group's ability to use and expand the "Citadele" brand within the EU beyond the Baltic States. Notwithstanding this co-existence agreement, Citadele may be required to rebrand itself or certain of its subsidiaries if the use of its brand in certain markets is successfully challenged by such third party or other third parties. Citadele may also elect to rebrand itself or certain of its subsidiaries in order to avoid costly and time-consuming challenges to the use of its brand. For example, Citadele Group has already rebranded its asset management business due to the IP coexistence agreement with the third party as "IPAS CBL Asset Management" in order to avoid potential challenges to its use of its brand in the Baltic States. In addition, use of the "Citadele" brand in the Baltic States by other companies may adversely affect the perception of Citadele Group's brand by associating Citadele Group's operations with any harmful actions or loss of reputation associated with such other companies.

If Citadele Group rebrands its businesses in certain markets, it may not be able to transfer the public trust, reputation or goodwill that it has established under the "Citadele" brand to the new brand, which may limit Citadele Group's ability to successfully compete in those markets and may have a material adverse effect on Citadele's business, prospects, financial condition, results of operations or cash flows.

Citadele Group will no longer be able to have American Express exclusivity in Latvia and Lithuania as a result of regulatory changes

As a result of the introduction of Regulation (EU) 2015/751 on interchange fees for card-based payment transactions, interchange fees in the EU are reduced. In addition, exclusivity arrangements such as that which currently enable Citadele Group to exclusively issue American Express cards in Latvia and Lithuania are no longer permissible within the EU from 9 December 2015. Due to the loss of American Express exclusivity, Citadele Group's current legal arrangements with American Express in Latvia and Lithuania will be in force until

July 2018. Any changes to the existing arrangements or any decrease in the number of customers obtaining American Express cards from Citadele Group or using Citadele's American Express cards may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows. See section entitled „*Business Description —Material Agreements —American Express Independent Operator Agreement*" for more information.

Citadele Group is exposed to correspondent account risk

Citadele Group is exposed to certain concentration risks in relation to its use of correspondent bank accounts for certain currencies, particularly U.S. dollars, which may adversely affect its operations. In 2016, Deutsche Bank Trust Company Americas ("**DBTCA**") announced the closure of correspondent accounts for a number of credit institutions operating in Latvia and Estonia. Citadele Group, however, is still able to continue to provide U.S. dollar payment services to its customers through DBTCA, and, to a more limited extent, Raiffeisen Bank International, which as of the date of this Base Prospectus are the only providers of U.S. dollar correspondent account services to Citadele Group. However, if DBTCA and/or Raiffeisen Bank International elect to withdraw entirely from the Baltic States and Citadele Group fails to open U.S. dollar correspondent accounts with other banks, Citadele Group may experience difficulties in processing customer payments in U.S. dollars. In particular, these difficulties may affect Citadele Group's private capital management and corporate segments if customers perceive that Citadele is no longer able to offer a full spectrum of banking services, including the ability to process payments in key currencies such as U.S. dollars. Any such development may result in loss of majority of fee income from payment transfers as well as part of fees from custody and brokerage services that may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows.

Citadele and the Baltic States may not be able to maintain their credit ratings

Citadele's credit ratings are subject to change at any time and could be downgraded as a result of many factors, including unsatisfactory financial results, the failure of Citadele Group to successfully implement its strategy or general downgrading of the credit ratings of financial institutions in the Latvian banking sector. Furthermore, there is no assurance that Citadele or the Baltic States will be able to maintain their credit ratings, and any deterioration in the general economic environment in, or credit ratings of, the Baltic States or in Citadele Group's financial condition could cause downgrades which could adversely affect Citadele's liquidity and competitive position, undermine confidence in Citadele Group, increase its borrowing costs and limit its access to capital markets in the future. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Credit ratings are not a guarantee of Citadele Group's future performance. Any change in the credit ratings of Citadele or the Baltic States may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows.

Citadele Group's operations expose it to foreign exchange risk and risks associated with the use of hedging products

While the majority of Citadele Group's product offerings and transactions are denominated in Euro, it does provide products in other currencies, including U.S. dollars and, to a lesser extent, the Swiss Franc. Although Citadele Group currently uses hedging products to protect itself against currency exchange rate fluctuations, the effect of such products is to transform the nature of the risk from exchange rate risk to counterparty credit and interest rate risk. The credit quality of such counterparties may be affected by matters beyond the control of Citadele Group, and Citadele Group's hedging products may not protect it from all foreign exchange risk. Furthermore, exchange rate fluctuations could impact Citadele Group's financial results due to the fact that its financial results are reported in EUR. Any failure by Citadele Group to manage changes in foreign exchange rates, particularly if such changes are sudden or unforeseen, may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows.

Citadele Group faces risks associated with its pension fund operations

Citadele Group offers a number of pension products to its customers, including funds for discretionary personal contributions ("**Pillar III pensions**"), as well as contributions made by the Latvian State from income tax contributions made by customers ("**Pillar II pensions**"), which make up 5% and 48%, respectively, of Citadele Group's total assets under management as at 30 June 2016. If Citadele Group suffers reputational harm or the performance of Citadele Group's pension products is materially worse than that of its competitors in a given period, this may result in a significant number of customers withdrawing their pension fund assets from Citadele Group and moving them to a competitor. Any decrease in the number of pension funds or in the amount deposited in those funds may have a detrimental effect on Citadele Group's commission and fee income, or result in the revocation of licences by the relevant regulators, if Citadele fails to meet capital adequacy requirements, which may in turn have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows.

Citadele Group faces risks associated with its life insurance operations

Citadele Group provides life insurance products to its customers, the underlying economics of which are based on a number of assumptions relating to the timing and scale of potential claims. If Citadele Group's assumptions prove to be inaccurate or incorrect, Citadele Group may face increased exposure under such policies, including the risk of increased or accelerated liability. Any increase or accelerated liability, or enhanced regulatory oversight, may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows.

Citadele Group may not be able to successfully maintain or upgrade its information technology systems and security

Citadele Group relies heavily on its information technology ("**IT**") systems and security to conduct its business and protect its data. Whilst Citadele Group has invested substantial resources in upgrading its IT systems and security, Citadele Group may not be able to successfully maintain or upgrade its IT systems or security, resulting in performance or security issues, including in relation to payment card limits on ATM transactions, unauthorised account overdrafts, OFAC sanctions filters or improper use of personal data. In addition, any maintenance and upgrade programme may be more expensive or more time-consuming than Citadele Group anticipates. Failure to maintain Citadele Group's existing IT systems may place Citadele Group at a competitive disadvantage relative to competing banks and other financial organisations in the Baltic States, may adversely affect the confidence Citadele Group's customers have in its IT systems and may limit Citadele Group's ability to attract and retain new customers or customer deposits, any of which may in turn have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows.

Any disruption in the functionality or data integrity of Citadele Group's IT systems may impair Citadele Group's decision-making and risk management procedures and business activities and result in additional costs or losses. Citadele Group has from time to time experienced unauthorised transactions as a result of external fraud or inadequacies in its IT systems, and may experience losses in the future from any failure of its controls to detect or contain any future operational risk. Citadele Group's IT systems may also be disrupted by factors beyond its control, such as faults arising from cables or connections upon which Citadele Group's systems are reliant or as a result of attempts by third parties to breach Citadele Group's IT security and infiltrate its IT networks or otherwise adversely affect its online operations, data or functionality, for example, by way of hacking, viruses, malware, denial-of-service attacks and other wrongdoing. In particular, Citadele Group and its clients may be vulnerable to cyber-attacks or other acts of a malicious nature which may compromise the security of its servers, data and systems and disrupt the flow of funds to and from the bank. For example, in October 2015, Citadele Group was the target of a denial-of-service attack launched by a well known cyber-criminal organisation which led to a minor temporary downtime of Citadele Group's systems. Citadele Group also relies upon third-parties for the performance of certain outsourced activities and these third-parties, their employees and their IT systems may fail to perform adequately or may be vulnerable to cyber-attacks which may also compromise the IT security, customer data protection and operations of Citadele Group.

Although Citadele Group has backup and disaster recovery systems in place, if Citadele Group's IT systems fail, whether for a short period of time or due to a longer outage, such as following the occurrence of a natural disaster or other reason, Citadele Group may be unable to continue to serve its customers' needs at the level they are accustomed to or at all. Such failures or shutdowns, whether extended or momentary, may result in Citadele Group incurring substantial additional costs and may result in the loss of a substantial number of Citadele Group's customers. In addition, IT systems failures may result in reputational damage to Citadele Group if customers perceive that Citadele Group's IT systems are less secure or less reliable than those of its competitors. Any failures of Citadele Group's IT systems or outsourced IT systems may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows.

Citadele Group's ongoing success depends on its senior management team and its ability to recruit and retain key personnel

To meet commercial challenges and maintain effective operations, Citadele Group must recruit and retain appropriately skilled individuals. Citadele Group's senior management team contributes significant expertise in, and experience with, the industries within which Citadele Group operates, and has allowed Citadele Group to maintain and develop business with many of its key corporate and high net worth customers. Implementation of Citadele Group's business strategy by its senior management may distract senior management from the day-to-day operation of Citadele Group's business and may result in their inability to devote sufficient attention to maintaining and improving these client relationships. Citadele Group is reliant upon its senior management team for the implementation of its business strategy and its day-to-day operational activities, and any change or disruption in the senior management team may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows.

Citadele Group's ability to continue to attract, retain and motivate qualified and experienced banking and management personnel is vital to its business. Attracting and retaining highly professional and motivated employees has been challenging at all times. Citadele Group closely monitors the market in terms of pay to ensure employees are adequately remunerated, but there is ongoing competition for talent. Given the shortage of skilled labour in the Baltic States and the resulting competition and increased salary pressure for skilled labour, Citadele Group may be unable to retain existing personnel or hire new qualified personnel, and Citadele Group may be required to further increase salaries and other benefits offered to experienced banking and management staff, which would increase Citadele Group's personnel costs. Any failure by Citadele Group to retain experienced personnel or hire new qualified personnel (and, particularly, in specialist roles such as IT and legal) may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows.

Citadele Group may be subject to litigation, administrative proceedings or other proceedings

Citadele Group may be subject to litigation by its customers, employees, shareholders or other persons through private actions, administrative proceedings, regulatory actions or other litigation. Whilst Citadele Group has from time to time been subject to litigation, the outcome of litigation or similar proceedings or actions is difficult to assess or quantify. Claimants in these types of actions against Citadele Group may, in particular, seek recovery of large or indeterminate amounts or other remedies, or challenge the actions taken or resolutions adopted by Citadele Group's Management and Supervisory Boards and the GMS, which may affect Citadele Group's ability to conduct its business, and the magnitude of the potential losses relating to such actions may remain unknown for substantial periods of time. The cost of defending future actions may be significant. There may also be adverse publicity associated with litigation that could negatively affect the reputation of Citadele Group, regardless of whether the allegations are valid or whether Citadele Group is ultimately found liable. The occurrence of any litigation or similar proceedings or actions may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows.

Catastrophic or unforeseen events such as acts of war, acts of terrorism, pandemic diseases or other geopolitical events may have a material adverse effect on Citadele Group

Catastrophic or unforeseen events, such as acts of war, acts of terrorism, pandemic diseases or other geopolitical events, including the recent refugee crisis in Europe, and the subsequent responses to such events, may cause socio-economic and political uncertainties which may have a negative effect on the economic conditions in the countries where Citadele Group operates and could result in substantial losses being suffered by Citadele Group. Such events and the losses which may result are difficult to foresee and may relate to property, financial assets, trading positions or key employees. If Citadele Group's business continuity plans do not fully address such events or cannot be adequately implemented, such losses may increase. Unforeseen events may also lead to additional operating costs, such as higher insurance premiums. Insurance coverage for certain catastrophic or unforeseen events may also be unavailable or excluded from existing policies held by Citadele Group, and thus increase the risk to which Citadele Group is exposed. The occurrence of any catastrophic or unforeseen events may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows.

Citadele Group's insurance policies may not cover particular future losses

Whilst Citadele Group believes that the insurance policies presently held by Citadele Group to cover its assets and operations are in line with general market practice in Latvia, there is no guarantee that Citadele Group's insurance adequately covers every possible future loss, or that currently implemented insurance limits will be sufficient to cover losses as they occur. Any loss which is not covered by Citadele Group's existing insurance policies may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows, and even if covered, may result in increased insurance costs or difficulties in acquiring insurance in the future for Citadele Group.

Citadele may be subject to bail-in under the BRRD and other applicable rules

The Bank Recovery and Resolution Directive No 2014/59/EU (the "**BRRD**") provides for resolution authorities to have the power to require credit institutions that meet applicable conditions for resolution to make structural or organizational changes to ensure legal and operational separation of "critical functions'" which are necessary for the functioning of the real economy of one or more Member States of the EU, from other functions, where necessary, to ensure the survival of such functions, or to require financial institutions to limit or cease existing or proposed activities in certain circumstances. The Latvian Credit Institutions and Investment Firm Recovery and Resolution Law (the "**CIIFRR Law**"), implementing the BRRD, entered into force on 16 July 2015.

The FCMC has been designated as the Latvian resolution authority that is empowered to apply the resolution tools and exercise resolution powers. Each credit institution, including Citadele, is required to develop a recovery plan which is subject to approval by the FCMC and shall undergo annual updates. The content and scope of the information to be included in the recovery plan, as well as the procedure for submission of the recovery plan, are established by the Latvian resolution authority.

According to the BRRD, the resolution authority is empowered to impose a range of early intervention measures, provided that (i) the credit institution infringes or is likely in the near future to infringe the requirements of the Latvian Credit Institutions Law, the Latvian Financial Instruments Market Law, the regulations adopted by the resolution authority or any of the directly applicable EU directives or regulations and (ii) the financial condition of the credit institution rapidly deteriorates (including deterioration in liquidity situation, increasing level of leverage, non-performing loans or concentration of exposures, as may be assessed by applying various qualifying triggers). The early intervention measures include implementation of one or more of the arrangements or measures set out in the recovery plan, requirement that the management body of the credit institution examines the situation, identifies measures to overcome the problem, convening a meeting of shareholders, setting the agenda of the meeting and requirement that certain decisions be considered at the meeting for adoption, replacement and/or removal of members of the management bodies or senior management if those persons are found unfit to perform their duties, requirement that the management body of the credit institution draws up a plan for negotiation on restructuring of debt with the creditors, requirement of changes to business strategy, requirement of changes to the legal or operational structure of the credit institution, acquisition and provision to the resolution authority of all information necessary to update the resolution plan and prepare for the possible resolution of the credit institution and valuation of its assets and liabilities.

In addition to early intervention measures, in the event of significant deterioration in the financial situation of the credit institution or serious administrative irregularities, or if the early intervention measures prove to be inefficient to reverse the deterioration, the resolution authority is empowered to require the removal of the entire senior management or management body of the credit institution, or some of its members, or may appoint one or more temporary administrators.

Under applicable rules of the CIIFRR Law, it is the duty of the FCMC, the Latvian resolution authority to come up with a resolution plan outlining resolution actions and implementation measures. The various tools that may be selected by the resolution authority include sale of business, establishment of provisional ("bridge") institutions, divestiture of specific assets (which can be applied in combination with some other tool only), and internal recapitalization ("bail-in" tool), which can be used for the attainment of relief in the circumstances where the financial condition of the credit institution is rapidly deteriorating. The conditions for the use of bail-in power are as follows: (i) in the determination of the resolution authority, the credit institution is failing or is likely to fail, (ii) there is no reasonable prospect that any alternative private sector measures would prevent the failure of the institution within a reasonable timeframe; and (iii) the relevant resolution action is necessary in the public interest to the extent necessary for the achievement of and is proportionate to the objectives such as ensuring the continuity of critical functions, avoidance of significant adverse effect on the financial system, protection of public funds by minimising reliance on extraordinary public financial support, to protect depositors or to protect client funds and client assets.

In accordance with the BRRD and the CIIFRR Law, the bail-in tool is a mechanism for effecting the exercise by a resolution authority of the write-down and conversion powers in relation to liabilities of the credit institution. The resolution authority may apply the bail-in tool for the purpose of, *inter alia*, conversion into equity or reduction in the principal amount of Bonds that are transferred to a bridge institution (i.e., a legal person that is wholly or partially owned by one of more public authorities and is created for the purpose of receiving and holding some or all of the shares or other instruments of ownership issued by a credit institution under resolution or some or all of the assets, rights and liabilities of one or more institutions under resolution) with a view to providing capital for that bridge institution or under the sale of business tool or the asset divestiture tool.

Specifically, the resolution authority has the power to cancel all or a portion of the principal amount of, or interest on, certain unsecured liabilities (which may include the Bonds) of a failing credit institution and/or to convert certain debt claims (which may include the Bonds) into another security, including ordinary shares of the credit institution, if any. Whenever decision is adopted by the resolution authority to reduce the principal amount or outstanding amount due on debt instruments such as the Bonds, conversion or cancellation of debt instruments, such decision becomes immediately binding on the institution under resolution and affected creditors and shareholders.

The applicable regime seeks to ensure that shareholders of the credit institution bear the losses first, while creditors bear losses after the shareholders (i.e., enjoy a privileged status compared to shareholders) in accordance with the order of priority of claims to which shareholders and creditors are entitled under the ordinary rules of insolvency proceedings, and that adequate resources are maintained for resolution financing. It should be noted, further, that under applicable rules of the BRRD and the CIIFRR Law, in exceptional circumstances, the resolution authority may exclude or partially exclude certain liabilities, such as, for example, liability under the Bonds, from the application of write-down or conversion where: (i) it is not possible to bail-in the specific liability, such as liability under the Bonds, within a reasonable time, (ii) the exclusion is strictly necessary and is proportionate to achieve the continuity of critical functions and core business lines in a manner that maintains the ability of the credit institution to continue key operations, (iii) the exclusion is strictly necessary and proportionate to avoid giving rise to widespread contagion, or (iv) the application of the bail-in tool to the liability, such as liability under the Bonds, would cause a destruction in value such that the losses borne by other creditors would be higher than if those liabilities were excluded from the bail-in. In the instances involving conversion of debt instruments, such as the Bonds, to equity, the resolution authority shall exercise its powers in a manner ensuring that the conversion rate represents appropriate compensation to the affected debt holders for any loss incurred by virtue of the exercise of the write down and conversion powers.

The exercise of any bail-in power or any proposal of such exercise could materially adversely affect the value of any Bonds and cause the value of investments into the Bonds to deteriorate.

5.3. Regulatory, Political and Tax Risks

The legal and judicial systems in some of the markets in which Citadele Group operates have less experience in certain areas of law than those of western European countries

The legal and judicial systems in some of the markets in which Citadele Group operates have less experience in certain areas of law than those of western European countries. Whilst the Baltic States have sought to implement all relevant provisions of European Union law (including directives), there remains a portion of their respective commercial law, competition law, securities law, anti-bribery law, personal data protection law, consumer rights protection law, company law, bankruptcy and insolvency law and other areas of law which have not been aligned to European Union law and which are relatively new to, or have not been as extensively developed or interpreted by, local judges and regulators as compared to western European countries. The interpretation of Latvian, Lithuanian and Estonian laws and regulations may, in some cases, be unclear at times, and related legal provisions in these jurisdictions (as in many other European jurisdictions since the 2008 financial crisis in particular) have been and continue to be subject to ongoing and, at times, unpredictable changes, and changes unfavourable to Citadele Group may be introduced, any of which may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows.

The relatively limited experience of a significant number of judges practicing in these markets, specifically with regard to the interpretation and applicability of capital markets and competition law issues, may lead to unexpected decisions or results. It may not be possible, in certain circumstances, to obtain effective legal remedies in a timely manner in these countries. The enforcement of judgments, in particular from jurisdictions outside the EU, may also prove difficult, especially where the enforcement of such judgments may lead to business closures or job losses. This lack of legal certainty may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows and may also make it difficult for an investor to address any claims they might have.

The Latvian Commercial Law, as well as laws relating to financial instruments and competition, were adopted within the last 15 years and most have been the subject of frequent amendment. For these reasons, there is little settled case law from the Latvian courts on these matters, including with regard to the rules on shares and shareholder rights. In addition, court proceedings in Latvia may be lengthier than in other EU countries and, consequently, investors may encounter difficulties in achieving foreseeable, fast and effective protection of their interests through the Latvian courts. Although Latvian Competition Law is in line with EU competition law, the practice of the Latvian Competition Council regarding the application of EU and Latvian laws and regulations is still evolving. The Latvian courts do not have extensive experience in dealing with competition law matters and, therefore, may exercise formal or limited reviews of the Competition Council's activities. Any of these aspects may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows.

Citadele Group faces risks associated with taxation and changes in taxation legislation

Future actions by governments (whether in Latvia or elsewhere) or relevant European bodies to increase tax rates or to impose additional taxes could reduce Citadele Group's profitability. The interpretation of Latvian, Lithuanian and Estonian tax laws and regulations may be unclear and may change and changes unfavourable to Citadele may be introduced, any of which may have a material adverse effect on Citadele's business, prospects, financial condition, results of operations or cash flows.

Legal entities in general (including financial institutions) that are tax resident in Latvia (or which are otherwise liable to Latvian tax), are required to pay certain taxes in Latvia which are typical of the taxes applicable in EU member states. Citadele Group is subject to, or responsible for, a number of taxes in Latvia, including value added tax, social security contributions, personal income tax (to the extent it is withheld at source as payroll tax or withholding tax applicable to other sources of income of private individuals), corporate income tax, real estate tax, vehicle operation tax and company car tax, as well as other taxes specified in international agreements ratified by the Latvian Parliament from time to time. The tax policy of governments (including Latvia, the other Baltic States or elsewhere) may change in a manner which may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows.

Anticipated revisions to tax legislation or to its interpretation may affect Citadele Group's financial condition in the future. In particular, current Latvian and Lithuanian tax legislation allows for an indefinite carry forward of operating losses as deferred tax assets in Latvia for losses suffered after 2007, while in Lithuania without time frame. In Lithuania reduction of taxable profit by accumulated tax losses is limited to 70% of the taxable profit for the current year. Currently in Latvia there are proposed changes to limit the reduction of tax losses to 75% of the taxable profit of the current year as from 1 January 2017, contrary to the current regulation with no limitations. If this proposition were accepted, Citadele would be required to pay corporate income taxes on the portion of annual net income not offset by accumulated tax losses. In addition, any increase in the level of VAT or Land Book fees in Latvia on the transfer of properties may have a material adverse effect on the Latvian housing market by making it more expensive to acquire property in Latvia, which in turn could adversely affect Citadele Group's mortgage lending activities. Any of these changes may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows.

If Citadele Group fails to adequately plan, manage or comply with changes in relevant taxation law or the interpretation thereof, including with respect to transfer pricing, Citadele Group's operations may be adversely affected, either through reduced profitability or by being subject to penalties from the relevant tax authority. Citadele Group may also suffer reputational risk if it is perceived as not paying its fair share of tax, which could damage its brand. Any failure by Citadele Group to properly manage taxation rates or tax laws may have a material adverse effect on Citadele's business, prospects, financial condition, results of operations or cash flows.

Citadele Group is subject to periodic tax audits by the Latvian tax authorities

Citadele Group is subject to periodic audits by the Latvian, Lithuanian, Estonian and Swiss tax authorities. Statute of limitations in Latvia is three years since the relevant tax payment was due, but transfer prices may be examined for five years. The statute of limitations in Lithuania is current and five previous tax periods. However, the statute of limitations may be extended if a criminal case has been initiated against the tax payer and it requires determining the damage caused to the State. Citadele Group is unable to predict the timing of these audits, and these audits may discover tax issues or problems of which Citadele Group was previously unaware. Complying with these audits may be difficult, time-consuming and expensive, and may require substantial attention from management. Whilst Citadele Group regularly evaluates its compliance with tax legislation and uncertain tax positions, any adverse outcomes from these audits may result in the imposition of penalties which may have an adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows.

Citadele Group faces risks associated with compliance with Common Reporting Standard

In 2015, Citadele Group implemented Common Reporting Standard (CRS) which became effective as of 1 January 2016. CRS aims to identify taxpayers, such as private individuals and legal entities that are clients of

Citadele Group (except for clients of Citadele Group's leasing subsidiaries, pension fund subsidiary and subsidiaries not involved in provision of financial services) and that after the completion of the respective client due diligence measures are classified as residents in a CRS jurisdiction and to report them to the tax authorities based on the principles of the U.S. Foreign Account Tax Compliance Act (commonly known as "FATCA") approach. Although Citadele Group believes that it has fully and accurately implemented CRS, there is a risk that procedures established for identifying the relevant taxpayers and reporting them to the appropriate tax authorities may not be sufficient to fully comply with CRS requirements. Any failure to comply with CRS may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows.

Investors may not be able to enforce foreign court judgments against Citadele Group

Citadele is an entity established and operating in accordance with all applicable Latvian laws including the Latvian Commercial Law, the Latvian Credit Institutions Law, the Latvian Financial Instruments Market Law and the Latvian Civil Law, and most of Citadele's assets are located in the territory of Latvia. Investors may, pursuant to Regulation (EU) No 1215/2012, dated 12 December 2012, on the jurisdiction and the recognition and enforcement of judgments in civil and commercial matters, enforce in Latvia any judgment given in a civil or commercial case by a court in the EU. The only Member State of the EU where Regulation (EU) No.1215/2012 does not apply is Denmark. The Lugano Convention on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters of 30 October 2007, however, applies to the recognition and enforcement in Latvia of judgments in civil or commercial case issued by a court of Denmark, Iceland, Norway and Switzerland.

Investors may face difficulties or delays when attempting to enforce in Latvia court judgments that were issued by courts of a state that is not within the EU or a party to the Lugano Convention. In general, such foreign court judgments issued in civil matters are recognised by operation of law and may be enforced in Latvia pursuant to the general provisions of the Civil Procedure Law of the Republic of Latvia or an international treaty concluded between Latvia and the country of origin, if applicable. Such judgments of foreign courts may be enforced in Latvia provided that, *inter alia*, the judgments of foreign courts are final in their original jurisdiction and do not contradict the basic public policy principles of the Latvian legal system. Citadele Group cannot provide assurance that all conditions precedent for the enforcement of foreign judgments in Latvia will be met or that any particular judgment will be enforceable in Latvia.

Citadele Group faces risks associated with its operations' compliance with a wide range of laws and regulations

Notwithstanding the fact that Citadele is a Latvian entity, its operations (including banking, asset management, pensions and insurance), subsidiaries and branches are also subject to various requirements of Lithuanian, Estonian and Swiss banking legislation and the requirements of regulators in each of these jurisdictions and the other jurisdictions in which Citadele Group operates, as well as the regulations, directives, recommendations and other requirements imposed by the EC, European Banking Authority and the ECB. Citadele Group may fail to adequately comply with these requirements, including due to the failure of its subsidiaries to comply with regulatory requirements in the jurisdictions in which they operate, resulting in substantial operational, legal and reputational risk or harm, which may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows.

Citadele Group operates in highly regulated fields of business and provides various financial services and products, which are subject to extensive and comprehensive regulations imposed both through local and through European legal acts.

Citadele Group faces extensive regulatory changes in the fields of capital markets, data protection, consumer protection, payment services, etc. New regulations and directives, including the General Data Protection Regulation (Regulation (EU) 2016/679), regulation (EU) No 1286/2014 of the European Parliament and of the Council of 26 November 2014 on key information documents for packaged retail and insurance-based investment products (PRIIPs), Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market, amending Directives 2002/65/EC, 2009/110/EC and 2013/36/EU and Regulation (EU) No 1093/2010, and repealing Directive 2007/64/EC (the Revised Directive on Payment Services or PSD2), regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse, directive on markets in financial instruments repealing directive 2004/39/EC and the regulation on markets in financial instruments, commonly referred to as MiFID II and MiFIR impose new obligations and are challenging for Citadele Group.

Increased requirements and enhanced supervisory standards and significant material sanctions for non-compliance with new legal requirements, may result in limitations of operational flexibility in certain fields of business and higher costs, additional IT and human resources and increased liabilities, in order to comply. Any determination by the authorities that Citadele Group has not acted in compliance with all the applicable laws and EU regulations could have legal and reputational consequences for Citadele Group.

Citadele Group's retail, PCM and asset management operations also fall within the scope of certain non-binding industry guidelines, principles and best practice parameters set by bodies such as the Consumer Rights Protection Agency in Latvia and the ACBL, and equivalent institutions in Lithuania, Estonia and Switzerland. These guidelines cover, for example, the preparation of fair agreements for use in consumer lending and the fair application of penalties. While Citadele Group's management believes Citadele Group is in full compliance with such guidelines as at the date of this Base Prospectus, any failure to adequately comply with these guidelines or principles may also result in operational and reputational risk or harm to Citadele Group.

Citadele Group's measures to comply with anti-money laundering, anti-bribery and sanctions regulations may not be effective in all material respects

Although Latvia has enacted and fully implemented EU-wide requirements in relation to anti-money laundering ("**AML**"), anti-bribery and sanctions legislation, levels of compliance with this legislation are still not fully consistent across all Latvian financial institutions. In part as a result of the large numbers of international customers which these financial institutions serve and the consequential heightened risk of being used as money laundering vehicles, there is a perception of Latvia as a jurisdiction having inadequate frameworks for dealing with money laundering and bribery; this perception (whether or not founded) may cause correspondent banks in Western jurisdictions to elect not to deal with certain Latvian banks or to cease operations in the region entirely. Such an occurrence may have a material adverse effect on Citadele Group's ability to process international payments, especially in U.S. dollars, and in turn on Citadele Group's business, prospects, financial condition, results of operations or cash flows. Although Citadele Group believes that it has introduced all measures to counteract money laundering which are required by law, including know-your-customer procedures and banking system enhancements, Citadele as part of a sector-wide exercise had engaged a U.S. based external auditor to perform a review of its AML policies and procedures to ensure that these are as up to date and comprehensive as possible. As a result of this external review, the auditor's assessment for Citadele showed moderate level of AML compliance with international standards, and ranked Citadele best-in-class within the Latvian banking sector. To address the auditor's recommendations and suggestions for specific AML areas, Citadele introduced a remediation plan whereby the majority of the planned improvements would be implemented by the end of 2016. Although Citadele believes that it will make all necessary efforts to implement the remediation plan, there is no guarantee that recommendations will be fully and accurately implemented or that the result of such implementation will have an effect as it was initially anticipated. Whilst, as at the date of this Base Prospectus, no Citadele Group entity has, to the knowledge of Citadele Group's management, been involved in fraud, money laundering, bribery, corruption, financing of terrorism or any other illegal transactions of a similar nature, it is not uncommon for attempts to be made by individuals, including potentially by employees of Citadele Group, to use banks and their subsidiaries to engage in such activities. For example, in August 2011, a former employee was found to be soliciting bribes from customers in return for fraudulently providing them with better loan terms. The incident was investigated by the Latvian Corruption Prevention and Combating Bureau of Latvia and Citadele engaged forensic accountants to perform an internal investigation, following which Citadele implemented upgrades to its control systems to decrease the potential risk of reoccurrence of such action. As such, there have been and may be attempts to launder money or undertake other illegal activities through Citadele or Citadele entities, and Citadele Group's AML measures or compliance measures may not be effective in preventing such activities, whether as a result of Citadele Group's employees' failure to observe the measures that Citadele Group has put into place or as a result of the development of new methods for conducting money laundering activities or for other reasons. As day-to-day enforcement of AML and compliance measures is a time- and resource-intensive process, Citadele Group may experience delays in reviewing potential AML or compliance issues or in implementing corrective measures. Similarly, whilst Citadele Group introduced a new international sanctions policy in August 2015 which sets out the means by which Citadele Group manages the risk of breaching sanctions together with the enforcement principles which Citadele Group intends to maintain, there can be no guarantee that this new policy will be wholly effective in preventing a breach of sanctions by Citadele Group or its employees.

Any failure by Citadele Group to fully implement functional AML procedures or to comply with all of the relevant Latvian, EU or other laws or regulations on AML, anti-bribery and sanctions could subject Citadele Group to significant fines, sanctions and harm to its reputation. It cannot be excluded that Citadele Group or its employees may have breached such laws or regulations in the past or that Citadele or its employees may breach such laws or regulations in the future, any of which may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows.

Citadele Group is dependent on obtaining banking licences and satisfying other regulatory requirements in Latvia and the other jurisdictions where it operates

Citadele Group is subject to banking regulations and requirements in Latvia which have been issued by the FCMC, Latvia's banking regulator. Citadele Group is also subject to the applicable banking regulations and requirements of Lithuania, Estonia, Switzerland, and the other jurisdictions where it conducts business.

All banking operations and various related operations in Latvia require a credit institution operating licence from the FCMC, the primary supervisory authority of credit institutions in Latvia. The FCMC requires Latvian banks to comply with mandatory financial and capital ratios and file periodic reports. The FCMC also sets minimum reserve requirements for commercial banks such as Citadele. Latvian authorities, such as the FCMC, the State Revenue Service ("**SRS**"), the State Labour Inspectorate, the Competition Council, the State Police and others, have the right to, and do, conduct periodic and random inspections of Citadele's operations throughout each year. The FCMC may impose certain conditions or limitations on, or revoke the credit institution operating licence of, Citadele if it concludes that Citadele has breached the applicable banking regulations.

The relevant banking regulators in Lithuania, Switzerland and the other jurisdictions in which Citadele Group operates have similar regulatory requirements and powers with respect to Citadele Group's operations there.

Citadele Group has current licences for all of its banking and other operations in Latvia and the other jurisdictions in which it conducts operations, including Lithuania and Switzerland. Although Citadele Group believes that it is currently in compliance with its existing material licence and reporting obligations to the FCMC and other relevant regulators, there is no assurance that Citadele Group will be able to maintain the necessary licences or obtain other required licences in the future due to, among other things, changes in licensing regulations or a change in circumstance of Citadele. The loss of a licence, a breach of the terms of a licence by Citadele Group or a failure to obtain any further licences that may be required in the future may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows. If the FCMC were to revoke Citadele's credit institution operating licence as a result of Citadele's noncompliance or otherwise, Citadele Group would be unable to accept deposits in Latvia, which would severely restrict its ability to continue to operate and would likely lead to Citadele Group's liquidation and the cessation of its operations both inside and outside of Latvia.

Citadele Group may be impacted by Latvian and/or European banking reform initiatives

In recent years, the relevant regulatory authorities in Europe have proposed dramatic reforms to many aspects of the banking sector, including, among others, institutional structure, resolution procedures and deposit guarantees. While the final form and impact of a number of the outstanding regulatory developments remain uncertain, Citadele Group expects that the evolution of these and future initiatives will have an impact on Citadele Group's business, and may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows.

The BRRD provides for resolution authorities to have the power to require financial institutions and groups facing insolvency to make structural changes to ensure legal and operational separation of ''critical functions'' that are necessary for the functioning of the real economy of one or more Member States from other functions where necessary, to ensure the survival of such functions, or to require financial institutions to limit or cease existing or proposed activities in certain circumstances. It also includes certain powers provided to resolution authorities, including write-down powers, to ensure relevant capital instruments absorb losses upon, among other events, the occurrence of the non-viability of the relevant financial institution or its parent company, as well as a bail-in tool comprising a more general power for resolution authorities to write down the claims of unsecured creditors of a failing institution and to convert unsecured debt claims to equity. The CIIFRR Law implementing the BRRD, entered into force on 16 July 2015. Use of bail-in powers by the relevant authorities may result in conversion or write-off of the Bonds

The FCMC has been designated as the Latvian resolution authority that is empowered to apply the resolution tools and exercise resolution powers. Every credit institution, including Citadele, is required to develop a recovery plan which must be approved by the FCMC and updated annually. The law provides tools, including the company's sale, divestiture of assets, the establishment of provisional institutions and internal recapitalization, which can be used for relief if the financial situation of a credit institution rapidly deteriorates. The FCMC has the right to impose various measures, including changes in business strategy or changes to the legal and operational structures, implementation of the recovery plan, convening a shareholders' meeting, replacing a member of the management bodies and preparing a plan for negotiation of debt. Under the new framework of the BRRD, shareholders, subordinated creditors, and customers with deposits above EUR 100,000 are required to provide financial contributions and bear first losses at the beginning of the recovery process.

Given that the BRRD powers have yet to be tested in Latvia, it is impossible to predict the financial obligations that may be imposed by the EU or the FCMC in relation to the BRRD, or the effect that these changes may have on Citadele's business, or how any of the above proposals will be implemented. Depending, however, on the specific nature of the requirements and how they are enforced, such changes may have a material adverse effect on Citadele's business, prospects, financial condition, results of operations or cash flows.

In addition, the EU adopted, in October 2013, a Single Supervisory Mechanism ("**SSM**") under the supervision of the ECB. As a consequence, since November 2014 all significant institutions in the Eurozone, are now under the direct supervision of the ECB. It is not yet possible to assess the impacts of such measures, if any, on Citadele; however, the uncertainty regarding the application of several measures by the ECB and the implementation of additional measures may be a source of additional uncertainty and a risk of non-compliance and, generally speaking, the costs incurred due to the implementation of the SSM may have a negative impact on Citadele's results of operations and financial condition.

The Council of the EU further adopted on 15 July 2014 a regulation establishing the Single Resolution Mechanism ("**SRM**"), which provides for the establishment of the Single Resolution Board ("**SRB**") as the authority in charge of the implementation of the SRM and the establishment of a Single Resolution Fund ("**SRF**") financed by banks at the national level. The SRM is applicable as of 1 January 2016. Pursuant to the SRM, on 8 October 2014, the European Commission adopted the delegated regulation on the provisional system of instalments on contributions to cover the administrative expenditures of the SRB during the provisional period; on 19 December 2014, the Council adopted the proposal for a Council implementing act to calculate the contributions of banks to the SRF, which provides for annual contributions to the SRF to be made by the banks calculated on the basis of their liabilities, excluding own funds and covered deposits and adjusted for risks. The SRF replaced national resolution funds as of 1 January 2016 implemented pursuant to the BRRD. The contribution to the SRF could be significant to Citadele and as a consequence, may have a negative impact on the Citadele's results of operations. Citadele's contribution to the SRF for 2016 is EUR 0.8 million.

In Europe, the EU Deposit Guarantee Scheme Directive No 94/19/EC (the "**EU DGSD**") required Member States to introduce at least one deposit guarantee scheme by 1 July 1995. A recast EU DGSD was published in the Official Journal of the EU on 12 June 2014. The main aims of the recast EU DGSD are to restrict the definition of "deposit", exclude deposits made by certain financial institutions and certain public authorities, reduce time limits for payments of verified claims by depositors and make provisions on how deposit guarantee schemes should be funded. In addition, the recast EU DGSD allows for temporary increases in the coverage level in relation to deposits arising from certain events, such as the sale of a private residential property. The new Latvian Deposit Guarantee Law of the Republic of Latvia (the "**LDGL**"), implementing most provisions of the recast EU DGSD, entered into force on 1 July 2015. Pursuant to the LDGL, the available financial means of a deposit guarantee scheme must reach a target level of 0.8% of the amount of the covered deposits of its members by 3 July 2024. Citadele Group's contribution to the LDGL scheme is 0.2% as at the date of this Base Prospectus. As a result of the new directive, it is possible that future Financial Services Compensation Scheme (the "**FSCS**") levies on Citadele may differ from those at present, and such reforms could result in Citadele Group incurring additional costs and liabilities. In particular, Citadele Group may have to update its IT systems to comply with any potential new system requirements. This may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows.

Citadele is appointed as a depositary for undertakings for collective investment in transferable securities (UCITS) managed by its subsidiary asset management company and is subject to UCITS legal framework.

On 23 July 2014 the European Union adopted Directive 2014/91/EU, which amends the Directive 2009/65/EC and introduces changes relating to the UCITS depositary function, manager remuneration and sanctions. Directive 2014/91/EU among other things introduces new rules on UCITS depositaries, such as the entities eligible to assume this role, their tasks, delegation arrangements and the depositaries' liability. On 17 December 2015 the Commission adopted a Delegated Regulation (EU) 2016/438 supplementing Directive 2009/65/EC with regard to obligations of depositaries, which is applicable from 13 October 2016. This delegated act addresses non-market risks related to the depositaries activities and contains detailed provisions about the obligations and rights of depositaries taking into account that the core function of such entities is the protection of the UCITS' investors.

The new UCITS legal framework provides specific safe-keeping requirements that a depositary needs to comply with in respect of financial instruments that may be held in custody as well as for other assets, including segregation requirements for assets that are held in custody. It provides for specific due diligence requirements for insolvency protection of UCITS assets, particularly when the depositary delegates safekeeping functions to a third party, as well as introduces strict liability regime making the depositary liable for the avoidable loss of a financial instrument held in custody. It also provides for detail independence requirements for managers and custodians of UCITS, as well as imposes minimum requirements for the contract for the appointment of the depositary.

In order to address new depositary requirements Citadele initiated internal and external processes, including communication with its custodians with the aim to update mutual arrangements in terms of new UCITS legal framework. However, the implementation process is challenging due to high-level duties of a depositary, which are imposed. Non-compliance with depositary requirements may have a material adverse effect on Citadele Group's business and financial condition as well as lead to sanctions imposed by the competent authorities.

Citadele Group may be unsuccessful in adequately implementing or satisfying the requirements of changing prudential regulation

Citadele Group, like other financial institutions operating within the European Union, faces increasing risks associated with an uncertain and rapidly changing prudential regulatory environment, pursuant to which it is required, among other things, to maintain adequate capital resources and to satisfy specified capital ratios. Whilst Citadele Group is in compliance with existing capital adequacy requirements, there is a risk that more stringent capital adequacy requirements could be introduced in relation to the quality or the quantum of capital required to be held. Effective management of Citadele Group's capital is critical to the success of its commercial operations and the implementation of its business strategy. Citadele's Management Board will set its internal target amount of capital by taking account of their own assessment of the risk profile of the business, market expectations and regulatory requirements. If regulatory requirements as to capital levels increase, driven by, for example, new regulatory measures, Citadele Group may be required to comply with increased capital ratios, e.g. due to changes in capital buffer requirements or individual assessment made by FCMC on an annual basis. The FCMC has recently circulated planned changes in regulations related to capital requirements proposing amendments to the treatment of mandatory capital buffers prescribed by Basel III. According to currently proposed amendments, mandatory capital buffers will have to be added on top of the Pillar 2 target calculated within ICAAP and will constitute a so-called overall capital requirement. While it is understood that Pillar 2 add-on requirement may be satisfied by both common equity Tier 1 (CET1) and Tier 2 capital, in proportion 3 to 1, mandatory capital buffers will have to be covered exclusively by CET1 capital. Citadele Group's current business and capital plan ensures only a partial compliance with the aforementioned proposed changes. Although the new requirements are not in force, Citadele Group is working on capital plan in order to ensure compliance with the aforementioned regulations. The planned actions to improve Citadele Group's capital position may have adverse implications on financial performance of Citadele Group. In order to meet its projected capital adequacy requirements, Citadele Group has assumed that its net profits available for distribution will be included as part of its Common Equity Tier 1 capital. By their very nature, profits may be volatile and unpredictable, and there is no guarantee that Citadele Group will be able to achieve the net profits that it anticipates in the future. Citadele Group may also need to increase its capital level in response to changing market conditions or expectations. If Citadele Group is unable to so increase its capital, it may no longer comply with regulatory requirements or satisfy market expectations related to its capital strength, which may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows. Any change that limits Citadele Group's ability to effectively manage its capital (including, for example, reductions in profits and retained earnings as a result of credit losses, write-downs or otherwise, increases in risk-weighted assets, delays in the disposal of certain assets, or the inability to raise capital or funding through wholesale markets as a result of market conditions or otherwise) may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations, liquidity or cash flows.

Citadele Group's future borrowing costs and capital requirements could be affected by prudential regulatory developments, which include: (i) the CRR/CRD IV regime, i.e., the legislative package implementing the proposals of the Basel Committee (known as "**Basel III**") in the EU and amending and supplementing the existing CRR and CRD framework and other regulatory developments impacting capital position; and (ii) the BRRD. Whilst any future regulatory developments may increase protection for depositors and reduce the extent to which the banking industry is exposed to future finance shocks (as is the overall objective of CRR/CRD IV, Basel III and BRRD), any such regulatory developments may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations and cash flows.

The CRR/CRD IV regime introduced significant changes in the capital adequacy regime applicable to banks with effect from 1 January 2014, including: (i) increased minimum levels of capital and additional minimum capital buffers; (ii) enhanced quality standards for qualifying capital; (iii) increased risk weighting of assets, particularly in relation to market risk and counterparty credit risk; and (iv) the introduction of a minimum leverage ratio. Latvia has implemented new CRR/CRD IV rules according to the implementation schedules set out therein. For example, the rules regulating capital adequacy came into effect on 1 January 2014. Other rules are being gradually implemented until 2018. Citadele Group's capital position under CRR/CRD IV as implemented by the FCMC, as at 30 June 2016, satisfied its minimum regulatory requirements.

The capital requirements and required buffers under CRR/CRD IV will increase from year to year, until fully phased-in in 2019. Further, the CRR/CRD IV requirements adopted in Latvia and the Baltic States may change, whether as a result of further changes to CRR/CRD IV agreed by EU legislators, binding regulatory technical standards to be developed by the European Banking Authority, changes to the way in which the relevant regional authorities interpret and apply these requirements to Citadele Group's operations (including as regards individual model approvals granted under CRD II and III), or otherwise. Such changes, either individually or in the aggregate, may lead to further unexpected enhanced requirements in relation to the Citadele Group's capital, leverage, liquidity and funding ratios or alter the way such ratios are calculated, which may, in turn, have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows.

Additionally, the FCMC may decide to change the liquidity ratio requirements imposed upon banks in Latvia or those specifically applicable to Citadele. The basic short term liquidity ratio requirement for banks in Latvia is 30% and the higher ratio applicable to Citadele due to its operations involving international customers is 40%. Citadele Group may be unable to comply with any increase in the FCMC's required ratio, or may only be able to do so at the expense of disposing of certain of its more profitable but illiquid investments or limiting the frequency or value of its business activities. This may, in turn, have a material adverse effect on Citadele's business, prospects, financial condition, results of operations or cash flows.

At present, Citadele Group's primary regulator is the FCMC, and Citadele Group is not currently regulated directly by the ECB. However, any change to the thresholds to determine whether a financial institution falls within the scope of its regulatory mandate, or any future growth of Citadele Group such that it satisfies the criteria for ECB oversight, may result in additional regulatory restrictions, disclosures or information requests being imposed upon Citadele Group, may lead to Citadele Group suffering increased costs with a more onerous regulatory regime and may result in more of Citadele's management time being used in order to ensure full regulatory compliance. The imposition of any such restrictions, increased costs or extra management time may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows. See "*Citadele Group —Asset Liability and Risk Management — Capital Adequacy Management*" for further information.

Citadele may fail to meet minimum requirement for own funds and eligible liabilities (MREL) under BRRD

On 23 May 2016 the European Commission adopted the regulatory technical standards ("**RTS**") on the criteria for determining the minimum requirement for own funds and eligible liabilities ("**MREL**") under BRRD. In order to ensure the effectiveness of bail-in and other resolution tools introduced by BRRD, BRRD requires that all institutions must meet an individual MREL requirement, calculated as a percentage of total liabilities and own funds and set by the relevant resolution authorities, with effect from 1 January 2016. The RTS provide for resolution authorities to allow institutions a transitional period to reach the applicable MREL requirements.

The MREL requirement for each institution will be comprised of a number of elements, including the required loss absorbing capacity of the institution (which will, as a minimum, equate to the institution's capital requirements under CRD IV, including applicable buffers), and the level of recapitalisation needed to implement the preferred resolution strategy identified during the resolution planning process. Items eligible for inclusion in MREL will include an institution's own funds (within the meaning of CRD IV), along with "eligible liabilities", meaning liabilities which *inter alia*, are issued and fully paid up, have a maturity of at least one year (or do not give the investor a right to repayment within one year), and do not arise from derivatives.

As of the date of this Base Prospectus SRB has not yet announced Citadele's individual MREL requirements. It is likely that Citadele will need additional eligible liabilities to comply with future MREL requirements and Citadele may have to issue a significant amount of additional MREL eligible liabilities in order to meet the new requirements within the required timeframes, which may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows. Any failure by the Citadele to comply with MREL requirements also may have a material adverse effect on the Citadele 's business, financial conditions and results of operations.

Citadele Group may be impacted by changes in accounting methodologies

Citadele Group faces risks in relation to potential future changes to international accounting reporting standards, including IFRS, which could have an impact on Citadele Group's financial position. Such changes may result in retrospective adjustments to Citadele Group's equity, as well as other changes that force Citadele Group to change its strategy. For example, in July 2014, the IASB published a complete version of IFRS 9 (with the exception of macro hedge accounting). If adopted by the EU without changes, the standard will become mandatorily effective for the annual periods beginning on or after 1 January 2018, with early application permitted and transitional rules applying. This standard replaces the existing IAS 39 and will affect the classification and measurement of financial assets and liabilities, and may, in turn, result in reclassification of certain of Citadele Group's financial assets and lead to a change in the measurement of these instruments or the performance reporting of value movements. In addition, for any of Citadele Group's financial assets categorised as 'amortised cost, fair value through other comprehensive income', the impairment provisioning approach is likely to be altered. Citadele Group has not yet adopted these changed standards and it cannot predict with certainty which impact such changes may have upon its business. Any change in the accounting standards applicable to Citadele Group may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows.

Citadele Group faces risks as a result of regulatory investigations

Citadele Group, like many other financial institutions with operations in Switzerland, has previously been the subject of investigations conducted by U.S. Government authorities, including in relation to assets which are taxable under U.S. legislation. Although, following these investigations, Citadele Group has not been adjudged to be in breach of any applicable law or regulation, there is a continued risk that Citadele Group may be the subject of future investigations by regulators or governmental authorities, particularly in Switzerland. Such investigations typically require senior staff or management to devote a considerable amount of time and administrative resources. The outcome of any such investigation is uncertain, and even if Citadele Group is not adjudged to be in breach of any applicable law or regulation, Citadele Group may be required to spend substantial amounts of time and money in the course of such investigation.

5.4. Risks Relating to the Offer and Bonds

The Bonds may not be a suitable investment for all investors

The Bonds may not be a suitable investment for all investors. Thus, each potential investor in the Bonds must determine the suitability of that investment in light of his or her own circumstances. A potential investor should not invest in the Bonds unless the investor has the expertise (either alone or with the relevant support from a financial advisor) to evaluate how the Bonds will perform under changing conditions, the resulting effects on the value of such Bonds and the impact this investment will have on the potential investor's overall investment portfolio. In particular, each potential investor should consider, either on his or her own or with the help of the investor's financial and other professional advisers, whether the investor:

(i) has sufficient knowledge and experience to make a meaningful evaluation of the Bonds, the merits and risks of investing in the Bonds and the information contained or incorporated by reference in this Base Prospectus, the Final Terms and documents attached to this Base Prospectus or any applicable supplement;
(ii) has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Bonds and the impact the Bonds will have on its overall investment portfolio;
(iii) has sufficient financial resources and liquidity to bear all of the risks of an investment in the Bonds, including where the currency for principal or interest payments is different from the potential investor's currency;
(iv) understands thoroughly the terms of the Bonds and is familiar with the behaviour of any relevant indices and financial markets; and
(v) is able to evaluate either alone or with the relevant support from a financial adviser possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Credit risk and adverse change in the financial condition or prospects of Citadele

An investment into the Bonds is subject to credit risk, which means that the Citadele may fail to meet its obligations arising from the Bonds in a duly and timely manner. Citadele's ability to meet its obligations arising from the Bonds and the ability of the Bondholders to receive payments arising from the Bonds depend on the financial position and the results of operations of Citadele and Citadele Group, which are subject to other risks as described in this Base Prospectus.

Any adverse change in the financial condition or prospects of the Citadele may have a material adverse effect on the liquidity of the Bonds, may result in a material decline in the Bonds' market price and may result in a reduced probability that the Bondholders will receive the prompt and full payment, when due, for principal and interest and/or any other amounts and items payable to the Bondholders pursuant to the General Terms and Conditions of the Bonds from time to time.

Should Citadele become insolvent or if legal protection proceedings or out-of-court legal protection proceedings regarding Citadele or any other similar proceedings as prescribed by the applicable law are initiated during the term of the Bonds, an investor may forfeit the interest payable and principal amount of the Bonds in whole or in part. An investor is always solely responsible for the economic consequences of his or her investment decisions.

Citadele's obligations under the Bonds are unsecured and unguaranteed

The Bonds are unsecured and unguaranteed instruments and they will not be obligations of anyone other than Citadele and they will not be guaranteed. No one other than the Citadele will accept any liability whatsoever in respect of any failure by Citadele to pay any amount due under the Bonds. The holders of the Bonds will at all times be unsecured creditors of the Citadele and a claim by any secured creditor of Citadele, if any, will rank in priority of and before the holders of the Bonds in so far as that claim is secured by collateral.

Citadele's obligations under the Bonds are subordinated obligations

The Bonds are subordinated to all unsubordinated claims against Citadele at all times (for the purposes of clarity, the Bonds are not subordinated to claims that are subordinated to the Bonds or have the same ranking as the Bonds) and Citadele's obligations under the Bonds constitute subordinated liabilities within the meaning of the Latvian Credit Institutions Law. The net proceeds from the Bonds will be used by Citadele for the purposes specified in section entitled "*General Terms and Conditions of the Bonds —Reasons for the Offer and Use of Proceeds*" below and as its subordinated capital and thus the Bonds will be recognized as Tier 2 instruments within the meaning of CRR or any other applicable rules.

The subordination of the Bonds means that in the event of liquidation or insolvency of Citadele, all the claims arising from the Bonds shall become collectible and shall be satisfied only after full satisfaction of all unsubordinated recognised claims against Citadele but before satisfaction of the claims of Citadele's shareholders in their capacity as Citadele's shareholders in accordance with the applicable law. Therefore, upon liquidation or insolvency of Citadele, the Bondholders will not be entitled to any payments due under the Bonds until full and due satisfaction of all the unsubordinated claims against Citadele, except the claims of Citadele's shareholders in their capacity as Citadele's shareholders. By subscribing to the Bonds, all investors unconditionally and irrecoverably agree to such subordination of claims arising from the Bonds. As long as there are no liquidation or insolvency proceedings initiated against Citadele, all claims arising from the Bonds shall be satisfied by Citadele in accordance with the General Terms and Conditions of the Bonds, the applicable Final Terms and the applicable law. Please be advised that no funds may be left to satisfy the claims of the Bondholders after all or part of unsubordinated claims have been satisfied.

Accordingly, any and all restrictions applicable to the subordinated liabilities of a credit institution and Tier 2 instruments as may be provided in the Latvian Credit Institutions Law, CRR and any other applicable rules will be applicable to the Bonds and Citadele's obligations arising out of the Bonds, including the following restrictions stated in the Latvian Credit Institutions Law (in particular, Section 59.[6]):

- In case a credit institution in accordance with the laws and regulations regarding aid for commercial activity receives such an aid, from the moment of granting of such aid until the end of provision of such aid, the credit institution in question is prohibited from carrying out the subordinate liabilities, including prohibited from repaying a loan, as well as from calculating, accumulating or paying out interest and other remuneration for such loan; and

- if the FCMC has determined deposit restrictions for a credit institution, from the day of determination of such restrictions until the day of their revocation, the credit institution in question is prohibited from carrying out the subordinate liabilities, including prohibited from repaying a loan, as well as from calculating, accumulating or paying out interest and other remuneration for such loan.

The Bonds rank *pari passu* with other existing and future unsecured and unguaranteed subordinated obligations of Citadele.

See the section entitled "*General Terms and Conditions of the Bonds —Ranking and Subordination"* for more information.

Consequently, the subordination may have material adverse effect on the Citadele's ability to meet its obligations arising from the Bonds.

The Bonds are subject to bail-in risk

In the event of exercise by the FCMC, the relevant Latvian resolution authority, of its bail-in power in accordance with the BRRD and the CIIFRR Law, the Bonds may become subject to compulsory write-down or conversion over which neither Citadele nor the Bondholders will have any control. As a result of exercise by the FCMC of its authority to write-down or convert the Bonds, any of the following effects can ensue: (i) the principal amount of or amount payable on maturity of the Bonds may reduce, including a possible reduction to zero; (ii) the Bonds may be converted into ordinary shares of Citadele or other securities of Citadele; (iii) the Bonds may be cancelled, fully or partially; or (iv) all or some of the terms relevant to repayment, redemption, or payment of interest on the Bonds may be amended (including with respect to extension of the term of maturity of the Bonds and/or rescheduling of interest payments). Financial public support will only be used as a last resort after having assessed and exploited, to the maximum extent possible, the available resolution tools and actions, including with respect to the bail-in power. The FCMC is not obliged to seek consent by the Bondholders in order to effect the bail-in measures. The exercise of any bail-in power or any proposal of such exercise could materially adversely affect the value of the Bonds and cause the value of investments into the Bonds to deteriorate.

There has been no prior trading market for the Bonds

The Bonds constitute a new issue of securities by Citadele. Prior to the offering and admission to trading on the regulated market of the Bonds, there has been no public trading market for the Bonds. The Offer Price will be determined by Citadele and, as a result, may not be accurately indicative of the market price for the Bonds following their admission to trading.

Citadele may be unable to list the Bonds on the Nasdaq Riga, the Bonds may be delisted from the Nasdaq Riga or trading in the Bonds may be suspended

Admission of the Bonds to trading on the Nasdaq Riga requires the approval of the Nasdaq Riga's management board. To secure this approval, Citadele must meet certain eligibility requirements provided for in the applicable rules and regulations of the Nasdaq Riga and other applicable securities laws, including the Latvian Financial Instruments Market Law. Certain of these requirements may be discretionary in their nature and application. Therefore despite Citadele's intent to apply for admission to trading of the Bonds on the Baltic Bond List of the Nasdaq Riga Stock Exchange, Citadele cannot provide any assurance that its application(s) for listing the Bonds will be accepted by the Nasdaq Riga and the Bonds will be admitted to trading on the regulated market.

In addition, even if the Bonds are listed on the Baltic Bond List of the Nasdaq Riga Stock Exchange, in certain circumstances Nasdaq Riga may delist the Bonds and also the FCMC may require the delisting of Bonds pursuant to the requirements of the applicable rules and regulations of the Nasdaq Riga and the Latvian Financial Instruments Market Law. Furthermore, in certain circumstances Nasdaq Riga may suspend trading in the Bonds for up to six months pursuant to the requirements of the applicable rules and regulations of the Nasdaq Riga and the Latvian Financial Instruments Market Law. There can be no assurance that the Bonds will not be delisted or suspended from trading, which may in turn result in an inability to trade or sell the Bonds, a corresponding lack of liquidity and a reduction in value of the Bonds.

The occurrence of any of the above may have a material adverse effect on the value and liquidity of the Bonds.

An active and liquid market for the Bonds may not develop

Even if the Bonds are listed on the Baltic Bond List of the Nasdaq Riga Stock Exchange, an active and liquid public trading market for the Bonds may not develop or be sustained after the Offer and Citadele is not under any obligation to sustain such market. Thus the Bondholders may not be able to sell their Bonds on the open market, use them as collateral for other obligations or engage in other transactions requiring the existence of an active market. If an active market for the Bonds does not develop or is not sustained, it may result in a material decline in the market price of the Bonds, and the liquidity of the Bonds may be adversely affected. Moreover, active, liquid trading markets generally result in lower price volatility and more efficient execution of buy and sell orders for investors. If an actual liquid trading market for the Bonds does not develop or is not sustained, the price of the Bonds may be more volatile and it may be difficult to complete a buy or sell order for the Bonds.

In addition, the liquidity and value of the Bonds may fluctuate significantly as a result of a large number of factors, including, but not limited to, those referred to within these Risk Factors, as well as changes in market and economic conditions, the financial condition and the prospects of the Citadele Group and many other factors that generally influence the market price for securities, including developments unrelated to Citadele Group's operating performance, such as the operating and bond price performance of other companies that investors may consider comparable to Citadele Group, speculation about Citadele Group in the press or the investment community, strategic actions by competitors, including acquisitions or restructurings, changes in market conditions and regulatory changes in any number of countries, whether or not Citadele Group derives significant revenue therefrom.

Accordingly, due to such factors the Bonds may trade at a discount to the price at which the Bondholders purchased the Bonds. Therefore, investors may not be able to sell their Bonds at all or at a price that will provide them with a yield comparable to similar financial instruments that are traded on a developed and functioning market. Further, if additional and competing financial instruments are introduced on the markets, this may also result in a material decline in the market price and value of the Bonds.

Listing may not occur concurrently with or immediately after the settlement and investors may be unable to publicly trade the Bonds until listing of the Bonds on the Nasdaq Riga

Admission of the Bonds to trading on the Nasdaq Riga may not occur concurrently with or immediately after the settlement and delivery of the Bonds, therefore, until such listing occurs, investors in Bonds will be unable to publicly trade their Bonds.

Citadele has no experience in complying with the requirements for publicly listed companies

Publicly listed companies in Latvia are subject to a number of obligations, mostly relating to the timely disclosure of relevant information for investors. Citadele has never been subject to such obligations and may fail to fulfil them in whole or in part. As a consequence, investors may not be provided with price-sensitive information on time, or at all, or the content of materials made public may be of unsatisfactory quality. In addition, in case of non-compliance with the relevant rules and regulations applicable to publicly listed companies in Latvia, Citadele may be fined or have other sanctions imposed on it, which may have an adverse impact on Citadele's business, prospects, financial condition, results of operations or cash flows.

Investors in Bonds will depend on the LCD's account-based system

The Bonds will be affiliated to the account-based system of the LCD, and no physical notes will be issued. Clearing and settlement relating to the Bonds will be carried out within the LCD's book-entry system as well as payment of interest and repayment of the principal. Investors in Bonds will therefore dependent on the functionality of the LCD's account-based system.

Fixed interest rate and inflation may adversely affect the value of the Bonds

The Bonds will bear interest on their outstanding principal at a fixed interest rate. A holder of a security with a fixed interest rate is exposed to the risk that the price of such security could fall as a result of changes in the market interest rate. Market interest rates follow the changes in general economic conditions, and are affected by, among many other things, demand and supply for money, liquidity, inflation rate, economic growth, central banks' benchmark rates, implied future rates, and changes and expectations related thereto.

While the nominal compensation rate of a security with a fixed interest rate is fixed during the term of such security or during a certain period of time, current interest rates on capital markets (market interest rates) typically change continuously. In case market interest rates increase, the market price of such a security typically falls, until the yield of such security is approximately equal to the market interest rates. If market interest rates fall, the price of a security with a fixed interest rate typically increases, until the yield of such a security is approximately equal to market interest rates. Consequently, the Bondholders should be aware that movements of market interest rates may result in a material decline in the market price of the Bonds and can result in losses for the Bondholders if they sell the Bonds. Furthermore, the past performance of the Bonds is not an indication of their future performance.

Also inflation may result in a decline of the market price of the Bonds, as it decreases the purchasing power of a currency unit and respectively the received interest.

Exchange rate fluctuations and interest rates may adversely affect the value of the Bonds

Citadele will pay principal and interest on the Bonds in EUR. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the “**Investor's Currency**”) other than EUR. These include the risk that exchange rates may significantly change (including changes due to devaluation of EUR or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to EUR would decrease the Investor's Currency-equivalent: (i) yield on the Bonds; (ii) value of the principal payable on the Bonds; and (iii) market value of the Bonds.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect the applicable exchange rate. As a result, investors in the Bonds may receive less interest or principal than expected, or no interest or principal at all.

In addition, investment in the Bonds involves the risk that subsequent changes in market interest rates may adversely affect the value of the Bonds.

Adverse change in the credit rating of Citadele and/or credit rating of the Bonds may adversely affect the trading price of the Bonds

One or more independent credit rating agencies may assign credit ratings to Citadele and/or the Bonds. In case the Bonds are rated by the credit rating agencies, such ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, or other factors that may affect the value of the Bonds. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Any adverse change in an applicable credit rating of Citadele and/or credit rating of the Bonds could adversely affect the trading price of the Bonds.

No assurance on change of laws or practices

The Bonds are governed by the laws of the Republic of Latvia, as in force from time to time. Latvian laws (including but not limited to tax laws) and regulations governing the Bonds may change during the life of the Bonds, and new judicial decisions can be given and administrative practices may take place. No assurance can be given as to the impact of any such possible change of laws or regulations, or new judicial decision or administrative practice taking place after the date of this Base Prospectus. Hence, such change may have a material adverse effect on the Citadele’s business, financial condition, results of operations and/or future prospects and, thereby, the Citadele’s ability to fulfil its obligations under the Bonds, taxation of the Bonds, as well as the market price and value of the Bonds. Such event may also result in material financial losses or damage to the Bondholders. Adverse changes in the tax regime applicable in respect of transacting with the Bonds or receiving interest or principal payments based on the Bonds may result in an increased tax burden of the Bondholders and may therefore have adverse effect on the rate of return from the investment into the Bonds.

The Bonds do not carry any beneficial interest in the equity or voting rights

An investment into the Bonds is an investment into non-convertible debt instruments, which does not confer any legal or beneficial interest in the equity of Citadele or any part of Citadele Group or rights to receive dividends or other rights which may arise from equity instruments or right to convert the Bonds into such instruments. Investors are being offered the Bonds which do not entitle the Bondholders to any voting rights at the Shareholders Meetings of the Citadele. Only the shareholders of Citadele have voting rights at the Shareholders Meetings of the Citadele. The Bonds carry no such voting rights. Consequently, the Bondholders will not be able to influence any decisions by the Citadele's shareholders, including decisions on the capital structure of Citadele and any other decisions and corporate matters relating to Citadele that could adversely impact the liquidity or price of the Bonds or the Bonds' desirability in the future. The Bonds represent an non-convertible debt obligation of Citadele, granting the Bondholders only such rights as set forth in the section entitled "*General Terms and Conditions of the Bonds*".

No limitation on issuing additional debt by Citadele and no negative pledge obligations

Citadele is not prohibited from issuing further debt. If Citadele incurs additional debt ranking equally with or with higher seniority than the Bonds, then such additional debt will increase the number of claims that would be entitled to share rateably with or with higher priority before the Bondholders in any proceeds distributed in connection with an insolvency or liquidation of Citadele. Further, there will be no provisions binding Citadele in respect of the Bonds which will affect Citadele's right to create security interests in favour of third parties over Citadele Group's properties, such as a negative pledge, or any cross-default obligations binding Citadele.

The Bonds do not contain covenants governing Citadele's operations and do not limit its ability to merge, effect asset sales or otherwise effect significant transactions that may have a material adverse effect on the Bonds and the Bondholders

The Bonds do not contain any provisions designed to protect the Bondholders from a reduction in the creditworthiness of Citadele. In particular, the General Terms and Conditions of the Bonds stated in the section entitled "*General Terms and Conditions of the Bonds*" do not restrict Citadele's ability to increase or decrease its share capital, to enter into a merger, asset sale or other significant transaction that could materially alter its existence, jurisdiction of organization or regulatory regime and/or its composition and business. In the event that Citadele enters into such a transaction, Bondholders could be materially adversely affected. Furthermore, the said provisions do not restrict the current shareholders of Citadele from disposing any or all of their shareholdings in any way.

Legal investment considerations may restrict certain investments in Bonds

The investment activities of certain investors are subject to legal investment laws and regulations, or reviews or regulations by certain authorities. Each prospective investor in Bonds should consult his or her legal advisers to determine whether and to what extent: (i) the Bonds are legal investments for the respective investor; (ii) the Bonds can be used as collateral for various types of borrowings; and (iii) other restrictions apply to its purchase or pledge of any Bonds.

The transferability of the Bonds may be restricted

Citadele has not undertaken to register the Bonds and the Bonds have not been and will not be registered under the United States Securities Act of 1933, as amended or any U.S. state securities laws or with any securities regulatory authority of any state or other jurisdiction of the United States and any Bondholder may not offer, sell, pledge or otherwise transfer the Bonds in the United States. Furthermore, Citadele has not registered the Bonds under any other country's securities laws, other than laws of Latvia. Each prospective investor should read the information under the section entitled "*Notice to Investors and Restrictions on Distribution*" for further information about the transfer restrictions that apply to the Bonds. It is the Bondholder's obligation to ensure that the offers and sales of Bonds comply with all applicable securities laws.

The Bonds may be redeemed prematurely on the initiative of Citadele

The Bonds may be redeemed prematurely on the initiative of Citadele in certain circumstances as described in section entitled "*General Terms and Conditions of the Bonds*". If this early redemption right is exercised by Citadele, the rate of return from an investment in the Bonds may be lower than initially anticipated and the market value of the Bonds may be higher than the early redemption amount at the moment of redemption. It may not be possible for Bondholders thereafter to reinvest such proceeds at an effective interest rate as high as the interest rate on the Bonds. Bondholders may only be able to do so at a significantly lower rate. The premature redemption of the Bonds may be conditional on Citadele receiving consent to the early redemption from the competent authority (such as FCMC or the EBA if they are in the competence thereof). The decision on granting the consent may involve a certain amount of discretion by the respective competent authority. Therefore early redemption may be beyond the control of Citadele.

The Offer may be cancelled

Although Citadele will strive to ensure that the Offer of all Tranches is successful, Citadele cannot provide any assurance that the Offer of all Tranches will be successful and that the investors will receive any Bonds they have subscribed for. Citadele is entitled to cancel the Offer of any Tranche on the terms and conditions described in the section entitled "*General Terms and Conditions of the Bonds*".

Amendments to the Bonds may be made and these amendments will legally bind all Bondholders

Amendments of the General Terms and Conditions of the Bonds stated in the section entitled "*General Terms and Conditions of the Bonds*" may be made following the procedure for convening the meetings of the Bondholders or the Bondholders of the relevant Series set forth in the section entitled "*General Terms and Conditions of the Bonds"*. Changes in the material terms of the General Terms and Conditions of the Bonds, such as interest payable on the Bonds or the maturity term of the Bonds, may have adverse effect on the rate of return from an investment into the Bonds.

The General Terms and Conditions of the Bonds stated in the section entitled "*General Terms and Conditions of the Bonds*" contain provisions for calling meetings of Bondholders for deciding on amendments to the General Terms and Conditions of the Bonds, the Final Terms of the Tranches of the relevant Series or other matters that may significantly affect the interests of the Bondholders. The decisions of the Bondholders' Meeting on these matters, if taken, will legally bind all Bondholders, including Bondholders who did not attend and/or vote at the relevant meeting and Bondholders who voted in a manner contrary to the majority. This may incur financial losses, among other things, to all Bondholders, including such Bondholders who did not attend and/or vote at the relevant meeting and Bondholders who voted in a manner contrary to the majority.

Bondholders may be required to comply with requests for information

Bondholders or beneficial owners of the Bonds may, from time to time, be requested pursuant to applicable requirements of Latvian law by Citadele, LCD or any competent authority to provide information as to the capacity in which they hold the Bonds and the nature of their interest and the interest of any other affiliated person in such Bonds. Failure to comply with such requests for information may result in breaches of applicable requirements of Latvian law on the part of Citadele and the relevant Bondholder or beneficial owner of the Bonds.

6. General Information

6.1. General Description of the Programme

Citadele has established the € 40,000,000 (forty million euro) First Unsecured Subordinated Bonds Programme (the "**Programme**") described in this Base Prospectus under which Citadele, subject to compliance with all relevant laws and regulations, may issue and offer publicly in Latvia and Lithuania from time to time in one or several series (the "**Series**") non-convertible unsecured and unguaranteed subordinated bonds denominated in EUR, having maturity from 7 to 10 years and with fixed interest rate (the "**Bonds**"). The maximum aggregate nominal amount of all Bonds outstanding issued under the Programme shall not at any time exceed € 40,000,000.

To the extent not set forth in this Base Prospectus, the specific terms of any Bonds will be included in the relevant final terms (the "**Final Terms**") (a form of which is contained herein) therefore the prospectus relating to Series issued under the Programme consists of this Base Prospectus and the respective Final Terms. Each Series may comprise one or more tranches of Bonds (each a "**Tranche**"). The Final Terms must include a corresponding indication, if the respective Series will consist of only one Tranche.

Citadele's shareholders have authorised issuance, public offering and listing of the Bonds at the meeting of shareholders of Citadele on September 8, 2016 (Meeting minutes No. 4/2016, § 1) and authorised the Citadele's Management Board to approve the characteristics of the Bonds, the Base Prospectus and any of the documents thereto, as well as any amendments and supplements thereof. The Citadele's Management Board has approved the Base Prospectus at its meeting on November 4, 2016.

6.2. Registration and Approval of the Base Prospectus

This Base Prospectus has been registered with and approved as a base prospectus by the FCMC in its capacity as the competent authority in Latvia for the purposes of the Prospectus Directive, in accordance with the requirements of the Latvian Financial Instruments Market Law and the Prospectus Regulation. The FCMC has approved this Base Prospectus, but it is not liable for the correctness of the information presented therein.

Citadele has requested that the FCMC notifies this Bases Prospectus to the competent authority in Lithuania (the Bank of Lithuania) and provide it with a certificate of approval attesting that this Base Prospectus has been drawn up in accordance with the Prospectus Directive.

6.3. Applicable Law

This Base Prospectus has been drawn up by Citadele in accordance with and is governed by Latvian law, in particular, the Latvian Financial Instruments Market Law and the Prospectus Regulation, in particular the Annexes V, XI and XXII thereof. The Base Prospectus is comprised of a securities note of the Bonds drawn up in accordance with Annex V of the Prospectus Regulation, the registration document of Citadele drawn up in accordance with Annex XI of the Prospectus Regulation and summary drawn up in accordance with Annex XXII of the Prospectus Regulation. Citadele will, as deemed necessary, supplement the Base Prospectus with updated information pursuant to the Latvian Financial Instruments Market Law. Any Final Terms will be drawn up by Citadele in accordance with and are governed by Latvian law.

6.4. Dispute Settlement

Any disputes relating to or arising from this Base Prospectus and/or the Final Terms will be settled solely by the courts of the Republic of Latvia of competent jurisdiction.

6.5. Credit Ratings

The credit ratings included in this Base Prospectus have been issued, for the purposes of Regulation (EC) No 1060/2009, as amended (the "**CRA Regulation**"), by Moody's Investors Service Ltd ("**Moody's**"). Moody's is established in the EU and registered under the CRA Regulation. As such, Moody's is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation. As at the date of this Base Prospectus, the credit rating assigned to Citadele's long term deposits by Moody's is B1 (with outlook positive).

Each Tranche may, on or after the relevant issue, be assigned a rating specified in the relevant Final Terms by any rating agency which may be appointed from time to time by the Citadele in relation to any issuance of the Bonds or for the remaining duration of the Programme, to the extent that any of them at the relevant time provides ratings in respect of any Tranches. Whether or not each credit rating applied for in relation to relevant Tranche will be issued by a credit rating agency established in the European Union and registered under the CRA Regulation will be disclosed in the Final Terms. If rated, such ratings will not necessarily be the same as the rating assigned to Citadele.

A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Credit ratings are not a guarantee of Citadele Group's future performance.

6.6. Use of the Base Prospectus

This Base Prospectus is prepared solely for the purposes of the Offer of the Bonds issued under the Programme and admission to listing and trading of the Bonds on the Baltic Bond List of the Nasdaq Riga Stock Exchange. Citadele has not consented to the use of the Base Prospectus for subsequent resale or final placement of the Bonds by financial intermediaries.

No public offering of the Bonds is conducted in any jurisdiction other than Latvia and Lithuania (where the public offering of the Bonds to institutional and retail investors takes place) therefore the dissemination of this Base Prospectus in other countries may be restricted or prohibited by law. This Base Prospectus may not be used for any other purpose than for making the decision of participating in the Offer or investing into the Bonds. You may not copy, reproduce (other than for private and non-commercial use) or disseminate this Base Prospectus without express written permission from the Citadele.

7. Citadele Group

7.1. General Corporate Information

The legal and commercial name of Citadele is AS „Citadele banka". Citadele is a limited company/joint stock company (in Latvian – *akciju sabiedrība* or *AS*) incorporated in, and operating under the laws of, the Republic of Latvia, including the Latvian Commercial Law and registered with the Commercial Register of Latvia under the registration number: 40103303559 (date of registration: 30 June, 2010) and its legal address is Republikas laukums 2A, Riga, LV-1010, Latvia, telephone: +371 67010000, fax: +371 67010001, e-mail: info@citadele.lv, website: www.citadele.lv.

7.2. History and Development of Citadele Group

Citadele was registered in Latvia as a joint stock company on 30 June 2010 and commenced operations on 1 August 2010.

Parex, which was one of the first commercial banks in Latvia, was founded in 1992 and was the second largest bank in Latvia in 2008, with total assets of EUR 4.9 billion and significant market shares in lending and deposits. In 2000 Parex registered its Lithuanian subsidiary AB "Citadele" bankas, and in 2003 it established a branch in Tallinn, Estonia. As a result of its size, Parex was regarded as being of systemic importance to the financial system by the Latvian authorities. From 2008 to 2010, Latvia's real GDP declined by approximately 20%, alongside significant increases in the national unemployment rate and fiscal deficit. Although Parex was historically a profitable institution with strong banking operations in Latvia, the effect of the global financial crisis of 2008-2009 adversely affected the bank's stability. During 2008, Parex suffered consolidated losses of EUR 185 million, leading to a 65% decline in shareholders' equity and a resulting capital adequacy ratio calculated at the time for the Parex group of 3.3%. Parex was, therefore, no longer able to meet its regulatory solvency requirements. Parex sought Latvian state assistance in early November 2008. On 10 November 2008, Latvia notified the EC of a package of measures in favour of Parex, designed to support the stability of the financial system, which was approved by the EC on 24 November 2008. As a result, Parex was nationalised through the acquisition by the Latvian Government (acting through the Latvian Privatisation Agency) of the entire ownership interests of its former shareholders.

In April 2009, the EBRD concluded a share purchase agreement whereby it acquired from the Latvian Privatisation Agency 25% plus one share of the share capital of Parex. The EBRD was considered by the Latvian Government to be a strong and reputable external investor with sufficient financial resources and a long-term commitment to ensure the ongoing success of the bailed-out bank. On 1 August 2010, Parex's assets that were less than 60 days in arrears (the "legacy loan portfolio"), as well as liabilities related to traditional banking operations were split up and then transferred into a newly established "good bank" named Citadele, which would focus on traditional banking operations. The liabilities of Parex remained with it (except where directly relating to the assets transferred to Citadele such as deposits held by transferring customers). The EBRD obtained a shareholding of 25% plus one share in Citadele. The remaining non-performing assets were retained by Parex (which was rebranded as "Reverta" in 2012).

In order to enable the EC to provide restructuring aid to Citadele and Parex in a manner that did not distort the Latvian market, Latvia provided commitments to the EC designed to limit the competitive impact of a state-owned bank operating in the Latvian market, which included caps on lending and deposit taking in the Baltic States, restrictions on market share, a restriction on any increase in the number of branch offices and restrictions on acquisitions, the payment of dividends and coupons, as well as on the maximum amount of capital that Citadele could hold (no more than 0.5% above the regulatory minimum). In addition, a requirement was imposed by the EC that Citadele must be sold back into private ownership as soon as practicable.

Following the Latvian state bail-out of Parex, there was a change in management at the management board level. A new, experienced and visionary management team was brought in (including Guntis Beļavskis, Aldis Paegle, Valters Ābele and Kaspars Cikmačs from within Parex, but not from its management board) to ensure the effective running of Parex post-bail-out, and these individuals transitioned to Citadele when the transfer of Parex's banking assets was carried out. This new management team focussed, from the outset, upon creating a comprehensive risk management structure for Citadele Group and ensuring that Citadele Group had sufficient funding and liquidity for its operations. The strategy of Citadele at this early stage in its development was to build a strong balance sheet, create a stable and strong liquidity position and ensure profitable operations whilst operating within the limits set by the EC. Citadele turned profitable in 2011 (its second year of operations), and in 2012 repaid the final tranche of the Latvian State's term deposit in advance of its planned repayment in 2013. Citadele focussed upon retaining and attracting a wider deposit base in Latvia by offering higher rates on its savings products than the Scandinavian banks but lower rates than other local Latvian banks. Citadele also sought to manage its legacy loan portfolio from Parex to extract the best value possible and limit any exposures or losses to the extent practicable. Further, Citadele sought to focus its commercial efforts within the Latvian market in order, as far as possible, to maintain and develop the value of the Citadele brand. For a further analysis of the future strategy of Citadele, please see "—*Strategy*" below.

A full auction and tender process was held by the Latvian Privatisation Agency during 2014 for the sale of its stake, i.e. 75% less one share of the share capital of Citadele. Following the completion of the auction and tender process, RA Citadele Holdings, LLC and a number of persons co-investing alongside RA Citadele Holdings, LLC, were selected as the preferred bidder. A sale and purchase agreement was entered into among the parties on 5 November 2014 and a customary set of warranties was provided by the Latvian Privatisation Agency to RA Citadele Holdings, LLC and its co-investors.

Following the closing of the sale on 20 April 2015, all ordinary shares of Citadele held by the Latvian Privatisation Agency were acquired by RA Citadele Holdings, LLC, and a number of persons co-investing alongside RA Citadele Holdings, LLC. In addition, all commitments made by Citadele Group to the EC ceased to apply and had no further effect or restriction upon the activities of Citadele Group. A further subscription for ordinary shares by RA Citadele Holdings, LLC, the consortium of co-investors and the EBRD following closing of the sale on 20 April 2015, provided RA Citadele Holdings, LLC and the co-investors with a stake of 75% plus one share in Citadele. The final sale price paid by RA Citadele Holdings, LLC and the consortium of co-investors was EUR 74 million.

7.3. Structure of Citadele Group

Subsidiaries

Citadele is the parent company of Citadele Group. The following table contains a list of subsidiaries (some of which are direct and others of which are indirect) (the "**Subsidiaries**"), branches and representative offices of Citadele Group at the date of this Base Prospectus. The voting interests held, directly or indirectly, by Citadele in each of these subsidiaries corresponds directly to its ownership interest.

Subsidiary	Country of incorporation	Ownership	Industry
IPAS "CBL Asset Management" (CBL AM)	Latvia	100%	Asset management
SIA "Citadele Express Kredīts"	Latvia	100%	Consumer Lending
AS "CBL atklātais pensiju fonds"	Latvia	100%	Pension fund management
SIA "Citadele līzings un faktorings"	Latvia	100%	Leasing and factoring
AAS "CBL Life"	Latvia	100%	Life insurance
SIA "E & P Baltic Properties"	Latvia	50%[1]	Real estate management
SIA "Rīgas pirmā garāža" (RPG)	Latvia	100%	Real estate rent management
AB "Citadele" bankas (CB LT)	Lithuania	100%	General banking
UAB "Citadele faktoringas ir lizingas"	Lithuania	100%	Leasing and factoring
OU "Citadele Leasing & Factoring"	Estonia	100%	Leasing and factoring
AP Anlage & Privatbank AG	Switzerland	100%	Private wealth management
ТОВ КУА АПФ "Mizush Ассет Менеджмент Україна"	Ukraine	100%	Asset Management
Calenia Investments Limited	Cyprus	100%	Non-regulated financial institution
SIA "RPG interjers"	Latvia	100%	Management of main office building
SIA "PR Speciālie Projekti"	Latvia	100%	Corporate registration and tax

Subsidiary	Country of incorporation	Ownership	Industry
			planning services
SIA “Hortus Commercial”..................	Latvia	100%	Managing real estate assets
SIA “Hortus Residential”	Latvia	100%	Managing real estate assets
SIA “Hortus Land”	Latvia	100%	Managing real estate assets
SIA “Hortus TC”	Latvia	100%	Managing real estate assets
SIA “Hortus MD”	Latvia	100%	Managing real estate assets
SIA “CBL Cash Logistics”	Latvia	100%	Cash collection services
SIA “Hortus JU”................................	Latvia	100%	Managing real estate assets
SIA “Hortus RE”	Latvia	100%	Managing real estate assets
SIA “Hortus NI”	Latvia	100%	Managing real estate assets
SIA “Hortus BR”	Latvia	100%	Managing real estate assets

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1 Each of (i) Eonum Invest AB and (ii) International Time Service ITS AB, neither of which is an affiliate of Citadele, holds 25% in SIA “E & P Baltic Properties”.

Branch

Name	Place of incorporation	Branch location
AS “Citadele banka” (CB)	Latvia	Estonia

Representative Offices

Name	Place of incorporation	Representative offices
AS “Citadele banka” (CB)	Latvia	Kazakhstan, Ukraine
AP Anlage & Privatbank AG	Switzerland	Latvia, Ukraine
IPAS “CBL Asset Management” (CAM)	Latvia	Belarus, Russia (Moscow and St Petersburg), Kazakhstan

Citadele’s holdings in the following subsidiaries are likely to have a significant effect on the assessment of its own assets and liabilities, financial position or profits and losses: (i) AB “Citadele” bankas (CB LT); (ii) IPAS “CBL Asset Management (CBL AM); (iii) AP Anlage & Privatbank AG; and (iv) SIA “Citadele līzings un faktorings”.

7.4. Key Consolidated Figures

The following table summarizes the key consolidated financial data of Citadele Group for each of the years ended, 31 December 2014 (as restated in 2015) and 2015, and for six-month period ended 30 June 2016.

The information provided in the table below corresponds to that presented in 2015 Audited Consolidated Financial Statements and 2016 Audited Consolidated Interim Financial Statements. There are also several alternative performance measures included commonly used in market. These provide comparable holistic view of the Group, highlight key value drivers and aggregate financial information in possibly more relevant measures.

	Citadele Group				**Citadele banka**			
	H1 2016	**2015**	**H1 2015**	**2014**	**H1 2016**	**2015**	**H1 2015**	**2014**
EUR millions				**as restated**				**as restated**
Net interest income	31.1	60.5	29.5	62.5	23.6	48.1	23.7	52.1
Net commission and fee income	18.3	35.5	17.2	33.4	13.1	25.3	12.3	24.4
Operating income (1)	70.6	112.7	54.6	111.9	55.9	86.5	41.3	90.1
Impairment charge and reversals, net	(5.1)	(6.2)	(3.1)	(9.2)	(5.6)	(6.2)	(4.4)	(10.6)
Net profit	25.4	26.1	14.9	32.4	20.6	19.5	10.1	29.2
Return on average assets (ROA) (2)	1.66%	0.90%	1.06%	1.20%	1.68%	0.82%	0.88%	1.31%
Return on average equity (ROE) (3)	22.1%	13.2%	15.7%	20.2%	19.0%	10.2%	11.0%	18.5%
Cost to income ratio (CIR) (4)	55.8%	68.5%	64.4%	60.2%	52.5%	67.1%	62.3%	52.3%
Cost of risk ratio (COR) (5)	1.0%	0.8%	0.9%	1.3%	1.2%	0.7%	1.1%	1.2%
Capital adequacy ratio (CAR)	12.5%	13.4%	12.8%	11.0%	13.7%	15.1%	14.7%	12.3%
Adjusted for VISA income (7)								
Net profit	14.0				9.3			
ROA(2)	0.92%				0.75%			
ROE(3)	12.2%				8.6%			
Adjusted for IPO costs (8)								
Net profit		31.1		32.4		24.5		29.2
ROA(2)		1.07%		1.20%		1.03%		1.31%
ROE(3)		15.5%		20.2%		12.7%		18.5%

	Citadele Group			**Citadele banka**		
	H1 2016	**2015**	**2014**	**H1 2016**	**2015**	**2014**
EUR millions			**as restated**			**as restated**
Total assets	3,140	2,960	2,855	2,506	2,409	2,331
Loans to customers	1,231	1,172	1,076	1,013	983	941
Deposits from customers	2,748	2,570	2,517	2,098	2,037	1,949
Shareholders’ equity	240	220	177	224	209	173
Loan-to-deposit ratio (6)	45%	46%	43%	48%	48%	48%

(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. ROA is a measure of the profitability of the assets.

(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. ROE is a measure of profitability of the equity.

(4) Cost to income ratio (CIR) is calculated as administrative expense plus amortization and depreciation plus other expense divided by operating income. CIR is a measurement of operating efficiency.

(5) Cost of risk ratio (COR) is calculated as net collective and specific loans impairment charges divided by the average of net loans at the beginning and the end of the period. COR is an indicator of riskiness of the loan portfolio.

(6) Loan-to-deposit ratio is calculated as the carrying value of loans and receivables from customers divided by deposits from customers at the end of the relevant period. Loan-to-deposit ratio is a measure of funding base of the loan portfolio.

(7) One-time income recognised in the statement of income of 2016 in amount of EUR 11.3 million due to sale of Citadele's share in Visa Europe to Visa Inc.

(8) One-time costs that had to be recognised in the statement of income of 2015 due to the postponed IPO process amount to EUR 5.0 million.

FCMC identified Citadele as "other systemically important institution" (O-SII) at the end of 2015. After the reporting period ending 30 June 2016, the FCMC informed Citadele about the plans to introduce the capital buffer for systemically important institutions in Latvia. There are six such institutions and the buffer requirements range from 1.5% to 2.0%. The Citadele's O-SII capital buffer requirement is 1.5%, however it will be introduced in two steps – 0.75% capital buffer requirement will be introducedas of 30 June 2017, while the compliance with full buffer requirements will have to be ensured as of 30 June 2018. The O-SII buffer requirement has to be ensured by Tier 1 capital. If the buffer requirement were effective as at 30 June 2016, the Citadele's and Citadele Group'sTier 1 ratio would have to be at least 10.4%, to meet all the requirements: (1) Common equity tier 1 ratio of 4.5%, (2) additional tier1 ratio of 1.5%, (3) capital conservation buffer of 2.5%, (4) individual capital buffer of 0.4%, as determined by the FCMC and (5) O-SII capital buffer of 1.5%. As at 30 June 2016, both, Citadele and Citadele Group have sufficient Tier 1 capital to comply with the full O-SII buffer requirements.

In so far as Citadele is aware, there have not been any recent events particular to Citadele or Citadele Group which would be to a material extent relevant for assessing solvency of Citadele or Citadele Group.

7.5. Strategy

Overview

Citadele Group's strategy is to become the leading local bank of choice for aspiring individuals and businesses and to become a "domestic champion" for banking services in each of the Baltic States. Citadele Group intends to achieve this by enhancing its distribution network, current banking products and the "premium feel" of its product and service offering to customers by placing a high emphasis on quality of service across customer segments. Citadele Group intends to further increase revenue from its existing customer base and to proactively target new customers in the retail, SME and micro SME (being those entities with a turnover of less than EUR 0.4 million per annum) sectors. Citadele's management believes that Citadele Group's core strengths will allow it to increase the market penetration of its banking services in the Baltic States, and attract new customers from its local banking competitors, driving further revenue growth. Citadele Group's operations and infrastructure differ across each of the Baltic States, and so whilst Citadele's management intends to implement its business strategy across each of the Baltic States, such strategies are tailored by Citadele management to better suit the customer requirements in the relevant market. The infrastructure to deliver growth in the retail and SME segments is already in place and can be rolled out in Citadele Group's Estonian and Lithuanian operations without the need for additional major investment.

Whilst Citadele Group's core strategy is to grow the business organically by focusing upon expanding its customer base and revenues derived from its retail, SME and micro SME segments, with the removal of the EC restrictions on acquisitions, Citadele Group will also consider attractive opportunities which may arise, from time to time, to acquire other businesses in the Baltic States and wider Eurozone. Citadele Group would only seek to explore such opportunities if deemed to be value enhancing as well as presenting clear operational or growth benefits for Citadele Group.

Citadele Group's management believes that its business strategy will allow it to continue to build upon and evolve its current product mix and customer base (for example, by continuing to be a trusted partner to mid-sized corporate entities in Latvia), whilst capturing opportunities in selected market segments, such as consumer, and micro SME and SME lending, where attractive revenue opportunities exist. Citadele's management believes that it is now in a position to implement a focussed growth strategy that fully utilises its established branch offices and distribution network, sophisticated IT infrastructure, innovative product offering, experienced management team, well-trained staff and comprehensive risk management systems. Citadele Group's management believes that by remaining a leading local bank, Citadele Group will continue to understand and respond more effectively to the needs of its customer base, remain highly responsive and adaptive to competitive market dynamics and can continue to apply its local expertise in pricing and managing risk.

Whilst Citadele Group's strategy incorporates input from its new sophisticated shareholders, Citadele's management believes that its strategy does not mark a significant departure from the existing business model, ensuring continuity in the product mix and customer base, whilst capturing opportunities where management anticipates attractive revenue opportunities to exist such as in the retail, micro SME and SME segments. Specifically, Citadele Group intends to:

Become the primary bank of choice for mass and affluent retail customers in the Baltic States

Citadele Group aims to increase the number of mass and affluent retail customers in the Baltic States that use Citadele Group as their primary bank for their full range of banking needs, as opposed to using only one or two of Citadele Group's products. Citadele's management estimates that only a minority of Citadele's existing customer base in the Baltic States currently uses Citadele as their primary bank and Citadele's management intends to increase the number of its new and existing customers that use Citadele as their primary bank using the strategies described below:

- simplifying and consolidating its current account offering into a flagship current account product. Management believes that a leading current account product will become a key "hook" product in Latvia, enabling Citadele Group to further develop its relationships with new and existing customers and enhancing its ability to sell additional retail products to its customer base across different operations;
- acquiring retail customers by leveraging existing services provided to corporate customers, such as payroll services, and focussing on increasing the proportion of Citadele Group's retail customers which use Citadele Group accounts to receive salary payments;
- engaging in targeted and pro-active marketing efforts in Latvia, particularly through the use of its active sales teams and call centre staff, to increase the number of customers using Citadele Group as their primary bank;
- developing a clear and simplified "product menu", with all key products having clear target customers and being offered at simple and transparent rates; and
- providing a responsive "premium feel" service to its retail customers by further modernising its existing network of branch offices, improving the functionality and uniformity of its branch offices, front-office staff, 24/7 call centre and online and mobile banking offering.

Enhance its consumer lending product offering to retail customers in the Baltic States

Citadele Group believes that ongoing growth in the Baltic States' economies will increase demand for consumer lending products in the consumer lending market, which Citadele Group believes is currently underserved by local Latvian banks, and presents Citadele Group with attractive revenue generation opportunities. Growth of its consumer lending platform will also expose Citadele Group to a greater number of potential retail banking customers. Citadele Group intends to expand its consumer loan offering across the Baltic States by leveraging and improving its information technology and risk management systems to increase automation in the consumer loan approval process and facilitate on-boarding of new customers as well as the consumer loan approval process, while maintaining accurate risk based pricing. Citadele Group will also seek to expand the number of its retail customers using card products, such as by leveraging its relationships with retailers, to further drive commission and fee income. Citadele Group will also focus upon providing additional sales-based training for its relationship managers in order to increase cross-selling of its consumer lending products. Citadele Group intends to replicate strategies that are successful in Latvia in the other Baltic States, with a focus on retail and SME customers.

Drive revenue growth in the SME customer base in the Baltic States

Citadele Group intends to drive revenue growth from its SME customers by focusing upon expanding its existing products, such as secured credit lines, and by implementing new product offerings, such as extended overdraft facilities. Citadele believes that improving the efficiency and responsiveness of its internal systems and customer facing employees will enable it to provide an enhanced “premium feel” service to customers and enable it to more rapidly approve SME related products, such as business development loans or credit lines. In addition, by providing its relationship managers with a strong understanding of the relevant business and industry sectors and encouraging them to take a leading advisory role with their SME customers, Citadele believes that it will further strengthen its position as the local bank of choice for businesses in the Baltic States. Citadele anticipates being able to price competitive yet profitable margins on its SME products because its “premium feel” responsive customer service and innovative product offerings will attract new SME customers and foster loyalty from its existing SME customer base.

Citadele believes that the SME segment is currently underserved in the Baltic States and represents an attractive growth opportunity for Citadele Group’s customer base. Citadele’s management believes that Citadele’s experience as a local bank in the Baltic States has allowed Citadele to acquire the knowledge and experience required to successfully develop the SME market segment. In particular, Citadele intends to proactively approach micro SMEs through its call centre as well as through targeted marketing efforts across its established branch offices and distribution network, including efforts by Citadele Group’s relationship managers to engage with micro SMEs owned by existing retail customers. Using its comprehensive risk management systems and relationship manager network, Citadele intends to identify the most attractive micro SMEs, with strong and established financial track records, and offer them credit lines for business development based on individual risk based pricing. Once a micro SME becomes a customer, Citadele will seek to sell its other products, such as point of sale terminals for transactions, cash management facilities, card products, business development loans, leasing products for new equipment and mortgage products for investments in real estate. Citadele believes that by supporting and investing in SMEs, it will further strengthen Citadele Group’s position in the market as the local bank of choice for businesses in the Baltic States. Furthermore, as Citadele develops strong relationships by investing and assisting these SMEs to grow their businesses, Citadele believes that it will benefit from increased revenue from these customers as they develop into larger, more complex businesses and utilise a wider range of Citadele’s products.

Expand private capital management, asset management and pension product offerings to individual customers inside and outside the Baltic States

Citadele aims to significantly increase its activities in the profitable private capital management segment in the Baltic States by cross-selling private capital management and asset management products.

Citadele aims to maintain its existing base of international customers while growing customer base interested in international retail solution. Notwithstanding this intention to expand the private capital management segment, Citadele believes that the relative importance of this segment may decrease in comparison to the retail and SME segments.

7.6. Citadele’s Share Capital

At the date of this Base Prospectus Citadele has 156,555,796 ordinary shares in issue (no separate classes of shares) with a nominal value of EUR 1 each and carrying one voting right each, such that the total share capital of Citadele equals EUR 156,555,796. All shares are of the same class and they are fully paid up. All shares in Citadele are registered shares in certified (paper) form.

As at the date of this Base Prospectus the shares in Citadele are held in the following proportions:

- 75% plus 1 share byRA Citadele Holdings, LLC and a consortium of 12 co-investors; and
- 25% less 1 share by EBRD.

This description does not purport to be complete and is qualified in its entirety by reference to the Articles of Association and the relevant laws.

Citadele’s Articles of Association provide that any change in Citadele’s share capital requires the approval of at least 75% of the votes represented by shareholders present at a GMS and entitled to vote at such GMS. Furthermore, the Articles of Association provide that the Supervisory Board may only resolve to consider and/or render an opinion on any draft resolution to be submitted to the GMS in relation to an increase in Citadele’s share capital or a change to the type, rights or form of Citadele's shares if such Supervisory Board resolution is approved by all members of the Supervisory Board present at a Supervisory Board meeting.

In order to introduce Long Term Incentive Plan (please see " —*Corporate Governance —Remuneration*" below) and subject to shareholders' decision and FCMC's approval Citadele plans to change the nominal value of ordinary share from 1 EUR to 0,10 EUR and decrease its share capital from 156'555'795 EUR to 15'655'579 EUR followed by transferring the residual amount of registered share capital to non-distributable reserves. As a result Tier 1 capital and Total Capital Adequacy Ratio would not be affected by such a change.

The Latvian Commercial Law provides that a shareholder is free to transfer (alienate) its shares, save for where there is a restriction on transfer (alienation) contained in the company's constitutional document. Citadele's Articles of Association do not contain any such restriction.

7.7. Citadele's Objects and Purposes

Citadele is registered with the Commercial Register of the Republic of Latvia under registration number 40103303559. The objects and purposes of Citadele are stated in Clause 2 of the Articles of Association which contains a non-exhaustive description of the types of commercial activities which it may undertake, including monetary intermediation, financial leasing, granting other forms of credit, providing financial services other than insurance and pension funding, and securities transactions. However, as these activities do not constitute an exhaustive list beyond which Citadele is constitutionally prevented from undertaking, under the Latvian Commercial Law, Citadele's objects are effectively unlimited.

7.8. Corporate Governance

General

In general, the corporate governance legislation in Latvia is aligned with EU standards. Corporate governance in Latvia is principally governed by the Latvian Commercial Law. This law outlines the general requirements applicable to all Latvian companies including joint stock companies such as Citadele. The Latvian Commercial Law requires joint stock companies to have a two-tier management system consisting of a supervisory board (council) and a management board, which, together with the general meeting of shareholders, are the principal management institutions.

Citadele's corporate governing bodies are the GMS, the Supervisory Board and the Management Board, each having its own responsibilities and authorities in accordance with Latvian law and the Articles of Association. The GMS elects the members of the Supervisory Board, which, in turn, is responsible for the supervision of, and appointment of members to, the Management Board. The Management Board, which is an executive body, is responsible for the management of Citadele's day-to-day operations. GMS is responsible for matters including the approval of the company's annual accounts, deciding on how profits are used, amending constitutional documents, changing the company's share capital, issuing and converting securities, appointment and removal of supervisory board members, auditors, controllers and liquidators, as well as other matters.

Supervisory Board

The Supervisory Board is primarily responsible for representing the interests of shareholders between shareholders' meetings as well as supervising the work of the Management Board. In particular, this role includes: (i) electing and recalling members of the Management Board; (ii) monitoring Citadele's business activities and ensuring compliance with the law, the Articles of Association and the decisions of its shareholders; (iii) examining Citadele's accounts together with the Management Board's proposals for the use of profits, and drawing up Citadele's annual report; (iv) representing Citadele in all legal proceedings brought by Citadele against members of the Management Board or vice versa; (v) approving transactions between Citadele and members of the Management Board, Citadele's auditors or related persons; and (vi) examining in advance all issues to be raised at shareholders' meetings and providing opinions on such issues.

According to Citadele's Articles of Association, its Management Board must obtain prior approval of the Supervisory Board for any capital expenditure (expenditure on fixed assets and intangible asset) made by Citadele in excess of EUR 0.25 million, except where such capital expenditure is already provided for in Citadele's business plan.

In addition to the duties above, the Supervisory Board is also responsible for supervising the management of Citadele Group's risks, including credit and liquidity risk, as well as approving and monitoring the implementation of Citadele's policies, including its remuneration policies.

The Supervisory Board has the right to request reports on Citadele's operational and financial condition from the Management Board at any time, and is further entitled to inspect Citadele's registers and documents as it sees fit. Members of Citadele's Management Board, Citadele's auditor, procurist, or commercial representative, or members of the management board of any dependent company may not become Supervisory Board members.

The Supervisory Board meets at least quarterly.

Citadele's Articles of Association provide that the Supervisory Board is to consist of nine members who are each elected by the GMS for a term of five years. The members of the Supervisory Board elect the chairperson and deputy chairperson from among their number.

The business address of each of the members of the Supervisory Board is Citadele's head office, Republikas laukums 2A, Riga LV-1010, Latvia.

As at the date of this Base Prospectus, the Supervisory Board comprises the following members:

Timothy Collins, Chairman of the Supervisory Board. Mr. Collins is the Chief Executive Officer of Ripplewood Advisors LLC, an investment firm based in the U.S. Over the last 20 years, Ripplewood Advisors LLC has successfully invested in and grown companies globally, including in Europe, the Middle East and Asia. Before founding Ripplewood Advisors LLC, Mr. Collins held executive positions with Onex Corporation, Lazard Frères & Company, Booz Allen & Hamilton and Cummins Engine Company. Currently, Mr. Collins serves on the Board of Directors of Palm Hills Developments SAE. Mr. Collins holds a BA in Philosophy from DePauw University and an MBA in Public & Private Management from Yale University. Mr. Collins joined the Supervisory Board and assumed the role of Chairman on 20 April 2015. His term of office expires on 20 April 2020.

Elizabeth Critchley, Deputy Chairman of the Supervisory Board. Mrs. Critchley is Managing Director of Ripplewood Advisors Limited. Prior to joining Ripplewood Advisors Limited, Mrs. Critchley was a Founding Partner of Resolution Operations which raised £660 million through a listed vehicle at the end of 2008, and went on to make three acquisitions in financial services. Until forming Resolution Operations, Mrs. Critchley was a Managing Director at Goldman Sachs International where she ran the European FIG Financing business. Mrs. Critchley has structured, advised, or invested in transactions with more than fifty global financials and corporates. Mrs. Critchley holds a First Class Honours Degree in Mathematics from University College London. Mrs. Critchley joined the Supervisory Board and assumed the role of Deputy Chairman on 20 April 2015. Her term of office expires on 20 April 2020.

James L. Balsillie, member of the Supervisory Board. Mr. Balsillie currently chairs the Board of Directors of Sustainable Development Technology Canada. Mr. Balsillie was appointed to this role by the Government of Canada in 2013. Mr. Balsillie is a co-founder and former co-CEO of Research In Motion (BlackBerry) and founder of the Centre for International Governance Innovation (CIGI). He is also the founder of the Balsillie School of International Affairs (BSIA), Arctic Research Foundation, and co-founder of Communitech. Mr. Balsillie was the private sector representative on the UN Secretary General's High Panel for Sustainability. His awards include: Mobile World Congress Lifetime Achievement Award, India's Priyadarshni Academy Global Award, Time Magazine World's 100 Most Influential People, and three times Barron's list of "World's Top CEOs". Mr. Balsillie holds a Bachelor of Commerce from the University of Toronto, an MBA from Harvard Business School, and is a Fellow of the Institute of Chartered Accountants Ontario. Mr. Balsillie joined the Supervisory Board on 20 April 2015. His term of office expires on 20 April 2020.

Dhananjaya Dvivedi, member of the Supervisory Board. Mr. Dhananjaya "Jay" Dvivedi headed the Banking Infrastructure Group and was the Corporate Executive Officer of Shinsei Bank from 2000 to 2010. Mr. Dvivedi was instrumental in transforming Shinsei's IT platform as part of its strategy to improve customer service with conveniences such as internet banking, 24-hr ATMs, managed and monitored remotely, and real-time data, while maintaining cost control. Mr. Dvivedi has also served as the External Director of SIGMAXYZ Inc. from 2008 until 2011 and has since been involved in various research and advisory capacities for the development of new technologies to benefit society. Mr. Dvivedi holds an engineering degree from the Madhav College of Engineering in India and an MBA from the Indian Institute of Management. Mr. Dvivedi joined the Supervisory Board on 20 April 2015. His term of office expires on 20 April 2020.

Lawrence Lavine, member of the Supervisory Board. Mr. Lavine is a Senior Managing Director of Ripplewood Advisors LLC following a 28 year career in investment banking. At Ripplewood Advisors LLC, Mr. Lavine has focused primarily on companies in the financial services and telecommunications industries. Mr. Lavine was previously a Managing Director of Credit Suisse First Boston in its Mergers and Acquisitions Group. He joined CSFB in 2000 as part of the acquisition of Donaldson, Lufkin & Jenrette where he had been a Managing Director in M&A since 1987. He started his career on Wall Street at Kidder Peabody & Co. in 1976. Mr. Lavine holds a BS from Northeastern University and an MBA from Harvard Business School. Mr. Lavine joined the Supervisory Board on 20 April 2015. His term of office expires on 20 April 2020.

David Shuman, member of the Supervisory Board. Mr. Shuman is a private investor focusing on media and technology companies. Mr. Shuman founded Northwoods Capital Management, LLC, a New York–based investment fund that invests in global equity markets, as well as select private equity and venture capital opportunities. Mr. Shuman holds a BA from Williams College and an MBA from Harvard Business School. Mr. Shuman is a life member at the Council on Foreign Relations, where he serves on the Advisory Board of the Center for Preventative Action, and is a Trustee of the Solomon R. Guggenheim Foundation, where he serves on the Collections Council. Mr. Shuman joined the Supervisory Board on 20 April 2015. His term of office expires on 20 April 2020.

Geoffrey Dunn, member of the Supervisory Board. Mr. Dunn has been serving as the EBRD's appointed Supervisory Board member of Citadele Banka since the establishment of the bank in 2010. Previously, Mr. Dunn worked as Chief Financial Officer of the UK's Northern Rock bank during its restructuring, Business Finance Director for Co-operative Financial Services, Finance Director of the Bank of England and Chief Financial Officer of SWIFT. He also held leading positions in several financial companies in the UK. Mr. Dunn holds a Master in Computing from the University of Manchester and a diploma in Business Administration from Manchester Business School. Mr. Dunn has submitted his resignation from the position of the member of the Supervisory Board before the date of this Base Prospectus and therefore his term of office will expire on 31 October 2016. After this date the shareholders of Citadele will have to hold new elections of the members of the Supervisory Board according to the requirements of Latvian Commercial Law.

Sylvia Gansser-Potts, member of the Supervisory Board. Mrs. Gansser-Potts is a Managing Director of the EBRD. During her 23 years with the EBRD, she managed various financial divisions, including the financial institutions operations in central Europe, north Africa and the Middle East. She started her career at Swiss Bank Corporation (SBC) where she worked in Switzerland and Japan. Mrs. Gansser-Potts holds an MBA from INSEAD in France and is a graduate from the Université Paris IX Dauphine. She also holds an Honours Degree in the Japanese Language from ONALCO (Institut National des Langues et Civilisations Orientales) in Paris. Mrs. Gansser-Potts joined the Supervisory Board on 20 April 2015. Ms. Gansser-Potts has submitted her resignation from the position of the member of the Supervisory Board before the date of this Base Prospectus and therefore her term of office will expire on 23 November 2016. After this date the shareholders of Citadele will have to hold new elections of the members of the Supervisory Board according to the requirements of Latvian Commercial Law.

Klāvs Vasks, member of the Supervisory Board. Mr. Vasks has served as Chairman of Citadele Supervisory Board since the establishment of the bank in 2010 until 20 April 2015, at which point he was replaced by Mr. Timothy Collins. He has 20 years of experience in the banking sector. Previously he was vice president of the SEB Bank Latvia, also working as the director of the Restructuring Department and Large Company Services Department. From 2010 to 2015, he chaired the Latvian Guarantee Agency. Mr. Vasks holds a bachelor's degree from the Banking University College and an MBA degree from the Rīga School of Business of the Rīga Technical University. His term of office expires on 20 April 2020.

For information regarding the shares of Citadele held by certain members of the Supervisory Board, see *"—Interests in Citadele"* below.

Management Board

The Management Board is responsible for Citadele's day-to-day management (except functions reserved to the GMS and the Supervisory Board). According to Citadele's Articles of Association, the members of the Management Board are appointed for a five-year period by the Supervisory Board and are also dismissed by the Supervisory Board. The number of members of the Management Board is determined by Citadele's Articles of Association and currently stands at five members. The scope of authority of each member of the Management Board is defined by the terms of reference of the Management Board and is reflected in the contract entered into with the board member upon their appointment. The Supervisory Board elects a chairperson of the Management Board from among its number.

The business address of each of the members of the Management Board is Citadele's head office, Republikas laukums 2a, Riga, LV-1010, Latvia. The Management Board meets at least weekly, or as frequently as otherwise required. At the date of this Base Prospectus, the Management Board consists of the following members:

Guntis Beļavskis, Chief Executive Officer. Mr Beļavskis holds a management degree from TSI Riga, which he attained in 2007. His background is in corporate sales and marketing, having worked for both Coca-Cola and Upfront Ltd between 1993 and 2002. Mr. Beļavskis now has over twelve years experience in the banking sector. He has held a number of managerial positions at Parex in the past, including head of marketing and head of retail. Mr. Beļavskis became a member of the management board of Parex in December 2008 and has been Chairman of the Management Board since May 2012. His term of office expires on 30 June 2020.

Aldis Paegle, Chief Financial Officer. Mr Paegle holds a business administration degree from Vidzeme University of Applied Sciences, which he attained in 2001. He previously worked at Andersen (2001-2002) and Ernst & Young (2002-2006), during which time he was involved in a number of banking sector audits. He now has over nine years' experience in the banking sector, having joined Parex in May 2006. His principal responsibility is the financial management of Citadele Group. Mr. Paegle has held a number of positions at Citadele, including head of the Finance Division, head of the ALCO and member of the supervisory boards of Citadele's subsidiaries, and has been a member of the Management Board since January 2014. Mr. Paegle has submitted his resignation from the position of the member of the Management Board before the date of this Base Prospectus and therefore his term of office will end starting from 23 November 2016. After this date the Supervisory Board will have to elect new member of the Management Board according to the requirements of Latvian Commercial Law.

Santa Purgaile, Chief Business Officer. Ms Purgaile holds an MSc in International Economics and Business from the University of Latvia, where she graduated in May 2004. She has 18 years of banking experience, including as head of the private banking division of SEB in Latvia and the Baltic states, where she worked from 1994 to September 2012. Ms Purgaile's main responsibilities are the development and management of Citadele Group's business in Latvia and the Baltic States, and in relation to various aspects of client services. Ms Purgaile joined Citadele in September 2012, and has been a member of the Management Board since 20 September 2012. Her term of office expires on 14 September 2017.

Valters Ābele, Chief Risk Officer. Mr Ābele holds an MBA from the University of Latvia where he studied between 1993 and 1999. He spent part of his studies at Western Michigan University on a US Government-sponsored scholarship programme. He has extensive audit experience, he became an ACCA member and Latvian Certified Auditor in 2004 and worked at both Ernst & Young (2002-2008) and Arthur Andersen (1998-2002) before moving into the banking sector. He now has seven years of experience in the banking industry, having joined Parex in 2008. Mr Ābele's responsibilities include the risk analysis functions at Citadele and heading the Risk and Compliance Department. He was appointed to the management board of Parex in 2008 and joined Citadele's Management Board in 2010. His term of office expires on 30 June 2020.

Kaspars Cikmačs, Chief Operating Officer. Mr. Cikmačs holds an EMBA from the Stockholm School of Economics in Riga, having previously studied computer sciences at the University of Latvia where he graduated with a Bachelor's degree in 1999. He has 17 years of banking experience and previously headed the IT operations department at Swedbank Baltic. He is responsible for administrative services as well as for Citadele's information systems, record-keeping, security, cash collection and bank operations. Mr. Cikmačs joined Parex in 2009 and became a Management Board member in September 2010. His term of office expires on 21 September 2020.

For information regarding the shares of Citadele held by certain members of the Management Board, see *"—Interests in Citadele"* below.

Principal Committees

Supervisory Board Committees

Audit Committee

The Audit Committee is responsible for providing support to the Supervisory Board in its supervision of audit issues. This includes reviewing the terms of reference and policies and procedures of the Internal Audit Division and providing recommendations thereon to the Supervisory Board, reviewing the annual audit plan prepared by the Internal Audit Division, reviewing the most significant findings of the Internal Audit Division on a quarterly basis, and reviewing the Internal Audit Division's annual assessment of its performance according to the audit plan. In addition, the Audit Committee supervises Citadele Group's relations with external auditors and makes recommendations in relation to their appointment, re-appointment or removal, provides recommendations regarding any issues identified by the FCMC, and provides annual assessments to the Supervisory Board.

The Audit Committee is composed of at least three members (currently six), and is chaired by a member of the Supervisory Board (at the date of this Base Prospectus, the independent Supervisory Board member, Klāvs Vasks). The Audit Committee meets four times per year, or more frequently if required. See the section titled "*Audit Committee*" under "*Asset, Liability and Risk Management—Risk Management Structure*".

As at the date of this Base Prospectus, the Audit Committee comprises the following members(1):

Name	Position	Date of appointment to the committee
Klāvs Vasks	Chairman of the committee	11 September 2015
Elizabeth Critchley	Member of the committee	11 September 2015
Lawrence Lavine	Member of the committee	11 September 2015
Dhananjaya Dvivedi	Member of the committee	11 September 2015
Geoffrey Dunn(2)	Member of the committee	11 September 2015
Sylvia Gansser-Potts(3)	Member of the committee	11 September 2015

(1) An additional member will be appointed following the Offer, and such individual will not be a member of the Supervisory Board.

(2) Mr. Dunn has submitted his resignation from the position of the member of the Supervisory Board before the date of this Base Prospectus and therefore his term of office as a member of the Audit Committee will expire on 31 October 2016. After this date the shareholders of Citadele will have to hold new elections of the members of the Supervisory Board according to the requirements of Latvian Commercial Law.

(3) Ms. Gansser-Potts has submitted her resignation from the position of the member of the Supervisory Board before the date of this Base Prospectus and therefore her term of office will expire on 23 November 2016. After this date the shareholders of Citadele will have to hold new elections of the members of the Supervisory Board according to the requirements of Latvian Commercial Law.

Risk and Governance Committee

The Risk and Governance Committee is responsible for providing support to the Supervisory Board by monitoring the levels of risk to which Citadele Group is exposed and the compliance of its operations with permitted levels of risk, as well as ensuring that remuneration schemes take into account liquidity, capital and operational risk. It also checks that risk is sufficiently priced into Citadele Group's products and services, and provides recommendations regarding any areas identified by the FCMC for improvement.

The Risk and Governance Committee is composed at least three members (currently six), and is chaired by a member of the Supervisory Board (at the date of this Base Prospectus, Timothy Collins). The Risk and Governance Committee meets four times per year, or more frequently if required. See the section titled "*Risk and Governance Committee*" under "*Asset, Liability and Risk Management—Risk Management Structure*".

As at the date of this Base Prospectus, the Risk and Governance Committee comprises the following members:

Name	Position	Date of appointment to the committee
Timothy Collins	Chairman of the committee	11 September 2015
Elizabeth Critchley	Member of the committee	11 September 2015
Lawrence Lavine	Member of the committee	11 September 2015
David Shuman	Member of the committee	11 September 2015
Sylvia Gansser-Potts(1)	Member of the committee	11 September 2015
Geoffrey Dunn(2)	Member of the committee	11 September 2015

(1) Ms. Gansser-Potts has submitted her resignation from the position of the member of the Supervisory Board before the date of this Base Prospectus and therefore her term of office will expire on 23 November 2016. After this date the shareholders of Citadele will have to hold new elections of the members of the Supervisory Board according to the requirements of Latvian Commercial Law.

(2) Mr. Dunn has submitted his resignation from the position of the member of the Supervisory Board before the date of this Base Prospectus and therefore his term of office as a member of the Risk and Governance Committee will expire on 31 October 2016. After this date the shareholders of Citadele will have to hold new elections of the members of the Supervisory Board according to the requirements of Latvian Commercial Law

Remuneration and Nomination Committee

The Remuneration and Nomination Committee is responsible for providing support to the Supervisory Board in the process of selecting prospective members of the Supervisory and Management Boards as well as the Head of Internal Audit. In particular, the committee assists in: (i) ensuring sufficient diversity (including gender representation) in the composition of the boards and the Head of Internal Audit position; (ii) reviewing the remuneration policies for Citadele Group; and (iii) assessing the suitability of prospective members of the Supervisory Board or Management Board, or Head of Internal Audit, as applicable. At least once per year it performs an assessment of the organisational structure of the Supervisory and Management Boards, including their size, composition and efficiency, as well periodic assessment of the individual and collective knowledge, skills and expertise of the members of the Supervisory and Management Boards.

The Remuneration and Nomination Committee meets four times per year, or more frequently if required, and is composed of at least three members (currently four) and is chaired by a member of the Supervisory Board (currently Elizabeth Critchley).

As at the date of this Base Prospectus, the Remuneration and Nomination Committee comprises the following members:

Name	**Position**	**Date of appointment to the committee**
Elizabeth Critchley	Chairman of the committee	11 September 2015
Lawrence Lavine...........................	Member of the committee	11 September 2015
Sylvia Gansser-Potts(1)	Member of the committee	11 September 2015
Klāvs Vasks	Member of the committee	11 September 2015

(1) Ms. Gansser-Potts has submitted her resignation from the position of the member of the Supervisory Board before the date of this Base Prospectus and therefore her term of office will expire on 23 November 2016. After this date the shareholders of Citadele will have to hold new elections of the members of the Supervisory Board according to the requirements of Latvian Commercial Law.

Technology Committee

The Technology Committee is responsible for providing support and advice to the Supervisory Board in relation to technology and technological innovation, including in relation to Citadele Group's strategic approach to technical and commercial innovation, the acquisition of technology to ensure ongoing growth, the development of measurement and tracking systems, and proposals to upgrade the Supervisory Board's oversight function. The Technology Committee reports to the Supervisory Board on an annual basis.

The Technology Committee meets four times per year, or more frequently if required and is chaired by a member of the Supervisory Board (currently Dhananjaya Dvivedi).

As at the date of this Base Prospectus, the Technology Committee comprises the following members:

Name	**Position**	**Date of appointment to the committee**
Dhananjaya Dvivedi......................	Chairman of the committee	11 September 2015
James L. Balsillie	Member of the committee	11 September 2015
Timothy Collins	Member of the committee	11 September 2015
David Shuman	Member of the committee	11 September 2015
Geoffrey Dunn(1)	Member of the committee	11 September 2015

(1) Mr. Dunn has submitted his resignation from the position of the member of the Supervisory Board before the date of this Base Prospectus and therefore his term of office as a member of the Technology Committee will expire on 31 October 2016. After this date the shareholders of Citadele will have to hold new elections of the members of the Supervisory Board according to the requirements of Latvian Commercial Law.

Management Board Committees

Credit Committee

The Credit Committee is responsible for reviewing lending proposals in connection with lending to non-financial institutions (which is not in the form of bonds, which are approved by the Financial Market and Counterparty Risk Committee), approving Citadele's lending guidelines for loan products and ensuring that these lending guidelines are consistent with the risk level defined in Citadele's credit risk management policy. The Credit Committee also reviews lending proposals from Citadele's subsidiaries. In addition, it reviews proposals made by the SME Credit Committee and the Private Individuals Credit Committee at their request and approves lists of acceptable third party service providers (such as appraisers, insurers and other technical experts). The Credit Committee also approves the Group Leasing Committee's proposals. A member of the Management Board sits on this committee. The Credit Committee reports to the Management Board and meets weekly, or more frequently as required. See the section titled "*Credit Committee*" under "*Asset, Liability and Risk Management—Risk Management Structure*".

Assets and Liabilities Management Committee

The Assets and Liabilities Management Committee of Citadele's Management Board ("**ALCO**") is responsible for overseeing the effective implementation of Citadele's asset and liability management policies in order to: (i) maximise shareholder value and enhance profitability; (ii) ensure that liquidity, interest rates, foreign exchange exposure and capital adequacy are managed efficiently; and (iii) ensure compliance with existing regulatory requirements.

The functions of the ALCO include setting and monitoring risk exposure limits based on reports, analysis, forecasts, stress tests and hypothetical scenarios prepared by Citadele's other departments; approving risk management methodologies, amending Citadele's asset liability structure; approving risk hedging instruments; and deciding on corrective actions where limits are breached. The ALCO meets on a monthly basis. A member of the Management Board sits on this committee. See the section titled "*Assets and Liabilities Management Committee"* under *"Asset, Liability and Risk Management—Risk Management Structure*".

Compliance Committee

The Compliance Committee is tasked with monitoring and coordinating Citadele's compliance department with the aim of ensuring that Citadele's business operates within applicable laws and regulations and in accordance with the industry's standards of best practice. The committee's responsibilities include coordinating Citadele's AML and counter-terrorist financing measures, implementing policies and procedures to prevent market abuse (including making decisions relating to the termination or continuation of contractual relationships with clients where there is suspicion of market manipulation), evaluating conflicts of interest, and introducing compliance monitoring systems across Citadele Group. It reviews Citadele's compliance risks and suggests prevention measures to the Management Board. The Compliance Committee reports to the Management Board, and it meets as and when required. See the section titled *"Compliance Committee"* under *"Asset, Liability and Risk Management—Risk Management Structure"*.

Group Investment Committee

The Group Investment Committee of Citadele's Management Board ("**GIC**") is tasked with setting Citadele Group's strategy for its bond investment activities by setting limits and approving guidelines in relation to the largest portfolios in the Citadele Group. Major portfolio managers as well as several members of the Management Board sit on the committee. The GIC meets on a quarterly basis. See the section titled "*Group Investment Committee*" under "*Asset, Liability and Risk Management—Risk Management Structure*".

Financial Market and Counterparty Risk Committee

The main task of Financial Market and Counterparty Risk Committee of Citadele's Management Board ("**FMCRC**") is to assess and restrict the level of risk assumed by Citadele Group when entering into transactions or maintaining relationships with other monetary and financial institutions as well as when managing Citadele's securities portfolios and providing certain financial services and products to customers. It therefore assesses and sets limits in relation to risks deriving from: (i) correspondent and custody accounts opened by members of Citadele Group at other credit or financial institutions; (ii) investments in financial instruments, including shares and derivatives; (iii) money market transactions with banks or similar institutions; (iv) currency exchange transactions with credit or financial institutions; (v) non-settled foreign exchange spot transactions and foreign exchange forward transactions with customers; (vi) certain loan transactions with customers, including repo loans, marginal loans or loans backed by securities portfolios; (vii) margin trading transactions with customers; and (viii) open currency positions.

The FMCRC meets on a weekly basis. See the section titled "*Financial Market and Counterparty Risk Committee*" under "*Asset, Liability and Risk Management—Risk Management Structure*".

SME Credit Committee

The SME Credit Committee is responsible for reviewing lending proposals in connection with lending to certain corporate entities and self-employed individuals where such proposed loans are below the limits which require approval by the Credit Committee (EUR 0.3 million, or EUR 0.7 million in the case of a restructuring) but exceed the individual approval limits.

The SME Credit Committee meets on a weekly basis. See the section titled "*SME Credit Committee and Private Individuals Credit Committee*" under "*Asset, Liability and Risk Management—Risk Management Structure*".

Private Individuals Credit Committee

The Private Individuals Credit Committee is responsible for reviewing lending proposals in respect of lending to private individuals where such proposals relate to loans below the limits requiring approval by the Credit Committee (EUR 0.3 million, or EUR 0.7 million in the case of a restructuring) but exceed the individual approval limits. The Private Individuals Credit Committee meets twice per week. See the section title "*SME Loans Committee and Private Individuals Committee*" under "*Asset, Liability and Risk Management—Risk Management Structure*".

Group Leasing Committee

The Group Leasing Committee is responsible for reviewing finance, lease, operational lease, leaseback and factoring proposals, when the aforementioned proposals relate to transactions below the limits that require approval by the Credit Committee (EUR 0.3 million, or 0.7 million in the case of a restructuring) but exceed the individual approval limits.

The Group Leasing Committee meets twice per week.

Ethics and Disciplinary Committee

The Ethics and Disciplinary Committee is responsible for ensuring Citadele complies with its Code of Ethics as well as other basic professional principles. It achieves this by establishing systems to allow employees to submit proposals and feedback on Citadele's compliance with these ethical principles in a confidential and anonymous manner, investigating and reviewing reports concerning violations of Citadele's Work Procedure Regulations and Code of Ethics, and by making decisions regarding the imposition of disciplinary penalties. The Ethics and Disciplinary Committee reports to the Management Board on a quarterly basis, and on an ad hoc basis, where required. The Ethics and Disciplinary Committee itself meets on an ad hoc basis, but no less frequently than four times per year.

Procurement Committee

The Procurement Committee is tasked with managing and setting policies in relation to the procurement of goods and services for Citadele from third parties. It does so by centrally managing the tender and selection processes, receiving regular reports from all structural units at Citadele, and reviewing Citadele's procurement policies at its subsidiaries at least once every three years. The Procurement Committee ensures that Citadele has a transparent procurement process by reviewing requests or proposals made by members of Citadele Group related to the purchase of goods, procurement of services, construction works, consultation services or outsourcing services. The Procurement Committee has the authority to approve procurement requests with a total value up to EUR 0.14 million (inclusive of VAT). Where the estimated cost of the goods or services exceeds this amount, Citadele's Management Board is responsible for reviewing and approving the request on the basis of the Procurement Committee's recommendations. A member of the Management Board sits on this committee.

The Procurement Committee meets on a weekly basis.

Product Development Committee

The Product Development Committee is responsible for reviewing, accepting and prioritising proposals for new products and major changes to existing products. Its members are drawn from a variety of business units within Citadele Group, including IT, risk and compliance, and finance. Proposals for new or amended products are assessed by the Product and Development Committee on the basis of estimated costs, revenues, NPVs and risk to fit strategy. A member of the Management Board sits on this committee.

The Product Development Committee generally meets on a monthly basis.

Remuneration

Citadele's remuneration policy is designed to attract, retain, motivate and develop professional and talented employees so that it can achieve its short-term and long-term goals. Citadele aims to ensure that: (i) remuneration is matched to employees' performance; (ii) there is coordination and consistent application of the remuneration policy across Citadele Group; (iii) remuneration levels are competitive in the labour market; (iv) the remuneration policy does not encourage the assumption of risk above defined levels; (v) the remuneration policy does not limit Citadele's ability to strengthen its equity capital; (vi) in setting remuneration levels, Citadele's values and long-term interests are protected; (vii) the remuneration policy does not conflict with the protection of clients' or investors' interests; and (viii) there are no guaranteed amounts of the variable element of remuneration except in the first year of an individual's employment.

Remuneration for employees performing internal control functions such as risk control, compliance control and internal audit is based on the achievement of defined goals and is not linked to the performance of the sector monitored by those internal control functions. The fixed and variable elements of remuneration are both set as an amount gross of tax. When Citadele's internal regulations prescribe severance pay that exceeds the amount prescribed in the Labour Law of the Republic of Latvia (the "**Latvian Labour Law**"), the Management Board takes into account errors and shortcomings in the employee's service as well as the performance of the employee in making such decisions.

In relation to Citadele as a standalone entity, the fixed element of the remuneration paid to the CEO and Management Board members, together with the Head of Internal Audit Division and employees whose remuneration is equal to or exceeds the remuneration of any of the above, is set by the Supervisory Board. For other employees, the decision is taken by designated employees according to authorisations issued by Citadele's Management Board. In relation to Citadele's subsidiaries, the fixed element of the remuneration paid to members of the subsidiary's supervisory board (if any) is set by the Management Board as a representative of the (direct or indirect) shareholder of the subsidiary. The fixed element paid to the members of the subsidiary's management board is set by the subsidiary's supervisory board if any, and if none, by the Management Board. For other employees of subsidiary companies, the fixed element of remuneration is set by designated employees according to authorisations issued by the relevant subsidiary.

For employees other than management or supervisory board members of Citadele or its subsidiaries, the fixed element of remuneration is set as a time salary (i.e., calculated according to the actual time worked irrespective of the amount of work done) or as a piecework salary (i.e., calculated according to the amount of work done irrespective of the time within which it has been done). The monthly fixed remuneration paid to management or supervisory board members of Citadele or its subsidiaries is determined according to the agreement on performance of duties entered into between that individual and Citadele.

The Management Board defines which categories of staff belong to which salary groups and sets a range of fixed remuneration that can be paid to staff in each group in the light of results of compensation surveys of financial institutions, which are conducted by external organisations. There is a Job Evaluation Committee which assesses and approves the decision regarding which employees belong to which salary group. Within any group, the fixed remuneration paid to an employee is set individually in view of the employee's competences and skills. However, the Management Board is entitled to define cases where it is possible to set the fixed remuneration for a particular employee at an amount exceeding the highest level of remuneration which can be paid to an individual in his salary group.

The variable part of remuneration paid by Citadele is set by the Supervisory Board for Management Board members, by the Management Board for staff whose role has an impact on Citadele's risk profile, and for other staff by designated employees according to authorisations issued by Citadele. In relation to Citadele's subsidiaries, the Management Board sets the variable element for the subsidiary's supervisory board and management board members; the subsidiary's management board sets the variable element for the subsidiary's staff whose role has an impact on its risk profile; and the subsidiary's HR department sets the variable remuneration for all other employees of the subsidiary.

Employee performance is assessed using a balanced scorecard approach, which includes analysis of financial performance; client satisfaction rate, process efficiency, professional growth, and the performance of regulatory requirements.

Where the financial performance of Citadele is weak or negative by reference to the objectives of the Management Board as indicated in the balanced scorecard, the disbursement of the variable element of remuneration (including the deferred portion) is reduced.

The remuneration policy is reviewed annually by the Supervisory Board, based on the proposals of the Management Board. The Internal Audit Division monitors implementation of the policy.

The table below sets out the aggregate remuneration for members of the Management and Supervisory Boards, as at and for the year ending 31 December 2015.

	Fixed remuneration	**Variable remuneration**	**Additional benefits in kind**	**Total**
Management Board	EUR 707,707	EUR 265,783	–	EUR 973,490
Supervisory Board	EUR 343,662	–	–	EUR 343,662

Citadele's Supervisory Board has adopted a long term incentive plan ("**LTIP**") which is offered to the members of the Management Board along with the head of Citadele's private capital management segment and head of strategy development. The members of the Management Board and the head of Citadele's private capital management segment and the head of strategy development shall receive awards under the LTIP and such awards shall be subject to the satisfaction of predetermined performance targets and may have a vesting period of up to five years. The total variable pay (comprised of cash bonuses and awards under the LTIP) paid to the Management Board and the head of Citadele's private capital management segment in any year shall not exceed 200% of their fixed remuneration.

Under the terms of their service contract with Citadele Group, no member of the Management or Supervisory Board is entitled to any additional benefits upon termination of their employment, save for what is stated above and any market standard notice periods or severance payments for the Management Board members in certain situations where no negligence or wrongful acts have been committed.

Management Loans

As at 30 June 2016, there was EUR 386 thousand in loans and EUR 74 thousand in other financial commitments and guarantees in place between Citadele and members of the Management Board and Supervisory Board.

Conflicts of Interest

There are no conflicts of interest or potential conflicts of interest between any duties owed by members of the Supervisory Board or the Management Board to Citadele and their private interests and/or other duties other than the management loans indicated above or as described in the "*Interests in Citadele*" paragraph below.

Further information in relation to the Management and Supervisory Board members

At the date of this Base Prospectus, none of the members of the Supervisory Board or the Management Board, for the previous five years:

- has had any convictions in relation to fraudulent offences; nor
- has held an executive function in the form of a senior manager or a member of the administrative, management or supervisory bodies of any company at the time of or preceding any bankruptcy, receivership or liquidation; nor
- has been subject to any official public incrimination and/or sanction by any statutory or regulatory authority (including any designated professional body) nor has ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of any company.

Corporate Governance Rules

Companies in Latvia typically adopt their own corporate governance practices in addition to those prescribed by law, and these are reflected in the internal bylaws of the company. Citadele is subject to, and complies with, the corporate governance rules imposed by the EBA, European Commission and other legislative bodies, and Latvian legislation. In addition to this, Citadele has implemented a rigorous set of procedures and committees to mitigate risk and adhere to a high standard of corporate governance, as described more fully in the section entitled "*Citadele Group —Asset, Liability and Risk Management*".

According to the Latvian Financial Instruments Market Law, a joint-stock company with its bonds traded on the regulated market has an obligation to prepare a corporate governance report on an annual basis. The Nasdaq Riga has issued Principles of Corporate Governance and recommendations on their implementation, which take into account the requirements for companies as set out in Latvian legislation as well as the recommendations of the EU and OECD. These rules are based on the principle of "comply or explain" and follow governance principles in effect in other European countries.

Interests in Citadele

The table below sets out, as at the date of this Base Prospectus, the number of shares in Citadele held directly or indirectly by members of the Supervisory Board (no Supervisory Board member holds any options in Citadele):

The table below sets out, as at the date of this Base Prospectus, the number of shares in Citadele held directly or indirectly by members of the Supervisory Board (no Supervisory Board member holds any options in Citadele):

Supervisory Board member	Number of ordinary shares held	Ownership (%)	Entity through which shares are held
Timothy Collins	35'082'302	22.41 plus one share	RA Citadele Holdings, LLC
James L. Balsillie	13'863'987	8.86	Amolino Holdings Inc.
David Shuman	10'998'979	7.03	Shuco LLC*
Dhananjaya Dvivedi	1'381'440	0.88	Shareholding is held in his personal capacity

* David Shuman is deemed to have an interest in Citadele through the interest held by his father.

As at the date of this Base Prospectus, none of the Management Board members holds any shares in Citadele or options over shares in Citadele, directly or indirectly. See section entitled "*Corporate Governance — Remuneration*" and section entitled "*Shareholders —Major Shareholders*" for details of Management Board shareholdings after the Offer.

7.9. Shareholders

Major Shareholders

RA Citadele Holdings, LLC co-invested with the shareholders in the table below (with the exception of EBRD) (the "**Co-investors**") such that, in aggregate, RA Citadele Holdings, LLC and the Co-investors own 75% plus one share of Citadele. Each of RA Citadele Holdings, LLC and the Co-investors entered into a co-investment agreement under the terms of which the Co-investors have agreed that RA Citadele Holdings, LLC is able to exert control of Citadele on behalf of all other Co-investors. Each of RA Citadele Holdings, LLC, the Co-investors and the EBRD are party to a shareholders' agreement in relation to Citadele and further detail on the provisions of this shareholders' agreement can be found in the section entitled ""*Business Description — Material Agreements"* below.

The following table sets out certain information with respect to the ownership of Citadele's outstanding ordinary shares, as at the date of this Base Prospectus.

Shareholder	Number of shares held	Ownership (%)[7]
EBRD	39,138,948	25.00 minus one share
RA Citadele Holdings, LLC[1]	35,082,302	22.41 plus one share
Delan S.A.R.L.[2]	15,597,160	9.96
EMS LB LLC[3]	13,864,142	8.86
NNS Luxembourg Investments S.a.r.l.[4]	13,864,142	8.86
Amolino Holdings Inc.[5]	13,863,987	8.86
Shuco LLC[6]	10,998,979	7.03
Other co-investors	14,146,136	9.02

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

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

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

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

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

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

(7) Calculated by reference to voting interests in Citadele

As at the date of this Base Prospectus, Citadele has implemented LTIP for the members of the Management Board, the head of the Citadele's private capital management segment, as well as the head of strategy development and the level of dilution to existing shareholders under its terms may be up to 10% of Citadele's issued share capital in a rolling ten years period. Furthermore, in the future Citadele may issue any type of classes of securities with rights, preferences or privileges that are more or less favourable than those attached to the existing shares.

Related Party Transactions

Latvian law requires that related-party transactions comply with the "arm's length" principle. This dictates that the conditions agreed between two associated persons in their commercial or financial relations must not differ from those that would be agreed between independent persons engaging in similar transactions under similar circumstances.

The Latvian Commercial Law sets out restrictions applicable to transactions between joint stock companies and the founder of the company, shareholders, members of the management or supervisory boards and other related persons. In most cases, the prior approval of such transactions by a general meeting of shareholders is necessary. There are a number of exceptions provided in the Groups of Companies Law of the Republic of Latvia (the "**Latvian Groups of Companies Law**") regarding transactions between companies in the same group which allow transactions between a parent company and its subsidiary to be exempted from the "arm's length" principle in order to allow unimpeded transfers of assets within a group, provided that certain legal requirements are met. As Citadele has not entered into a group of companies agreement, these exemptions do not currently apply.

In the ordinary course of its business, Citadele may, from time to time, enter into transactions with related parties. Parties are generally considered to be related if the parties are under common control or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. Other related parties include entities in which shareholders have significant influence.

Citadele conducts all transactions with related parties on an arm's length basis and on market terms, except in the case of the advisory services agreement with Ripplewood Advisors LLC where such assessment has not been yet performed. See section entitled *"Business Description —Material Agreements —Advisory services agreement"* below. Transactions between Citadele and related parties (as defined by applicable banking regulations) are subject to the laws and regulations promulgated by the Latvian Parliament, the Cabinet of Ministers and the FCMC, which set certain limits for both single transaction related party exposure and aggregate transaction related party exposure.

In connection with the Offer, any affiliate of Citadele acting as an investor for its own account, may take up the Bonds offered in the Offer and in that capacity may retain, purchase or sell the Bonds for its own account and may offer or sell such Bonds otherwise than in connection with the Offer. None of Citadele's affiliates intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

On 18 May 2015, Citadele entered into an advisory services agreement with Ripplewood Advisors LLC in connection with the provision of certain advisory services to Citadele's management. See section entitled *"Business Description —Material Agreements —Advisory services agreement"* below.

For information regarding loans and other financial commitments and guarantees in place between Citadele and members of Management, see "*Citadele Group —Corporate Governance —Management Loans*".

7.10. Asset, Liability and Risk Management

General

Citadele Group considers risk management to be an essential component of its management process. Citadele Group believes that it pursues prudent risk management policies that are aligned with its business and which aim to achieve effective risk mitigation. Citadele Group was created with a strong risk management structure already in place. The Supervisory and Management Boards have focused upon incrementally improving this risk management structure and intend to continue to do so in the future in order to ensure that Citadele Group's operations remain sustainable and comply with all legal, regulatory and best practice governance requirements.

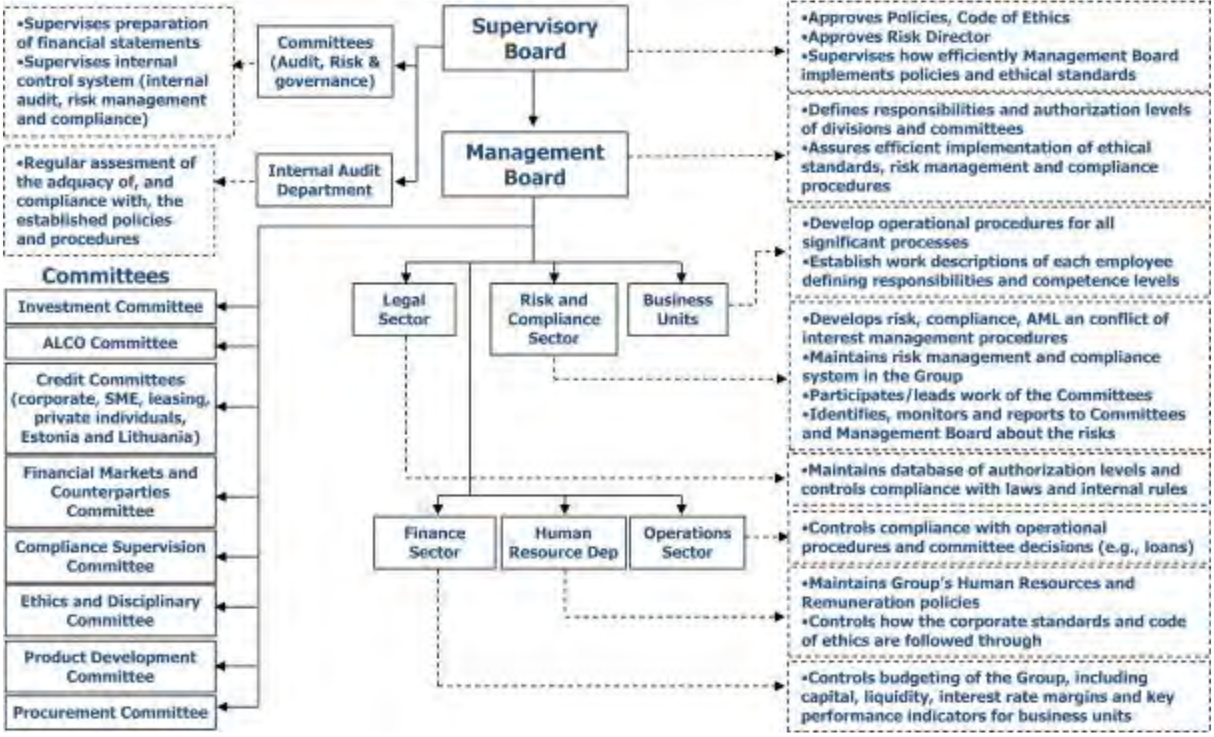
In order to assess and monitor complex risk exposures, Citadele Group applies a wide range of risk management tools in conjunction with risk committees, which include as its members a variety of employees across Citadele Group's various operations, in order to balance business and risk orientation across Citadele Group.

Citadele Group's risk management principles are set out in its risk management policy which outlines the three key "pillars" summarising Citadele Group's approach: (a) centralised risk management throughout Citadele Group (a "hub and spoke" mechanism in which risk management criteria, guidance and direction is set centrally and executed locally using on the ground knowledge); (b) highly developed anti-money laundering ("**AML**") and know-your-client ("**KYC**") procedures, which are processed by dedicated and highly experienced teams, separated from the other functions of Citadele Group, and rely on specifically designed IT systems, which capture and mitigate the risks involved; and (c) maintenance of good relationships and a strong track record with its regulators through ongoing and transparent dialogue and engagement across the seniority spectrum.

Citadele Group believes that it has a conservative risk tolerance across the organisational hierarchy and aims to ensure that it maintains a low overall risk exposure, a diversified asset portfolio, limited risks in financial markets and low levels of operational risk. Risks are always assessed in relation to their expected return. Exposures that are not acceptable are avoided, limited or hedged. Citadele 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.

Citadele Group's risk management is based fundamentally on the supervision of each and every employee and accepting responsibility for the nature of the transaction which each such employee carries out. The control over risk levels and compliance with the imposed limits are achieved by the existence of structured risk limit systems.

Risk management structure



Principal risk management bodies

Supervisory Board

The Supervisory Board consists of nine members and is responsible for reviewing Citadele Group's risk management functions. It approves Citadele Group's risk management policies as well as its code of ethics, and it also supervises the strategic development of risk management. The Supervisory Board provides recommendations to the Management Board regarding the implementation of internal regulations for the identification, measuring and control of major risk exposures. It also supervises Citadele Group's compliance with permitted risk levels which are set at what it believes to be appropriate levels based on the size of Citadele Group's balance sheet and Citadele Group's compliance with ethical standards. To do so, it is provided with monthly risk reports and financial reports from Citadele Group's different business operations as well as regular reporting from Citadele Group's dedicated Risk Director.

Management Board

The Management Board has responsibility for ensuring that Citadele Group's risk management processes are functioning correctly. It: (i) approves risk management procedures; (ii) establishes risk committees (except for the Audit Committee and the Risk and Governance Committee); (iii) sets limits on the levels of acceptable risk; (iv) approves decisions made by the responsible committees; (v) reviews monthly and quarterly risk reports; and (vi) appoints the Risk Director (who may be a member of the Management Board, as is the case at the date of this Base Prospectus). The Management Board reports to the Supervisory Board.

Risk and Compliance Sector

The Risk and Compliance Sector is a separate unit within Citadele Group that has oversight of Citadele Group's risk management. The Risk and Compliance Sector is responsible for: (i) credit risk identification, monitoring and reporting; (ii) measuring, monitoring and reporting on market risk; (iii) ensuring proper oversight of interest rate risk management, together with preparing analytical reports to be submitted to the Asset and Liabilities Management Committee ("**ALCO**") and the Management Board; (iv) currency risk monitoring and reporting; and (v) coordinating liquidity risk management and reporting. This body also maintains Citadele Group's AML and compliance systems.

Risk Director

Pursuant to Latvian legislation, Citadele Group is required to have a Risk Director function. As at the date of this Base Prospectus, the Risk Director for Citadele Group is the Chief Risk Officer, Valters Ābele. The Risk Director is responsible for performing an overall risk control function, including regular assessment of Citadele Group's compliance strategy as well as oversight of the risk management strategy. The Risk Director has the ability to veto all decisions taken by members of the Management Board (but not the decisions of the GMS or the Supervisory Board), and these decisions are then referred to the Supervisory Board for final determination. The Risk Director coordinates the operation of Citadele Group's structural units related to risk management.

Risk and Governance Committee

The Risk and Governance Committee is tasked with providing support to the Supervisory Board in the supervision of the management of current and future risks of Citadele Group. It provides recommendations to the Management Board regarding internal regulations for risk management, including in relation to the identification, measurement, and control of major risk exposures. It monitors these exposures and Citadele Group's compliance with the permitted levels of risk, and makes its assessments in the light of Citadele Group's equity as well as the Risk Director's reports on Citadele Group's risk profile, major risks and compliance levels.

Audit Committee

The responsibility for providing support to the Supervisory Board in relation to internal and external audits and related matters, including relations with the external auditors, developing internal audit plans and reviewing internal audit reports, as well as for supervision of the external audit process, lies with the Audit Committee. This body also reviews any specific incidents which may occur outside the regular internal or external audit reviews undertaken. The Audit Committee is comprised of Supervisory Board members. Following the Offer, the Audit Committee will appoint a new member as a member of the Audit Committee and such individual will not be a member of the Supervisory Board.

Internal Audit Division

The Internal Audit Division carries out Citadele Group's internal audit functions in accordance with the internal audit plans approved by the Supervisory Board. It also has responsibility for performing internal audits outside the regular internal audit reviews to the extent that facts, events or specific incidents require such additional review. It issues recommendations and monitors their implementation, and reports to the Supervisory Board.

Group Investment Committee

The Group Investment Committee ("**GIC**") is responsible for assessing and setting limits on the position risk of financial instruments held by Citadele Group for investment purposes by setting limits against Citadele Group's Tier 1 capital. The limits are set according to geography, sector (which include sovereign, corporate and financial) and asset class (such as bonds, mutual funds and derivatives). The GIC is also tasked with approving the investment guidelines in relation to Citadele Group's main securities portfolios in its Latvian, Lithuanian and Swiss operations. The decisions of the GIC are approved by the Management Board.

Assets and Liabilities Management Committee

The ALCO is responsible for assessing and making decisions in relation to interest rate risks. It sets the acceptable interest rate risk level and Citadele Group's internal limit system, as well as monitoring compliance with the approved limits and use of the instruments for the management of interest rate risk. It also sets customer deposit interest rates based on market analysis and Citadele Group's financing structure, as well as setting minimum lending rates for loans. Medium and long-term liquidity risk assessment and control also falls within the scope of the ALCO's responsibilities. The ALCO decisions are approved by the Management Board.

Financial Market and Counterparty Risk Committee

The Financial Market and Counterparty Risk Committee ("**FMCRC**") assesses and sets limits on currency risk. It defines acceptable currency risk levels and Citadele's internal limit system, as well as monitoring compliance with these limits. The FMCRC also assesses and sets limits on credit risk to issuers, counterparties and custodians which Citadele deals with. The FMCRC also sets, and reviews reports in relation to, the relevant limits applicable to other members of Citadele Group. The FMCRC's decisions are approved by the Management Board.

Credit Committee

The Credit Committee has responsibility for approving lending to non-financial institutions (other than bonds which are approved by the FMCRC) as well as issuing new loans or additional amounts to a single individual, SME or corporate customer or (in the case of a SME or corporate customer) to members of a customer's group which, in aggregate, are above EUR 0.3 million or, in the case of a restructuring (excluding issuing any additional amounts), EUR 0.7 million. In addition, the Credit Committee is responsible for approving Citadele's lending guidelines for loan products as well as approving any cooperation with independent collateral valuation companies, collateral insurance companies and other partners related to loan portfolio management. The Credit Committee is also responsible for approving lending by Citadele's subsidiaries and foreign branches. Decisions of the Credit Committee are approved by the Management Board. The Credit Committee is composed of three representatives from Citadele's business units, two representatives from risk units, one representative from the Legal Department and one representative from the restructuring unit.

SME Credit Committee and Private Individuals Credit Committee

The SME Credit Committee and the Private Individuals Credit Committee are each responsible for reviewing and approving loan issuance proposals below the value of EUR 0.3 million (or EUR 0.7 million in the case of a restructuring), but which do exceed the individual Management Board and senior management limits. See the section below "—*Credit Risk Management*".

Group Leasing Committee

The Group Leasing Committee is responsible for reviewing finance lease, operational lease, leaseback and factoring proposals when such proposals relate to transactions which do not exceed the limits that require approval by the Credit Committee (EUR 0.3 million) but do exceed the individual Management Board and senior management limits. See the section below "—*Credit Risk Management".*

Compliance Committee

The Compliance Committee is responsible for reviewing compliance risk monitoring and coordination as well as fulfilment of Citadele Group's AML and counter-terrorist financing policies. It is tasked with: (i) preventing money laundering and terrorist financing; (ii) protecting investors' interests by ensuring compliance with the requirements of Markets in Financial Instruments Directive (Directive 2004/39/EC) ("**MiFID**") (as implemented by Latvian legislation); (iii) preventing market abuse; (iv) developing Citadele Group's corporate governance policies, including the evaluation of conflicts of interest, as well as compliance management systems for Citadele Group; (v) supervising the protection of confidential information and personal data; and (vi) supervising the introduction of Unified Compliance Monitoring requirements across the overseas subsidiaries, branches and representative offices of Citadele Group. The decisions of the Compliance Committee are approved by the Management Board.

Treasury Sector

The Treasury Sector is responsible for the asset and liability management function which includes interest rate risk measurement and management, long-term liquidity planning and cash flow projections as well as funds transfer pricing rates for deposits and loans. It also deals with day-to-day foreign exchange risk management and daily liquidity risk management and control. Citadele Group's Treasury Sector is responsible for conducting investments in securities in Latvia, and supervising Citadele Group's bond investment activities in Lithuania and Switzerland.

Credit Risk Management

Credit risk management is performed pursuant to the Credit Risk Management Policy approved by the Supervisory Board. The goal of credit risk management is to achieve a diversified asset portfolio which generates profits that correspond to the assumed level of risk. The Credit Risk Management Policy sets the following principles:

- Citadele Group provides products and enters into transactions which carry a degree of risk due to dependence on customer creditworthiness, which, according to Citadele Group's assessment, have acceptable probability of occurrence. The assessment of a customer's creditworthiness is supported by the evaluation of customer's ability to repay the loan and provide collateral to mitigate or eliminate the risk of losses to Citadele Group;

- Citadele Group assumes risks which it believes can be assessed and managed. Citadele Group believes that it does not assume unacceptably high levels of risk; and
- Citadele Group assumes risks in economic fields and geographic regions in relation to which it has sufficient knowledge. Citadele Group constantly monitors different industry sectors, particularly those in which it has a significant concentration of customers, in order to be able to assess such sector risks and potential development trends.

Credit risk management is based on an adequate assessment of a credit risk and the decision-making in relation to such risk. In cases when significant risk is to be taken, the credit risk analysis is performed by an independent structural unit of Citadele Group's Risk and Compliance Sector. The credit risk analysis consists of assessment of the customer's creditworthiness, pledged collateral quality and liquidity. The analysis of a legal entity's creditworthiness includes an assessment of the industry in which it operates as well as an analysis of its current and forecasted financial situation. The assessment of a private individual's creditworthiness consists of the analysis of its credit history, income history, income projections and income against liabilities analysis, as well as an analysis of applicable social and demographic factors. Following the issuance of the relevant loan, the customer's financial situation and reliability in meeting its contractual obligations are regularly evaluated by Citadele Group in order to identify potentially problematic exposures and take the necessary steps to manage such risks.

As part of the credit risk management process, the Management Board has approved the introduction of a set of limits based on: (i) individual counterparties; (ii) groups of mutually related customers; (iii) large risk exposures; (iv) transactions with related parties; (v) industry; (vi) customer type; (vii) product type; and (viii) collateral type.

Loans underwriting

Citadele Group restricts individuals from having the ability to approve loans unilaterally. Certain members of senior management (being members of the Management Board or individuals who are heads of business divisions within Citadele Group) have been given the authority by the Management Board to approve low risk loans, being loans that have complied with all relevant internal procedures and parameters approved and required by Citadele Group, including being backed by appropriate collateral, and which do not exceed certain approval limits set by the Management Board.

There is an independent department within Citadele Group that checks all loan agreements before releasing the funds to the customer in order to ensure that they are consistent with the requirements set out in the decision made by the relevant committee or individual with the approval rights described above. The various credit committees retain the approval decision making authority for all higher risk credit decisions or higher value exposures.

Citadele Group is a primary dealer in Latvian and Lithuanian government bonds. Other bonds are usually acquired on the secondary markets for liquidity or investment purposes. When acquiring corporate bonds, Citadele Group always analyses the business profile and financial performance of the issuer, takes into consideration the credit ratings assigned to it by international rating agencies as well as market-based indicators. Sovereign bonds are assessed in a similar fashion. The FMCRC is responsible for approving limits for different types of capital markets activities and its decisions are approved by the Management Board. All lending to non-financial institutions which is not in the form of bonds must be approved by the Credit Committee.

Monitoring

After a loan is issued or a fixed income security is acquired, the customer's financial position and the issuer's risk indicators are monitored on a regular basis to identify potential credit quality deterioration in a timely manner. The loan monitoring process covers the monitoring of the financial results, financial position and cash flows of the borrower, observance of the loan repayment schedule and monitoring collateral quality.

Citadele Group reviews its loan portfolio and securities portfolio on a regular basis to assess its quality and concentration levels, as well as to evaluate portfolio trends. Responsibility for monitoring the quality of the loan portfolio is initially placed upon the individual loan managers, who assess the quality of the loans on a daily basis. Monthly reports are then prepared for the Management Board and Supervisory Board in relation to all risk categories and for the Credit Committee in relation to credit risk. Business owners and department heads receive credit risk reports on a weekly basis. Responsibility for monitoring the fixed-income securities portfolio is placed on the Risk and Compliance Sector, which closely follows rating and outlook changes relating to issuers of fixed-income securities in Citadele Group's portfolio. The Risk and Compliance Sector prepares credit profile reviews for, and offers recommendations about exposure limits to, the FMCRC.

In addition, there are individual quality assessments by personnel within Citadele Group's risk function of all loans in excess of EUR 0.7 million on a quarterly basis and assessments on a portfolio basis for all other loans. Key impairment indicators include: (a) more than 30 days' delinquency; (b) capitalisation of interest, postponement of interest payments or principal repayments and loan payment grace periods; (c) loss of employment, weakened market position or negative changes in other economic or competitive indicators; (d) utilisation of borrowed funds otherwise than as agreed; and (e) the loan being transferred to the legal proceedings department. The Risk and Compliance Sector also performs collective quality assessment for small exposures and those where the individual assessment resulted in no impairment.

Having considered the factors described in the paragraph above, risk analysts within Citadele Group's Risk and Compliance Sector consider other relevant factors, including the valuation of collateral when setting an impairment level for a loan that is individually assessed. For loans that are assessed only on a portfolio level, key parameters when determining impairments for the portfolio include the probability of default, the losses on a default and the average duration of the loans.

Citadele Group manages country risk wherever possible based on the country of origin of the exposure rather than the customer's country of domicile or registration, meaning that Citadele Group focuses on where the customer performs its economic activity, derives profit or where its assets are situated.
The ALCO sets an overall cap applicable to all types of exposure in a particular country, including investment, lending, and liquidity management related activities. The concentration limits are reviewed by the ALCO at least once per year.

In addition to the credit risk which is inherent in Citadele Group's loan portfolio and fixed-income securities portfolio, Citadele Group is also exposed to credit risk arising 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. Citadele Group manages its exposure to commercial banks and brokerage companies on a regular basis by monitoring 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 FMCRC. Citadele 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. As at the date of this Base Prospectus, none of Citadele Group's derivative exposures was overdue.

Market Risk Management

Citadele Group recognises two major types of market risk: position risk and foreign exchange risk. Position risk is the risk that Citadele 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 interest rates, asset values and other factors. General interest rate risk and specific interest rate risk are the main risks which arise from fair valued bond portfolio held by Citadele Group for investment and liquidity purposes. Foreign exchange risk is a risk of loss arising from fluctuations in currency exchange rates. Market risk is assessed and limits are set by the Group Investment Committee and the FMCRC, and the decisions of these committees are approved by the Management Board.

Citadele Group manages market risk by developing investment guidelines for every significant portfolio, which restrict, among other things, the duration and credit quality profile of investments, as well as by setting individual limits for issuers and financial instruments, to keep limit volumes closely linked to the results of risk assessments. To assess position risk Citadele Group uses sensitivity stress testing. Furthermore, Citadele Group takes steps to minimise the percentage of its capital which could be affected by different shock scenarios.

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

Interest Rate Risk Management

Interest rate risk is related to the possible negative impact of interest rate changes on Citadele Group's income and economic value. Citadele Group is exposed to interest rate risk in its borrowing, lending and deposit taking activities, as well as management of its securities portfolio. Interest rate risk management is carried out in accordance with the interest rate risk management policy and is monitored and reported by the Risk and Compliance Sector, while management is performed by the Treasury Sector. Interest rate risk is managed by using repricing gap analysis of the risk sensitive assets and liabilities, duration analysis and sensitivity analysis of changes in economic value and net interest income under different scenarios. Based on the market analysis (including the interest rates set by its competitors) and Citadele Group's financing structure, the ALCO sets the interest rates for customer deposits.

Currency Risk Management

Citadele Group has a low risk appetite for foreign exchange risk and believes that it is conservative in its approach to taking currency exposures and subsequently managing them. Citadele Group aims to keep exposures at levels that would produce a small net impact even in periods of high volatility. Currency risk management is carried out in accordance with Citadele Group's currency risk management policy. Citadele Group has set a limit for open currency positions in each currency at 10% of its equity, and a limit for its total open currency positions at 20% of its equity. These limits are in compliance with the requirements of Latvian legislation. Citadele Group also makes use of several widely applied methodologies, such as value at risk, expected shortfall and scenario analysis to control the currency risk.

Liquidity Risk Management

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. Citadele Group manages its liquidity risk in accordance with its 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 ALCO. All ALCO decisions are approved by the Management Board. The Risk and Compliance Sector provides information on a monthly basis to the ALCO and the Management Board about the level of the assumed risk as part of the reporting and supervision process. The Management Board in turn briefs the Supervisory Board annually on liquidity risk management.

Liquidity risk for Citadele Group is assessed in each currency in which Citadele 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 Citadele 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 Citadele Group with risk tolerances defined for the outcomes of those scenarios. Furthermore, Citadele 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 behavior, Citadele Group regularly analyses liquidity term structure and sets corresponding risk tolerances.

Citadele'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 Citadele Group. Citadele 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 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 30 days span and current liabilities of the bank due in the next 30 days. Citadele's individual liquidity ratio requirement remained stable at 40% for the last 3-year period. Citadele was in compliance with the liquidity ratio requirements issued by the FCMC and met mandatory reserve requirements defined by the Bank of Latvia. In addition to a Latvia-specific liquidity ratio, the FCMC has also introduced a minimum requirement for a Basel III proposed Liquidity Coverage Ratio (LCR) with a phase-in period ending in 2018. The corresponding minimum levels to be maintained in 2016, 2017 and 2018 are 70%, 80% and 100%, respectively. Citadele is fully compliant with the current requirements and has implemented necessary measures to ensure smooth compliance with future LCR thresholds.

The following table sets out Citadele's liquidity ratios for the periods indicated, calculated in accordance with the requirements of the FCMC. The liquidity ratio is calculated as unencumbered liquid assets divided by short term liabilities. Unencumbered liquid assets consist of cash at hand, demand claims on the Bank of Latvia and solvent credit institutions, claims on the Bank of Latvia and solvent credit institutions with a residual maturity of less than 30 days, and deposits with other maturity, where the contract provides for their early withdrawal (excluding the amount of penalty for early settling liabilities, if any), and investments in financial instruments provided that they have a regular and unlimited market, i.e., they can be sold in a short period of time without material loss or used as loan collateral. The liquidity ratios presented here are not comparable with the capital ratios presented in this Prospectus for Citadele Group.

Six months ended	**Highest**	**Lowest**	**Average**	**Year (period)-end**
30 June 2016	61%	57%	59%	61%
30 June 2015	63%	59%	61%	60%
Year ended				
31 December 2015	63%	55%	59%	57%
31 December 2014	59%	50%	55%	59%
31 December 2013	58%	53%	56%	56%

The following table sets out certain capital ratios as at the dates indicated. Unless otherwise indicated, the information presented is for Citadele Group.

	As at 30 June		**As at 31 December**	
Liquidity Ratios	**2016 (unaudited)**	**2015 (unaudited)**	**2015 (unaudited)**	**2014 (unaudited)**
Net Stable Funding Ratio(1).......................	120%	124%	136%	130%
Liquidity Coverage Ratio(2).......................	193%	281%	239%	543%

(1) Net Stable Funding Ratio represents Citadele Group's long term assets as a percentage of long term, stable funding.

(2) Liquidity Coverage Ratio represents Citadele Group's unencumbered high quality liquid assets that can be liquidated easily and quickly in private markets as a percentage of its net cash outflows in a 30 calendar day liquidity stress test scenario.

Control of Citadele Group's collateralisation level

During the underwriting process, Citadele Group sets its required level of collateralisation using credit calculators adjusted to the type of product and its term. When the minimum level of collateralisation, as measured by the economic value of the proposed collateral, is not met, the amount of the loan available is reduced accordingly.

Generally, Citadele Group's "regular loans" and "utilised credit lines" are secured by specific collateral or commercial pledges (a floating security over assets of the pledgor). In general, credit cards and overdrafts are granted to customers on the basis of an assessment of their cash flow and, in most cases, no collateral is required. Finance leases are secured by the relevant leased out property.

Operational Risk Management

Citadele Group has adopted the Basel Committee on Banking Supervision's definition of operational risk, being the risk of losses resulting from inadequate or failed internal processes, people and systems or from external events. It includes legal risk (such as risk of penalty fees or sanctions applied by external institutions, losses inflicted as a result of litigation and the risk of other similar adverse events) but excludes strategic risk and reputational risk. Further operational risk is divided into the following categories: personnel risk, process risk, IT and system risk and external risk.

Operational risk is a crucial area of risk for Citadele Group, and it is therefore managed using an integrated and comprehensive framework of policies, methodologies, procedures and regulations for identification, analysis, mitigation, control and reporting of operational risk. Citadele Group's operational risk management processes are integral to all business activities and are applicable to all employees and members of Citadele Group.

The goal of Citadele 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 Citadele 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.

Operational risk management measures are coordinated by the Operational Risk Control Department within the Risk and Compliance Sector, a separate structural sub-unit which is not related to business transactions. It reports directly to the Chief Risk Officer and provides regular operational risk reports to the Supervisory Board and the Management Board. It is responsible for the maintenance and development of the operational risk management framework and development and encouragement of high levels of risk awareness among employees within Citadele Group.

The operational risk management framework at Citadele Group assumes that all of Citadele Group's products, operations, processes and systems have a specific operational risk and that certain of these risks cannot always be quantified or quantified accurately within the timeframe required.

Citadele Group endeavours to avoid operational risks with a potential impact exceeding 10% of its net annual revenues and with a probability of occurrence of at least once per ten years, or risks with unquantifiable impact which are unmanageable, irrespective of the financial gains this could bring.

Some of the key tools for restricting operational risks are: segregation of functions and responsibilities, documentation of the assignment of authorities, the separation of duties within the decision-making process and the use of a "four-eyes" principle (whereby the final performance of a transaction or operation must be approved by at least two independent employees or structural units). Citadele Group also has in place a centralised operational risk event reporting system, which has recorded over 230 reports on operational risk events with direct losses totalling EUR 2.5 million and potential losses totalling EUR 3.5 million, as at 30 June 2016. This data is used in setting Citadele Group's risk management policies and procedures.

Compliance Risk Management, Anti-Money Laundering and Anti-Bribery and Corruption

Citadele Group considers compliance to be an indispensable cultural value of Citadele Group, and its implementation starts from the very top tiers of management. Citadele Group believes that it identifies, implements and complies with the requirements stated in mandatory compliance laws, regulations, guidelines and standards in force and refuses to perform actions which would result in failure to comply with mandatory laws and regulations. Citadele Group assesses economically justified solutions for the implementation of compliance laws and regulations, which are embedded in Citadele Group's internal regulations and are binding on the Citadele Group's employees.

In Latvia, compliance risk is identified by: (i) the Legal Department tracking changes to relevant laws and regulations, which are reflected in Citadele Group's internal regulations; (ii) active involvement in the committees of the ACBL and the workshops and seminars held by the FCMC; and (iii) assessing Citadele Group's internal regulations, customer complaints and reports of compliance breaches by employees. Similar procedures have been implemented in the Lithuanian and Swiss subsidiaries.

Compliance risk management is carried out through identification, assessment, monitoring and reporting in relation to compliance risk. Citadele Group's compliance policies are binding across all Citadele Group companies and the compliance department heads at each member of Citadele Group are responsible for the implementation and performance of the compliance department in line with Citadele Group's group-wide policies as well as laws and regulations which are applicable to that Citadele entity. The compliance department heads at each member of Citadele Group are also responsible for reporting to Citadele's AML Division and/or Compliance Division.

The compliance function is performed by separate structural units at Citadele Group: the AML Division and Compliance Division of the Risk and Compliance Sector, acting under the authority of the Chief Risk Officer.

The AML Division is in charge of the anti-money laundering and counter-terrorist financing function, including: (i) the identification, documentation, assessment, management and control of risks related to money laundering and terrorist financing, as well as reporting on such risk; (ii) producing detailed explanations of, and monitoring the implementation of, the relevant control mechanisms in relation to terrorist-financing and money-laundering risk; (iii) monitoring clients and client transactions within the client due diligence framework; (iv) assessing suspicious and unusual transactions identified by Citadele Group employees, and reporting these transactions to the authorities if required; (v) deciding on the acceptance or termination of business relationships based on the above; (vi) ensuring compliance with sanctions by introducing frameworks for monitoring clients and their transactions; and (vii) monitoring risks related to payment card acceptance and issuance.

The Compliance Division, meanwhile, is responsible for: (i) the supervision and implementation of new internal policies and procedures to ensure compliance with binding laws and regulations; (ii) the development and documentation of procedures to ensure Citadele Group's employees follow compliance laws and regulations; (iii) the monitoring of compliance with Citadele Group's internal regulations; (iv) the assessment of the impact of potential changes in law and regulations which could affect Citadele Group's operations; and (v) the provision of advice, support and training to Citadele Group employees.

The responsibility for risk management in relation to money laundering and terrorist financing lies with the Board member who is a member of the Risk and Compliance Sector together with the Money Laundering and Reporting Officer and AML Division within the Risk and Compliance Sector. The Compliance Committee in turn oversees control over the fulfilment of Citadele Group's AML and counter-terrorism financing policies and programmes.

Citadele Group implements strict due diligence procedures when taking on new customers in order to be fully satisfied as to their identity, source of funds and economic rationale for opening an account. Enhanced due diligence ("**EDD**") measures are adopted in case of high risk indicia found as well as expected deposits from non-resident legal entities and individuals, regardless of their jurisdiction. This EDD includes, amongst other measures, matching client data with the sanction lists, checking the origin of funds, identifying the underlying beneficiary and ascertaining whether the expected transactions are in line with the client's profile. Citadele Group also monitors existing customers. It achieves this through the use of a fully automated AML client transaction monitoring system AML Manager, which is provided by Fiserv. This system generates alerts if the client transactions are not carried out in accordance with the declared client activity as well as on the basis of other criteria, for instance, when transactions involve large amounts exceeding a certain threshold, or on the detection of unusual behaviour, thus triggering immediate additional EDD with respect to the client. An additional function of the T24 system (in combination with sanctions screening system Compliance Link) is used to screen online customer transactions against OFAC, UN, EU and local FIU sanctions lists and internally blacklisted persons. All customer data are screened against information in the Accuity database, which is also used for PEP identification purposes. Details of the customer EDD process and the customer monitoring process is documented and traceable in Citadele's IT systems. This includes Citadele's decisions regarding reporting suspicious activity or sending unusual transaction reports to the Office for Prevention of Laundering of Proceeds Derived from Criminal Activity as well as decisions to terminate relationships with clients due to non-compliance with Citadele's AML procedures.

Citadele Group defines corruption as the abuse of public or private office for personal gain. This relates to any behaviour in which individuals in the public or private sectors improperly and unlawfully enrich themselves or those close to them, or induce others to do so, by misusing their position. Citadele Group is committed to the prevention of corruption and aims to ensure that its reputation and integrity are maintained at all times. Citadele Group's anti-corruption function is performed by the Compliance Division with input from other units of Citadele Group which have particular anti-bribery functions, such as the Security Department and the AML Division, which deals with monitoring transactions internally, and the HR department, which is involved in certain ethical decision making.

Citadele Group believes that it does not engage, and has not engaged, in risk transactions with countries or the residents of countries which are involved in money laundering, criminal activity or financing terrorism, or where such activity is suspected to have taken place.

Changes to risk management that are known or anticipated to come into effect in the future

Citadele is planning to increase the individual approval limits and the limits applicable to certain committees which will result in less centralised credit risk decision making throughout Citadele Group. Citadele Group does not expect the increased approval limits to have any material impact on Citadele Group's overall risk profile or lead to an increase in losses. These increases in the individual approval limits will also include extended decision making rights of the relevant employees regarding the issuance of loans. This change will ensure a more efficient decision making process and allow Citadele Group to provide a faster service for its customers.

Currently a 100% risk weighting is applied on mortgages. In order to qualify for the lower risk weighting (35%) on residential mortgages, certain requirements have to be met such as monitoring the assets regularly, having checks in place that the loan issued is being utilised for specific purposes such as renting/living-out of the property, checking that the borrower's income is not dependent on the underlying mortgage, and other requirements. Citadele has not yet established systems to satisfy these requirements and therefore, the risk weighting of the residential mortgages is normally at 100%. During the last quarter of 2016, Citadele intends to review its internal processes in order to be eligible to apply a 35% risk weighting on mortgages. The impact of such review on Citadele and Citadele Group's capital has not been assessed.

Capital Adequacy Management

CRR requires Latvian banks to maintain a minimum capital adequacy ratio of 8.0% of the total risk weighted exposure amounts, based on financial statements prepared under IFRS as adopted by the EU. The rules under the CRD IV package prescribe a 4.5% minimum common equity Tier 1 capital ratio and 6.0% minimum Tier 1 capital ratio.

According to CRR and CRD IV, the supervisory authority can impose additional capital requirements on credit institutions depending on the analysis of their specific risk profiles. CRD IV also includes certain mandatory micro- and macro-prudential capital buffers. The FCMC has recently informed Citadele of the individually calculated standalone minimum capital adequacy ratio according to Citadele's non-resident business model of 8.4% plus Basel III capital conservation buffer of 2.5% which adds to 10.9% in total. As at 30 June 2016, Citadele Bank satisfied this minimum capital adequacy ratio.

According to the most up-to-date information available to Citadele Group, the FCMC plans to implement several changes in regulation, which will have a material effect on the capital requirements of Citadele Group. In addition to uniform minimum capital charge of 8.0%, two additional mandatory layers of capital requirements will be introduced: the first should cover the so-called Pillar 2 risks that are not considered, nor are insufficiently covered by baseline requirements and that are estimated within ICAAP framework; the second consists of Basel III micro- and macro-prudential capital buffers. Pillar 2 capital surcharge as estimated during the most recent ICAAP exercise performed as at 31 December 2015, stood at 4.4%. Citadele Group is subject to a 2.5% capital conservation buffer requirement and will become subject to other systemically important institution (O-SII) buffer requirement of 1.5% (0.75% from 30 June 2017; 1.5% from 30 June 2018). Other relevant buffer requirements – countercyclical and systemic risk – are relatively minor (estimated to be 0.11%). While Citadele estimates that its Pillar 2 surcharge may decrease as a result of the amendments introduced by the FCMC in the updated ICAAP guidelines, the conservative estimate of Citadele Group's total capital requirement as at the end of 2017 is 15.8% and 16.5% as at the end of 2018. Non-compliance with buffer requirements would result in limiting distributions in connection with Common Equity Tier 1 capital (e.g. dividends, variable pay). Non-compliance with Pillar 2 requirement is understood to be equivalent to breaching the baseline 8.0% threshold. Therefore, 12.4% would effectively become a new binding minimum. Credit institutions are expected to submit ICAAP reports that would incorporate all of the above changes by 31 May 2017. The FCMC also informed Citadele that until the completion of supervisory review process in 2017, the total effective capital requirement, including capital conservation buffer, but excluding any other buffers, will correspond to a 13.5% calculated in the last iteration of ICAAP (8% plus 4.4% Pillar 2 surcharge plus 1.1% internal stress test buffer. The treatment of internal stress test buffer is not yet completely clear under the new regulations). Typically, a bank will hold a capital buffer above the minimum requirements, which is the approach currently followed by Citadele Group. Citadele Group's management anticipates that both Citadele as a standalone entity and Citadele Group as a whole will comply with both its minimum capital adequacy ratio target and the minimum Pillar 2 target contained within its ICAAP submission approved by the FCMC, as at 31 December 2015. However, Citadele anticipates that the optimal Pillar II target, which includes also capital buffers, will only be achieved on the basis that Citadele Group continues to direct its operating profits towards increasing its capital position, as well as successful placement of the subordinated debt under this program.

Citadele's capital adequacy calculation in accordance with FCMC regulations is disclosed as set out below.

Capital adequacy calculation as at 30 June 2016, 31 December 2015 and 31 December 2014

The following table sets forth the capital adequacy calculation of Citadele Group and Citadele in accordance with EU regulations (Basel III framework, Pillar I) as implemented by FCMC regulations as at 30 June 2016, 31 December 2015 and 31 December 2014:

	As at 30 June 2016	**As at 31 December 2015**	**As at 31 December 2014**	**As at 30 June 2016**	**As at 31 December 2015**	**As at 31 December 2014**
	Group(1)	**Group(1)**	**Group(1)**	**Bank**	**Bank**	**Bank**
					EUR thousands	
Common equity Tier 1 capital						
Paid up capital instruments	156,556	156,556	146,556	156,556	156,556	146,556
Retained earnings and eligible profits	55,260	55,431	28,750	44,293	44,293	24,747
Deductible other intangible assets	(2,982)	(2,506)	(1,690)	(2,664)	(2,213)	(1,456)
Other capital components, deductions and transitional adjustments, net	(5,680)	(3,915)	(4,689)	(3,765)	(432)	(820)
Tier 2 capital						
Eligible part of subordinated liabilities	25,339	30,633	31,568	25,339	30,633	31,568
Own funds	**228,493**	**236,199**	**200,495**	**219,759**	**228,837**	**200,595**
Risk weighted exposure amounts for credit risk, counterparty credit risk and dilution risk						
Central governments or central banks	26,612	16,500	16,596	21,804	12,250	11,252
Regional governments or local authorities	1,174	806	35,611	348	453	35,082
Public sector entities	52	23	43	52	23	43
Multilateral Development Banks	2,510	2,578	1,052	1,759	1,833	407
Institutions	151,757	134,322	179,590	186,185	142,061	167,617
Corporates	748,560	730,788	631,548	696,059	684,767	649,329
Retail	129,681	111,333	98,655	52,865	43,908	60,870
Secured by mortgages on immovable property	255,329	255,935	236,922	212,890	200,881	155,962
Exposures in default	73,120	72,986	38,807	70,828	72,835	34,216
Items associated with particularly high risk	33,699	37,213	158,356	33,305	36,691	163,832
Claims on institutions and corporates with a short-term credit assessment	260	1,178	4,334	-	-	-
Collective investments undertakings	10,563	11,179	16,389	10,563	11,179	10,882
Equity	12,591	19,407	10,938	63,828	70,300	62,875
Other items	140,216	131,813	177,823	62,706	55,617	110,900
Total exposure amounts for position, foreign currency open position and commodities risk						
Traded debt instruments	17,998	13,881	7,126	16,898	11,099	2,427
Equity	-	249	867	-	-	-
Foreign Exchange	10,382	7,878	9,741	3,342	1,176	1,647
Commodities	-	6,975	-	-	6,975	-
Total exposure amounts for settlement	-	-		-	-	-
Total exposure amounts for operational risk	206,687	206,687	196,501	165,649	165,649	157,347
Total exposure amounts for credit valuation adjustment	2,013	1,067	1,142	1,927	1,060	1,135
Total risk exposure amount	**1,823,204**	**1,762,798**	**1,822,041**	**1,601,008**	**1,518,757**	**1,625,823**
Total capital adequacy ratio	**12.5%**	**13.4%**	**11.0%**	**13.7%**	**15.1%**	**12.3%**
Common equity Tier 1 capital ratio	**11.1%**	**11.7%**	**9.3%**	**12.1%**	**13.1%**	**10.4%**

Transitional and fully-loaded capital ratios

The following table sets out certain capital ratios as at the dates indicated. Unless otherwise indicated, the information presented is for Citadele Group. The key difference between transitional and fully-loaded capital ratios arises as a result of differing treatment of deferred tax asset. In the case of fully-loaded capital ratio, deferred tax asset arising from previous years' losses is deducted from CET1 in full.

	As at 30 June		As at 31 December	
Capital Ratios(1)	**2016 (audited)**(9)	**2015 (audited)**	**2015 (audited)**	**2014 (audited)**
Basel II/Basel III Transitional Basis(2)				
Total capital adequacy ratio(3)	12.5%	12.8%	13.4%	11.0%
Common equity Tier 1 capital ratio(4)	11.1%	10.7%	11.7%	9.3%
Leverage Ratio(5)............	6.3%	6.3%	6.8%	5.7%
Risk weighted assets(6) ...	1,823,204	1,678,194	1,762,798	1,822,041
Risk weighted assets as a percentage of total assets(7)	58.1%	60.6%	59.5%	63.8%
Basel III Fully Loaded Basis(8)				
Total capital adequacy ratio(3)	11.7%	11.3%	12.6%	9.5%
Common equity Tier 1 capital ratio(4)	10.3%	9.2%	10.9%	7.8%
Leverage Ratio(5)............	5.9%	5.7%	6.3%	5.0%
Risk weighted assets(6) ...	1,823,204	1,667,522	1,762,798	1,811,326
Risk weighted assets as a percentage of total assets(7)	58.1%	60.2%	59.5%	63.5%

(1) The capital ratios for the years ended 31 December 2015, 31 December 2014 and the six months ended 30 June 2016 and 30 June 2015 have been calculated in accordance with FCMC regulations at that time (Basel III framework, Pillar 1). AAS "CBL Life" is not included in Citadele Group's consolidation group for capital adequacy purposes, and the value of Citadele's investment in AAS "CBL Life" constitutes a risk exposure for capital adequacy purposes. See Note 15 to the Audited Interim Consolidated Financial Statements and Note 34 to 2015 and Note 33 to the 2014 Audited Consolidated Financial Statements for more information. Total capital adequacy ratio and common equity Tier 1 capital ratio, each on a Basel III transitional basis, for the six months ended 30 June 2016 and 30 June 2015 are included in the 2016 Audited Consolidated Interim Financial Statements. Total capital adequacy ratio and common equity Tier 1 capital ratio, each on a Basel III transitional basis, for the years ended 31 December 2015 and 31 December 2014 are included in the 2015 and 2014 Audited Consolidated Financial Statements. The other capital ratios set forth in this table have not been audited or reviewed. Profits as at 30 June of the respective year have not been included in the calculations of Capital Ratios.

(2) The capital ratios set forth under the heading Basel II/Basel III transitional basis are calculated on a Basel III transitional basis for years ended 31 December 2015 and 31 December 2014 and the six months ended 30 June 2016 and 30 June 2015 and in accordance with the grandfathering rules under the CRR/CRD IV which allow for the transitional treatment of certain capital instruments, such as additional Tier 1 capital and Tier 2 capital, that are not compliant with the new rules, and permit for a gradual reduction in recognition as regulatory capital.

(3) Total capital adequacy ratio represents Citadele Group's capital as a percentage of its risk weighted credit exposures.

(4) Common equity Tier 1 capital ratio represents Citadele Group's core equity capital as a percentage of its risk weighted assets.

(5) Leverage Ratio represents Citadele Group's Tier 1 capital as a percentage of its leverage ratio exposure measure.

(6) Risk weighted assets is calculated as total risk exposure amount at the end of the relevant period.

(7) Risk weighted assets as a percentage of total assets is calculated as total risk exposure amount divided by total assets.

(8) The capital ratios set forth under the heading Basel II/Basel III fully loaded basis are calculated on a Basel III fully loaded basis for the six months ended 30 June 2016 and 30 June 2015 and for the years ended 31 December 2015 and 31 December 2014 which approximates the capital position assuming all of the transitional arrangements under the CRR/CRD IV regime have expired as of the dates presented, and thus represents the full implementation of the CRR/CRD IV rules.

(9) All data are audited except for Leverage ratio

8. Business Description

8.1. Overview

Citadele Group is a leading universal banking group and the largest non-Nordic owned universal bank in Latvia. As at 30 June 2016, Citadele has the third highest number of active customers (approx. 280,000), the third highest number of internet banking users (approx. 126,000 active users) and the third largest network of branch offices in Latvia, according to the ACBL. Furthermore, as at the same date, Citadele had a total market share in Latvia of 7.4% in total loans, 9.5% in deposits and 8.7% in total assets, according to data published by the ACBL.

Citadele Group was established on 30 June 2010 following the nationalisation and subsequent restructuring of AS Parex Banka ("**Parex**"). As part of the restructuring, certain of Parex's assets and liabilities relating to banking and asset management operations, including a portfolio of loans which were less than 60 days in arrears, together with certain Parex subsidiaries related to these assets and liabilities, were transferred to a "good bank", AS Citadele Banka. The remaining assets (along with related liabilities) were retained by Parex which was later re-branded as AS Reverta. The two entities are no longer affiliated in any manner and Citadele has no liabilities in respect of assets remaining with AS Reverta. Due to the nationalisation of Parex, Citadele was subject to a number of conditions imposed by the EC, which included certain growth and capitalisation restrictions. These restrictions ceased to apply when a consortium led by RA Citadele Holdings, LLC (a wholly owned subsidiary of Ripplewood Advisors LLC) acquired the majority stake in Citadele from the Latvian Privatisation Agency on 20 April 2015. As a result, Citadele's current strategy has been formulated without the limitations associated with the EC conditions (see section entitled "*Citadele Group —History and Development of Citadele Group"* above).

Citadele Group offers a wide range of banking products to its retail, SME (including micro SME) and corporate customer base. It also provides wealth management, asset management, life insurance, pension and leasing and factoring products. Citadele has won numerous local and international awards for its business, customer service and innovative technology applications, including the 2016 award for the best transformation in Eastern Europe from the global financial journal, Euromoney, the 2014 award for the second consecutive year for the best locally owned bank in Latvia from the global financial journal, Euromoney, the Bank of the Year award by 2014 Acquisition International in Latvia, and being named among the best 100 companies in Europe by the European Business Awards in 2013. As at 30 June 2016, Citadele Group employed 1,666 people. Its distribution network comprises 35 branch offices in Latvia, 8 branch offices in Lithuania and 1 branch office in Estonia and 1 branch office in Switzerland as well as its online and mobile banking platform, the latter of which currently is only available in Latvia.

In Latvia, Citadele Group operates through three main segments according to customer profile:

- the Retail and SME segment provides a wide range of daily banking products and services, current and deposit accounts, debit and credit cards, mortgages and consumer loans to private individuals, as well as card acquiring services for small merchants, short and long term credit facilities to legal entities with an annual turnover of up to EUR 7 million;
- the Corporate segment serves corporate customers with an annual turnover in excess of EUR 7 million, a loan exposure of more than EUR 2 million, or total assets comprising more than EUR 5 million. Core products include business development loans, short term credit lines, trade finance products, card acquiring services and general deposit and cash management services; and
- the Private Capital Management segment provides a wide range of private banking, wealth management and transaction services to 10,600 high net-worth local and international customers through dedicated relationship managers.

During the financial period under review in this Base Prospectus, Citadele Group's principal activities, including the main categories of products and services offered, have remained consistent.

In addition to its operations in Latvia, Citadele Group has banking, leasing and private capital management operations in Lithuania and Estonia and offers private banking and wealth management services through its subsidiary in Switzerland.

Citadele Group's strategy, which was adopted following the acquisition of the majority stake in Citadele by the investment consortium led by RA Citadele Holdings, LLC, is aimed at strengthening Citadele Group's market position in the domestic Latvian market by becoming the primary banking partner for its existing and new customers. Management believes that this strategy will deliver greater customer engagement and will increase Citadele Group's revenue-earning potential. Citadele Group intends to maintain all of its existing business lines, whilst focusing more specifically on growing the proportion of retail and SME segment in its overall balance sheet mix. Beyond the Latvian market, Citadele Group intends to expand its activities in Lithuania and Estonia by focussing on the same segments as in Latvia, with an initial emphasis on the SME segment followed by a subsequent expansion into the retail segment. Citadele's Management Board also intends to strengthen its current private banking and wealth management proposition by integrating more fully the private capital management segment and the operations and products offered by its Swiss private bank.

Citadele's head office is located at Republikas laukums 2A, Riga, LV-1010, Latvia, and its telephone number is +371 6701 0000.

8.2. Principal business activities

Introduction

Citadele Group provides a wide range of banking services for a broad spectrum of customers. The three core areas of business activity undertaken by Citadele Group in Latvia are retail and SME, corporate and private capital management.

Citadele Group also has operations in relation to asset management, leasing, life assurance and pension fund management and also operates outside Latvia in Lithuania, Estonia and Switzerland as described more fully below.

Distribution channels

Citadele Group has a number of key distribution channels which are used across its business areas and segments including:

- branch offices: Citadele Group has an extensive network of branch offices across Latvia and Lithuania which it inherited from Parex (which was, at its peak, a much larger business than Citadele) and which, therefore, provides a strong platform for Citadele Group to leverage its business, attract customers and grow in the future. As at the date of this Base Prospectus, Citadele Group currently has 35 branch offices in Latvia, 8 branch offices in Lithuania, 1 branch offices in Estonia and 1 branch offices in Switzerland. Whilst Citadele aims to deliver a personalised service for its customers in its branch offices, customers are sometimes redirected towards automated cash operations if required to enable sales managers to focus on advisory services for revenue generation. This extensive network of branch offices enables Citadele Group to provide an efficient customer service to customers, enhances the positive perception of Citadele Group's brand and increases the opportunities to advertise, highlight, and cross sell Citadele Group's products more effectively. As part of its strategy, Citadele Group also intends to review and if necessary upgrade and modernise its network of branch offices;
- relationship managers: Citadele Group has recruited relationship managers to provide advice to customers across its business segments with a view to selling Citadele Group's products. These relationship managers are important, from the perspective of both creating and maintaining relationships with Citadele Group's customers, such as by supporting the customer during the underwriting process and during the life of the loan. Citadele Group has invested in its relationship managers by providing them with extensive training focused upon sales. Relationship managers increase the opportunities to sell additional products to its customers more effectively.
- online and mobile banking presence: Citadele Group believes that its online banking offering is crucial to retaining existing customers and attracting new customers. Furthermore, Citadele Group's ability to tailor its online banking offering to the specific local requirements of each of the Baltic States plays an important role in reinforcing the market perception that Citadele Group is responsive and in touch with the differing and specific needs of its local customers across the Baltic States. Citadele Group is continually upgrading its online banking offering to its customers to enhance functionality, security and usability to ensure that Citadele Group is matching or exceeding the online offering of its competitors. Citadele has also implemented enhanced security through the introduction of Mobilescan^{TM} software on banking authorisation devices, thus customers can use their mobile phones for 2-factor authorisation on Citadele's online banking platform. In Latvia, Citadele offers a mobile banking application to its customers, enabling mobile access and management of their funds and payments, as well as ATMs, branches and retail stores with special offers for Citadele's customers. The online banking offering, including Citadele Group's mobile banking and SMS

banking platforms, also provides customers with easier access to Citadele Group's products, and enables customers to apply for these products directly and more efficiently online.

- ATMs: Citadele Group has the third largest ATM network in Latvia and these ATMs are located across all regions of the country. As at 30 June 2016 the total number of ATMs in Latvia is 170 roughly one third being cash-in/cash-out ATMs (enabling both deposits and withdrawals). ATMs provide the main cash-out transactions channel for Citadele Group, with more than 96% of all bank cash-out transactions being made through ATMs. Citadele Group intends to maintain the total number of ATMs and to renew and modernise its existing ATM network by focusing upon converting more of its ATMs to have cash-in as well as cash-out functionality;
- relationships with retailers: Citadele Group has strong relationships with retailers operating across the Baltic States. These relationships form the basis for Citadele Group to offer point of sale products, cash management products and finance for consumers in relation to white goods, electronics or other high cost products and services more effectively to such retailers. Citadele Group has also developed an extensive discount and rewards programme with retailers for its customers when using Citadele Group's products, which differentiates Citadele Group from its competitors and further encourages customers to use Citadele Group's products; and
- call centre team: As at 30 June 2016, Citadele Group had 55 employees working in its call centre team, which is open on a 24 hour basis. This call centre team has two key functions. First, it deals with queries from existing customers as well as directing customers who wish to acquire products to the appropriate branch office or relationship manager. Second, as part of the business strategy, the call centre proactively calls new and existing customers to offer new products or initiatives and thereby develop into a key sales channel, as well as to proactively identify and solve common customer issues, such as blocked cards. By doing so, Citadele Group believes that the call centres serve as a platform for loan origination, particularly in the SME segment.

Retail and SME in Latvia

Overview

Citadele's retail segment caters primarily to private individuals. Citadele's SME segment caters to entities with annual turnover of up to EUR 7 million (including a micro SME customer base comprised of entities with an annual turnover of up to EUR 0.4 million). A typical SME customer for Citadele has annual revenues of EUR 1 million and outstanding loans with Citadele of EUR 200,000. Citadele Group's retail and SME customers share similar characteristics in relation to their size, the type of services required and the frequency of access to branch offices, which is why they are addressed together. Citadele does, however, have separate strategies for each of these customer groups (see *"Citadele Group —Strategy"*). As at 30 June 2016, Citadele had c.243,300 retail customers and c.16,100 SME customers.

Key products for retail customers in Latvia

Card products

Citadele Group offers a wide range of card products to its customers including credit cards with American Express, MasterCard and Visa and debit cards with MasterCard and Maestro. Using information provided by each customer and verified by Citadele in accordance with its systems and operational controls, Citadele assigns appropriate credit limits on the majority of the credit cards issued. Citadele Group had the exclusive right to issue American Express cards in Latvia and Lithuania until 9 December 2015. Following this date, Regulation (EU) 2015/751 prohibits exclusivity arrangements with respect to the issuance of any credit cards within the EU, including American Express credit cards. Whilst Citadele have lost exclusivity after this date, Citadele Group believes that this is an opportunity for Citadele Group to build upon its own network of existing American Express customers and further develop its reward programme for its customers. In the first half of 2016, Citadele issued 35% more cards than in the same period in 2015. As at 30 June 2016, the number of cards issued by Citadele was approximately 368,000. Moreover, in July 2015, Citadele launched a unique card product in the market—Citadele's cards have an integrated public transport ticket chip.

Deposit products

Citadele offers a wide range of deposit products to its retail customers, including deposits that can be accessed on demand and fixed term deposit products up to 10 years. Citadele also offers a unique special savings account, the "Maxi savings account", with a card attached to the account so that customers can use their savings for their desired purchase, as well as special savings accounts for children up to the age of 18. There has been a trend for customers to move away from fixed term deposits to products where their savings are accessible on demand, particularly due to the low interest rate environment. Citadele has recently introduced a new "Savings account +" that features attractive interest rate along with 35 days extended notice period for funds withdrawal.

Consumer loans

Citadele Group also offers consumer loans to its customers. The size, rates and terms of such loans are based on the salary income that the customer is able to adequately evidence to Citadele. Loans are available in amounts of up to EUR 10,000 per customer and are repayable for a maximum period of 5 years but have a typical maturity of 2 years. Citadele has developed web based tool "manskreditreitings.lv" where any individual can assess his/her credit rating.

Mortgages

Mortgages are primarily taken out by customers in order to acquire, build, improve and/or repair residential homes. Before any amounts are provided to a customer pursuant to a mortgage, Citadele evaluates such customer's solvency, regular income, previous credit history and requires adequate security to be provided by such customer in the form of a charge over the property itself, but from time to time Citadele also requires guarantees to be provided where available. Citadele is the first commercial bank in Latvia to offer state-guaranteed mortgages to Latvian families with favourable conditions. The guarantee amount provided by the Latvian State and which became available at the start of 2015 was approximately EUR 1 million as just 15-20% of the first instalment of the mortgage is guaranteed by the state. State-guaranteed mortgage program has limited impact upon Citadele's mortgage portfolio.

Key products for SMEs in Latvia

Business development loans

Business development loans are taken out by SMEs for a number of reasons, including for equipment purchases, acquiring, building or developing new real estate and investing in new product development. Citadele offers business development loans to SMEs for an average amount of approximately EUR 200,000, and such loans can be set for a term of repayment for up to 10 years (with the average being 4 to 5 years in term). Besides evidence that a customer has sufficient cash flows, Citadele requires adequate security to be provided before it will issue any business development loan to a SME customer.

Credit lines

Citadele provides credit lines to its SME customers in order to fund the payment of working capital as required by such customers from time to time. Citadele analyses the financial performance and outlook of a customer's business and requires adequate security to be provided before it will issue a credit line to a SME customer Citadele Group typically issues credit lines for a period of no more than 2 years, with approximately 70% of the total number of credit lines issued being equal to or below EUR 100,000 in value.

Corporate in Latvia

Overview

Citadele has targeted mid-sized corporate customers (being companies with annual turnover of EUR 7 to 20 million) who operate in a wide range of industries including manufacturing, retail, wholesale trade and transport. Consequently, Citadele has acquired a corporate customer base of profitable long-term customers, which consist primarily of entities within the top 300 to 1,200 largest companies in Latvia (based on gross revenue) and institutional customers including state-owned entities and government departments. Citadele does not focus on the top 300 largest companies on the basis that this is a crowded, over-served segment of the Latvian market. A typical corporate segment customer is an entity or a group of entities in the manufacturing, retail/wholesale, transport or commercial real estate sectors with annual turnover above EUR 7 million, total liabilities to Citadele Group in excess of EUR 2 million or total assets exceeding EUR 5 million. Citadele has been able to achieve this strong position with Latvian corporate customers through the involvement of its dedicated relationship managers from the origination of opportunities until the signing and closing of corporate banking transactions. Citadele believes that the wide retail network of branch offices and Citadele Group's local presence across Latvia significantly improves its relationships and opportunities with regional corporate customers in Latvia. Citadele also differentiates itself from its competitors by having Citadele's Management

Board and senior managers within Citadele directly form relationships with Citadele's key corporate customers, who Citadele management believes value such relationships highly, ensuring key decisions in relation to such customers can be made more efficiently and providing a higher level of customer service and engagement to Citadele's customers.

Citadele ensures that its relationship managers and senior managers have a deep understanding of the industries in which its corporate customers operate to enable them to be a flexible and effective banking partner which, in turn, Citadele believes, fosters customer loyalty.

Key products for corporate customers in Latvia

Cash management and point of sale services

Citadele provides cash management services for its corporate customers through arranging deposits, effecting future payments and trade finance arrangements and offering salary account arrangements as well as allowing the funds received from business activities to be managed more efficiently. For merchants in particular, through enabling payments to be effected at the point of sale, both physically in store and online.

Loans for business development

Citadele provides a number of medium term loans, being loans typically between 5 and 10 years in term (and 3 to 4 years on average when aggregated with loans which are provided together with credit lines). These loans are provided primarily to Citadele's corporate customers to enable them to expand their business and help them to finance, where applicable, fixed assets and other significant capital expenditure, development or investment. Prior to entering into any loan with a corporate customer, Citadele assesses whether the cash flows of the customer are sufficient and ensures that adequate security is provided to mitigate the risk of a default. Such security is typically in the form of a charge over real estate or fixed assets, as well as personal guarantees from key shareholders of the corporate customer. To improve the diversification of Citadele Group's loan portfolio and to expand its customer base, Citadele Group offers syndicated loans to its customers by cooperating with other leading banks in Latvia.

Credit lines

Citadele provides short term credit to corporate customers to cover working capital payments with a revolving credit facility option across the credit line period. Prior to entering into any credit line agreement with a corporate customer, Citadele assesses that the customer's cash flow is stable, asset quality is high and the working capital cycle is effective, as well as assessing that adequate security is provided, to mitigate against the risk of a default, and such security is typically in the form of a charge over real estate or fixed assets as well as personal guarantees.

Guarantees

Citadele can enter into guarantees to cover counterparty risk on a transaction or arrangement for its corporate customers. Prior to entering into any guarantee with a corporate customer, Citadele ensures that adequate security is provided to mitigate the risk of a default, and such security is typically in the form of a charge over real estate or fixed assets as well as personal guarantees. Additionally, Citadele also seeks to hold funds on deposit from its corporate customer to further cover any exposure in the event of an amount being payable by Citadele under the terms of such guarantee.

Letters of credit

Citadele provides the ability to issue letters of credit in order to cover counterparty risk on transactions. Before issuing any such letter of credit, Citadele requires the funds to be provided by the relevant customer to be held on deposit, security to be provided in the form of a charge over real estate or fixed assets and other personal guarantees of key individuals may also be required.

Credit and debit cards

Citadele offers corporate credit and debit cards, including American Express, MasterCard, Visa and Maestro. Subject to Citadele verifying the financial status of the relevant corporate customer, Citadele offers a credit limit on the corporate credit cards issued.

Private capital management

Overview

Citadele Group provides a wide range of private banking services to 10,600 active (meaning at least one transaction has been made in the previous 12 months) affluent customers of which 8,500 (80%) are international customers primarily located in CIS countries (of which 6,000 are individuals and 2,500 are corporates) and the remaining 2,100 are high net worth customers (being customers and their relatives with more than EUR 100,000 of total assets held with Citadele) both resident in Latvia and outside of Latvia as at 30 June 2016. The typical profile of these customers and the types of banking services provided differs according to the customer. The affluent Latvian customers are predominantly offered premium payment cards, savings and investment products and lifestyle services, while the international customers who are individuals are predominantly offered current account and ordinary payment cards. These individuals often have an interest in brokerage transaction services and asset management services as well. The international corporate customers are typically cross-border businesses involved in trading, transportation or logistics. They typically have a high sensitivity to cross-border payments and Citadele therefore processes a significant volume of demand deposits. Citadele Group also seeks to provide or highlight opportunities for its private capital management customers to invest in projects, funds or other ventures in Latvia. Citadele management believes these clients value our relationship highly. The key products for Citadele Group in the private capital management segment are (i) payment cards, where significant commission and fee revenue is derived from transactions both within Latvia and internationally, (ii) international payment transfers where Citadele Group receives transfers fees and (iii) fees from wealth management, custody and brokerage activities.

In Latvia, Citadele's private banking offering is focused upon affluent local and international customers (being customers that hold, on average, EUR 60,000 of deposits), over 50% of whom have been customers of Citadele for over five years. A typical customer profile for this segment would be an individual who is a business owner or entrepreneur with EUR 100,000 deposited or invested with Citadele Group. The Latvian private banking market is competitive and Citadele seeks to achieve and maintain high levels of customer service to ensure that it maintains and strengthens its relationships with these affluent individuals based in Latvia as well as attracting new private capital management customers in Latvia.

Citadele Group provides its private banking services through relationship managers to private capital management customers across the range of products. These relationship managers are able to forge links with international customers, predominately located in historically and culturally linked CIS countries. Citadele Group's five representative offices in Moscow, St Petersburg, Minsk, Kiev and Almaty are key in bringing Citadele close to retaining private capital management customers as well as ensuring that comprehensive risk and AML procedures can be implemented in relation to such customers.

Other operations

Asset management and pensions

Citadele's asset management subsidiary was established in 2002, and Citadele Group has, since its formation, grown this asset management business into one of the top three asset managers in Latvia based upon the value of assets under management as at 30 June 2016. Citadele Group does not currently conduct any active asset management activity outside of Latvia (other than in relation to its Swiss subsidiary).

The services offered by Citadele Group's asset management business include investment fund and discretionary portfolio management for its customers based mostly in the Baltic States and CIS countries. Citadele Group offers its customers a wide and comprehensive range of funds in which to invest, including regional equity, fixed income and balanced risk funds.

Citadele Group is a manager of Pillar II and Pillar III pension funds in Latvia. It is also one of the top three service providers in relation to state funded pension plan management in Latvia with a total customer base in excess of 182,000 individuals, representing 14.5% of the Latvian market as at 30 June 2016.

In relation to asset management and pensions, Citadele Group has three types of customer:

- "Pillar 2" pension customers: these are Latvian resident customers who accrue state pensions through their contributions to state income taxation in Latvia and are able to choose which pension fund provider (including Citadele Group) manages their contributions. Citadele Group uses its extensive network of branch offices in Latvia as the key distribution channel to capture as much of the "Pillar II" pension value as possible;

- affluent, high net worth customers: these are primarily international customers from the private capital management segment and Latvia resident customers from the retail segment, seeking to invest a portion of their funds in segregated portfolios; and
- "Pillar 3" pension customers: these are Latvian resident customers contributing voluntarily to their pensions into Citadele's subsidiary, AS CBL Atklātais pensiju fonds.

Citadele Group charges a variety of different fees for its asset management and pension operations which are bespoke to each arrangement but which may include entrance fees, management and administration fees and performance fees.

Life insurance

Citadele Group's life insurance subsidiary, AAS CBL Life, provides term life and accident insurance with savings options. Citadele Group utilises its wide network of branch offices and wealth management business to sell such insurance policies.

Leasing

Citadele Group provides a range of leasing products in Latvia, Lithuania and Estonia for both private individuals in its retail segment as well as corporate customers in the SME and corporate segments. These leasing products include financial leases, operational leases and leaseback products. Citadele Group also provides factoring services for its customers. Leasing is increasingly being used by Citadele Group as a gateway to sell additional products from other parts of Citadele Group's business.

Across the Baltic States, Citadele Group focuses primarily on leasing for automotive products. In Latvia, Citadele Group focuses upon finance leases (where there is no residual risk on underlying assets) and used commercial vehicles and is seeking to develop export factoring. In Lithuania, the majority of leasing customers are from the commercial transport sector. In Estonia, the majority of Citadele Group's leasing customers are from the SME segment.

The total value of the leased portfolio equalled EUR 156 million as at 30 June 2016 (on a gross basis).

Cash collection

Citadele Group provides a cash collection service for its Latvian operations as well as its customers including SMEs, corporates and other financial institutions in Latvia. Citadele Group utilises its extensive network of branch offices to provide this service. Citadele has recently moved its cash collection to a separate company SIA "CBL Cash Logistics".

Operations in Lithuania

Citadele Group (and prior to its establishment, Parex) has been present in the Lithuanian market since the acquisition of Industrijos Bankas in 2000 by Parex. Today, Citadele conducts operations in Lithuania through its wholly owned subsidiary, AB Citadele. Citadele Group's Lithuanian operations offer products and services across the Retail and SME and Corporate segments through a network of 8 branch offices, which cover the key cities in Lithuania. Citadele Group's Lithuanian customer base is predominantly local and unconnected with its customers in Latvia. Citadele Group's customers in Lithuania also include international customers from the CIS region.

Citadele Group aims to ensure that the products and services offered in Lithuania are the same as in Latvia and therefore intends to expand the number of products and services that are available through Citadele Group's Lithuanian operations, particularly to micro-SME customers and mass-affluent customers. It plans to replicate the success in Latvia in retail services and introduce these gradually into Lithuania. Also Citadele Group aims to offer lending with state support programmes in Lithuania. The EU structural funds available to certain sections are managed by Invega in Lithuania (similarly, these EU structural funds are provided in Latvia through Altum and through Kredex in Estonia). Citadele is the first in the market in lending with state support for SME development and is currently one of two banks in the country offering the option to become a customer without needing to attend a branch office (by using an e-signature).

Citadele Group's Lithuania operations are currently operated by a separate management board for AB Citadele which is overseen and ultimately controlled by Citadele. Citadele Group is aiming to grow its customer base in Lithuania, with a particular focus upon the retail and SME segment.

The total value of loans provided to customers in Lithuania as at 30 June 2016 was EUR 273 million (on a gross basis). The deposits from Lithuanian customers provide sufficient funding for Citadele Group's Lithuanian operations, but Citadele Group's Latvian operations provide, from time to time where required, funds in order for Citadele Group's Lithuanian operations to comply with its liquidity requirements in Lithuania.

Operations in Estonia

This legal branch in Estonia has a stable deposit base which has provided sufficient funding for Citadele's operations in Estonia and has the further benefit of increasing the sources of funding for Citadele Group more generally. Citadele Group currently has one customer service centre located in central Tallinn which is focused upon providing a full range of traditional banking products primarily to SME customers.

Additionally, customers acquired by Citadele Group in Estonia are predominately local customers and are not connected to Citadele's customers in Latvia such that Citadele has been growing a local Estonian customer base, particularly in the SME segment.

The majority of the products offered in Estonia align with the products offered in Latvia in the retail (including SME) segment and the corporate segment. However, Citadele Group does tailor certain of its products to the Estonian market, for example, loans to start-up entities and overdraft facilities secured only by commercial pledges, as for those products state support guarantees provided by Kredex applies.

The total value of loans provided to customers in Estonia as at 30 June 2016 was EUR 92.4 million (on a gross basis).

Operations in Switzerland

Citadele Group's Swiss private banking business operates as a standalone entity servicing customers originated by its own sales team as well as referrals from Citadele Group's wider private capital management segment. Parex acquired 100% of the shares in AP Anlage & Privatbank AG, its private banking subsidiary in Switzerland, in 2004.

The primary business of Citadele Group's Swiss operations includes account servicing, deposits, brokerage and investment services as well as trust services. Citadele Group's Swiss operations focus on mid-sized accounts, being accounts with a value of between CHF 1 million to 5 million.

The value of total customer funds as at 30 June 2016 equalled EUR 428 million of which EUR 228 relates to deposits held in current or deposit accounts and EUR 200 million relates to funds held under management and fiduciary deposits. The majority of the total funds under management, including balance sheet items, are derived from CIS and Baltic State customers.

8.3. Competition

According to data published by the ACBL, as at 30 June 2016, there were 24 credit institutions operating in Latvia with total collective assets amounting to EUR 30.5 billion for the banking system. The market is relatively concentrated, with the largest five banks by total assets accounting for 66.3% of total assets, 74.9% of total loans, and 66.5% of total deposits (as at 30 June 2016). The Latvian banking sector has 13 foreign banks, which are present in the country either through a subsidiary or a branch. The Scandinavian-owned banks currently dominate the Latvian market, with the four largest of these by total assets (AS Swedbank, AS SEB banka, Nordea Bank AB Latvia branch and AS DNB banka) accounting for 47.3% of the total Latvian banking assets. Citadele is the largest non-Nordic-owned universal bank in Latvia measured by the number of customers. A universal bank is a financial institution which has broad diversification in its products, services and customer base across retail, SME and corporate sector.

The level of competition in the Latvian banking sector, and to a lesser degree in the Lithuanian and Estonian banking sectors, has a significant impact on Citadele Group's cost of funding, net interest income, net interest margin, net commission and fee income, and volume of loans and customer deposits. Increased competition in the banking sector typically leads to increased competition for lending and deposit products, creating downward pressure on Citadele Group's net interest margin, and potentially its profitability, by forcing Citadele Group to offer lower interest rates on loans and higher interest rates on customer deposits, which are the predominant source of funding for Citadele Group. Citadele Group's commission and fee income and commission and fee expense are also affected by competition in the banking sector. Accordingly, Citadele Group's operating results could be materially impacted by changes in the competitive landscape in the Latvian, Lithuanian or Estonian banking sectors.

According to data from the ACBL, Citadele had the third highest number of active customers (280,700) as at 30 June 2016 after Swedbank (951,500) and SEB (463,500) (and ahead of DNB with 165,600, Nordea with 101,700 and NORVIK with 83,296), and was also ranked third by the number of online banking users (126,900) at the same date, behind Swedbank (755,900) and SEB (296,900), and ahead of DNB (112,500), Nordea (57,100) and Norvik (25,400). With 35 branch offices as at 30 June 2016, Citadele operated the third largest network of branch offices in Latvia after Norvik and Swedbank, and was also the fourth largest bank in terms of total deposits (with 9.5% market share), third largest for households deposits (with 11.2% market share), sixth largest for total loans (with 7.4% market share) and sixth largest for total assets (with 8.7% market share). Citadele was also ranked second by term deposits (with a 13.5% market share) with EUR 480.7 million as term deposits, behind Swedbank (EUR 815.5 million) and ahead of SEB (EUR 344.6 million), Rietumu banka (EUR 334.4 million), DNB (EUR 313.9 million) and Nordea (EUR 300.1 million).

Despite a market-wide deleveraging process in recent years, Citadele Group's loan portfolio has remained resilient compared to several of its competitors, growing by 0.6% per annum over the period 2010-2016 compared to an average 3.8% contraction of Citadele's key Nordic-owned competitors (including Swedbank, SEB, Nordea and DNB).

Citadele's most significant local competitors are ABLV Bank and Rietumu Banka. However, both share substantially different business models, focussing on servicing non-resident clients, and have a small local high net-worth individual customer base.

For further information on the macro-environment in the Baltic States and banking sector in Latvia, see the section entitled "*Macro-economic profile of the Baltic States and outline of the Latvian Banking Sector*" below.

8.4. Key strengths

The Management Board believes that Citadele Group has the following key strengths that will enable it to effectively implement its strategic objectives:

Well positioned to take advantage of favourable economic conditions and the attractive banking market in Latvia and the other Baltic States

The Latvian economy is one of the fastest-growing economies in Europe, with GDP growth in recent years (of 2.9%, 2.1% and 2.7% in 2013, 2014 and 2015 respectively) consistently outpacing the EU average (of -0.2%, 1.5% and 2.2% in 2013, 2014 and 2015, respectively), placing Latvia among the fastest growing markets in the EU for each of these three years. According to data from the IMF, this growth trend is expected to continue in the short- to mid-term, bolstered by the structural economic reforms implemented by the Latvian Government following the financial crisis of 2008-2009, improvements in the absorption of EU funds and simplification of certain regulatory procedures for businesses, together with a rise in exports as a result of Latvia having diversified its trading partner base across the EU. Latvia's current economic position, including low levels of public debt (36.4% of GDP as at 31 December 2015, according to EC), healthy fiscal balance, stable and relatively low unemployment (of 9.5% as at 30 June 2016 which is significantly below the 2010 peak of 19.5% and close to the EU average of 8.6% as at 30 June 2016, according to Eurostat) and industry diversification, now provides an attractive backdrop for continued growth benefitting the full spectrum of Citadele's operations.

Latvia's banking sector, including Citadele Group, has benefited from the performance of the underlying economy in this period and is undergoing a solid, continued recovery in the wake of the financial crisis in 2008 and 2009. Profitability across the Latvian banking sector is recovering, assisted in part by the normalisation of non-performing loan rates in Latvia (which declined from 19% as at 31 December 2010 to 5.1% as at 30 June 2016) and an increase in the net interest margin (which rose from 1.1% in 2010 to 1.7% in 2015). Citadele Group has experienced profitable growth during this period, and with the removal of the EC restrictions (described more fully in the section entitled "*Citadele Group —History and Development of Citadele Group*" above), including limits on lending, deposit taking and levels of capital, Citadele Group is well placed to exploit the growth potential of the Latvian banking sector. Moreover, despite this recovery, the use of banking services by individuals and businesses in Latvia remains relatively low, with total banking assets as a percentage of GDP of 131% as at 30 June 2016 well below the EU average of 307%. Citadele Group believes that the overall banking sector backdrop therefore offers additional attractive and significant growth opportunities for Citadele Group.

In addition to the favourable economic conditions in Latvia, both Lithuania and Estonia are undergoing a period of sustained growth and their banking sectors, like that of Latvia, are well positioned for continued growth and increased market penetration of banking services. According to the World Bank, in 2014, 90% of all adults in Latvia, 98% in Estonia and 78% in Lithuania, had bank accounts. GDP growth in Lithuania was 3.5%, 3.0% and

1.6% in 2013, 2014 and 2015, respectively, and in Estonia, the GDP growth rate was 1.4%, 2.8% and 1.4% over the same periods. However, as with Latvia, both these markets are relatively underserved by their respective banking sectors, with banking assets as a percentage of GDP standing at 112.3% in Estonia and 66.8% in Lithuania as at 30 June 2016, which Citadele Group believes places it in a strong position to increase its revenue in these markets in the future.

Solid foundations to become a 'domestic champion' in the Latvian banking sector

Citadele believes it is well positioned to become the "go-to" bank for customers in Latvia and the Baltic States, particularly those in the retail and SME segment by: (i) using the scale of its already formidable customer base and infrastructure to sustain its competitive position and gain market share from foreign-based competitors; and (ii) leveraging its 'locality', cultural awareness and understanding of its customer base (including through the regular engagement with local customers by senior management at Citadele), which Citadele Group management believes sets Citadele Group apart from its competitors and enables Citadele Group to offer more responsive and market-tailored products and services to new and existing customers. Citadele has received positive feedback from customers for its level of responsiveness, for example, customers have noted that they are very pleased with Citadele's quick decision making.

Citadele Group offers a comprehensive range of banking products to customers in each of its core segments (Retail and SME, Corporate and Private Capital Management) as well as additional products such as asset management, pension fund management, insurance and leasing. This universal offering means that customers can be offered products and services which are tailored specifically to meet their banking requirements, adding to the "premium feel" customer experience which Citadele Group offers and providing the foundations for Citadele Group to create a reputation for being a 'domestic champion' bank in Latvia and the other Baltic States in the future, and to eventually become a 'regional champion'.

Market-leading distribution capabilities in Latvia and footprint in the other Baltic States

Citadele Group's extensive and well established distribution capabilities offer significant opportunities for Citadele Group to attract new customers and gain additional revenue from its existing customer base. Citadele has a range of distribution channels in Latvia through which it can offer its products and services, including: (i) a network of 35 branch offices; (ii) a well-utilised, functional and reliable online and mobile banking platform with approx. 126,000 active users of its online banking service at 30 June 2016, which is the third largest in Latvia, according to the ACBL; (iii) an extensive ATM network of 170 ATMs, the third largest in Latvia, which are managed and monitored remotely and in real time; and (iv) a team of highly trained and sales-focussed relationship managers. In addition to its distribution channels in Latvia, Citadele Group also has 8 branch offices in Lithuania and one branch office in each of Estonia and Switzerland as well as other distribution capabilities which provide a scalable platform to support Citadele Group's strategic objectives in these markets. By means of this extensive network, Citadele Group is able to support approximately 390,000 cards as at 30 June 2016.

Citadele Group believes that its distribution channels and extensive operational infrastructure place it in a strong position to capture market share from smaller local (non-Nordic) competitors who are unable to provide the same level of service coverage and product offering to customers as Citadele Group, as well as Nordic banks who have been scaling back their Latvian operations for the last few years; and provide a stable and efficient platform for Citadele Group to sell additional Citadele Group products and services. Citadele Group aims to achieve similar efficiency ratios across all Baltic States banking segments.

Citadele Group continues to develop new ways of delivering its products and services, particularly through remote access channels, including online and mobile banking. Moreover, it has begun to reformulate how it delivers services to customers by reviewing its internal customer service processes, thereby freeing up front-office staff in its branch offices and call centres to concentrate on delivering higher quality customer service and attracting new customers.

Operational excellence with structural capacity for significant growth and further upside potential

Citadele Group's operational systems and processes have been designed and implemented specifically for the nature and scale of Citadele Group's operations at the point of its establishment in 2010, and are regularly reviewed, upgraded and refined. Citadele Group's systems are modern and are regularly assessed by a dedicated efficiency improvement team, who are able to implement complex and large scale changes with relative speed and efficiency compared to many competitors. Citadele Group has implemented a comprehensive framework of operational risk management systems to ensure the efficient and low-risk functioning of its operations, and has also invested in its core banking systems and other IT platforms which are widely used and recognised in the international market, such as the T24 system provided by Temenos. These systems provide a strong yet flexible platform which is able to support future growth and to integrate Citadele Group's operations across the Baltic States more efficiently. Citadele Group's network of branch offices also provides a foundation for further growth by providing a wide operational footprint, enabling more access to customers and greater visibility of its products and brand. Citadele Group's responsive 24-hour call centre and well-trained, sales–focussed relationship managers also provide a responsive "premium feel" banking service for customers, and Citadele's highly trained workforce and management team represents a capable and motivated group of employees who Citadele believes are well positioned to help deliver excellent customer service and Citadele Group's strategic aims.

Citadele Group's ability to carry out complex, high profile projects with a high degree of operational excellence has been demonstrated on a number of occasions. Since Citadele's formation in 2010, all three of its key markets (being the Baltic States) joined the Eurozone, requiring a considerable degree of planning and operational transition. Similarly, in November 2011, following a competitive tender process, Citadele Group was chosen to distribute state guaranteed deposits to more than 124,000 customers of the collapsed bank, Latvijas Krajbanka, totalling EUR 472 million. Citadele Group was able to begin distribution of these deposits within 4 days of being named as the successful bidder, to a very positive reception from the Latvian media, which management also believes has contributed to the strength and positive perception of Citadele Group's brand.

Resilient funding profile, strong liquidity position and solid asset quality underpinning attractive returns profile

Citadele Group has a deposit-focussed funding model, with deposits accounting for the vast majority of total liabilities (as at 30 June 2016), to support its operations, the majority of which are retail deposits. As a result of its growing deposit base, Citadele Group believes it is well positioned to benefit from the organic growth of its primary funding source, to provide the capital for additional growth and revenue generating opportunities. Citadele Group also has a highly liquid balance sheet, with cash and securities representing 57.3% of the asset base and deposits accounting for 89% of funding, which is defined as the sum of deposits and subordinated debt as at 30 June 2016. The net loan to deposit ratio stands at 45% as at 30 June 2016.

Citadele Group has conducted extensive reviews of its asset quality, including by commissioning several reputable international audit and consultancy firms to perform detailed independent reviews. The findings of these reviews have highlighted the robustness of Citadele Group's risk management culture and the strength of Citadele Group's asset quality track record. Citadele Group's loan portfolio is diversified across its operating segments and across major economic and industry sectors in the Baltic States. These reviews have also highlighted Citadele Group's ability to develop new, sector-specific lending areas, such as specific agricultural products, renewable energy projects and products for the retail and transportation industries.

Strong corporate governance framework and experienced management team

Citadele Group has a comprehensive corporate governance and risk management structure in place, which it believes allows it to operate in a transparent and prudent manner to balance and protect the interests of its various stakeholders. In recognition of its comprehensive corporate governance structure, Citadele was awarded the top prize for governance of state owned enterprises in the Baltic States by the Baltic Institute of Corporate Governance in 2012. Furthermore, members of Citadele's Management Board are experienced participants in the banking sector and have an average of 14 years experience in the banking and financial services industry. This Management Board has established a strong track record by successfully leading Citadele Group from its inception in 2010 to the successful banking organisation that it is today with increased customer numbers, revenues and profits, despite the challenging economic environment, the launch and establishment of a new brand and the EC operating restrictions within which they operated.

Experienced shareholders with an established track record of delivering results

The current shareholders of Citadele are experienced banking sector participants and have a proven track record in driving value creation and delivering growth in their investments. They are actively involved in shaping and delivering Citadele's strategy. Ripplewood Advisors LLC and its co-investors have extensive experience in the banking industry, including with regard to businesses operating in emerging, developing and frontier markets. Ripplewood Advisors LLC has focused on investing in global financial services since the late 1990s, under its ownership the Egyptian Commercial International Bank ("**CIB**") and the Japanese Shinsei Bank delivered tangible improvements in operating results. In 2000, a consortium led by Ripplewood Holdings LLC, a predecessor to Ripplewood Advisors LLC, acquired a controlling stake in Shinsei Bank in Japan, in a landmark transaction for USD 1 billion. Shinsei Bank launched initiatives to improve profitability in core lending, risk management and fee-based products, services and technology. It became the first bank in Japan to offer online banking services and underwent an IPO four years after the acquisition, following a significant decline in bad loans and an increase in capital adequacy ratio.

In 2006, a consortium led by Ripplewood Holdings, LLC acquired a significant minority stake in CIB in Egypt for approx. USD 240 million. Post-acquisition, CIB introduced operating enhancements in financial reporting, customer service centre processes and product offerings. It also implemented an equity incentive compensation plan, which was a first in the region. The consortium exited in 2009, at which point CIB's assets had doubled and earnings and book value had almost trebled. Additionally, co-investing shareholders James L. Balsillie and Dhananjaya Dvivedi (who are both members of Citadele's Supervisory Board) have, between them, extensive experience in the technology, IT and financial sectors. They intend to continue to deploy their experience and expertise alongside the management team, to enhance the development and growth of Citadele Group, through improving and developing new and innovative products, services and systems, as well as developing and improving upon Citadele Group's existing products, services and systems. Finally, the continued ownership of the EBRD brings its experience in instilling best practice governance structures and in fostering progress towards market orientated economies. For example, the EBRD invested EUR 1.1 billion in projects in central Europe and the Baltic States in 2014, and holds 28% of its portfolio in investments in financial institutions. To date, the EBRD has made c. EUR 600 million of investments in Latvia; in particular, it is involved in several development projects, including in relation to housing renovation and efficiency improvement programmes. Citadele Group is regularly invited to act as its proxy to ensure the successful implementation of these programmes.

In addition, James D. Wolfensohn and Paul A. Volcker, Jr., both of whom are co-investors in the RA Citadele Holdings, LLC-led consortium, have agreed to provide strategic advice to the Supervisory Board from time to time on an informal basis.

8.5. Properties

Citadele Group owns 8,096 square metres of land, on which is built its head office, located at Republikas laukums 2A, Riga, LV-1010, consisting of 31,619 square metres of floor space. The headquarter building is a Class A premium office building designed by the world class architect Meinhard von Gerkan. The building was completed in 2009 and is equipped with modern building management and security systems, 300 parking places, conference hall for 200 people, high quality furniture and high availability datacentre facilities.

Citadele Group also owns some of the premises of its branch offices (Daugavpils (434 sqm), Tukums (304.5 sqm), Ventspils (986.5 sqm)). Citadele Group has rented out some floor space to third parties.

As at 30 June 2016, Citadele leased 37 other premises in total for its branch offices in Latvia, customer service centres and storage and archive centres in Latvia. All such leases expire by 2020 and the relevant member of the Citadele Group is able to terminate such leases on giving notice. Citadele Group also leases locations in premises for 145 ATMs as at 30 June 2016.

In addition to its properties in Latvia, Citadele also owns a property in Lithuania located at 13K. Kalinausko Street, Vilnius (location of the headquarters of Citadele's subsidiary in Lithuania).

Citadele Group uses revenue generated by its operations to fund its obligations under the property leases described above.

8.6. Information systems

Citadele Group's IT systems are at the core of its operations. A significant proportion of Citadele Group's front- and back-office functions for its operations in Latvia and Estonia are centrally managed through the T24 system provided by the Swiss company Temenos. Over 2,000 firms across the globe, including 38 of the top 50 banks, rely on Temenos to process the daily transactions of more than 500 million banking customers. The T24 system's functionality enables it to support a range of Citadele Group's products and services, including credit risk management processes, payment mechanics, cash operations and the processing of deposits, loans, securities and other financial instruments. The T24 system is fully integrated with the additional satellite IT systems set out below. Citadele Group's technology is designed using a modular and highly adaptable architecture to ensure a robust operating environment for cards, internet and mobile banking systems. Citadele's technology is designed such that its internet and card transaction processing ability is preserved even if the core banking system is unavailable. Using the T24 system enables Citadele Group to implement technology updates more efficiently, thereby allowing Citadele Group to respond quickly to the latest market trends and customer expectations.

Ripplewood Advisors LLC and its co-investors have particularly strong technological experience and capabilities and have reviewed Citadele Group's IT platform with a view to providing ideas to enhance the development and growth of Citadele Group's business. Citadele Group also has a strong and capable IT team which has experience in executing ambitious projects within challenging timeframes.

At present Citadele's operations in Lithuania and Switzerland each use separate core banking systems which are tailored to the regulatory requirements of those jurisdictions and are widely regarded as the best available systems in each country. Citadele intends to migrate the Lithuanian operations across to the T24 system in due course to further centralise and standardise its services across the Baltic States.

In Switzerland Citadele uses the OLYMPIC Banking system provided by ERI as the core banking platform. ERI is an international company, specialising in the design, development, implementation and support of an integrated, real-time banking software package: the OLYMPIC Banking System. The OLYMPIC Banking System has been chosen by over 300 banks and financial institutions spread over more than 50 countries around the world. The OLYMPIC Banking System covers all the main business activities of Citadele's subsidiary in Switzerland including account management, remote banking, payment of cards, deposit and investment services and others.

Citadele Group uses the Cortex system provided by FIS for payment card and ATM management. Cortex is a popular IT solution for payment card management and enables the issuing and processing of Visa, MasterCard and American Express cards and transactions.

Citadele Group also utilises internet banking and mobile banking solutions. The internet banking platform provides a full spectrum of banking services to customers, including access to payments, account statements, card blocking, deposits, loan balances, investment funds, life insurance, pension funds and other product applications. Customers are also able to set up SMS notifications in connection with card authorisations, balance enquiries and payments. The internet banking system supports different two-factor authentication devices, thereby promoting high levels of security for online transactions. Citadele has also recently implemented a new, modern internet banking authorisation system (MobileScan) which enables login and payment confirmations to be processed using a smart phone application rather than a separate authentication device. Citadele Group's new mobile application, meanwhile, enables customers to view special offers from partners as well as the locations of the nearest Citadele ATMs and branch offices. It also enables customers to access account balances, see latest transactions and conveniently set up payments. The internet and mobile banking solutions have been developed in-house, and Citadele Group continually improves and updates the systems to meet future customer demands. These internet and mobile banking applications are highly stable and recorded a 0.04% level of unplanned downtime (excluding planned maintenance and upgrades) for the 12 months preceding the date of this Base Prospectus. In 2014, 2015 and first half of 2016 Citadele's expenses related to upgrading IT systems amounted to EUR 0.8 million, EUR 1.8 million and EUR 1.1 million, respectively.

Citadele Group has several other systems in place, including a data warehouse system (which contains a large volume of customer data and can be used for extensive customer and product data analysis), specialized Anti Money Laundering and sanction filtering systems, advanced card fraud prevention systems, and modern customer loyalty management solutions. Recently Citadele has implemented world leading call centre platform from Genesys which will enable more sophisticated customer service interactions.

Citadele believes that this improved technology platform is a key step in enabling Citadele Group to expand its operations across the Baltic region and improve its efficiency in offering its services to its customers.

Citadele Group has in place disaster recovery and business continuity policies to ensure that in the event of an emergency, its operations and systems are able to continue to function efficiently. In order to further mitigate any such emergency risks, Citadele Group has two separately located data centres where Citadele Group's data and systems are continuously backed up. Similar IT continuity plans are also in place in the branch offices in Lithuania and Switzerland. This enables such data to be retrieved in the event that an emergency occurs and core systems to remain operational.

8.7. Employees

As at 30 June 2016, Citadele Group had 1,666 employees compared with 1,625 employees as at 31 December 2015, Employees are provided with a fixed salary, are eligible for bonuses, are eligible to acquire health insurance at favourable rates and have the choice to obtain or use Citadele Group's products at special prices or rates.

Citadele Group aims to continually focus on and improve employee loyalty and motivation, as well as to provide opportunities for professional growth to its employees. In 2015, Citadele commissioned an employee commitment survey by the research agency TNS Latvia, which showed an improvement in the employment commitment index in 2014 as compared with the position in 2014. Citadele Group closely monitors the market trends to offer a competitive remuneration to its employees. Also, as Citadele Group has a clear growth strategy, it is able to attract and retain talented employees. Citadele Group aims to be the most desirable employer in Latvia, based on a new culture and set of values, which reflects the performance based nature of the organisation and the focus on strong profitability.

8.8. Intellectual property

Citadele Group has registered several trademarks containing "Citadele" in Latvia. Citadele Group has also registered the mark "CBL Bank" (in graphic form) across the EU and continues the registration of the marks "CBL" and "CBL Bank" in the EU and other selected countries. Citadele has also registered multiple domain names in Lithuania and Estonia. Other than trademarks and logos in relation to the "Citadele" name, "CBL" or any derivative thereof, Citadele Group does not consider that any of its registered intellectual property is material to its business. Citadele has also entered into a co-existence agreement with a third party in relation to its use of the "Citadele" name and is able to use the Citadele name in the Baltic States. For further information on the terms of this co-existence agreement, please see the section entitled "*Business Description —Material Agreements —IP Coexistence Agreement*."

8.9. Principal investments made by Citadele since 2012

Citadele Group took ownership of a Latvian portfolio of 2,500 loans and deposits from GE Money Bank in September 2013 shortly before the Euro was introduced into Latvia (and, consequently, made its services available to 41,000 customers), and also took ownership of a Latvian asset management and pension fund portfolio from GE Money Bank in February 2014.

Citadele does not have any principal investments currently in progress, nor has Citadele entered into any firm commitments in relation to any principal future investments.

8.10. Material Agreements

General

The following is a summary of each agreement (not being an agreement entered into in the ordinary course of business) which has been entered into by any member of Citadele Group which contains any provision under which any member of Citadele Group has any obligation or entitlement which is material to Citadele as at the date hereof.

Material Financing Facilities

Second Amended and Restated Subordinated Loan Agreement between Citadele and the EBRD

On 20 April 2015, Citadele and the EBRD entered into an amended and restated subordinated loan agreement for a principal amount of EUR 18,400,000. This loan was provided to support Citadele's Tier 2 capital position. Citadele is obliged to repay the term loan in one single instalment on 8 August 2020. The interest is paid on a semi-annual basis at a rate of 8.3% plus the interbank lending rate as determined by the EURIBOR01 reference page on Reuters services.

Under the agreement, Citadele recognises that the EBRD's claims in respect of principal and interest will be subordinated to claims of all other, non-subordinated creditors in accordance with the requirements of the applicable laws relating to Tier 2 capital requirements.

This loan agreement includes a conversion right in favour of EBRD to convert all or any portion of the loan outstanding into registered voting shares of Citadele. This right is triggered if Citadele's capital adequacy ratio falls below the minimum capital adequacy ratio, required under any applicable law, plus 0.5% for a period in excess of 30 days. Furthermore, in the event of an increase in Citadele's share capital, the EBRD may satisfy payment of its subscription for such new registered shares by investing in kind through a conversion of this loan.

LPA Subordinated Debt

On 22 May 2009, Parex and the Latvian Privatisation Agency entered into a subordinated loan agreement (the "**LPA Subordinated Debt**"). This loan was provided to ensure that Parex met its capital adequacy requirements. Citadele took over this agreement on 1 August 2010 as part of the transfer of undertaking from Parex to Citadele.

According to the LPA Subordinated Debt, the outstanding amount of the loan is EUR 34,727,766 as at the date of this Base Prospectus, the original maturity date of the loan is 22 May 2016. On 27 June 2013, Citadele and the Latvian Privatisation Agency agreed to extend the term until 20 December 2017.

The interest rate was amended several times. On January 31, 2011 the interest rate was changed to a rate which is determined in accordance with the particular formula specified in the amendment to the subordinated loan agreement, and as at the date of this Base Prospectus, is set at 6.82%.

It is intended that the net proceeds from the Offer will be applied towards repayment of the LPA Subordinated Debt. See section entitled "*General Terms and Conditions of the Bonds —Reasons for the Offer and Use of Proceeds*" below.

Shareholders' Agreement

Each of Citadele's shareholders prior to the Offer is a party to the First Deed of Amendment to the Shareholders' Agreement and the Amended and Restated Shareholders' Agreement dated 16 April 2015 (the "**Shareholders' Agreement**"). As a result of the particular circumstances which led to Citadele's formation (as set out in the section entitled *"Citadele Group —History and Development of Citadele Group"*) and the circumstances in which the EBRD was brought in as an external investor, the EBRD enjoys a number of enhanced rights under the Shareholders' Agreement, particularly in relation to receiving information and limitations on the operations of the business. Such measures were designed to provide comfort and protection in relation to the EBRD's capital investment and were a prerequisite to its subscription for shares in Citadele.

The Shareholders' Agreement provides for, among other matters, the following:

Membership of the Supervisory Board

- For so long as the EBRD holds at least 10% of Citadele's share capital, it is entitled to nominate one person to the Supervisory Board. If RA Citadele Holdings, LLC and the other co-investors (together, the "**Main Shareholder**") nominate more than five members of the Supervisory Board, the EBRD shall be entitled to nominate a second person to act as a member of the Supervisory Board. As the Main Shareholder has nominated six members of the Supervisory Board, the EBRD has two nominated members on the Supervisory Board.
- For so long as the EBRD holds at least 10% of Citadele's share capital, the EBRD and the Main Shareholder shall be entitled to nominate jointly one independent member (the "**Independent Member**") that is not affiliated with RA Citadele Holdings, LLC to act as a member of the Supervisory Board.
- Subject to the total number of Supervisory Board members not exceeding eleven, the Main Shareholder shall be entitled to nominate the remaining members of the Supervisory Board.

Decisions of the Supervisory Board

- No resolution of the Supervisory Board shall be proposed or adopted at any meeting of the Supervisory Board unless: (1) a quorum consisting of a majority of its members, including at least one member nominated by the EBRD or the Independent Member, shall have been present throughout the entire meeting; and (2) a majority of the members constituting the quorum shall have voted in favour of such resolution.
- For so long as the EBRD holds at least 10% of Citadele's share capital, certain matters shall only be adopted at a Supervisory Board meeting if at least one member of the Supervisory Board nominated by the EBRD votes in favour of such matter. These matters consist of: (1) the approval of any draft resolution for submission to the GMS relating to a dividend or any other distribution of profit that would: (a) lead to a breach of any capital adequacy regulations applicable to Citadele; or (b) be in excess of IFRS net profit after tax for the relevant preceding period; (2) the approval of any draft resolution amending the Articles of

Association for submission to the GMS unless such changes are required to comply with the law of the Republic of Latvia; (3) the approval of any draft resolution increasing the registered capital of Citadele or changing the type, rights or form of any call of shares for submission to the GMS; or (4) any resolution to appoint or change Citadele's auditors.

Management Board

- The members of the Management Board shall be appointed and changed by the Supervisory Board.

Conflict with Citadele Articles of Association of Latvian Law

- In the event of any conflict, ambiguity or discrepancy between the provisions of the Shareholders' Agreement and the Articles of Association, the provisions of the Shareholders' Agreement shall prevail only in relation to those shareholders that are party to the Shareholders' Agreement, provided that no party shall be required to take any action in breach of applicable mandatory provisions of Latvian law. The parties to the Shareholders' Agreement shall exercise all voting and other rights and powers available to them so as to give effect to the provisions of the Shareholders' Agreement.

Termination

- The Shareholders' Agreement can be terminated by mutual agreement between the EBRD and the Main Shareholder.
- The Shareholders' Agreement shall be amended, novated, supplemented, extended or restated following either the EBRD or the Main Shareholder ceasing to own any shares in Citadele.

Information Rights

- Citadele is obliged to provide RA Citadele Holdings, LLC and the EBRD access to key information. This includes quarterly, semi-annual and annual financial information in order to monitor the performance of Citadele. Furthermore, Citadele is required to provide (on an annual basis) RA Citadele Holdings, LLC and the EBRD with its share register, the business plan for the next financial year and an environmental and social report.

Advisory services agreement

On 18 May 2015, Citadele entered into an advisory services agreement with Ripplewood Advisors LLC in connection with the provision of certain advisory services to Citadele's management. The agreement stipulates that such advice shall include, but not be limited to: business plan development, risk management, capital allocation, funding and capital structure, operating efficiency, strategic fit of business lines, customer relationship management, product and service development and enhancement, distribution channel strategy and performance, human resource management and compensation, management information systems and tools, methods to increase the performance culture of Citadele, identification, evaluation and execution of acquisition and combination opportunities and internal and external reporting marketing and communications, as well as such other advisory services as may be reasonably requested and agreed from time to time.

In return for the performance of the advisory services, Citadele is required to pay an annual total fee of EUR 2,000,000 plus VAT on a quarterly basis in arrears, commencing from 1 January 2015. Citadele is also required to indemnify Ripplewood Advisors LLC in connection with investigations or disputes resulting from the provision of services under the advisory services agreement. This advisory services agreement is for a term of two years from 20 April 2015, with the possibility of renewal subject to the prior approval of the Supervisory Board. On or following 20 April 2017, either Ripplewood Advisors LLC or Citadele may terminate the advisory services agreement on 30 days' notice. Additionally, either Citadele or Ripplewood Advisors LLC may terminate the advisory services agreement at any time and with immediate effect on giving notice to the other in the event of the insolvency, the administration or the winding-up of the other party, it being unlawful for Ripplewood Advisors LLC to provide the advisory services or if the other party commits a material breach of the advisory services agreement which is either irremediable or is remediable but is not remedied within a period of 30 days after notice has been given requiring such remedy.

American Express Independent Operator Agreement

On 5 May 2011, Citadele and American Express Limited ("**AMEX**") entered into an independent operator agreement with an effective date of 4 April 2011, under which AMEX has granted Citadele certain exclusive, non-transferrable rights to act as a card issuer and merchant acquirer in Latvia. In consideration of the grant of such rights, Citadele has agreed to pay annual fees and commissions which are determined by reference to certain pre-defined billing targets. However, this exclusivity arrangement ceased to have effect from 9 December 2015 due to EU Regulation (EU) No. 2015/751. Consequently, Citadele and American Express are now in negotiations of a new co-operation model. For more information, see "*Risk Factors—Citadele Group will no longer be able to have American Express exclusivity in Latvia and Lithuania as a result of regulatory changes*".

American Express Independent Operator Agreement

On 1 January 2012, Citadele, through its subsidiary, AB "Citadele" bankas, and AMEX entered into an independent operator agreement, under which AMEX has granted Citadele certain exclusive, non-transferrable rights to act as a card issuer and merchant acquirer in Lithuania. In consideration of the grant of such rights, Citadele has agreed to pay annual fees and commissions, which are determined by reference to certain pre-defined billing targets. However, this exclusivity arrangement ceased to have effect from 9 December 2015 due to EU Regulation (EU) No. 2015/751. Consequently, Citadele and American Express are now in negotiations of a new co-operation model.

MasterCard Licence Agreement

On 18 August 2010, MasterCard International Incorporated ("**MasterCard**") and Citadele entered into a licence agreement under which MasterCard granted Citadele a non-exclusive licence to use various trademarks, service marks and logotypes in connection with various MasterCard-, Maestro- or Cirrus-branded cards and programmes in Latvia, Estonia, Sweden and Germany. The term of the agreement is ten years, subject to early termination or automatic renewal for a successive ten-year period.

MasterCard Licence Agreement

On 18 October 2010, MasterCard and Citadele through its subsidiary, AB "Citadele" bankas, entered into a licence agreement under which MasterCard granted Citadele a non-exclusive licence to use various trademarks, service marks and logotypes in connection with various MasterCard, Maestro or Cirrus branded cards and programmes in Lithuania. The term of the agreement is ten years, subject to early termination or automatic renewal for a successive ten-year period.

Visa Europe Membership

On 2 August 2010, Visa Europe Limited ("**Visa Europe**") and Citadele entered into a membership deed, the terms of which enable Citadele to become a Visa Europe member and to participate in, and receive services under the Visa Europe systems and to use certain Visa marks and intellectual property in connection with participation in such systems. On 2 November 2015 and 10 May 2016 Visa Europe has agreed, on behalf of its members, to sell 100% of the issued and outstanding share capital of the company to Visa Inc. (the **"Visa Transaction**"). As a result, as from June 2016 Citadele holds stocks in Visa Inc. and generally continues to participate in the Visa Europe program according to its existing membership category and associated rights and obligations, however subject to changes made in Visa Europe rules and membership documentation in relation to the Visa Transaction.

IP Coexistence Agreement

Citadele has entered into an IP coexistence agreement with a third party in relation to the use of the "Citadele" name in the Baltic States. This agreement is intended to manage the conflict between Citadele's registration of the "Citadele" mark in Latvia and the third party's registration of the "Citadele" name across the EU. Under the terms of the agreement, Citadele's ability to use and expand the "Citadele" brand beyond the Baltic States is limited.

Temenos Software Agreement

On 30 June 2010, Temenos Headquarters SA ("**Temenos**") and Parex entered into a software agreement under which Temenos agreed to supply Parex with the T24 software systems and documentation and to grant a non-exclusive, non-transferable and non-sub-licensable licence to use such systems and related documentation. Parex transferred all of its rights and obligations under the software agreement to Citadele by way of an addendum to the original software agreement dated 30 June 2010, which took effect 1 August 2010.

In consideration of the provision of the software by Temenos, Citadele has agreed to pay certain recurring licence fees. The software agreement will continue in force for a term of 20 years, unless terminated earlier.

First Data Services Agreement

On 30 July 2012, Citadele entered into a framework agreement with First Data Latvia, SIA ("**FDL**") (as amended on 29 July 2016, expanding coverage also to AB "Citadele" bankas) in connection with the provision of certain services related to the operation of payment cards, including: the authorisation of payment card transactions, the servicing of acceptance device networks, and the maintenance of point-of-service terminals. Specific terms in relation to the provision of each service, including payment terms, are set out in separate service agreements. Under the framework agreement, Citadele is obliged to participate in international payment card systems including VISA, MasterCard and American Express as a precondition to receiving the services from FDL, and FDL is obliged to comply with all standards, specifications and requirements set by such international payment card organisations. FDL's liability under the agreement is capped at a sum equal to the amounts paid to it by Citadele over the previous twelve months. The agreement is for a term of five years.

Nomad Software Licence Agreement

On 24 August 2001, Nomad Software Limited ("**Nomad**") (currently known as FIS) and Parex entered into an agreement under which Nomad granted Parex a non-transferable and non-exclusive licence to use the CORTEX software systems in relation to the provision of payments services to its customers in Latvia and Estonia and its associated documentation. The rights under the software licence agreement were assigned to Citadele under an assignment agreement dated 7 January 2011. In consideration of the grant of such licence, Citadele has agreed to pay certain licence fees and additional amounts calculated by reference to the frequency of Citadele's use of the software. The licence is to continue until terminated in accordance with its terms.

NetEconomy Licence and Services Agreement

On 19 December 2005, Fiserv, trading as NetEconomy B.V. ("**NetEconomy**") and Parex entered into a licence and services agreement by which Parex and its affiliates were granted the right to use NetEconomy's ERASE software for internal business purposes, by virtue of a perpetual, non-transferable, non-assignable and non-exclusive licence. The rights under the licence and services agreement were assigned to Citadele under an assignment letter dated 31 July 2010. In consideration of the grant of such licence, Citadele has agreed to pay certain licence and service fees which are determined by reference to a pricing schedule.

Moody's Service Agreement

On 25 June 2010, Moody's Investors Service Ltd ("**Moody's**") and Citadele entered into an agreement under which Moody's agreed to provide a rating to Citadele. In consideration of the provision of these services, Citadele has agreed to pay certain fees to Moody's.

9. Financial and Trend Information

9.1. Historical Financial Information

2014 Audited Consolidated Financial Statements, 2015 Audited Consolidated Financial Statements and 2016 Audited Consolidated Interim Financial Statements (prepared according to IFRS) are attached to this Base Prospectus and form an integral part of this Base Prospectus.

9.2. Independent Auditors

The 2014 and 2015 Audited Consolidated Financial Statements, as well as the 2016 Audited Consolidated Interim Financial Statements were audited by KPMG Baltics SIA (registration number: 40003235171, legal address: Vesetas Street 7, Riga LV 1013, Latvia. KPMG Baltics SIA is included in the register of companies of certified auditors maintained by the Latvian Association of Certified Auditors. KPMG Baltics SIA has no material interest in Citadele or Citadele Group.

9.3. Material Legal and Arbitration Proceedings

Callidus Capital SIA ("**Callidus**") has alleged that the acquisition of Citadele by Ripplewood Advisors LLC through its wholly owned subsidiary, RA Citadele Holdings, LLC, along with a consortium of 12 other co-investors which did not include Callidus, which was completed in April 2015, violated an alleged partnership agreement between Callidus and Ripplewood Advisors LLC to jointly acquire from the Latvian Privatisation Agency a 75% less one share stake in Citadele. On 25 June 2015, Callidus filed suit against Ripplewood Advisors LLC in the City of Riga Vidzeme District Court. Callidus' suit seeks to have the district court declare that the indicative term sheet entered into by Ripplewood Advisors LLC and Callidus in April 2014 in connection with a proposed joint acquisition of a 75% less one share stake in Citadele from the Latvian Privatisation Agency constitutes a legally binding partnership agreement under Latvian law. Callidus is also seeking damages of EUR 32,700 in connection with its contribution to the alleged partnership. Callidus states in its suit that Ripplewood Advisors LLC's actions have caused damage to Callidus that exceeds the amounts sought in Callidus' present claim and that separate claims may be brought against Ripplewood Advisors LLC. It is unclear what additional claims Callidus might bring, but such claims could include additional claims for compensation, damages or a portion of Ripplewood Advisors LLC's stake in Citadele (held through its wholly-owned subsidiary, RA Citadele Holdings, LLC). In June 2016, the suit was dismissed by the District Court for lack of jurisdiction. Callidus subsequently appealed, and by a decision of 12 October 2016, the appeal court allowed the appeal. This decision cannot be appealed, and so the suit will therefore be returned to the District Court for hearing.

Ripplewood Advisors LLC has indicated to Citadele that it believes that Callidus' characterisation of Ripplewood Advisors LLC's relationship with Callidus and the subsequent acquisition of Citadele by Ripplewood Advisors LLC is inaccurate and that Callidus' claims are frivolous and without merit.

Citadele is also involved in a series of actions involving one of its customers who has sought to challenge the enforcement by Citadele of certain securities held in relation to loans which went into default. The customer contests that certain properties held as security and sold at public auction by Citadele to recover its losses were not sold at fair market value and seeks, among other things, any difference in value. In 2016, the customer filed suit in the United States against Citadele, Ripplewood Advisors LLC and other defendants challenging the foreclosure process in Latvia. Citadele does not believe the claims have any merit nor will be successful.

Aside from the above, Citadele Group currently does not have any active or pending material legal proceedings. Citadele Group does, however, have ongoing legal proceedings which arise in the ordinary course from time to time (including in relation to the enforcement of security), but no such legal proceedings are significant to Citadele Group's business or operations.

Save as described in "*Business Description*", there have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which Citadele is aware) during the last 12 months which may have, or have had in the recent past, significant effects on Citadele or Citadele's financial position or profitability.

9.4. Significant Changes in Financial Position of Citadele

There has been no material adverse change in the financial or trading position of Citadele or the Citadele Group since 30 June 2016, the end of the last financial period for which financial information has been published.

9.5. Trend Information

There has been no material adverse change in the prospects of the Citadele or the Citadele Group since the date of the 2016 Audited Consolidated Interim Financial Statements.

At the date of this Base Prospectus there is no information on any known trends, uncertainties, demands, commitments or events that are reasonably likely to have a material effect on the Citadele's or the Citadele Group's prospects and the industries in which Citadele or the Citadele Group operates in the current financial year.

9.6. Future Outlook

Citadele has not made any profit forecast or profit estimate in this Base Prospectus.

10. General Terms and Conditions of the Bonds

10.1. General

The terms and conditions of each Tranche shall consist of these general terms and conditions of the Bonds (the "**General Terms and Conditions of the Bonds**") and the applicable Final Terms. The General Terms and Conditions of the Bonds shall apply to each Tranche. Specific terms and conditions specified in the applicable Final Terms may be different in respect of each individual Tranche. In order to identify each Series and Tranche, the Final Terms (as defined below) shall stipulate a serial number of a respective Series and a serial number of a respective Tranche.

10.2. Type and Class

The Bonds are freely transferable non-convertible unsecured and unguaranteed subordinated bonds denominated in EUR, having maturity from 7 to 10 years and with fixed interest rate, which contain unsecured, unguaranteed and subordinated payment obligations of Citadele towards the holders of the Bonds (the "**Bondholders**").

Under no circumstances shall the Bonds be convertible into ordinary shares of Citadele or other equity instruments of Citadele, except as ordered by the competent authorities in accordance with the requirements of law which, from time to time, may be applicable to Citadele and the Bonds.

10.3. Form and Registration

The Bonds are dematerialized debt securities in bearer form and registered with the Latvian Central Depository (Latvijas Centrālais depozitārijs AS, registration number: 40003242879, legal address: Vaļņu 1, Riga, LV-1050, Latvia) (the "**LCD**") in the book-entry form. According to the Latvian Financial Instruments Market Law the book-entry and accounting of the dematerialized securities in Latvia which will be admitted to trading on the regulated market is done by LCD. Investors may hold Bonds through LCD participants, including credit institutions and investment brokerage firms.

10.4. Currency and Nominal Value

The Bonds will be issued in euro (€). The nominal value (face value) of each Bond shall be specified in the Final Terms but it shall amount to at least EUR 10,000.

10.5. ISIN Code

Each Tranche will be assigned a separate ISIN (International Security Identification Number) code, which will be different from the ISIN code of the other Tranches. Before commencement of the offering of the Tranche, LCD, upon request of Citadele, will assign to the respective Tranche an ISIN code. Where a further Tranche is issued which is intended to form a single Series with an existing Tranche at a point after the Issue Date of the existing Tranche, the Bonds of such further Tranche shall be assigned its own ISIN code, which is different from the ISIN codes assigned to the relevant Tranches of the same Series. The ISIN code of respective Tranche will be specified in the Final Terms.

10.6. Security

The Bonds constitute direct, unsecured and unguaranteed obligations of Citadele ranking *pari passu* without any preference among themselves.

10.7. Ranking and Subordination

The Bonds are subordinated to all unsubordinated claims against Citadele at all times (for the purposes of clarity, the Bonds are not subordinated to claims that are subordinated to the Bonds or have the same ranking as the Bonds) and Citadele's obligations under the Bonds constitute subordinated liabilities within the meaning of the Latvian Credit Institutions Law. The net proceeds from the Bonds will be used by Citadele for the purposes specified in section entitled "*General Terms and Conditions of the Bonds —Reasons for the Offer* *and Use of Proceeds*" below and as its subordinated capital and thus the Bonds will be recognized as Tier 2 instruments within the meaning of CRR or any other applicable rules.

The subordination of the Bonds means that in the event of liquidation or insolvency of Citadele, all the claims arising from the Bonds shall become collectible and shall be satisfied only after full satisfaction of all unsubordinated recognised claims against Citadele but before satisfaction of the claims of Citadele's shareholders in their capacity as Citadele's shareholders in accordance with the applicable law. Therefore, upon liquidation or insolvency of Citadele, the Bondholders will not be entitled to any payments due under the Bonds until full and due satisfaction of all the unsubordinated claims against Citadele, except the claims of Citadele's shareholders in their capacity as Citadele's shareholders. By subscribing to the Bonds, all investors unconditionally and irrecoverably agree to such subordination of claims arising from the Bonds. As long as there are no liquidation or insolvency proceedings initiated against Citadele, all claims arising from the Bonds shall be satisfied by Citadele in accordance with the General Terms and Conditions of the Bonds, the applicable Final Terms and the applicable law. Please be advised that no funds may be left to satisfy the claims of the Bondholders after all or part of unsubordinated claims have been satisfied.

Accordingly, any and all restrictions applicable to the subordinated liabilities of a credit institution and Tier 2 instruments as may be provided in the Latvian Credit Institutions Law, CRR and any other applicable rules will be applicable to the Bonds and Citadele's obligations arising out of the Bonds, including the following restrictions stated in the Latvian Credit Institutions Law (in particular, Section $59.^6$):

- In case a credit institution in accordance with the laws and regulations regarding aid for commercial activity receives such an aid, from the moment of granting of such aid until the end of provision of such aid, the credit institution in question is prohibited from carrying out the subordinate liabilities, including prohibited from repaying a loan, as well as from calculating, accumulating or paying out interest and other remuneration for such loan; and
- if the FCMC has determined deposit restrictions for a credit institution, from the day of determination of such restrictions until the day of their revocation, the credit institution in question is prohibited from carrying out the subordinate liabilities, including prohibited from repaying a loan, as well as from calculating, accumulating or paying out interest and other remuneration for such loan.

The Bonds rank *pari passu* with other existing and future unsecured and unguaranteed subordinated obligations of Citadele.

10.8. Applicable Law and Dispute Resolution

Issue of each Series and their public offering shall be governed by and construed in accordance with the laws of the Republic of Latvia, including the Latvian Financial Instruments Market Law, as well as rules and regulations of the FCMC, LCD and Nasdaq Riga. Any disputes relating to or arising from the above-mentioned will be settled solely by the courts of the Republic of Latvia of competent jurisdiction.

10.9. Transferability

The Bonds are freely transferrable and disposable without any restrictions. However, transfer of the Bonds is subject to selling and transfer restrictions under the relevant laws in certain jurisdictions applicable to the transferor or transferee. The Bonds cannot be offered, sold, resold, transferred or delivered in such countries or jurisdictions or otherwise in such circumstances in which such offer, sale, re-sale or transfer would be unlawful or require measures other than those required under Latvian laws to be taken by Citadele, including, if applicable, the United States of America. See the section entitled "*Notice to Investors and Restrictions on Distribution*".

10.10. Rights Attached to the Bonds

The only rights of the Bondholders arising from the Bonds are the right to the redemption of the Bonds on the Maturity Date (as defined below) and the right to receive interest, subject to the limitations of these rights as described in these General Terms and Conditions of the Bonds. The Bondholders are not entitled to a delay interest or any penalty fees in case of delay in making any payments due under the Bonds by Citadele. The rights arising from the Bonds can be exercised by the Bondholders in accordance with the General Terms and Conditions of the Bonds, the applicable Final Terms and the applicable rules of Latvian law.

No „Change of Control" obligations

There will be no „Change of Control" obligations binding Citadele in respect of the Bonds and the Bonds will not have the benefit of and investors in Bonds will not have protection of a „Change of Control". Consequently, change of control over Citadele by any means will not confer any rights whatsoever to the Bondholders.

No „Negative Pledge" or „Cross-Default" obligations

There will be no „Negative Pledge" or „Cross-Default" obligations binding Citadele in respect of the Bonds and the Bonds will not have the benefit of and investors in Bonds will not have protection of „Negative Pledge" or „Cross-Default".

No Set-off

No Bondholder may exercise, claim or plead any right of set-off, compensation or retention in respect of any amount owed to it by Citadele arising under, or in connection with, the Bonds and each Bondholder shall, by virtue of its holding of any Bonds, be deemed to have waived all such rights of set-off, compensation or retention. By its acquisition of the Bonds, each Bondholder and beneficial owner agrees to be bound by these provisions relating to waiver of set-off. All payments made by Citadele in connection with Bonds are calculated and paid without set-off or counter-claims.

No obligations of Citadele regarding its operations

There will be no restrictions on Citadele's ability to conduct its operations as it deems fit, at its sole discretion. The Bonds do not contain any provisions designed to protect the Bondholders from a reduction in the creditworthiness of Citadele.

10.11. Interest and Yield

The Bonds shall carry interest at a fixed annual interest rate (the "**Annual Interest Rate**") which shall be specified in the Final Terms. The Annual Interest Rate shall be the same for each and every year until the Maturity Date (as defined below) or the Early Redemption Date (as defined below), as the case may be.

Citadele has a right at its sole discretion to amend the Annual Interest Rate once or several times until the end of the applicable Offer Period (as defined below) and announce the updated Annual Interest Rate (the "**Updated Annual Interest Rate**"). The Updated Annual Interest Rate will be published on Citadele's website www.citadele.lv. Investors should follow the information on the aforementioned website and have a right to modify or cancel their Purchase Orders if the Annual Interest Rate has been updated, provided that such modification or cancellation of the Purchase Order is received by Citadele before the end of the applicable Offer Period. If during the Offer Period (as defined below) Citadele amends the Annual Interest Rate, the final Annual Interest Rate will be reflected in the Final Terms which will be published after allotment of the Bonds to the investors. A number of factors may be considered in determining the Updated Annual Interest Rate such as, *inter alia*, the level and nature of the demand for the Bonds of the respective Tranche by the investors and prevailing market conditions.

The interest on the Bonds will be paid semi-annually on the dates specified in the Final Terms ("**Interest Payment Dates**") and will be calculated on the aggregate outstanding principal amount of the Bonds of the respective Series from the Issue Date (as defined below) until the Maturity Date (as defined below) or the Early Redemption Date (as defined below), whichever occurs first. If the Offer Period (as defined below) is extended according to the section entitled "*Terms and Conditions of the Offer —Offer Period*" of this Base Prospectus, the final Interest Payment Dates will be rescheduled by Citadele proportionally to the length of extension of the Offer Period and specified in the Final Terms which will be published after allotment of the Bonds to the investors.

Interest shall accrue for each interest period from and including the first day of the interest period to (but excluding) the last day of the interest period on the principal amount of the Bonds of the respective Series outstanding from time to time. The first interest period commences on the Issue Date (as defined below) and ends on the first closest Interest Payment Date (the "**First Interest Period**"). Each consecutive interest period begins on the previous Interest Payment Date and ends on the following Interest Payment Date. The last interest period ends on the Maturity Date (as defined below) or the Early Redemption Date (as defined below), whichever occurs first.

Interest in respect of the Bonds will be calculated on the basis of the actual number of days elapsed in the relevant interest period divided by 365 (or, in the case of a leap year, 366), i.e. a day count convention Act/Act (ICMA) will be used.

When interest is required to be calculated in respect of a period of less than a half year other than in respect of the First Interest Period, it shall be calculated on the basis of (a) the actual number of days in the period from and including the date from which interest begins to accrue (the ''**Accrual Date**'') to but excluding the date on which it falls due divided by (b) the actual number of days from and including the Accrual Date to but excluding the next following Interest Payment Date.

Interest on the Bonds shall be paid in accordance with the LCD Rules No. 8 "On payment of dividends, coupons, principal and other cash proceeds", as amended from time to time or any other applicable rules of LCD which are enacted for the purposes of substituting LCD Rules No. 8 "On payment of dividends, coupons, principal and other cash proceeds". Citadele shall transfer all payable amounts to the LCD account on the Interest Payment Date until 2 p.m. (Riga time). The LCD on the same day shall transfer all payable amounts received from Citadele to the account holders (credit institutions and investment brokerage firms, which are participants of the LCD) according to the number of Bonds present on the LCD's corresponding accounts of the account holders 8 (eight) Business Days prior to the Interest Payment Date. The account holders shall transfer the amounts payable to the Bondholders or the nominee holders, which shall then transfer the respective amounts to the Bondholders.

Should any Interest Payment Date fall on a date which is not a Business Day, the payment of the interest due will be postponed to the next Business Day. The postponement of the payment date shall not affect in any manner the amount payable and no interest on such payment will accrue in respect of the delay.

An expected yield to maturity for the Bonds (the "**Yield to Maturity**") being offered, based on the final Issue Price and the final Annual Interest Rate, will be specified in the Final Terms which will be published after allotment of the Bonds to the investors. The Yield to Maturity is the percentage rate of return paid if the Bond is held to its Maturity Date, assuming that interest paid over the life of the Bond is reinvested at the same rate.

10.12. Maturity and Redemption

Each Series may have a maturity between 7 (seven) and 10 (ten) years starting from the Issue Date (as defined below). The Bonds shall be repaid in full at their nominal value on the maturity date which will be specified in the Final Terms (the "**Maturity Date**") or on the Early Redemption Date (as defined below).

If the Offer Period (as defined below) is extended according to the section entitled "*Terms and Conditions of the Offer —Offer Period*" of this Base Prospectus, the final Maturity Date will be rescheduled by Citadele proportionally to the length of extension of the Offer Period and specified in the Final Terms which will be published after allotment of the Bonds to the investors.The principal of the Bonds shall be paid in accordance with the LCD Rules No 8 "On payment of dividends, coupons, principal and other cash proceeds" as amended from time to time or any other applicable rules of LCD which are enacted for the purposes of substituting LCD Rules No. 8 "On payment of dividends, coupons, principal and other cash proceeds". Citadele shall transfer all payable amounts to the LCD's account on the Maturity Date or the Early Redemption Date, as the case may be, until 2 p.m. (Riga time). The LCD shall transfer all payable amounts received from Citadele to the account holders (credit institutions and investment brokerage firms, which are participants of the LCD) on the same day. The account holders shall transfer the amounts payable to the Bondholders or the nominee holders, which shall then transfer the respective amounts to the Bondholders. The record date for the payment of the principal of the Bonds within the meaning of LCD Rules No 8 "On payment of dividends, coupons, principal and other cash proceeds" shall be a Business Day immediately preceding the Maturity Date or the Early Redemption Date, as the case may be.

Should the Maturity Date or the Early Redemption Date fall on a date which is not a Business Day, the payment of the amount due will be postponed to the next Business Day. The postponement of the payment date shall not affect in any manner the amount payable and no interest on such payment will accrue in respect of the delay.

Citadele has a right to redeem the Bonds for their nominal value prematurely prior to the Maturity Date as follows:

- at any time after the lapse of 5 years period as from the Issue Date (as defined below) by notifying the Bondholders at least 30 (thirty) days in advance, provided that the competent authority (such as FCMC or the EBA, if they are in the competence thereof) has granted its consent for such early redemption of the Bonds, if required by applicable law and other relevant legal requirements (such as the conditions of Article 78(1) of the CRR, if applicable at the moment of early redemption of the Bonds) have been met; and
- prematurely before the lapse of the 5 year period as from the Issue Date (as defined below), provided that the competent authority (such as FCMC or the EBA, if they are in the competence thereof) has granted its consent for such early redemption of the Bonds, if required by applicable law and other relevant legal requirements (such as the conditions of Article 78(4) of CRR, if applicable at the moment of early redemption of the Bonds) have been met; and
- prematurely before or after the lapse of the 5 year period as from the Issue Date (as defined below), if applicable laws and rules permit such redemption, provided that all the relevant legal requirements have been met.

The decision on granting the consent may involve certain amount of discretion by the competent authority and the early redemption may be therefore beyond the control of Citadele.

If Citadele decides to exercise the right to redeem the Bonds prematurely prior to the Maturity Date as stated above, subject to receiving the necessary consents, Citadele shall specify the date on which the Bonds will be redeemed (the "**Early Redemption Date**"). Early Redemption Date will be announced as described in the section entitled "*General Terms and Conditions of the Bonds —Notices"* below.

The Bondholders are not entitled to claim premature redemption of the Bonds before the Maturity Date under any circumstances. By purchasing the Bonds any investor unconditionally and irrevocably relinquishes the right to demand premature redemption of any Bonds, if such a right exists under applicable law.

10.13. Issue Date

The issue date of each Tranche (the "**Issue Date**") shall be specified in the Final Terms.

If the Offer Period (as defined below) is extended according to the section entitled "*Terms and Conditions of the Offer —Offer Period*" of this Base Prospectus, the final Issue Date will be rescheduled by Citadele proportionally to the length of extension of the Offer Period and specified in the Final Terms which will be published after allotment of the Bonds to the investors.

10.14. Issue Price

The Bonds may be issued at their nominal value or at a discount or a premium to their nominal value (the "**Issue Price**"). The Issue Price shall be specified in the Final Terms.

Citadele has a right at its sole discretion to amend the Issue Price once or several times until the end of the applicable Offer Period (as defined below) and announce the updated Issue Price (the "**Updated Issue Price**"). The Updated Issue Price will be published on Citadele's website www.citadele.lv. Investors should follow the information on the aforementioned website and have a right to modify or cancel their Purchase Orders if the Issue Price has been updated, provided that such modification or cancellation of the Purchase Order is received by Citadele before the end of the applicable Offer Period. If during the Offer Period (as defined below) Citadele amends the Issue Price, the final Issue Price will be reflected in the Final Terms which will be published after allotment of the Bonds to the investors. A number of factors may be considered in determining the Updated Issue Price such as, *inter alia*, the level and nature of the demand for the Bonds of the respective Tranche by the investors and prevailing market conditions.

10.15. Taxation

All payments in respect of the Bonds by Citadele shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature ("**Taxes**"), unless the withholding or deduction of the Taxes is required by laws of the Republic of Latvia. In such case, Citadele shall make such payment after the withholding or deduction has been made and shall account to the relevant authorities in accordance with the applicable laws for the amount so required to be withheld or deducted. Citadele shall not be obligated to gross-up or make any additional compensation to the Bondholders in respect of such withholding or deduction. See Section 13 of this Base Prospectus entitled "*Taxation*" below for further information.

10.16. Publication of the Final Terms

The Final Terms of each Tranche will be approved by Citadele's Management Board. Before the Offer of the respective Tranche commences, the initial Final Terms:

- will be submitted to the FCMC, who will forward them to the Bank of Lithuania (*Lietuvos Bankas*); and
- will be published on Citadele's website www.citadele.lv.

The Final Terms containing information about the established aggregate principal amount of the respective Tranche and definitive amount of the Bonds to be issued, as well as the final Offer Period, Annual Interest Rate, Issue Price, Issue Date, Maturity Date and Interest Payment Dates will be published on the Citadele's website www.citadele.lv and submitted to the FCMC after allotment of the Bonds to the investors.

10.17. Admission to Listing and Trading

Citadele shall submit an application for admitting each Tranche to listing and trading on the official bond list (Baltic Bond List) of Nasdaq Riga AS, registration number: 40003167049, legal address: Vaļņu 1, Riga, LV-1050, Latvia (the **"Nasdaq Riga"**) according to the requirements of Nasdaq Riga not later than within 3 (three) months after the Issue Date of the respective Tranche. Trading of the respective Tranche on the Baltic Bond List of the Nasdaq Riga Stock Exchange is expected to commence within 1 (one) month after the above-mentioned application has been made. All dealings in the Bonds of the respective Tranche prior to the commencement of unconditional dealings on the Baltic Bond List of the Nasdaq Riga Stock Exchange may be in the form of private over-the-counter transactions and will be at the sole risk of the parties concerned. Nasdaq Riga Stock Exchange is a regulated market for the purposes of MiFID.

Unless the context requires otherwise, references in this Base Prospectus to Bonds being "listed" (and all related references) shall mean that such Bonds have been listed and admitted to trading on the Baltic Bond List of the Nasdaq Riga Stock Exchange as may be specified in the applicable Final Terms.

Citadele shall use its best efforts to ensure that the respective Tranche remains listed in the official bond list (Baltic Bond List) of Nasdaq Riga or, if such listing is not possible to obtain or maintain, listed or traded on another regulated market. The Citadele shall, following a listing or admission to trading, take all reasonable actions on its part required as a result of such listing or trading of the respective Tranche. Citadele will cover all costs which are related to the admission of the respective Tranche to the relevant regulated market.

10.18. Estimated Expenses Charged to the Investors

No expenses or taxes will be charged to the investors by Citadele in respect to the issue of the Bonds. However, the investors may be obliged to cover expenses which are related to the opening of securities accounts with the credit institutions or investment brokerage firms, as well as commissions which are charged by the credit institutions or investment brokerage firms in relation to the execution of the investor's purchase or selling orders of the Bonds, the holding of the Bonds or any other operations in relation to the Bonds. Citadele shall have no obligation whatoever to compensate the Bondholders for any such expenses.

10.19. Underwriting

On 12 October 2016 Citadele and ABLV entered into the Agreement on Underwriting Commitment (the "**Underwriting Commitment**") pursuant to which, on the terms and subject to certain conditions contained therein, ABLV is obliged to purchase the Bonds within the Offer in the total amount of not less than € 20,000,000 (twenty million euro) in nominal value. The said obligation is applicable, if the full settlement and distribution of the Bonds in the above-mentioned amount is completed until 29 December 2016. ABLV has agreed to purchase the Bonds, provided *inter alia* that the purchase price of the Bonds does not exceed 100%

of the Bond's nominal (face) value, the annual interest rate for the Bonds is not less than 6.25% per annum, the frequency of the interest payments is at least semi-annually and the term of the Bonds is 10 years, subject to early redemption rights of Citadele. ABLV will receive certain remuneration for fulfillment of the above-mentioned underwriting commitment, including remuneration in the amount of 0.9% from the purchase price of the purchased Bonds. Under certain specified conditions Citadele and ABLV may terminate the Underwriting Commitment unilaterally. Pursuant to the Underwriting Commitment ABLV is guaranteed within the Offer to receive a number of Bonds with € 10,000,000 (ten million euro) in nominal value. The Final Terms shall include an indication as to whether the Underwriting Commitment is applicable to the particular Tranche.

10.20. Force Majeure

Citadele shall be entitled to postpone the fulfilment of its obligations under the Bonds and this Base Prospectus and any relevant Final Terms, in case the performance is not possible due to continuous existence of any of the following circumstances:

(a) action of any authorities, war or threat of war, rebellion or civil unrest;

(b) disturbances in postal, telephone or electronic communications which are due to circumstances beyond the reasonable control of Citadele and that materially affect operations of Citadele;

(c) any interruption of or delay in any functions or measures of Citadele as a result of fire or other similar disaster;

(d) any industrial action, such as strike, lockout, boycott or blockade affecting materially the activities of Citadele even if it only affects part of the employees of any of them and whether any of them is involved therein or not; or

(e) any other similar force majeure or hindrance which makes it unreasonably difficult to carry on the activities of Citadele.

In such case the fulfilment of the obligations may be postponed for the period of the existence of the respective circumstances and shall be resumed immediately after such circumstances cease to exist, provided that Citadele shall use all best efforts to limit the effect of the above referred circumstances and to resume the fulfilment of its obligations, as soon as reasonably practicable.

10.21. Further Issues

Citadele may, from time to time, without the consent of and notice to the Bondholders, create and issue further bonds whether such further bonds form a single Series with already issued Bonds or not (the Final Terms must include a corresponding indication, if the respective Series will consist of only one Tranche) and whether issued within the Programme or not. For the avoidance of doubt, Citadele's right to issue any other notes and securities is not restricted in any way. However, the maximum aggregate nominal amount of all Bonds outstanding issued under the Programme shall not at any time exceed € 40,000,000.

10.22. Purchases

Citadele or any of its Subsidiaries may at any time purchase the Bonds in any manner and at any price in the secondary market subject to provisions of applicable law. Such Bonds may be held, resold or surrendered by the purchaser through Citadele for cancellation.

10.23. Time Bar

Claims arising from the Bonds shall expire in accordance with the statutory terms of Latvian law.

10.24. Notices

The Bondholders shall be advised of matters relating to the Bonds through a press release and by a notice published in English and Latvian in the Central Storage of Regulated Information (www.oricgs.lv), on the

Citadele's website (www.citadele.lv or www.cblgroup.com) and, after the Bonds are admitted to the regulated market, also on the news service of the Nasdaq Riga website or otherwise as prescribed by the applicable rules of Latvian law. Any such notice shall be deemed to have been received by the Bondholders when published in the manner specified above.

10.25. Representation of the Bondholders

Within the Programme, the rights of the Bondholders to establish and/or authorize an organization/person to represent the interests of all or a part of the Bondholders are not contemplated, but, on the other hand, these rights are not restricted. The Bondholders should themselves cover all costs/fees of such representative(s).

10.26. Meetings of the Bondholders

Save as otherwise provided in respect to the amendments to technical procedures and aspects relating to the Bonds below, if Citadele intends to amend these General Terms and Conditions of the Bonds or the Final Terms of the Tranches of the relevant Series, Citadele shall convene a meeting of the Bondholders or the Bondholders of the relevant Series (as applicable) (the "**Bondholders' Meeting**") to decide on amendments of these General Terms and Conditions of the Bonds, the Final Terms of the Tranches of the relevant Series or other matters that may significantly affect the interests of the Bondholders. The following rules shall apply to any Bondholders' Meeting:

- All expenses in relation to the convening and holding the Bondholders' Meeting shall be covered by Citadele;
- Notice of the Bondholders' Meeting shall be published in accordance with the section entitled "*General Terms and Conditions of the Bonds —Notices"* above no later than 10 (ten) Business Days prior to the respective Bondholders' Meeting. Furthermore, the notice shall specify the time, place and agenda of the respective Bondholders' Meeting, as well as any action required on the part of the Bondholder that will attend the respective Bondholders' Meeting. No matters other than those referred to in the notice may be resolved at the respective Bondholders' Meeting;
- Only those who, according to the register kept by the LCD in respect of the Bonds, were registered as the Bondholders on the 6th (sixth) Business Day prior to the respective Bondholders' Meeting or proxies authorised by such Bondholders, shall be entitled to vote at the meeting and shall be recorded in the list of the Bondholders participating in the respective Bondholders' Meeting;
- The Bondholders' Meeting shall be held in Riga, Latvia, and its chairman shall be the Citadele's representative appointed by Citadele;
- Voting rights of the Bondholders shall be determined according to the principal amount of the Bonds held;
- The Bondholders' Meeting shall be held in English with translation into Latvian, unless the Bondholders present in the respective Bondholders' Meeting unanimously decide that the respective Bondholders' Meeting shall be held only in Latvian or English;
- A representative of Citadele and a person authorised to act for Citadele may attend and speak at the Bondholders' Meeting;
- Minutes of the Bondholders' Meeting shall be kept by a representative of Citadele, recording the day and time of the meeting, attendees, their votes represented, matters discussed, results of voting, and resolutions which were adopted. The minutes shall be signed by a representative of Citadele as the keeper of the minutes. The minutes shall be attested by one of the persons appointed by the Bondholders' Meeting to attest the minutes by a simple majority vote of the Bondholders present at the respective Bondholders' Meeting. The minutes shall be published in accordance with the section entitled "*General Terms and Conditions of the Bonds —Notices"* above after the Bondholders' Meeting as soon as possible and without any delay. If applicable, new or amended General Terms and Conditions of the Bonds or Final Terms of the Tranches of the relevant Series (as applicable) shall be appended to the minutes. The minutes shall be stored in a secure manner by Citadele;
- The Bondholders' Meeting shall be organised by a representative of Citadele acting as the chairman of the Bondholders' Meeting;

- The Bondholders’ Meeting is entitled to adopt decisions that are binding upon all the Bondholders with the consent of at least 75 (seventy-five) per cent of holders of the aggregate principal amount of the outstanding Bonds. The meeting of the Bondholders of the relevant Series is entitled to make the decisions that are binding on all the Bondholders of the relevant Series with the consent of at least 75 (seventy-five) per cent of holders of the aggregate principal amount of the outstanding Bonds of the respective Series;
- Resolutions passed at the Bondholders’ Meeting shall be binding on all Bondholders irrespective of whether they have been present at the Bondholders' Meeting;

Citadele shall have a right at its sole discretion to amend the technical procedures and aspects relating to the Bonds in respect of payments or other similar matters without the consent of the Bondholders or the Bondholders’ Meeting, if such amendments are necessitated by the changes in applicable rules of Latvian law or otherwise, if such amendments are not prejudicial to the interests of the Bondholders.

10.27. Interests of Natural and Legal in the Offer

In so far as Citadele is aware, no person involved in the Offer has an interest material to the Offer, nor any conflicting interests, with the exception of ABLV which has certain interests under the Underwriting Commitment. See the section entitled “*General Terms and Conditions of the Bonds —Underwriting*” (above) for more information. The Final Terms will contain indication as to whether these ABLV’s interests are applicable to a particular Tranche.

10.28. Reasons for the Offer and Use of Proceeds

Citadele expects to receive net proceeds of up to EUR 39 million from this Offer. The net proceeds from the Offer are to be used by Citadele for its general corporate purposes and to strengthen further the regulatory capital structure of Citadele, including use as Citadele’s subordinated capital in accordance with the requirements of the CRR and any other applicable rules for Tier 2 capital and repaying the outstanding amount under the subordinated loan currently held by the Latvian Privatisation Agency under the LPA Subordinated Debt. For more information on see section entitled “*Business Description —Material Agreements —LPA Subordinated Debt*.”

Following the Offer, Citadele intends to hold discussions with the Latvian Privatisation Agency in connection with the early repayment of the LPA Subordinated Debt. Citadele anticipates a period of up to two months from receipt of the proceeds of the Offer and the requisite permissions being granted to enable the early repayment of the LPA Subordinated Debt. Citadele Group expects (on the basis of facts and data available as at the date of the Base Prospectus) the net proceeds from the Offer and the repayment of the LPA Subordinated Debt to result in its total capital adequacy ratio, calculated on a Basel III fully loaded basis, to increase by up to 160 basis points, and to reach up to 14.6% (the calculation also assumes that EUR 25 million of profit for the first half of 2016 is included in the eligible equity). If calculated on a Basel III transitional basis, Citadele Group’s total capital adequacy ratio would be expected to be up to 15.5% (the calculation also assumes that EUR 25 million of profit for the first half of 2016 is included in the eligible equity) following the repayment of the LPA Subordinated Debt. The actual changes to total capital adequacy ratio arising from the repayment of the LPA Subordinated Debt may differ from the amounts and percentages that are provided above, which have been prepared on the basis of facts and data available as at the date of this Base Prospectus. The repayment of the LPA Subordinated Debt and the consequential change to Citadele’s capital adequacy position is subject to the prior approval of the FCMC.

If in respect of any particular Series, there is another particular identified use of proceeds, this will be stated in the relevant Final Terms applicable to the particular Series.

11. Terms and Conditions of the Offer

The following terms and conditions will apply to the Offer.

11.1. Placement account

Initially the Bonds of the respective Tranche will be book-entered in the placement account of Citadele with the LCD.

11.2. Right to participate in the Offer

The Offer is directed to all natural and legal persons (institutional and retail investors) in Latvia and Lithuania, irrespective of whether they qualify as qualified investors within the meaning of Article 2(1)(e) of the Prospectus Directive, as well as to persons (institutional investors) located in the Member State of the EEA (other than Latvia and Lithuania) who are qualified investors within the meaning of Article 2(1)(e) of the Prospectus Directive in each case pursuant to an exemption under Article 3 of the Prospectus Directive, as implemented by the respective Member States of EEA.

11.3. Minimum Investment Amount

The Bonds will be offered for subscription for the following minimum investment amount (the "**Minimum Investment Amount**"): at least 10 (ten) Bonds for any and all investors. The Minimum Investment Amount will also be reflected in the relevant Final Terms.

11.4. Offer Period

The offer period for each Tranche, including any and all its extensions as indicated below (the "**Offer Period**") will be specified in the relevant Final Terms.

Until the end of the applicable Offer Period, Citadele may extend the Offer Period at its sole discretion once or several times. The minimum length of any such extension should be at least 2 Business Days. The notification about extension of the Offer Period will be published on Citadele's website www.citadele.lv. Investors should follow the information on the aforementioned website and have a right to modify or cancel their Purchase Orders if the Offer Period has been extended, provided that such modification or cancellation of the Purchase Order is received by Citadele before the end of the Offer Period.

If the Offer Period is extended, the final Offer Period will be specified in the Final Terms which will be published after allotment of the Bonds to the investors.

11.5. Submission of Purchase Orders

The investors wishing to purchase the Bonds shall submit their orders to purchase the Bonds (the "**Purchase Orders**") at any time during the Offer Period to Citadele (fulfilling the functions of the issuing agent) and its agents, which will be specified in the Final Terms. The procedure of submission of the Purchase Orders will be specified in the Final Terms.

11.6. Purchase Orders

The Purchase Order shall indicate the total amount of the Bonds to be purchased by the respective investor based on the applicable Issue Price and Annual Interest Rate at the time of making of the Purchase Order, which shall be at least equal to the Minimum Investment Amount.

All Purchase Orders constitute a binding and irrevocable commitment to acquire the allotted Bonds, with the exceptions stated below.

11.7. Invalid Purchase Orders

The Purchase Order shall not be considered valid and shall not be processed in case the purchase amount indicated in the Purchase Order is less than the Minimum Investment Amount, the Purchase Order was received after the Offer Period, the Issue Price based on which the Purchase Order was made is lower than the final Issue Price applicable at the end of the Offer Period and/or the Annual Interest Rate based on which the Purchase Order was made is higher than the final Annual Interest Rate applicable at the end of the Offer Period.

Only valid Purchase Orders compliant the requirements of:

- the Minimum Investment Amount,
- reception of the Purchase Order within the Offer Period, and
- the Issue Price based on which the Purchase Order was made being equal or higher than the final Issue Price applicable at the end of the Offer Period and the Annual Interest Rate based on which the Purchase Order was made being equal or lower than the final Annual Interest Rate applicable at the end of the Offer Period

shall be treated as qualifying Purchase Orders (the "**Qualifying Purchase Orders**").

Citadele does not have any obligation to inform investors about the fact that their Purchase Orders are invalid.

11.8. Cancellation of the Offer

On the next Business Day following the Offer Period Citadele will decide whether to proceed with the Offer of a particular Tranche or cancel it. In case the Offer of a Tranche is cancelled, Citadele will publish an announcement on the Citadele's web-site www.citadele.lv and submit it to the FCMC. All rights and obligations of the parties in relation to the cancelled Offer will be considered as having been terminated as at the moment when such announcement is made public.

11.9. Allotment

In case Citadele decides to proceed with the Offer of a Tranche, on the next Business Day following the Offer Period the following actions shall be taken:

(a) Establishment of the Qualifying Purchase Orders

Citadele shall at its sole discretion determine which Purchase Orders can be treated as Qualifying Purchase Orders, and the extent of their satisfaction.

(b) Determination of the final aggregate principal amount of the respective Tranche and allotment of the Bonds to the Investors

Upon determination of the Qualifying Purchase Orders, Citadele will establish the exact amount of the Bonds to be allotted with respect to each Qualifying Purchase Order and thus determine the final aggregate principal amount of the respective Tranche. Citadele will at its sole discretion decide upon the final allocation of the Bonds to each investor and Citadele is entitled to reject any Purchase Orders, in whole or in part, for any reason at its sole discretion.

(c) Guaranteed Allocations

Notwithstanding Citadele's general discretion to reject any Purchase Orders, in whole or in part, for any reason at its sole discretion, ABLV, if it submits a corresponding valid Purchase Order in accordance with the Underwriting Commitment and it is a Qualifying Purchase Order, is guaranteed to receive a number of Bonds with EUR 10,000,000 (ten million euro) in nominal value.

(d) Announcement of the Final Terms

The Final Terms containing the information about the final Offer Period, Annual Interest Rate, Issue Price, Issue Date, Maturity Date and Interest Payment Dates, the aggregate principal amount of the respective Tranche and definitive amount of the Bonds to be issued within the respective Tranche will be published on Citadele's web-site www.citadele.lv, as well as submitted to the FCMC.

(e) Allotment Notifications

After completion of the allotment with respect to each Qualifying Purchase Order Citadele shall submit an allotment notification (the "**Notification**") to each investor. The Notification will evidence the extent of satisfaction or rejection of the Purchase Order submitted by the investor, the number of Bonds allotted to the investor, the final Annual Interest Rate, Issue Price and the purchase price payable for the Bonds.

Citadele will send the Notification to each investor through Bloomberg trading system. However, if an investor has opened a securities account with Citadele and is acting through Citadele in respect to purchase of the Bonds, the Notification will be sent to the respective investor in accordance with the terms and conditions of the agreements concluded between Citadele and such investor. Furthermore, if an investor has opened a securities account with AB "Citadele" bankas and is acting through AB "Citadele" bankas in respect to purchase of the Bonds, the Notification will be sent to the respective investor in accordance with the terms and conditions of the agreements concluded between AB "Citadele" bankas and such investor.

11.10. Settlement and Delivery

The settlement for the Bonds will be carried out in accordance with the delivery-versus-payment (DVP) principle pursuant to the LCD Rules No 5 "On DVP Settlement for Over-the-Counter Transactions", as amended. The settlement will take place on the Issue Date. After completion of the allotment with respect to each Qualifying Purchase Order Citadele will submit corresponding DVP instructions via LCD system. Credit institutions and investment brokerage firms (irrespective of whether they act on behalf of the investors or themselves) must confirm these instructions immediately (by sending a relevant instruction) but not later that by 4 p.m. (Riga time) on the Issue Date. All paid up Bonds shall be treated as issued. The Bonds which are not paid up shall be cancelled.

However, if an investor has opened a securities account with Citadele and is acting through Citadele in respect to purchase of the Bonds, the settlement for the Bonds will be carried in accordance with the terms and conditions of the agreements concluded between Citadele and such investor.

No dealing may begin before full completion of the settlement and delivery of the Bonds.

11.11. Information About the Results of the Offer

Information about the results of the Offer of each Tranche (amount of the Bonds issued and aggregate principal amount of the respective Tranche) shall be published on the Citadele's web-site www.citadele.lv, within 3 (three) Business Days after the Issue Date.

12. Form of the Final Terms

Final Terms dated [date] [month] [year]

AS Citadele banka

Issue of up to € [•] Bonds due [•] under

the € 40,000,000 First Unsecured Subordinated Bonds Programme

Terms used herein have the meaning given to them in the Base Prospectus of € 40,000,000 First Unsecured Subordinated Bonds Programme of AS Citadele banka dated [•] [as supplemented by supplement(s) to it dated [•] [and [•]] (the "**Base Prospectus**"), which constitutes a base prospectus for the purposes of Directive 2003/71/EC, as amended (the "**Prospectus Directive**"). References herein to "the Base Prospectus" shall, where applicable, be deemed to be references to the Base Prospectus as supplemented or amended from time to time.

This document constitutes the Final Terms of the Bonds described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Base Prospectus. Full information on Citadele and the offer of the Bonds is only available on the basis of the combination of these Final Terms and the Base Prospectus. However, a summary of the issue of the Bonds is annexed to these Final Terms.

The Base Prospectus is available for viewing at Citadele's website www.citadele.lv.

1.	Issuer:	AS Citadele banka
2.	Series Number:	[•]
3.	Tranche Number:	[•] (indication as to whether the respective Series will consist of only one Tranche)
4.	ISIN Code:	[•]
5.	Aggregate principal amount:	[from € [•] up to [•]][1]
6.	Nominal value of the Bond:	€ [•]
7.	Issue Date:	[•][2]

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[1] *Citadele has a right to increase or decrease the aggregate principal amount of the Tranche, provided that the maximum aggregate nominal amount of all Bonds outstanding issued under the Programme shall not at any time exceed € 40,000,000. The final aggregate principal amount of the Tranche will be specified in the Final Terms which will be published after allotment of the Bonds to the investors.*

[2] *The Offer Period may be extended by Citadele according to the section entitled "Terms and Conditions of the Offer —Offer Period" of the Base Prospectus. If the Offer Period is extended, the final Issue Date will be rescheduled by Citadele proportionally to the length of extension of the Offer Period and specified in the Final Terms which will be published after allotment of the Bonds to the investors.*

8.	Annual Interest Rate:	[●][3]
9.	Interest Payment Dates:	[●] and [●] each year[4]
10.	Maturity Date:	[●][5]
11.	Issue Price:	[●]% of the Nominal Value of the Bond[6]
12.	Minimum Investment Amount:	10 Bonds
13.	Yield to Maturity:	[●][7]
14.	Offer Period:	from [●] to [●][8]
15.	Procedure for submission of the Purchase Orders:	[●]
16.	Agent of Citadele:	[●]
17.	Credit rating:	the Bonds to be issued under this Tranche [are not/have been/are expected to be] rated [by:[●]]
18.	Use of Proceeds:	[The net proceeds of the issue of each Tranche will be used by Citadele for its general corporate purposes] / [The net proceeds of the issue of each Tranche will be used by the Citadele for [●]].
19.	Underwriting:	[●]
20.	Information about the bonds of Citadele that are already admitted to trading on regulated markets:	[●]

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[3] *Citadele has a right at its sole discretion to amend the Annual Interest Rate once or several times until the end of the applicable Offer Period and announce the updated Annual Interest Rate (the "**Updated Annual Interest Rate**"). The Updated Annual Interest Rate will be published on Citadele's website www.citadele.lv. Investors should follow the information on the aforementioned website and have a right to modify or cancel their Purchase Orders if the Annual Interest Rate has been updated, provided that such modification or cancellation of the Purchase Order is received by Citadele before the end of the applicable Offer Period. If during the Offer Period (as defined below) Citadele amends the Annual Interest Rate, the final Annual Interest Rate will be reflected in the Final Terms which will be published after allotment of the Bonds to the investors. A number of factors may be considered in determining the Updated Annual Interest Rate, inter alia, the level and nature of the demand for the Bonds of the respective Tranche by the investors and prevailing market conditions.*

[4] *The Offer Period may be extended by Citadele according to the section entitled "Terms and Conditions of the Offer —Offer Period" of the Base Prospectus. If the Offer Period is extended, the final Interest Payment Dates will be rescheduled by Citadele proportionally to the length of extension of the Offer Period and specified in the Final Terms which will be published after allotment of the Bonds to the investors.*

[5] *The Offer Period may be extended by Citadele according to the section entitled "Terms and Conditions of the Offer —Offer Period" of the Base Prospectus. If the Offer Period is extended, the final Maturity Date will be rescheduled by Citadele proportionally to the length of extension of the Offer Period and specified in the Final Terms which will be published after allotment of the Bonds to the investors.*

[6] *Citadele has a right at its sole discretion to amend the Issue Price once or several times until the end of the applicable Offer Period (as defined below) and announce the updated Issue Price (the "**Updated Issue Price**"). The Updated Issue Price will be published on Citadele's website www.citadele.lv. Investors should follow the information on the aforementioned website and have a right to modify or cancel their Purchase Orders if the Issue Price has been updated, provided that such modification or cancellation of the Purchase Order is received by Citadele before the end of the applicable Offer Period. If during the Offer Period (as defined below) Citadele amends the Issue Price, the final Issue Price will be reflected in the Final Terms which will be published after allotment of the Bonds to the investors. A number of factors may be considered in determining the Updated Issue Price, inter alia, the level and nature of the demand for the Bonds of the respective Tranche by the investors and prevailing market conditions.*

[7] *An expected yield to maturity for the Bonds, based on the final Issue Price and the final Annual Interest Rate, will be specified in the Final Terms which will be published after allotment of the Bonds to the investors.*

[8] *The Offer Period may be extended by Citadele according to the section entitled "Terms and Conditions of the Offer —Offer Period" of the Base Prospectus. If the Offer Period is extended, the final Offer Period will be specified in the Final Terms which will be published after allotment of the Bonds to the investors.*

These Final Terms have been approved by the Citadele’s Management Board at its meeting on [date] [month] [year] [and will be updated after allotment of the Bonds to the investors, as well as published on the Citadele’s website www.citadele.lv and submitted to the FCMC] / [and have been updated on [date] [month] [year] after allotment of the Bonds to the investors].

Riga, Latvia [date] [month] [year]

Management Board of AS “Citadele banka”:

[•]

Annex - Issue Specific Summary

(Citadele to annex an issue specific summary and its translations to the Final Terms)

13. Taxation

The following is a general summary of certain key principles of Latvian and Lithuanian tax regimes which may be relevant to the acquisition, holding, disposal and/or redemption of the Bonds held by the Bondholders, based upon domestic Latvian and Lithuanian tax law in effect as of the date of this Base Prospectus and the provisions of double taxation treaties currently in force between Latvia and/or Lithuania and other countries. Legislative, judicial or administrative changes or reinterpretations may, however, be forthcoming. Any such changes or reinterpretations could affect the tax consequences to holders of the Bonds, possibly on a retroactive basis, and could alter or modify the statements and conclusions set forth herein. This summary does not purport to be a legal opinion or to present a comprehensive or exhaustive description of all aspects of Latvian and Lithuanian tax laws that may be of relevance to the Bondholders. Also this summary does not take into account or discuss the tax implications of any country other than the Latvia and Lithuania. The description contained in this summary does not substitute the need for individual Bondholders to seek professional tax advice. It is therefore recommended that each Bondholder consults his/her own tax advisor regarding the tax implications of acquiring, holding, disposing and/or redeeming the Bonds and the required procedures to secure Latvian and/or Lithuanian tax payments, if applicable. Only qualified tax advisors are in the position to adequately assess and advise with respect to the particular tax situation of each individual Bondholder. The information provided in this section shall not be treated as legal or tax advice.

13.1. Latvian Tax Considerations

General

The Bondholders could be taxed with respect to income arising from the holding of the Bonds (taxation of interest income) and disposal or redemption of the Bonds (taxation of capital gains).

For the purposes of this summary, the Bondholders are classified as follows:

- *Resident individuals* – physical individuals who are deemed Latvian residents for personal income tax purposes under Latvian tax law and any applicable double taxation treaty. As a general rule, an individual would be considered Latvian resident for personal income tax purposes if the individual: (i) has a declared place of residence in Latvia; or (ii) has been present in Latvia for 183 days or longer during any twelve-month period beginning or ending in a taxable year, or (iii) is a Latvian citizen employed by the Latvian Government abroad, unless the individual is treated as a resident of another country in accordance with the double taxation treaty entered into between Latvia and that country, as explained below.

  According to the provisions of double taxation treaties, whenever an individual qualifies as tax resident under the domestic tax rules of both countries, the individual's tax residence is determined by applying the following criteria: (i) the individual shall be deemed to be a resident of the country in which he/she has a permanent home available to him; if the individual maintains permanent homes in both countries, he/she shall be deemed to be a resident only of the country with which his/her personal and economic relations are closer (centre of vital interests); (ii) if the country in which the individual has his/her centre of vital interests cannot be determined, or if the individual has no permanent home available to him/her in either country, he/she shall be deemed to be a resident only of the country in which he/she has a habitual abode; (iii) if the individual has a habitual abode in both countries or in neither of them, he/she shall be deemed to be a resident only of the country of which he/she is a national; (iv) if the individual is a national of both countries or neither of them, the competent authorities of both countries shall settle the question by mutual agreement.
- *Non-resident individual* means an individual who is not deemed to be a resident individual as explained above.
- *Resident entity* means a person, other than an individual or partnership, which is established and registered or which was required to be established and registered in Latvia in accordance with the laws of Latvia.
- *Non-resident entity* means a person, other than an individual or partnership, which is not deemed to be a resident entity as explained above.

Taxation of Resident Individuals

According to the Latvian Law on Personal Income Tax interest from the Bonds paid by Citadele to resident individuals is subject to a deduction at source ("withholding tax") at a rate of 10%. The tax shall be withheld, reported and paid to the Latvian State budget by Citadele.

A capital gain (the difference between the disposal price and acquisition value) earned by the resident individual from the sale or redemption of the Bonds would be subject to personal income tax at the rate of 10%. The tax should be paid and reported on annual basis by the respective individual him/herself.

Taxation of Non-Resident Individuals

Interest paid by Citadele to non-resident individuals would not be subject to taxation in Latvia, provided that:

- the Bonds, at the time of the payment of interest, remained listed on the regulated market of a Member State of the EU or EEA; and
- non-resident individual was not located in a jurisdiction or territory treated as "tax haven".

If interest on the Bonds listed on the regulated market of a Member State of the EU or EEA is paid to a non-resident individual located in a jurisdiction or territory treated as "tax haven", such payments shall be subject to a withholding tax at a rate of 5%. The tax shall be withheld, reported and paid to the Latvian State budget by Citadele.

The list of "tax-haven" countries and territories is included in the Latvian Cabinet of Ministers Regulation No. 276 on Low Tax or Zero Tax Countries and Territories (dated 26 June 2001). Nevertheless, and despite the list of "tax havens", a tax haven country or territory would not be treated as such for Latvian tax purposes, if the country or territory in question has either signed an effective double taxation treaty or an agreement on exchange of information with Latvia, or has ratified a multi-lateral convention on mutual administrative assistance in tax matters.

If the Bonds at the time of payment of interest were not listed on a regulated market in the EU or EEA, interest payments would be subject to withholding tax at a rate of 10% unless double taxation treaty provides for a lower withholding tax rate or an exemption. Specifically, Lithuanian resident individuals will be exempted from withholding tax. To apply lower withholding tax rate or exemption, a non-resident individual should submit to Citadele a valid residence certificate confirmed by the foreign tax authority which thereafter should be confirmed by the SRS. If withholding tax is applicable, it shall be withheld, reported and paid to the Latvian State budget by Citadele.

A capital gain earned by a non-resident individual from the sale or redemption of the Bonds would not be subject to taxation in Latvia, unless the Bonds which are not listed on a regulated market in the EU or EEA are sold by an individual located in a jurisdiction or territory treated as "tax haven". In the latter case, sales proceeds earned by an individual of "tax haven" jurisdiction or territory shall be subject to a withholding tax at a rate of 15%, if the purchaser is a Latvian entity. This 15% withholding tax may be avoided, if a special permission from the SRS is obtained by the purchaser prior to the sale.

In any event each non-resident individual should clarify the extent of tax obligations applicable in his/her country of residence with regard to taxation and reporting requirements of interest and capital gains payable under the Bonds.

Taxation of Resident Entities

According to the Latvian Law on Corporate Income Tax income earned from the Bonds (interest income and/or capital gains from sale or redemption) by the resident entities is not subject to corporate income tax provided that the Bonds at the time of the payment of interest and/or sale or redemption remained listed on the regulated market of a Member State of the EU or EEA.

Should, however, the sale or redemption of such listed Bonds result in a loss, the amount of the loss would not be deductible for corporate income tax purposes. Moreover, costs associated with the acquisition, holding and sale of the Bonds so listed by a Latvian entity would be treated as non-deductible expense and, hence, would be taxable.

If the Bonds are not listed on a regulated market of the EU or the EEA, income from such Bonds (interest payments and/or capital gains) should be included in taxable income of the respective Bondholder and should be subject to corporate income tax at the rate of 15%. Similarly, if sale or redemption of such non-listed Bonds results in loss, it will be tax-deductible for corporate income tax purposes.

Taxation of Non-Resident Entities

According to the Latvian Law on Corporate Income Tax income earned from the Bonds (interest income and capital gains from sale or redemption) by the non-resident entities would not be subject to taxation in Latvia regardless of the status of the Bonds (listed or non-listed), provided that non-resident entity was not located in a jurisdiction or territory treated as “tax haven”.

If interest is paid to a non-resident entity located in a jurisdiction or territory treated as “tax haven”, such payments shall be subject to a withholding tax at a rate of 5%. The tax shall be withheld, reported and paid to the Latvian State budget by Citadele.

Sales proceeds earned by a “tax haven” entity from the sale of the Bonds to a Latvian entity shall be subject to a withholding tax at a rate of 15% provided that the Bonds, at the time of the sale, were not listed on the regulated market in a Member State of the EU or EEA. 15% withholding tax may be avoided, if a special permission is obtained from the SRS by the purchaser prior to the sale.

As explained above, the list of “tax-haven” countries and territories is included in the Latvian Cabinet of Ministers Regulation No. 276 on Low Tax or Zero Tax Countries and Territories (dated 26 June 2001). Nevertheless and despite the list of “tax havens”, a tax haven country or territory would not be treated as such for Latvian tax purposes, if the country or territory in question has either signed an effective double taxation treaty, or an agreement on exchange of information with Latvia, or has ratified a multi-lateral convention on mutual administrative assistance in tax matters.

In any event each non-resident individual should clarify the extent of tax obligations applicable in his/her country of residence with regard to taxation and reporting requirements of interest and capital gains payable under the Bonds.

13.2. Lithuanian Tax Considerations

General

Tax related information provided below does not constitute tax advice and is intended only as a general guide to current Lithuanian law in force. It relates only to certain limited aspects of the Lithuanian tax treatment of holders of Bonds and is intended to apply only to entities and individuals who are Bondholders and are resident in Lithuania for Lithuanian tax purposes. Definitions of the resident entities and individuals are provided below. Income of the non-resident entities and individuals arising from the holding of Bonds and disposal or redemption of Bonds is not subject to taxes in Lithuania.

Prospective purchasers of the Bonds are advised to consult their own tax advisers as to the consequences of a purchase of the Bonds under the laws of the country in which they are resident, including, but not limited to, the consequences of the receipt of interest and the sale or redemption of the Bonds.

In accordance with the Lithuanian Law on Tax Administration where any international treaties to which Lithuania is a party provide for the rules on taxation different from those of the relevant taxation legislation, and provided the international treaties have been ratified, enacted and enforceable in Lithuania, the rules of such international treaties shall prevail. Lithuania and Latvia have entered into a tax convention on elimination of the double taxation, which provides more favourable taxation regime (effective from 30 December 1994). The rules for application of tax conventions are provided in the Lithuanian Law on Tax Administration and in the other legal acts implementing provisions of the Lithuanian Law on Tax Administration.

Resident Individuals

An individual will be considered as a resident of Lithuania during the calendar year for taxation purposes if he/she meets at least one of the criteria laid out in paragraph 1 of Article 4 of the Lithuanian Law on Personal Income Tax, i.e.: (i) if the individual's permanent place of residence is in Lithuania during the calendar year; (ii) if the individual's place of personal, social or economic interests is in Lithuania rather than in a foreign country during the calendar year; (iii) if the individual is present in Lithuania for a period or periods in the aggregate of 183 days or more during the calendar year; (iv) if the individual is present in Lithuania for a period or periods in the aggregate of 280 days or more during successive calendar years and who stayed in Lithuania for a period or periods in the aggregate of 90 days or more in any of such periods (in such case a person is deemed to be a resident of Lithuania for both years of presence in Lithuania).

If an individual is considered as a tax resident of another country according to its local legislation as well, the country of his/her tax residence is determined by applying provisions of the respective double tax treaty (provided that there is such treaty concluded). When an individual qualifies as a tax resident and another country under the domestic legal acts, the place of his/her tax residence is determined by applying the rules established in the respective double tax treaties:

- the individual shall be deemed to be a resident of the country in which he/she has a permanent home available to him/her; if the individual maintains permanent homes in both countries, he/she shall be deemed to be a resident only of the country with which his/her personal and economic relations are closer (centre of vital interests);
- if the state in which the individual has his/her centre of vital interests cannot be determined, or if the individual has no permanent home available to him/her in either country, he/she shall be deemed to be a resident only of the country in which he/she has a habitual abode;
- if the individual has a habitual abode in both countries or in neither of them, he/she shall be deemed to be a resident only of the country of which he/she is a national;
- if the individual is a national of both countries or neither of them, the competent authorities of both countries shall settle the question by mutual agreement.

In accordance with the Lithuanian Law on Personal Income Tax of any income generated by a resident of Lithuania from the Bonds (interest, result from disposal or redemption of the Bonds) shall be taxed by a 15 per cent rate personal income tax.

The following exemptions are applicable:

- interest (total of interest generated from the Bonds and certain other types of interest) not exceeding EUR 500 during a tax period is non-taxable;
- gains (total of gains generated from the Bonds and certain other types of securities) not exceeding EUR 500 during a tax period are non-taxable.

Income tax must be paid to the Lithuanian State budget by the 1st of May of the year following the year when the income is received.

The resident individual who has received interest from the Bonds or disposed of the Bonds must file an annual income tax return and report this income. The term for filing the tax return is the same as income tax payment term.

Non-Resident Individuals

Since Citadele is a non-resident entity for Lithuanian taxation purposes, the income of the non-resident individual from the Bonds (i.e. interest income and income from the transfer of the Bonds) will not be subject to personal income tax in Lithuania.

Resident Entities

An entity will be considered as a resident of Lithuania for tax purposes if it is established and registered in the Republic of Lithuania. For the purposes of this summary resident entities also include permanent establishments of foreign entities in Lithuania.

Income from the Bonds (interest payments and capital gains) should be included in taxable income of the resident entity and should be subject to corporate income tax at the rate of 15%. If sale or redemption of the Bonds results in loss, it will be tax-deductible for corporate income tax purposes.

Non-Resident Entities

Since Citadele is a non-resident entity for Lithuanian taxation purposes, the income of the non-resident entity from the Bonds (i.e. interest income and income from the transfer of the Bonds) will not be subject to corporate income tax in Lithuania.

13.3. The EU Savings Directive

In accordance with the Council Directive 2003/48/EC on the taxation of savings income, each Member State of the EU is required to provide to the tax authorities of another Member State of the EU details of payments of interest (or similar income) paid by a person within its jurisdiction to, or collected by such a person for, an individual resident in that other Member State of the EU or to certain limited types of entities established in that other Member State of the EU.

On 24 March 2014, the Council of the EU adopted a Council Directive 2014/48/EU amending and broadening the scope of the requirements described above. Member States of the EU are required to apply these new requirements from 1 January 2017. The changes will expand the range of payments covered by the Directive, in particular to include additional types of income payable on securities. The Directive will also apply a “look through approach” to payments made via certain persons, entities or legal arrangements (including trusts and partnerships), where certain conditions are satisfied, where an individual resident in a Member State of the EU is regarded as the beneficial owner of the payment for the purposes of the Directive. This approach may in some cases apply where the person, entity or arrangement is established or effectively managed outside of the EU.

Similar reporting obligations Latvia has on U.S. individuals and entities based on bilateral agreement concluded between Latvia and US to Improve International Tax Compliance and to Implement FATCA.

Investors who are in any doubt should consult their professional advisers.

14. Macro-Economic Profile of the Baltic States and Outline of the Latvian Banking Sector

Macro-economic profile of the Baltic States

The Baltic States together form a group of small, open and fast-growing, export orientated economies. According to the IMF, the Baltic States have relatively high GDP per capita figures compared to other counties in central and eastern Europe, with further potential for growth as their wealth continues to converge towards the EU average. With high levels of production and relatively low labour costs, the Baltic States are well-positioned to continue their strong growth-trajectories following their exceptional recovery since the onset of the global economic recession in 2008. A favourable investment climate, together with increasing integration with the rest of the EU strengthens the Baltic States' trade links in the region. Their geographical positioning and cultural proximity also enables them to serve as strategic economic gateways to the Nordics and to Russia. Stable governance and a flexible labour market are also conducive to attracting further inflows of foreign direct investment although increased geopolitical tension has adversely affected relations with Russia.

Latvia

As a member of the EU and NATO since 2004, Latvia has made significant strides in increasing integration with the EU over the past decade. This has translated into the EU becoming one of Latvia's key trading partners, and Europe now lies at the heart of the Latvian economy. Following a smooth accession to the Eurozone in January 2014, Latvia has further embedded itself on the European stage and improved its investor-friendly environment. Integration efforts have ultimately resulted in Latvia holding the presidency of the Council of the European Union in the first half of 2015, cementing Latvia's growing status not only among the Baltic States but in the wider context of Europe and beyond. Since July 2016 Latvia has also become a member of the Organisation for Economic Co-operation and Development.

Latvia is an export-oriented economy and according to Central Statistical Bureau of Latvia ("**CSB**") exports of goods and services in 2015 represented 58.5% of GDP, up from 53.7% in 2010, and representing a significantly higher percentage than for the EU as a whole (where exports accounted for 43.8% of GDP in 2015). The EU represents the largest market for Latvia's export of goods, accounting for 73% of the total in 2015 (of which Lithuania comprised 19%, Estonia comprised 11.7%, Germany comprised 6.4%, Poland – 6.0%, Sweden and the UK comprised 5.2% each). Latvia is now more closely tied to the health of the Eurozone, having adopted the Euro in 2014. In addition, Russia remains a key trading partner for Latvia, representing 8.1% of its exports in 2015 down from 10.7% in 2014.

Latvia's export opportunities are expected to improve in the coming years, with domestic demand bolstered by improving growth dynamics in the Eurozone and the EU, the weakness of the Euro on the foreign exchange markets, low interest rates and low oil prices. These export opportunities are expected to drive the growth of Latvian businesses and increase their requirements for banking services.

Latvia imports according to CSB 78.6% of its goods from the EU, including 24.8% from the other Baltic States (of which Lithuania comprised 17.3% and Estonia 7.5%). Additionally, Poland and Germany each make up 11% of Latvia's total imports, Russia makes up 8.6% and Finland makes up 5.3%.

Latvia's credit rating has improved in recent years, with Moody's upgrading Latvia from Baa1 to A3 in February 2015 and both Fitch and S&P upgrading Latvia from BBB+ to A- in June 2014 and May 2014, respectively. A reduction in foreign exchange risk and access to ECB funding facilities following the adoption of the Euro were among the key drivers of this upgrade, as was the improvement of the Latvian Government's balance sheet. Latvia now has relatively prudent public finances, with public debt of 36.4% as a percentage of GDP at the end of 2015, down from 47.5% in 2010.[9] This is also considerably below the 86.8% for the average across the EU by the end of 2015. Latvia's wealth convergence with larger economies is demonstrated by its rising GDP per capita figure (USD 15,639[10] as at 31 December 2015), which exceeds the GDP per capita in current US dollars of Poland, Romania, Hungary, Bulgaria and Croatia, which had an average GDP per capita of USD 10,420.

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[9] Data source: AMECO

[10] Data source: IMF 2016 October WEO

Following robust GDP growth of 4.0% in 2012, and 2.9% in 2013, the growth rate moderated to 2.1% in 2014 and 2.7% in 2015. The recent slowdown was caused, in part, by geopolitical uncertainty in the region, Russian economic problems and a food embargo, and was also attributed by the Economist Intelligence Unit to the closure during 2014 of AS Liepajas Metalurgs, a major steelmaker, which previously accounted for up to 1% of Latvia's GDP. Following its re-opening in February 2015, there was a significant rise in industrial output, however plant ceased production at the beginning of 2016 due to low steel prices in global markets and relatively high energy prices in Latvia. Latvia's 2015 GDP growth was still well above the Eurozone average of 2.0%, according to Eurostat figures, and the IMF has forecasted a 4.1% growth in GDP per capita for Latvia between 2017 and 2021, well ahead of the forecasted growth for the EU as a whole of 1.5%.

Latvia has a skilled and highly-educated workforce. Despite this, labour costs remain relatively low, at an average of EUR 7.10 per hour, compared to an average of EUR 25.00 across the EU according to Eurostat. Unemployment continued to fall and reached 9.9% in 2014, down from 10.8% in 2014 and 19.5% in 2010. In comparison unemployment in the EU in 2015 was on average 9.4%. The breakdown of Latvian GDP by sector in 2015 shows that the service sector, including trade, was the predominant contributor, having contributed 73.7% of total value added. Industry, construction and agriculture, at 16.7%, 6.4% and 3.2%, respectively, made up the remainder. In terms of end of use, household consumption accounted for 61% of the total end use of Latvian GDP. Latvia also has the seventh fastest internet speed in the world. Inflation has remained relatively low in recent years, with the consumer price index rising by 0.2% in 2015, following 0.6% and -0.1% in 2014 and 2013 respectively.[11] According to the IMF, in the medium to long term, inflation is expected to reach an average of 2.0% in 2017-2021.

	For the year ended December 31				
Key Macroeconomic Indicators	**2011**	**2012**	**2013**	**2014**	**2015**
GDP (USD bn)	28.4	28.1	30.2	31.3	27.0
Population (m)	2.1	2.0	2.0	2.0	2.0
GDP per capita (USD)	13,696	13,720	14,922	15,640	13,573
GDP, PPP (international USD bn)	41.0	43.4	45.4	47.2	49.0
GDP per capita, PPP (international USD)	19,760	21,234	22,431	23,559	24,652
GDP growth (%)*	6.2	4.0	2.9	2.1	2.7
Unemployment (%)*	16.2	15.0	11.9	10.8	9.9
Inflation (%)*	4.4	2.3	-0.1	0.6	0.2
Exports (% of GDP)*	57.9	61.4	60.3	59.6	59.0
General Government gross debt (% of GDP)*	42.8	41.4	39.1	40.8	36.4

Source: IMF, unless stated otherwise

* Source: CSB

According to the latest information from the United Nations Human Development Index ("**HDI**") (as at 2014), which provides the geometric mean of normalised indices for each of the three dimensions of human development (i.e. a long and healthy life, being knowledgeable and having a decent standard of living), Latvia has a rating of 0.819, ahead of the world average of 0.711 and the average for Europe and Central Asia of 0.748 (which includes the countries of Europe together with Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan).

Lithuania

Lithuania is also an export-driven economy, with exports of goods and services comprising 75.9% of GDP in 2015. Russia is among the major trading partners for Lithuania, in 2015 representing 13.7% of its total exports down from 20.9% in 2014.[12] Despite this, Lithuania is predominantly westward facing, having acceded to the Eurozone in January 2015 and increased ties with Western institutions. Lithuania's GDP growth rate in 2015 was 1.8%, following rates of 3.5% in both 2014 and 2013.[13] Whilst the pace of growth has declined in recent years, Lithuania's expected GDP per capita compound annual growth rate between 2016 and 2021 is expected to reach 4.5% according to the IMF, putting it among the fastest growing economies in Europe and exceeding the EU average rate of 1.5%. According to the IMF, in 2014, Lithuania's GDP per capita of USD 14,180 was similar to that of Latvia, and relatively high in comparison to the average level in the central and eastern European region.

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[11] Data source: CSB

[12] Data source: UN Comtrade

[13] Data source: Eurostat

Lithuania's credit ratings have seen improvement in recent months, in part as a result of the Lithuanian government's programme of fiscal consolidation and also as a result of its joining the Eurozone. Moody's upgraded Lithuania from Baa1 to A3 in May 2015, following an affirmation from Fitch of Lithuania's A- rating in March 2015 and S&P's upgrade from BBB to A- in April 2014. Lithuania's HDI rating was 0.839 in 2014 (the latest available data).

Estonia

Similar to its Baltic neighbours, Estonia also relies heavily on exports, with exports of goods and services representing 79.3% of GDP in 2015. As opposed to Latvia and Lithuania, Estonia's exports are focused on the Nordics, with Sweden and Finland comprising 17.3% and 14.8% of its total export market, respectively. Estonia's economic growth in recent years has been weighed down by slow growth in Finland and declining demand from Russia. In 2015 GDP growth rate was 1.4% following 2.8% and 1.4% growth in 2014 and 2013 respectively. Estonia's expected GDP per capita compound annual growth rate for 2016-2021, at 3.3%, is also notably ahead of the 1.5% expected EU average. According to the IMF, Estonia has one of the highest GDP per capita rates among the central and eastern European nations, standing at USD 17,228 in 2015. Estonia's HDI rating in 2013 (the latest available data) reached 0.840.

As a result of Estonia's lowest debt-to-GDP ratio in the EU (9.7%), Estonia's credit ratings are very strong, with both S&P and Fitch assigning the fourth highest investment grade available. Fitch affirmed its A+ rating in May 2014, S&P affirmed its AA- rating in January 2014, and the latest Moody's rating is A1.

Outline of the Latvian Banking Sector

Introduction

The Latvian banking sector consists of commercial banks and branches of EU Member State banks. As at 30 June 2016, there were 16 banks and 8 branches of foreign banks operating in Latvia. Generally, all banks and cooperative credit unions are required to be licensed and are regulated by the FCMC, except the significant institutions that are supervised by the ECB. The market is relatively concentrated, with the largest five banks by total assets accounting for 66.3% of total assets, 74.9% of total loans, and 66.5% of total deposits. Notwithstanding this recent consolidation process, the market is still less concentrated compared with pre-crisis levels, i.e. before 2008, when the five largest banks held between 65% and 70% of the total assets.

Commercial Banks in Latvia

According to the FCMC, the total assets in the Latvian banking sector (including both domestic commercial banks and branches of foreign banks) were EUR 30.5 billion as at 30 June 2016 following a dip in the aftermath of the global financial crisis in 2008-2009. Since the beginning of 2016 overall banking assets have declined somewhat due to outflow on non-resident deposits. Of these assets, 13.3% (EUR 4.1 billion) were held by branches of foreign banks. Of the total assets in the Latvian banking sector, the proportion of loans fell to 49.4% (EUR 15.0 billion) by 30 June 2016, compared with approximately 70% in 2008, as part of the ongoing deleveraging process. The shrinkage in the loan portfolio between 2010 and 2016 was approximately EUR 5.4 billion (representing a rate of 5% per annum). In terms of the loan portfolio mix, as at 30 June 2016, the corporate loan portfolio amounted to EUR 6.3 billion and the households loan portfolio amounted to EUR 5.6 billion (of which 79.4% were resident housing loans). Between 2010 and 2016, the size of these portfolios declined by 5.5% and 7.7% per annum, respectively. Conversely, the proportion of claims on non-Latvian financial institutions and foreign government securities has risen.

The shift towards deposit funding has continued in recent years, with the share of deposits in banks' liabilities rising to 73.1% by the 30 June 2016 from between 40-45% in the midst of the recession in 2008-2009. Customer deposits amounted to EUR 22.3 billion at 30 June 2016, which represents an increase of 5.9% per annum over the period of 2010 to 2016. Of this total, household deposits constituted 35.7% (EUR 7.6 billion), which represents an increase of 8.5% per annum between 2010 and 2016, and non-financial corporate deposits constituted 52.8% (EUR 11.8 billion), which represents an increase of 6.0% per annum between 2010 and 2016. Deposits growth was mainly fuelled by international deposits, which grew from 41.6% as at 31 December 2010 to 47.7% (EUR 10.6 billion) as at 30 June 2016. This represents an increase of 8.3% per annum between 2010 and 2016. The growth of international deposits is linked in part to the substantial depreciation of the Euro against the US dollar and other major currencies (in which most international deposits are made). Liabilities to monetary and financial institutions constituted 9.8% of total liabilities as at 30 June 2016, the majority of which (93.8%) represented parent funding of foreign banks. Parent bank funding has declined from 26.5% of total liabilities as at 31 December 2010 to 9.1% as at 30 June 2016. The trend towards deposit funding has meant a significant fall in the loan-to-deposit ratio from a peak of 169% in 2008 to 67.5% in 2016.

The following table sets out loans, deposits and loan/deposit ratios for the Latvian banking sector since 2010:

Year	Loans (EUR billion)	Deposits (EUR billion)	Loan/Deposit ratio (%)
2010	20.4	15.8	129
2011	18.7	15.8	119
2012	16.7	17.8	94
2013	15.6	19.5	80
2014	14.7	22.2	66
2015	14.7	23.3	63
1H 2016	15.0	22.3	68

The deterioration in loan quality during the recession was accompanied by a sharp rise in the volume of non-performing loans. The percentage of loans which were more than 90 days overdue reached a peak of 19% of total portfolios in 2010 and decreased thereafter, reaching a level of 7.8% in 2012, 6.9% by the end of 2014, and 5.1% as at 30 June 2016. As credit quality has improved since the global financial crisis, provisions for the principal amount of loans have started to decline, reaching lows of EUR 635 million (approximately 5.2% of total portfolios), down from a peak of EUR 2.8 billion in 2010. The following table sets out the asset quality figures for the Latvian banking sector since 2007:

Year	Non performing loan ratio (%)
2007	0.7
2008	3.6
2009	16.4
2010	19.0
2011	17.2
2012	11.1
2013	8.3
2014	6.9
2015	6.0
1H 2016	5.1

Lending activities in Latvia have been restrained by the amortisation of loan portfolios and write-offs of bad loans. New lending is beginning to increase following the recovery of the Latvian economy and improvements in the solvency of domestic companies and households. Almost EUR 2.9 billion in new loans was issued in 2015, with approximately half the volume being issued to domestic borrowers. In 1H of 2016 new lending has increased by 25.7% compared to 1H of 2015.

The following table sets out the compound annual growth rates of loans issued by selected banks in Latvia between 2012 and 2016:

Bank	Compound annual loan growth rate (%) (2012-16)
ABLV Bank	6.5%
Rietumu Banka	3.8%
Citadele	3.2%
Nordea	-0.9%
SEB	-2.9%
Swedbank	-3.2%
DNB	-6.2%

Profitability across the Latvian banking sector improved between 2010 and 2014, with return on equity rates rising from -20.4% at 31 December 2010 to 16.4% as at 30 June 2016, driven by the improved efficiency of Latvian banks. Cost-to-income ratios have declined from 72% as at 31 December 2010 to 47.5% as at 31 December 2016. Due to one off revenues cost-to-income ratio in Q2 2016 declined to 41.5%. Net interest margins have improved from 1.29% as at 31 December 2010 to 1.58% as at 30 June 2016.

The table below sets out the average gross yields (as a percentage of assets) and cost of funds (as a percentage of assets) of the Latvian banking sector since 2007:

Year	Gross yield (% of total assets)	Cost of funds (% of total assets)
2007	6.0	3.3
2008	6.2	3.8
2009	4.5	2.9
2010	3.7	2.4
2011	3.0	1.6
2012	2.6	1.1
2013	2.3	0.6
2014	2.1	0.5
2015	2.1	0.4
1H 2016(1)	2.0	0.4

(1) The figures for the period to 30 June 2016 have been annualised for comparison purposes

15. Glossary of Terms

2014 Audited Consolidated Financial Statements	Citadele’s audited consolidated financial statements as at and for the year ended 31 December 2014 as set out in Schedule 1 to this Base Prospectus
2015 Audited Consolidated Financial Statements	Citadele’s audited consolidated financial statements as at and for the year ended 31 December 2015 as set out in Schedule 2 to this Base Prospectus
2016 Audited Consolidated Interim Financial Statements	Citadele’s audited consolidated interim financial statements as at and for the six months ended 30 June 2016 as set out in Schedule 3 to this Base Prospectus
ABLV	AS “ABLV Bank”, a joint stock company incorporated and registered in, and operating under the laws of, the Republic of Latvia, with registered number: 50003149401, legal address: Elizabetes Street 23, Riga, LV-1010, Latvia, telephone: +371 67775222, fax: +371 67775200, e-mail: info@ablv.com, website: www.ablv.com
Accrual Date	shall have the meaning assigned to in the section entitled “*General Terms and Conditions of the Bonds — Interest and Yield*”
ALCO	Assets and Liabilities Management Committee of Citadele’s Management Board
Annual Interest Rate	shall have the meaning assigned to it in the section entitled “*General Terms and Conditions of the Bonds — Interest and Yield*”
Articles of Association	Citadele’s constitutional document – articles of association, as in force from time to time
Baltic States	Latvia, Lithuania and Estonia
Bank of Latvia	Latvijas Banka, the central bank of Latvia
Base Prospectus	this Base Prospectus
Bonds	non-convertible unsecured and unguaranteed subordinated bonds denominated in EUR, having maturity from 7 to 10 years and with fixed interest rate to be issued under the Programme
Bondholder	holder of the Bonds
Bondholders	the holders of the Bonds
Bondholders’ Meeting	the meeting of the Bondholders or meeting of the Bondholders of the relevant Series as described in the section entitled „*General Terms and Conditions of the Bonds —Meetings of the Bondholders*”
BRRD or Bank Recovery and Resolution Directive	Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012, of the European Parliament and of the Council

Business Day	a day on which banks in Riga, Latvia, as well as LCD are open for general business
Callidus	Callidus Capital SIA
CEO	Chief Executive Officer of Citadele, unless the context requires otherwise
CIIFRR Law	The Latvian Credit Institutions and Investment Firm Recovery and Resolution Law of 2015, as amended
CIS	Commonwealth of Independent States
Citadele	AS "Citadele banka", a joint stock company incorporated and registered in, and operating under the laws of, the Republic of Latvia, with registered number: 40103303559, legal address: Republikas laukums 2A, Riga, LV-1010, Latvia, telephone: +371 67010000, fax: +371 67010001, e-mail: info@citadele.lv, website: www.citadele.lv
Citadele Group	Citadele and its Subsidiaries as listed in the section entitled "*Citadele Group —Structure of Citadele Group*"
CRA Regulation	Regulation (EC) No 1060/2009 on credit rating agencies, as amended from time to time
CRD IV	Directive No 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive No 2002/87/EC and repealing Directives No 2006/48/EC and No 2006/49/EC, as amended from time to time
CRR	Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, as amended from time to time
CSB	Central Statistical Bureau of Latvia
Early Redemption Date	shall have the meaning assigned to it in the section entitled "*General Terms and Conditions of the Bonds — Maturity and Redemption*"
EBA	the European Banking Authority, an independent EU Authority which works to ensure effective and consistent prudential regulation and supervision across the European banking sector established by the Regulation (EU) No 1093/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Banking Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/78/EC
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECB	European Central Bank
EEA	The European Economic Area
Elements	shall mean disclosure requirements, as described in the Summary
EU	The European Union

EUR, euro or €	the single currency introduced at the start of the third stage of the European Economic and Monetary Union pursuant, and as defined in Article 2 of the Council Regulation (EC) No.974/98 of 3 May 1998 on the introduction of the euro, as amended
FCMC	The Financial and Capital Markets Commission of Latvia
Final Terms	the final terms of the relevant Tranche composed according to the form described in the section entitled „*Form of the Final Terms”*
First Interest Period	shall have the meaning assigned to it in the section entitled “*General Terms and Conditions of the Bonds —Interest and Yield”*
FIU	Latvia’s Financial Intelligence Unit
FMCRC	The Financial Market and Counterparty Risk Committee of Citadele’s Management Board
General Terms and Conditions of the Bonds	The general terms and conditions of the Bonds as described in the section entitled „*General Terms and Conditions of the Bonds*”.
GIC	The Group Investment Committee of Citadele’s Management Board
GMS	General meeting of shareholders of Citadele, unless the context requires otherwise
Government	Government of Latvia
IFRS	International Financial Reporting Standards as adopted by the EU
IMF	International Monetary Fund
Interest Payment Date	one of the two Interest Payment Dates
Interest Payment Dates	shall have the meaning assigned to it in the section entitled “*General Terms and Conditions of the Bonds —Interest and Yield”*
ISIN	International Security Identification Number
Issue Date	the issue date of each Tranche of the Bonds as described in the section entitled “*General Terms and Conditions of the Bonds — Issue Date”*
Issue Price	the issue price of the Bonds as described in the section entitled “*General Terms and Conditions of the Bonds — Issue Price”*
Latvian Commercial Law	Commercial Law of the Republic of Latvia of 2000, as amended
Latvian Credit Institutions Law	Credit Institutions Law of the Republic of Latvia of 1995, as amended
Latvian Law on Corporate Income Tax	Law on Corporate Income Tax of the Republic of Latvia of 1995, as amended
Latvian Law on Personal Income	Latvian Law on Personal Income of the Republic of Latvia of 199’3, as amended
Latvian Privatisation Agency	VAS “Privatizācijas aģentūra”, a state joint stock company incorporated and registered in, and operating under the laws of, the Republic of Latvia, with registered number: 40003192154, legal address: Krišjāņa

	Valdemāra iela 31, Riga, LV-1010, Latvia, telephone: +371 67021358, fax: +371 67830363, e-mail: info@pa.gov.lv, website: www.pa.gov.lv
LCD	Latvian Central Depository (Latvijas Centrālais depozitārijs AS, registration number: 40003242879, legal address: Vaļņu 1, Riga, LV-1050, Latvia)
Lithuanian Law on Personal Income Tax	Law on Personal Income Tax of the Republic of Lithuania, as amended
Lithuanian Law on Tax Administration	Law on Tax Administration of the Republic of Lithuania, as amended
LPA Subordinated Debt	Subordinated loan agreement entered into by and between Parex and the Latvian Privatisation Agency on 22 May 2009
Management Board	Management board of Citadele, unless the context requires otherwise
Maturity Date	shall have the meaning assigned to it in the section entitled "*General Terms and Conditions of the Bonds —Maturity and Redemption*"
Member State	each Member State of the European Union or the European Economic Area, as applicable
Micro SME	Micro SMEs, being entities with annual turnover below EUR 0.4 million
MiFID	Markets in Financial Instruments Directive 2004/39/EC, as amended from time to time
Minimum Investment Amount	the minimum investment amount for subscription of the Bonds, as specified in the section entitled „*General Terms and Conditions of the Offer —Minimum Investment Amount*"
Nasdaq Riga	Nasdaq Riga AS, registration number: 40003167049, legal address: Vaļņu 1, Riga, LV-1050, Latvia
Notification	shall have the meaning assigned to in the section entitled „*General Terms and Conditions of the Offer —Allotment*"
OECD	Organisation for Economic Cooperation and Development
OFAC	The Office of Foreign Assets Control of the U.S. Department of the Treasury
Offer	offering of the Bonds under the Programme pursuant to the Base Prospectus and the applicable Final Terms
Offer Period	the offer period for each Tranche as specified in the section entitled „*General Terms and Conditions of the Offer —Offer Period*" and the Final Terms, including any and all extensions of the applicable Offer Period
Parex	AS "Reverta" (previously – AS „Parex banka"), a joint stock company incorporated and registered in, and operating under the laws of, the Republic of Latvia, with registered number: 40003074590, legal address: Brīvības Street 148A-1, Riga, LV-1012, Latvia, telephone: +371 67779100, fax: +371 67779101, e-mail: reverta@reverta.lv, website: www.reverta.lv
PEP	Politically exposed persons

Programme	the € 40,000,000 First Unsecured Subordinated Bonds Programme comprising a set of activities intended for the issue of the Bonds within the period of this Base Prospectus being effective
Prospectus Directive	Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading and amending Directive 2001/34/EC, as amended from time to time
Prospectus Regulation	Commission Regulation (EC) No 809/2004 of 29 April 2004, as amended from time to time
Purchase Orders	orders of the investors to purchase the Bonds as specified in the section entitled „*General Terms and Conditions of the Offer — Submission of Purchase Orders*"
Qualifying Purchase Orders	shall have the meaning assigned to in the section entitled „*General Terms and Conditions of the Offer —Invalid Purchase Orders"*
Relevant Implementation Date	The date on which the Prospectus Directive is implemented in a Relevant Member State
Relevant Member State	Each Member State of the European Economic Area which has implemented the Prospectus Directive
Series	shall mean any series of Bonds issued under the Programme
SME	Small and medium sized enterprises, being entities with annual turnover between EUR 0.4 million and EUR 7 million
SRS	The State Revenue Service of the Republic of Latvia
Subsidiary	Company in which Citadele holds direct or indirect interests of not less than 50% or more of the shares and which is part of Citadele Group as described in the section entitled "*Citadele Group —Structure of Citadele Group"*
Supervisory Board	Supervisory board of Citadele, unless the context requires otherwise
Taxes	shall have the meaning assigned to in the section entitled "*General Terms and Conditions of the Bonds — Taxation"*
Tranche	tranche of Bonds of the respective Series
UN	The United Nations
Underwriting Commitment	The Agreement on Underwriting Commitment dated 12 October 2016 entered into by Citadele and ABLV as described in more detail in the section entitled "*General Terms and Conditions of the Bonds — Underwriting"*
United States or U.S.	The United States of America
Updated Annual Interest Rate	shall have the meaning assigned to in the section entitled "*General Terms and Conditions of the Bonds — Interest and Yield"*
Updated Issue Price	shall have the meaning assigned to in the section entitled "*General*

	Terms and Conditions of the Bonds — Issue Price”
VAT	Value added tax
Yield to Maturity	the percentage rate of return paid if the Bond is held to its Maturity Date, assuming that interest paid over the life of the Bond is reinvested at the same rate. An expected Yield to Maturity, based on the final Issue Price and the final Annual Interest Rate, will be specified in the Final Terms which will be published after allotment of the Bonds to the investors.

16. Index of Schedules

AS "Citadele banka"

Annual report

for the year ended
31 December 2014

together with independent
auditors' report

Translation from Latvian original*

* This version of financial statements is a translation from the original, which was prepared in Latvian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of financial statements takes precedence over this translation.

Citadele

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AS "Citadele banka"
Republikas laukums 2A, Riga,
LV-1010, Latvia

Phone: (371) 6 701 0000
Facsimile: (371) 6 701 0001

www.citadele.lv

Registration number: 40103303559

Economic environment

Improving macroeconomic picture in several EU countries

Following two years of stagnation, GDP growth in the EU rose 1.4% year-on-year in 2014. Growth in the United Kingdom and many Central and Eastern European countries took place at a faster pace than in other EU members, which improved the overall macroeconomic picture of the union.

Strong trade in the Baltics

Economic growth evened out across the Baltics in 2014. Lithuania’s GDP growth slowed to 2.9% year-on-year in 2014, after an annual 3.0 to 4.0% increase in the preceding two years. According to preliminary estimates, the Estonian economy has regained some momentum after a slowdown in 2013 early 2014, with GDP growth accelerating to 1.8% year-on-year in 2014 up from 1.6% in 2013.

Trade within the Baltics accounts for a relatively large share of exports from the three Baltic States. Exports to Lithuania and Estonia together accounted for nearly 30% of Latvia’s export goods while approximately 15% of export goods from both Estonia and Lithuania remained in the Baltics in 2014. As of 1 January 2015, Lithuania joined the Eurozone, meaning all three Baltic countries are now members of the monetary union. Estonia was the first of the Baltic countries to join in 2011, followed by Latvia on 1 January 2014.

Growth in Latvia despite challenging conditions in the rest of Europe

Against a backdrop of geopolitical uncertainty, Russian economic hardship and relatively slow growth momentum across the European area, the Latvian economy maintained a strong growth trajectory in 2014. While the country’s GDP growth decelerated to 2.4%, down from 4.0 - 5.0% in the preceding several years, Latvia saw economic growth primarily fuelled by domestic oriented sectors. Export-oriented sectors have been struggling to grow since the 2nd quarter of 2014.

The annual growth of the retail trade turnover stayed in the 3.0 to 4.0% range in 2014 and the manufacturing sector stagnated in 2014, with the output volume staying essentially unchanged over the previous year. The unemployment rate stabilised within the 10 to 11% range, down from more than 20% in the aftermath of the recession. Whereas the progress in the labour market has somewhat slowed, an increase in household income has continued to support the growth of private consumption.

The parliamentary election on 4 October 2014 did not yield a significant change in government. Again, the centre-left party “Harmony” (latv. – “Saskaņa”) emerged as the winner with 23% of votes, but it is not a member of the ruling coalition, which is comprised of the liberal-conservative party “Unity” (“Vienotība”), the right-wing “National Alliance” (“Nacionālā apvienība VL-TB/LNNK”) and the “Union of Greens and Farmers” (“Zaļo un Zemnieku savienība”).

The ECB takes measures to support the economy

In response to the Eurozone sovereign debt crisis and the associated austerity programmes that prompted the economic slowdown, the European Central Bank (ECB) conducted several support programmes to boost liquidity.

Among the measures taken by the ECB were longer-term refinancing operations (LTROs) and Targeted Long-Term Refinancing Operations (TLTROs), which were specifically designed to expand bank lending to the Eurozone’s non-financial sector (excluding mortgage financing) as well as to purchase covered bonds (CBPP, CBPP2, CBPP3 and ABSPP). The last and most significant monetary measure was announced in January 2015, when the ECB president revealed a EUR 1 trillion plan to buy Eurozone government debt to help stave off deflation.

Acknowledging the fact that the lack of liquidity is not the primary factor behind the unwillingness of Eurozone banks to lend new funds to the real economy, the Group remains cautiously optimistic about the planned ECB measures kick-starting growth in the Eurozone. Six full years after the 2008 financial crisis, governments together with regulators are still proposing new ways of calculating the levels of capital requirements. Clear guidance on medium-term regulatory capital requirements is needed for well-capitalized banks to start active lending activities.

The ECB has stressed that monetary policy alone cannot revive the struggling Eurozone economy and that national governments should perform a wide range of structural reforms to boost competiveness, productivity and innovation. Only through structural improvements will it be possible to engender sustainable improvements to employment and income levels, which in turn could motivate businesses to invest and help to overcome the slow growth that has plagued the Eurozone over recent years.

The interest rate environment in the Eurozone

As the economic growth potential deteriorated and inflation expectations fell, the ECB reduced interest rates, eventually resulting in a negative rate for deposit facilities. In conjunction with a record low of the main refinancing rate and recently announced quantitative easing, many Eurozone sovereign bond yields were pushed below zero (e.g. Germany, Finland, Netherlands, Austria, Belgium, France, and Slovakia for maturities up to two years). In addition, the Euro has significantly devaluated against the US dollar and many other international leading currencies.

Although, low interest rates help debtors because of lower debt service payments and a weaker Euro is an advantage for the export industry, this interest rate environment has its drawbacks. Private savers are negatively affected as the interest income from their savings drops. Similarly, banks and insurance companies see their profits eroded though lower yields on their investments.

Citadele sees significant change in its ownership structure

On 16 September 2014 and following a tender process, the Latvian government decided to sell its 75% stake in Citadele to Ripplewood Advisors LLC (Ripplewood) and an international group of twelve investors. VAS Privatizācijas aģentūra (Privatisation Agency of the Republic of Latvia) signed the respective agreement on 5 November 2014.

The transaction is expected to close during the first half of 2015, following approvals by the Latvian Finance and Capital Markets Commission, as well as the banking regulators in Lithuania and Switzerland. The European Bank for Reconstruction and Development (EBRD) will retain its 25% stake in Citadele. According to the terms of the deal, the new investors and the EBRD have committed to increase the capital of the bank.

Financial performance in 2014

	Group			**Bank**		
EUR millions	**2014 Audited**	**2013 Audited**	**Change**	**2014 Audited**	**2013 Audited**	**Change**
Net interest income	62.5	55.3	13%	52.1	45.5	15%
Net commission and fee income	33.4	32.2	4%	24.4	23.9	2%
Operating income	111.9	107.5	4%	90.1	88.4	2%
Administrative expenses	(61.4)	(62.6)	(2%)	(45.2)	(46.6)	(3%)
Impairment charge and reversals, net	(8.6)	(20.1)	(57%)	(10.6)	(21.7)	(51%)
Net profit	32.4	13.6	138%	29.2	15.3	91%

	Group			**Bank**		
EUR millions	**2014 Audited**	**2013 Audited**	**Change**	**2014 Audited**	**2013 Audited**	**Change**
Total assets	2,855	2,542	12%	2,331	2,141	9%
Return on average assets (ROA)	1.20%	0.56%	0.64pp	1.31%	0.76%	0.55pp
Loans to companies and private individuals	1,076	1,056	2%	941	925	2%
Deposits from customers	2,517	2,247	12%	1,949	1,851	5%
Loan-to-deposit ratio	43%	47%	(4pp)	48%	50%	(2pp)
Shareholders’ equity	177	143	23%	173	144	21%
Return on average equity (ROE)	20.24%	9.77%	10.47pp	18.46%	11.14%	7.32pp

AS Citadele banka (Citadele Bank) grew in scale, quality and performance in 2014, as did the bank and its subsidiaries (Citadele Group).

In 2014, the **net interest income** of the Group increased by 13% to EUR 62.5 million (Bank: +15% to EUR 52.1 million). The main drivers of this development were an expansion of the lending volume, the improvement of customer portfolio quality and increased customer activity. For example, in Latvia the number of cards increased by 3% and the share of purchases paid by cards increased from 40% to 42%. This was also supported by Latvia’s conversion to the Euro as of 1 January 2014. Because of the positive development of the payment card business, **net commission and fee income** grew by 4% to EUR 33.4 million (Bank: +2% to EUR 24.4m).

Citadele Group’s **operating income** increased by about 4% to EUR 111.9 million (Bank: +2% to EUR 90.1 million)

Despite the growing business, Citadele Group achieved a decrease in **administrative expenses** of 2% to EUR 61.4 million (Bank: decrease by 3% to EUR 45.2 million). The Group’s **cost-to-income ratio** improved from 66% to 61% in

2014 (Bank: from 55% to 52%). There was a significant drop in **net impairment charges and reversals** from EUR 20.1 million in 2013 to EUR 8.6 million (Bank: from EUR 21.7 million to EUR 10.6 million).

In 2014, the Group’s **net profit** surged 138% to EUR 32.4 million (Bank: +91% to EUR 29.2 million).

Citadele Group’s **total assets** amounted to EUR 2,854.6 million as of 31 December 2014, which corresponds to an increase of 12% (Bank: +9% to EUR 2,330.7 million). The **return on average assets** in 2014 was 1.2% compared to 0.6% in the previous year (Bank: 1.3% compared to 0.8%).

The loan book continued to improve, both in quality and average margin. The Group’s volume of **loans to companies and private individuals** grew by 2% to EUR 1,075.7 million (the Bank: +2% to EUR 941.3 million). The Group’s **deposits from customers** also grew by a strong 12% to reach EUR 2,517.1 million (Bank: +5% to EUR 1,948.8 million). In 2014, the **loan-to-deposit ratio** of the Group decreased from 47% to 43% (Bank: from 50% to 48%).

As of 31 December 2014, **shareholders’ equity** stood at EUR 176.7 million, which represents a 23% rise on the previous year (Bank: +21% to EUR 173.3m). The Group’s **return on average equity** jumped from 9.8% in 2013 to 20.2% in 2014 (Bank: 11.1% to 18.5%).

The audited **tier 1 ratio** and **common equity tier 1** ratio of Citadele Group as of 31 December 2014 was 9.3% (Bank: 10.4%). The Group’s audited **capital adequacy ratio** as of 31 December 2014 was 11.0% (Bank: 12.3%). In 2014, Citadele Group’s capital adequacy ratio was still restricted by commitments to the European Commission. According to these commitments, the ratio must not exceed by 50 basis points the value of the minimum capital requirement stipulated by the Latvian Financial and Capital Market Commission (10.9% as of the end of the year). The sale of the 75% share owned by the Republic of Latvia (held by the Privatisation Agency) will enable the Group to strengthen the bank’s capital base and improve the capital adequacy ratio.

Staying focused on customers

Citadele puts clients first when it comes to product and service development. As well as maintaining ongoing contact with customers, one of our best sources for meaningful and usable information is the “Citadele Index”. The index collects information from 750 entrepreneurs and business leaders. It gathers the respondents’ views on economic conditions, and then makes various forecasts for the following six months. The index asks respondents about general economic activity in the state and across sectors, industry competitiveness, and individual business performance. With these insights we have been able to develop products and services that precisely address our clients’ needs.

Along with the Citadele Index, we conduct client surveys on relevant issues. These results have helped us develop attractive services for our customers such as factoring for small and medium-sized enterprise (SME) customers and special shopping days for credit card holders. It has also led to better positioning of our card offering, and the development of more robust merchant services and client loyalty rewards programmes. Moreover, to serve better and in a more targeted way the different needs of our customers, we have created three core business segments: Retail and SME, Corporate, and Private Capital Management.

Providing a better service to Retail and SME customers

Besides the traditional banking services we provide to customers, our credit card and payment card offering as well as merchant programmes are important components of the bank’s value proposition.

Citadele Bank continues to be the American Express® exclusive partner in Latvia and Lithuania, with the exclusive right to issue American Express payment cards. In Latvia and Lithuania, we continue to offer and promote an international Membership Rewards programme to our American Express members. Under this programme, customers accumulate points for all payments and can exchange them for valuable prizes such as products or gift cards, and enjoy discounts with our cards. In 2014, the number of Membership Rewards programme participants increased by 23% in Latvia.

While digital offerings become increasingly important, we recognise that customers sometimes want personal contact with their bank clerk. Therefore, Citadele Bank is refitting its 36 branches in Latvia to offer state-of-the-art customer service centres that ensure pleasant customer experience.

Citadele was the first bank to take part in Latvia’s state family housing acquisition assistance programme.

In 2014, more than 17,000 new private customers and nearly 3,000 companies signed up with Citadele. Our various loyalty programmes, which are available at over 400 outlets from around 130 merchants, have helped us increase our customer base. Significant growth has come from Lithuania and Estonia where we attracted over 9,000 new customers. The number of payment cards issued by the Citadele Bank in Latvia grew by almost 3%, while salary card accounts increased by 10%.

More financing for companies

Citadele Group has expanded the co-operation with and financing of SMEs and Corporate clients. In Latvia, we issued EUR 122.4 million in new loans. Market segments included the manufacturing sector, with a loan volume of 30%, the service sector which stands at 27%, and the construction sector with a loan volume of 10%. In terms of the number of contracts, the agricultural sector accounted for the largest share of the loans granted in 2014 (29%), followed by the service sector (21%) as well as manufacturing and trade sectors (13% each).

Some examples of our SME and Corporate support: the high-tech and intellectual technology manufacturer SIA Hanzas Elektronika will add jobs at its manufacturing facilities in Ogre and Ventspils, and is to open a new engineering centre in Mārupe; SIA T&T Group launched manufacturing operations of Crispy&Milky branded cottage cheese desserts in Rīga; the Jēkabpils district Krasti farm established one of the most modern cattle-sheds in Latvia.

Private Capital Management

All key business indices improved in the Private Capital Management (PCM) field despite the difficult geopolitical situation.

In 2014, over 1,600 new clients signed on with the bank in the PCM field. This segment's client deposit portfolio grew by a total of 16% reaching EUR 859 million. The amount of commission fees outperformed the 2013 results by 6%.

The number of Latvian private banking clients increased by 14% while the volume of their deposits grew by 31%. PCM clients' net contribution into portfolios managed by IPAS CBL Asset Management accounted for 10% of the total volume of discretionary portfolios in 2014. Within the brokerage and custody services offered by Citadele Bank, the total amount of PCM clients' investments increased by 30%.

Furthermore, the number of issued Platinum Cards increased by 8%. One of the key advantages of these payment cards is the unique Citadele Concierge service which provides Platinum Card holders with access to a personal assistant (Concierge) who facilitates various kinds of lifestyle solutions. The turnover of this service surged by 60% in 2014.

Providing customer support during Euro adoption

In the first minutes of 1 January 2014, the first Euro banknotes in Latvia were drawn from Citadele Bank's ATM by then Latvian Prime Minister, Valdis Dombrovskis, Estonian Prime Minister, Andrus Ansip, Latvian Finance Minister, Andris Vilks, and Bank of Latvia President, Ilmārs Rimšēvičs.

The Euro adoption for Citadele coincided with a growth in deposits, loans and new customers in the first part of the year as customers made use of our transition products and services, such as the "Maxi Account" and the mobile phone application, "Euro Assist", which had been developed in the previous year. Additionally, the transition cost was less than anticipated, yielding a better than expected result.

Our Cash in Transit (CIT) business helped deliver over 2,500 tons of new Euros to banks and stores all over Latvia.

Operations and risk management

Risk management

Citadele Group works with the money of people and organisations as well as the capital provided by investors. Therefore, it is our responsibility to mitigate risks as much as reasonably possible. In line with the name of our brand we want to be perceived as a financial institution which stands for stability and safety.

Activities in 2014

Our operating culture is focused on growth, diligent cost control and responsible risk management. On 31 December 2014, Citadele Bank significantly improved its capacity to grow by updating the core banking system with the T24 system provided by the Swiss company "Temenos". The implementation of the project enables us to improve data integrity substantially as well as the availability of the bank's services. A system update scheduled for 2015 will enable Citadele Bank to centralise its services in a single IT system across all Baltic States, thus ensuring prompter and more convenient services for retail and corporate clients in the region. The T24 system will enable Citadele Bank to implement upgrades more efficiently by responding promptly to the latest market trends and client needs.

This system can be expanded to support the bank's operations beyond Latvia. In particular, it will be introduced in Citadele's Lithuanian subsidiary. While the new system will ensure efficiency gains in the future, we have already achieved many efficiency gains this year.

In order to reduce risks, Citadele decided in the first half of 2014 to transition out of various investment instruments, which represented valuation risks due to geopolitical events. This decision spared both the bank and the Group from currency volatility and export market devaluations later in the year. Similarly, we worked with our corporate customers who had significant exposures to such currency volatility. While customers adjust to the new valuations in some of their export markets, Citadele has not experienced a significant banking activity drop.

Citadele Bank successfully implemented the European Market Infrastructure Regulation (EMIR) in 2014. As the global banking regulatory environment changes, we believe our platform is ready to adopt efficiently the changes being discussed by regulators.

To help better manage our liquidity position, the Bank expanded the number of interbank counterparties in 2014. A diversification strategy was pursued also in the liquidity and investment portfolios.

Committed to employees

One of Citadele’s goals in 2014 was to continue to improve employee loyalty and motivation, as well as provide professional growth opportunities. An employee commitment survey conducted for Citadele Group by the research agency TNS Latvia showed that the commitment index grew by 3 points, between 2013 and 2014. This reflects a steady increase in Citadele employees’ general satisfaction, their willingness to recommend their employer to others, team motivation and their assessment of the bank’s competitiveness, among other factors. Citadele will continue to focus on these areas in 2015.

Citadele launches additional social responsibility initiatives

In 2014, Citadele Bank continued to support projects to help differently abled people to expand their abilities and to become better integrated into society. This social responsibility strategy is based on the "You Are. You Can" movement, which the bank launched in 2012 to support Latvia's Paralympic team at the London Paralympic Games. This is the largest support programme of its type in Latvia and in 2014, the bank continued to support the Latvian Paralympic Committee. On 17 May 2014, the Paralympic Sports Day event was held in Rīga with the support of Citadele Bank. The aim of this largest Paralympic event in Latvia was to inspire differently abled people to become more active and to discover new and talented athletes.

Mārtiņš Oliņš, a business analyst at Citadele Bank, completed a half-marathon distance (21 kilometres) in a wheelchair in 2:08:15. The bank also continued to support motor racer Jānis Tomsons, who lost a leg due to disease. The bank's support allowed him to participate in several historic races.

The bank also provided financing to the "Saule" organisation, which works with people with intellectual disabilities. The funding paid for the installation of a new fire safety and security system, as well as a ramp and a special lift for students. In 2014, the bank donated money to the Strazdumuiža Residential High School for students with vision impairment. The money was used to improve the school's sports facilities. Citadele also sponsored travelling exhibitions by the Latvian Puppet Theatre to six special regional boarding schools.

Citadele Group companies perform robustly

The Lithuanian subsidiary bank, AB Citadele bankas, reported positive results generating a EUR 0.3 million profit in 2014. Skirmantas Jareckas (former Member of the Board and Deputy Head of Administration of Citadele bankas) became Chair of AB Citadele bankas’ Board of Directors in Lithuania on 1 December 2014. Mr. Jareckas brings a wealth of experience in the banking sector spanning 21 years and he has been with the Lithuanian Citadele team since 2002. His team's aim is to increase the number of clients in particular in the SME segment, and to ensure business growth in general, thus strengthening Citadele's position in the Lithuanian market.

AP Anlage&Privatbank AG, Citadele’s subsidiary in Switzerland managed to generate a profit of EUR 0.6 million, while the loan portfolio for Baltic leasing entities reached the size of EUR 100 million.

The Citadele Bank subsidiary Citadele Asset Management, which is one of the leading investment management stock company (IPAS) in the Baltic States, changed its name to IPAS CBL Asset Management whereas CBL stands for Citadele Bank Latvia. The purpose of the new name is to strengthen the company’s international reputation, while maintaining links to Citadele Bank and its name. In 2014, it was the first company in Latvia to be licensed by the Finance and Capital Markets Commission (FKTK) as a manager of alternative investment funds. Alternative investment funds hold not only liquid financial instruments, such as stocks and debt obligations, but also derivatives, raw materials, currencies, hedge funds, real estate and risk capital. Such funds face no legal limitations in terms of their investment destinations and the scope of investments in a single area, but there are specific requirements about information transparency, as well as risk management in relation to the investments. In 2014, IPAS CBL Asset Management increased assets under management to EUR 594 million, exceeding the 2013 figure by 7%.

In 2014, AAS Citadele Life, a subsidiary of IPAS CBL Asset Management, expanded its customer savings portfolio by more than EUR 8 million, acquiring over 1,200 new customers. Along with the change of name at the parent company level, the company was renamed AAS CBL Life.

The customer savings portfolio of AS Citadele Atklātais pensiju fonds, another subsidiary of IPAS CBL Asset Management, grew by EUR 3.2 million over the year, thanks to the acquisition of 2,400 new customers. The company’s name was changed to AS CBL Atklātais pensiju fonds due to the change in the parent company’s name.

Events after Balance Sheet Date

There were no significant events after the balance sheet date.

Guntis Beļavskis Chairman of the Management Board	Klāvs Vasks Chairman of the Supervisory Council

Riga,
23 March 2015

Supervisory Council of the Bank

Name	Position
Klāvs Vasks	Chairman of the Supervisory Council
Geoffrey Richard Dunn	Deputy Chairman of the Supervisory Council
Aldis Greitāns	Member of the Supervisory Council
Baiba Anda Rubesa	Member of the Supervisory Council

Management Board of the Bank

Name	Position
Guntis Beļavskis	Chairman of the Management Board, p.p.
Valters Ābele	Member of the Management Board, p.p.
Kaspars Cikmačs	Member of the Management Board
Aldis Paegle	Member of the Management Board
Santa Purgaile	Member of the Management Board

On 1 January 2014 Aldis Paegle was appointed to the Management Board as Chief Financial Officer.
On 1 November 2014 Member of the Supervisory Council Laurence Philip Adams resigned.

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

The financial statements set out on pages 11 to 77 are prepared in accordance with the source documents and present fairly the financial position of the Bank and the Group as at 31 December 2014 and 2013 and the results of their operations, changes in shareholders’ equity and cash flows for the years then ended. The management report set out on pages 3 to 8 presents fairly the financial results of the reporting period and future prospects of the Bank and the Group.

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

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

Guntis Belavskis	Klavs Vasks
Chairman of the Management Board	Chairman of the Supervisory Council

Riga,
23 March 2015

Statements of Income for the years ended 31 December 2014 and 2013

	Notes	2014 Group	2013 Group	2014 Bank	2013 Bank
		EUR 000's			
Interest income	5	80,707	74,810	67,462	62,746
Interest expense	5	(18,241)	(19,520)	(15,359)	(17,274)
Net interest income		62,466	55,290	52,103	45,472
Commission and fee income	6	47,796	45,099	36,423	34,582
Commission and fee expense	6	(14,413)	(12,930)	(11,984)	(10,669)
Net commission and fee income		33,383	32,169	24,439	23,913
Gain on transactions with financial instruments, net	7	13,471	17,141	10,404	13,985
Other income		2,589	2,911	3,185	5,015
Other expense		(1,457)	(2,021)	(523)	(592)
Administrative expenses	8,9	(61,420)	(62,550)	(45,233)	(46,553)
Amortisation and depreciation charge		(5,204)	(5,857)	(1,361)	(1,376)
Impairment charges and reversals, net	10	(8,569)	(20,144)	(10,618)	(21,696)
Profit before taxation		35,259	16,939	32,396	18,168
Corporate income tax	11	(2,854)	(3,342)	(3,152)	(2,877)
Net profit for the period		32,405	13,597	29,244	15,291

The notes on pages 16 to 77 are an integral part of these financial statements.

The Supervisory Council and the Management Board of the Bank approved the issue of these financial statements as presented from page 11 to 77 on 23 March 2015. The financial statements are signed on behalf of the Supervisory Council and the Management Board of the Bank by:

Guntis Belavskis
Chairman of the Management Board

Klāvs Vasks
Chairman of the Supervisory Council

	EUR 000's			
	2014 Group	2013 Group	2014 Bank	2013 Bank
Net profit for the period	32,405	13,597	29,244	15,291
Other comprehensive income:				
Fair value revaluation reserve: held to maturity securities				
Amortisation	(288)	481	368	395
Deferred income tax charged directly to equity	(10)	(13)	-	-
Fair value revaluation reserve: available for sale securities				
Fair value revaluation reserve charged to statement of income	(3,106)	(4,612)	(1,288)	(2,467)
Change in fair value of available for sale securities	3,472	(1,069)	1,283	(541)
Deferred income tax charged / (credited) directly to equity	61	401	94	-
Other reserves				
Foreign exchange revaluation and other reserves	729	(311)	-	-
Other comprehensive income / (loss) for the period	858	(5,123)	457	(2,613)
Total comprehensive income for the period	33,263	8,474	29,701	12,678

The notes on pages 16 to 77 are an integral part of these financial statements.

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

Balance Sheets as at 31 December 2014 and 31 December 2013

	Notes	31/12/2014 Group	31/12/2013 Group	31/12/2014 Bank	31/12/2013 Bank
		EUR 000’s			
Assets					
Cash and deposits with central banks	12	225,399	361,485	142,650	312,525
Balances due from credit institutions	13	509,404	271,181	464,273	219,228
Securities held for trading:					
- fixed income	16	20,295	24,873	-	-
- shares and other non-fixed income	16	3,655	2,941	-	-
Derivative financial instruments	27	5,929	3,548	5,963	3,557
Financial assets designated at fair value through profit or loss:					
- fixed income	16	84,851	54,012	-	-
- shares and other non-fixed income	16	12,598	8,324	-	-
Available for sale securities:					
- fixed income	16	541,591	389,013	433,337	319,221
- shares and other non-fixed income	16	16,605	12,725	11,081	12,709
Loans and receivables to customers	14,15	1,075,701	1,055,922	941,329	924,914
Held to maturity securities	16	229,252	244,423	192,977	224,462
Property and equipment	19	42,525	42,826	3,651	3,402
Intangible assets	18	1,708	1,845	1,456	1,350
Investment property		409	748	-	-
Investments in subsidiaries	17	-	-	61,605	62,841
Current income tax assets		437	341	-	-
Deferred income tax assets	11	30,073	32,534	28,735	31,700
Other assets	20	54,163	34,781	43,604	25,319
Total assets		2,854,595	2,541,522	2,330,661	2,141,228
Liabilities					
Derivative financial instruments	27	1,647	3,931	3,567	4,468
Financial liabilities designated at fair value through profit and loss	21	24,594	16,626	-	-
Financial liabilities measured at amortised cost:					
- balances due to credit institutions and central banks	22	25,036	25,755	116,997	55,286
- deposits from customers	23	2,517,107	2,246,912	1,948,751	1,851,348
- other financial liabilities		12,235	8,315	-	-
Current income tax liabilities		187	-	-	-
Other liabilities	24	23,482	22,960	14,453	12,955
Subordinated liabilities	25	73,596	73,575	73,596	73,575
Total liabilities		2,677,884	2,398,074	2,157,364	1,997,632
Equity					
Paid-in share capital	26	146,556	146,556	146,556	146,556
Reserves		545	174	1,994	1,537
Retained earnings / (accumulated losses)		29,610	(3,282)	24,747	(4,497)
Total equity		176,711	143,448	173,297	143,596
Total liabilities and equity		2,854,595	2,541,522	2,330,661	2,141,228

The notes on pages 16 to 77 are an integral part of these financial statements.

The Supervisory Council and the Management Board of the Bank approved the issue of these financial statements as presented from page 11 to 77 on 23 March 2015. The financial statements are signed on behalf of the Supervisory Council and the Management Board of the Bank by:

Guntis Beļavskis
Chairman of the Management Board

Klāvs Vasks
Chairman of the Supervisory Council

Changes in the Group's equity are as follows:

EUR 000's
Attributable to equity holders of the Bank

	Issued share capital	Fair value revaluation reserve, attributable to:		Foreign exchange and other reserve	Restruc-turing reserve	Retained earnings / (accumulated losses)	Total equity
		Held to maturity securities	Available for sale securities				
Balance as at 31 December 2012	**146,556**	**(203)**	**7,948**	**2,091**	**(4,732)**	**(16,686)**	**134,974**
Net profit for the period	-	-	-	-	-	13,597	13,597
Transfer to other reserve	-	-	-	171	-	(171)	-
Other comprehensive income / (loss) for the period	-	468	(5,280)	(311)	22	(22)	(5,123)
Balance as at 31 December 2013	**146,556**	**265**	**2,668**	**1,951**	**(4,710)**	**(3,282)**	**143,448**
Net profit for the period	-	-	-	-	-	32,405	32,405
Transfer to other reserve	-	-	-	89	-	(89)	-
Other comprehensive income / (loss) for the period	-	(298)	427	153	-	576	858
Balance as at 31 December 2014	**146,556**	**(33)**	**3,095**	**2,193**	**(4,710)**	**29,610**	**176,711**

Changes in the Bank's equity are as follows:

EUR 000's
Attributable to equity holders of the Bank

	Issued share capital	Fair value revaluation reserve, attributable to:		Retained earnings / (accumulated losses)	Total equity
		Held to maturity securities	Available for sale securities		
Balance as at 31 December 2012	**146,556**	**(755)**	**4,905**	**(19,788)**	**130,918**
Net profit for the period	-	-	-	15,291	15,291
Other comprehensive income / (loss) for the period	-	395	(3,008)	-	(2,613)
Balance as at 31 December 2013	**146,556**	**(360)**	**1,897**	**(4,497)**	**143,596**
Net profit for the period	-	-	-	29,244	29,244
Other comprehensive income / (loss) for the period	-	368	89	-	457
Balance as at 31 December 2014	**146,556**	**8**	**1,986**	**24,747**	**173,297**

The notes on pages 16 to 77 are an integral part of these financial statements.

The Supervisory Council and the Management Board of the Bank approved the issue of these financial statements as presented from page 11 to 77 on 23 March 2015. The financial statements are signed on behalf of the Supervisory Council and the Management Board of the Bank by:

Guntis Beļavskis
Chairman of the Management Board

Klāvs Vasks
Chairman of the Supervisory Council

AS “Citadele banka”
Statements of Cash Flows for the years ended 31 December 2014 and 2013

	Notes	2014 Group	2013 Group	2014 Bank	2013 Bank
		EUR 000's			
Cash flows from operating activities					
Profit before tax		35,259	16,939	32,396	18,168
Dividends received		-	-	(1,690)	(3,754)
Amortisation of intangible assets, depreciation of property, equipment and investment properties		5,204	5,857	1,361	1,376
Change in impairment allowances and other provisions	10	8,569	20,144	10,618	21,696
Interest income	5	(80,707)	(74,810)	(67,462)	(62,746)
Interest expense	5	18,241	19,520	15,359	17,274
Other non-cash items		(25,195)	(8,816)	(20,735)	(9,459)
Cash flows before changes in assets and liabilities		**(38,629)**	**(21,166)**	**(30,153)**	**(17,445)**
Change in derivative financial instruments		(4,665)	(2,057)	(3,307)	(1,531)
(Increase) / decrease in other assets		(19,883)	(1,490)	(18,228)	1,872
Increase in other liabilities		4,434	2,319	1,498	1,417
(Increase) in trading investments		(23,281)	(22,959)	-	-
(Increase) / decrease in balances due from credit institutions		(332,604)	6,808	(108,882)	(3,409)
(Increase) / decrease in loans and receivables to customers		(28,954)	(58,877)	(23,367)	(51,142)
Increase / (decrease) in balances due to credit institutions and central banks		(7,175)	(15,368)	11,828	(25,698)
Increase in deposits from customers		269,832	262,590	97,271	241,044
Cash generated from operating activities before corporate income tax		**(180,925)**	**149,800**	**(73,340)**	**145,108**
Interest received during the period		78,919	74,879	65,781	62,635
Interest paid during the period		(17,580)	(21,564)	(14,953)	(19,227)
Corporate income tax paid during the period		(162)	(7)	-	-
Net cash flow from operating activities		**(119,748)**	**203,108**	**(22,512)**	**188,516**
Cash flows from investing activities					
Purchase of property, equipment and intangible assets		(2,436)	(3,045)	(1,496)	(2,530)
Proceeds from disposal of property and equipment		21	125	14	112
Purchase of held to maturity securities, net		15,171	(8,236)	31,485	(2,853)
Purchase of available for sale securities		(433,831)	(261,663)	(301,764)	(213,458)
Cash inflows from available for sale securities		303,888	248,768	209,981	177,180
Dividends received		-	-	1,690	3,754
Acquisitions and investments in subsidiaries		-	-	(1,033)	(9)
Net cash flow from investing activities		**(117,187)**	**(24,051)**	**(61,123)**	**(37,804)**
Cash flows from financing activities					
Net cash flow from financing activities		**-**	**-**	**-**	**-**
Net cash flow for the period		**(236,935)**	**179,057**	**(83,635)**	**150,712**
Cash and cash equivalents at the beginning of the period		**605,946**	**426,889**	**502,860**	**352,148**
Cash and cash equivalents at the end of the period	30	**369,011**	**605,946**	**419,225**	**502,860**

The notes on pages 16 to 77 are an integral part of these financial statements.

The Supervisory Council and the Management Board of the Bank approved the issue of these financial statements as presented from page 11 to 77 on 23 March 2015. The financial statements are signed on behalf of the Supervisory Council and the Management Board of the Bank by:

Guntis Beļavskis
Chairman of the Management Board

Klāvs Vasks
Chairman of the Supervisory Council

If not mentioned otherwise, referral to Group’s policies and procedures should be also considered as referral to the respective Bank’s policies and procedures. Figures in parenthesis represent amounts as at 31 December 2013 or for the year ended 31 December 2013, unless stated otherwise.

NOTE 1. AUTHORISATION OF THE FINANCIAL STATEMENTS

These financial statements have been authorised for issuance by the Management on 23 March 2015 and comprise the financial information of AS “Citadele banka” (hereinafter – the Bank) and its subsidiaries (together – the Group). In accordance with the Commercial Law of the Republic of Latvia, the shareholders’ meeting has the right to make the decision on the approval of the financial statements.

NOTE 2. GENERAL INFORMATION

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

The Bank’s head office is located in Riga, Latvia. The legal address of the Bank is Republikas laukums 2a, Riga, LV-1010. As at 31 December 2014, the Bank was operating a total of 36 (2013: 37) branches and client service centres in Riga and throughout Latvia. The Bank has 2 (2013: 2) foreign branches and client service centres in Tallinn (Estonia). The Bank owns directly and indirectly 26 (2013: 23) subsidiaries, which operate in various financial markets sectors. The Bank is the parent company of the Group. As at 31 December 2014 the ultimate controlling party of the Bank is the Republic of Latvia.

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

As at 31 December 2014, the Group had 1,583 (2013: 1,637) employees and the Bank had 1,180 (2013: 1,227) employees.

NOTE 3. RESTRUCTURING

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

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

Restructuring implications

The Bank’s establishment and future operations are part of the restructuring plan of AS “Parex Banka” that was approved by European Commission (further EC). On 15 September 2010, EC adopted the decision *On the State Aid C 26/2009 (ex N 289/2009)* that the restructuring aid which Latvia implemented for AS “Parex Banka” and AS “Citadele Banka” is found to be compatible with the internal market within the meaning of Article 107(3)(b) of the Treaty on the Functioning of the European Union. To comply with the aforementioned requirements, the Bank has undertaken certain commitments in relation to the future business operations. After completion of state owned Bank's shares sale transaction the Bank will not be bound by any restrictions provided for under the Commitments. The Group believes that there is a clear path for a change in investors so as to relieve the Group form the restrictions imposed. Therefore, the management has assessed that the Commitments will not have any further financial impact.

NOTE 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Certain new IFRSs became effective for the Group from 1 January 2014. Listed below are those new or amended standards or interpretations which the Group has adopted in preparation of these financial statements.

- *IFRS 10 Consolidated Financial Statements (2011).* IFRS 10 (2011) requires a change in accounting policy for determining whether the Group has control over and consequently whether it consolidates its investees. IFRS 10 (2011) introduces a new control model that focuses on whether the Group has power over an investee, exposure or rights to variable returns from its involvement with the investee and ability to use its power to affect those returns. In accordance with the transitional provisions of IFRS 10 (2011), the Group reassessed the control conclusion for its investees at 1 January 2014. There are no changes in control assessment as a consequence of new rules introduced by IFRS 10 (2011).

- *IFRS 11 Joint Arrangements.* Under IFRS 11, the structure of the joint arrangement, although still an important consideration, is no longer the main factor in determining the type of joint arrangement and therefore the subsequent accounting. According to IFRS 11 the Group’s interest in a joint operation, which is an arrangement in which the parties have rights to the assets and obligations for the liabilities, is accounted for on the basis of the Group’s interest in those assets and liabilities. The Group’s interest in a joint venture, which is an arrangement in which the parties have rights to the net assets, is to be equity-accounted.
- *IFRS 12: Disclosure of Interests in Other Entities*. IFRS 12 brings together into a single standard all the disclosure requirements about an entity’s interest in subsidiaries, joint arrangements, associates and unconsolidated structured entities. Disclosures as applicable have been expanded.
- Amendments to *IAS 36 on Recoverable Amount Disclosures for Non-Financial Assets*. Disclosures as applicable have been expanded.
- Amendments to *IAS 32 on Offsetting Financial Assets and Financial Liabilities* have no material impact on these financial statements.
- Amendments to *IAS 39 on Novation of Derivatives and Continuation of Hedge Accounting* have no material impact on these financial statements.

Certain new standards, amendments to standards and interpretations have been published that become endorsed for the annual accounting periods beginning after 1 January 2014 or are not yet effective in the EU and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early.

- *IAS 19 – Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after 1 February 2015).*The amendments are relevant only to defined benefit plans that involve contributions from employees or third parties meeting certain criteria. When these criteria are met, a company is permitted (but not required) to recognise them as a reduction of the service cost in the period in which the related service is rendered.
- *IFRIC 21 Levies (effective for annual periods beginning on or after 17 June 2014).* The Interpretation provides guidance as to the identification of the obligating event giving rise to a liability, and to the timing of recognising a liability to pay a levy imposed by government. In accordance with the Interpretation, the obligating event is the activity that triggers the payment of that levy, as identified in the relevant legislation and as a consequence, the liability for paying the levy is recognised when this event occurs. The liability to pay a levy is recognised progressively if the obligating event occurs over a period of time. If the obligating event is the reaching of a minimum activity threshold, the corresponding liability is recognised when that minimum activity threshold is reached. The Interpretation sets out that and entity cannot have a constructive obligation to pay a levy that will be triggered by operating in a future period as a result of the entity being economically compelled to continue to operate in that future period.
- *Annual Improvements to IFRSs.* The improvements introduce eleven amendments to nine standards and consequential amendments to other standards and interpretations. Most of these amendments are applicable to annual periods beginning on or after 1 February 2015, with earlier adoption permitted. Another four amendments to four standards are applicable to annual periods beginning on or after 1 January 2015, with earlier adoption permitted.

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

a) Basis of preparation

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

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

b) Functional and Presentation Currency

The functional currency of each of the Group’s consolidated entities is the currency of the primary economic environment in which the entity operates. The functional currency of the Bank and its Latvian subsidiaries, and the Group’s presentation currency, is the official currency of the Republic of Latvia, Euro (“EUR”). The accompanying financial statements are presented in thousands of Euros (EUR 000’s). On 1 January 2014 the Republic of Latvia adopted Euro as the official currency. The conversion from Lats to Euros was carried out at the official exchange rate of 0.702804 LVL/1 EUR. Correspondingly at that date the functional currency of the Bank and its Latvian subsidiaries, and the Group’s presentation currency changed to Euros.

c) *Accounting for restructuring/ transfer of undertaking*

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

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

d) *Basis of Consolidation*

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from is involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. The investments in the subsidiaries are presented in the Bank’s financial statements at acquisition cost. More detailed information on the Group’s subsidiaries is presented in Note 17.

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

e) *Income and Expense Recognition*

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

Commissions in respect of the acquisition of financial assets or the issue of financial liabilities that are not at fair value through profit or loss are deferred and recognised as an adjustment to the effective yield on the respective asset or liability. Other commissions and fees are credited and/ or charged to the statement of income as services are provided or on the execution of a significant act, as applicable, under the line “commission and fee income” or “commission and fee expense”, as appropriate.

Penalty income is recognised on cash-received basis.

f) *Foreign Currency Translation*

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

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

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

On 1 January 2014 the Republic of Latvia adopted Euro as the official currency. From 1 January 2014 the Bank’s and the Group's presentation currency is Euro (“EUR”). The comparative amounts presented in these financial statements are converted from Lats to Euros at the official exchange rate of 0.702804 LVL/1 EUR.

g) Taxation

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

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

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

h) Financial instruments

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

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

Financial assets and liabilities held for trading

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

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

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

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

Held to maturity investments

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

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

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

Available for sale financial assets

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

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

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

In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in the recognition of an impairment loss. If any such evidence exists for available-for sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the statement of income. Impairment losses recognised in the statement of income on equity instruments are not reversed through the statement of income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the statement of income.

Derivative Financial Instruments

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

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

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

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

Loans and receivables

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

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

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

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

i) Sale and Repurchase Agreements

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

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

j) Derecognition of Financial Assets and Liabilities

Financial assets

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

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

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

Financial liabilities

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

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

Issued debt, subordinated liabilities and other borrowed funds

The Group recognises financial liabilities on its balance on drawdown.

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

k) Leases

Finance leases – Group as lessor

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

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

Operating leases – Group as lessor

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

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

Operating leases – Group as lessee

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

l) Renegotiated Loans and Debt Forbearances

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

m) Impairment of loans and receivables to customers

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

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

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

- significant financial difficulty of the borrower;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the granting to the borrower of a concession, for economic or legal reasons relating to the borrower's financial difficulty, that the Group would not otherwise consider;
- it becoming probable that the insolvency process may be initiated against the borrower, or the borrower will enter other financial reorganisation;
- the worsening of economic conditions in the market segment, where the borrower operates; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans and receivables to customers since the initial recognition of those loans and receivables, although the decrease cannot yet be identified with the individual loans in the portfolio, including:
    - adverse changes in the payment status of borrowers in the portfolio; or
    - national or local economic conditions that correlate with defaults on the loans and receivables in the portfolio.

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

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

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

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

When loans and receivables cannot be recovered, they are written off and charged against impairment allowance. They are not written off until the necessary legal procedures have been completed and the amount of the loss is finally determined. Subsequent recoveries of amounts previously written off are reported in the statement of income as other operating income.

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

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

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

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

o) Intangible Assets

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

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

Subsequent to the initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment loss. Leasehold rights are amortised over the remaining lease contract on a straight-line basis. Annual amortisation rates applied on a straight-line basis to software and other intangible assets range from 10% to 50%. All intangible assets, except for goodwill, are with definite lives.

p) Property and equipment

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

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

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

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

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

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

q) Inventories

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

r) Assets held for sale

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

s) Investment properties

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

t) Insurance business

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

u) Provisions

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

v) Off-balance Sheet Financial Commitments and Contingent Liabilities

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

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

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

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

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

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

w) Non-financial assets

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

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

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

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

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

x) Trust Activities

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

y) Fair Values of Financial Assets and Liabilities

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm’s length transaction. Where available and reasonably reliable, fair values are determined by reference to observable market prices. Where representative market prices are not available or are unreliable, fair values are determined by using valuation techniques which refer to observable market data. These include prices obtained from independent market surveys, comparisons with similar financial instruments, discounted cash flow analyses and other valuation techniques commonly accepted and used by market participants.

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

z) Cash and Cash Equivalents

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

aa) Offsetting

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

bb) Staff costs and related contributions

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

cc) Events after the balance sheet date

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

dd) Use of estimates in the preparation of financial statements

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

Impairment of loans

The Group regularly reviews its loans and receivables to assess impairment. The estimation of potential impairment losses is inherently uncertain and dependent upon many factors. On an on-going basis potential issues are identified promptly as a result of individual loans being regularly monitored. Impairment losses are calculated on an individual basis with reference to expected future cash flows including those arising from the realisation of collateral. The Group uses its experienced judgement to estimate the amount of any impairment loss considering matters such as future economic conditions and the resulting trading performance of the borrower and the value of collateral, for which there may not be a readily accessible market. As a result, the impairment losses can be subject to significant variation as time progresses and the circumstances become clearer. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Changes in net present value of estimated future cash flows of loans and receivables to customers by +/-5% would result in EUR 0.4 million lower or EUR 0.7 million higher specific impairment allowance for the Bank. If estimated value of collaterals of loans and receivables to customers would differ by +/-5% the estimated specific impairment allowance for loans and receivables would differ by EUR -6.7 million or EUR +5.5 million respectively.

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

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

The future credit quality of the loan portfolio for which the collective impairment losses are estimated is subject to uncertainties that could cause actual credit losses to differ materially from reported impairment losses. These uncertainties include factors such as international and local economic conditions, borrower specific factors, industry and market trends, interest rates, unemployment rates and other external factors. Changes in the Bank's and the Group's LGD ratio by 500 basis points would result in increase / decrease in collectively assessed impairment by ca. EUR 2.3 million and EUR 3.3 million respectively (2013: Bank EUR 1.8 million). In 2014 due to new statistical data becoming available, the Bank's weighted average LGD ratio estimate as used for collective impairment calculation was increased by ca. 400 basis points. The bank entities within the Group apply a judgmental element to probability of default rates that incorporates the Group's management's judgment on the level of incurred losses within the current loan portfolio. Changes in the Bank's and the Group's PD ratio relating to not overdue category by 100 basis points would result in increase/ decrease in collectively assessed impairment by ca. EUR 1.9 million and EUR 2.1 million respectively.

Impairment of securities classified as available for sale or held to maturity

The Group makes various estimates to determine the value of securities assessed for impairment. When the value of securities, for which loss event have occurred, is assessed for impairment, an estimate is made involving factors such as liquidity (quoted prices and volumes from several reliable providers as well as judgemental evaluation), spreads (estimation of securities' spreads and spreads on securities rated Caa1 and below), ratings (subordination) and loss-given-default (LGD) rates.

The future credit quality of the securities for which the impairment losses are estimated is subject to uncertainties that could cause actual credit losses to differ materially from reported impairment losses. These uncertainties include factors such as international, regional and local economic conditions, issuer specific factors, market activity and depth, interest rates and other external factors. As at 31 December 2014, increase or decrease in credit spread delta by 200 basis points would result in no additional impairment for the Bank (2013: nil). For additional information on fixed and non-fixed income securities fair value assessment refer to note 33.

Impairment of other financial and non-financial assets

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

Deferred tax asset

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

Consolidation group

The Group consolidates all entities where it controls the investee. The Group controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. For list of investees included in the consolidation group refer to note 17. For investments in securities which are not consolidated refer to note 16. In the ordinary course of business IPS CBL Asset Management (CBL AM) provides management services to several funds where its interest held is only fees from servicing. The Bank has made an investment solely with a view to diversify its securities portfolio also in funds managed by CBL AM. According to the prospectus of the funds, the investment decisions are made collectively by CBL AM Investment Committee. The Bank has no intention to participate in decision making regarding the asset allocation of any of the funds. Moreover, interfering with Investment Committee's decision making process would be against the corporate governance principles maintained by that Bank since its inception. As such, the Bank believes it does not have the control over the funds, as per IFRS 10, and the fund should not be consolidated.

NOTE 5. INTEREST INCOME AND EXPENSE

	EUR 000's			
	2014 Group	2013 Group	2014 Bank	2013 Bank
Interest income:				
- interest on financial assets measured at amortised cost:	72,736	66,799	63,174	58,686
- interest on loans and receivables to customers	*64,906*	*58,325*	*55,969*	*50,724*
- interest on balances due from credit institutions and central banks	*736*	*480*	*762*	*484*
- interest on held to maturity securities	*7,094*	*7,994*	*6,443*	*7,478*
- interest on available for sale securities	6,020	6,035	4,288	4,060
- interest on held for trading securities	695	713	-	-
- interest income on financial assets designated at fair value through profit or loss	1,256	1,263	-	-
Total interest income	**80,707**	**74,810**	**67,462**	**62,746**
Interest expense:				
- interest on financial liabilities measured at amortised cost:	(18,001)	(19,379)	(15,359)	(17,274)
- interest on deposits from customers	*(12,325)*	*(13,611)*	*(9,548)*	*(11,264)*
- interest on subordinated liabilities	*(5,361)*	*(5,490)*	*(5,361)*	*(5,490)*
- interest on balances due to credit institutions and central banks	*(81)*	*(33)*	*(218)*	*(276)*
- other interest expense	*(234)*	*(245)*	*(232)*	*(244)*
- interest expense on financial liabilities designated at fair value through profit or loss	(240)	(141)	-	-
Total interest expense	**(18,241)**	**(19,520)**	**(15,359)**	**(17,274)**
Net interest income	**62,466**	**55,290**	**52,103**	**45,472**

	EUR 000's			
	2014 Group	2013 Group	2014 Bank	2013 Bank
Interest income recognised on impaired assets	2,634	3,142	2,287	2,476

NOTE 6. COMMISSION AND FEE INCOME AND EXPENSE

	EUR 000's			
	2014 Group	2013 Group	2014 Bank	2013 Bank
Commission and fee income:				
- transactions with settlement cards	20,808	19,909	18,844	18,039
- payment transfer fee	9,594	8,943	7,311	6,959
- custody, trust and asset management fees	7,973	6,630	1,171	1,174
- service fee for account maintenance	2,480	2,007	1,707	1,510
- cash collection	2,128	1,786	2,128	1,786
- cash disbursement/ transaction commission	1,379	1,988	1,134	1,467
- securities, financial instrument brokerage fees	819	890	670	484
- review of loan applications and collateral evaluation	670	957	667	957
- letters of credit and guarantees	545	637	371	455
- other fees	1,400	1,352	2,420	1,751
Total commission and fee income	**47,796**	**45,099**	**36,423**	**34,582**

	EUR 000's			
	2014 Group	2013 Group	2014 Bank	2013 Bank
Commission and fee expense:				
- fees related to settlement card operations	(11,491)	(9,948)	(10,200)	(8,637)
- fees related to correspondent accounts	(1,319)	(1,415)	(1,048)	(1,178)
- brokerage and custodian fees:	(735)	(628)	(587)	(526)
- securities, financial instrument brokerage fees	*(425)*	*(351)*	*(392)*	*(345)*
- custody, trust and asset management fees	*(310)*	*(277)*	*(195)*	*(181)*
- other fees	(868)	(939)	(149)	(328)
Total commission and fee expense	**(14,413)**	**(12,930)**	**(11,984)**	**(10,669)**
Net commission and fee income	**33,383**	**32,169**	**24,439**	**23,913**

NOTE 7. GAIN ON TRANSACTIONS WITH FINANCIAL INSTRUMENTS, NET

	EUR 000's			
	2014 Group	2013 Group	2014 Bank	2013 Bank
Gain from foreign exchange trading and revaluation of open positions, net	10,757	14,388	9,109	11,513
Gain / (loss) from disposal of available for sale securities, net	3,106	4,612	1,288	2,467
Gain / (loss) from trading and revaluation of securities held for trading purposes, net	88	(990)	-	-
Gain from trading and revaluation of other derivatives, net	7	5	7	5
Gain / (loss) on financial assets measured at amortised cost, net	(91)	-	-	-
Gain / (loss) on financial assets or financial liabilities designated at fair value through profit and loss	(396)	(874)	-	-
Gain on trading with financial instruments, net	**13,471**	**17,141**	**10,404**	**13,985**

	EUR 000's			
	2014 Group	2013 Group	2014 Bank	2013 Bank
Net gain / (loss) on financial instruments not at fair value through profit or loss	3,015	4,612	1,288	2,467
Net gain on financial instruments at fair value through profit or loss	10,456	12,529	9,116	11,518
Total gain on financial instruments, net	**13,471**	**17,141**	**10,404**	**13,985**

NOTE 8. ADMINISTRATIVE EXPENSES

	EUR 000's			
	2014 Group	2013 Group	2014 Bank	2013 Bank
Personnel expense	40,237	39,333	29,012	28,774
Rent, utilities, maintenance	3,905	4,271	4,843	5,009
IT equipment and software related expense	3,209	3,115	2,213	2,311
Non-refundable value added tax	2,924	3,159	2,248	2,416
Consulting and professional fees	2,343	2,881	1,424	1,848
Advertising, marketing and sponsorship	2,321	2,641	1,798	2,222
Office administration expense	723	712	527	536
Communications	662	683	405	437
Other administrative expenses	5,096	5,755	2,763	3,000
Total administrative expenses	**61,420**	**62,550**	**45,233**	**46,553**

NOTE 9. PERSONNEL EXPENSE

Personnel expense has been presented in these financial statements within administrative expenses. Personnel expense includes remuneration for work to the personnel and related social security contributions and bonuses and other short-term benefits costs.

	EUR 000's			
	2014 Group	2013 Group	2014 Bank	2013 Bank
Remuneration:				
- management	2,788	2,241	1,306	1,053
- other personnel	29,548	29,402	21,916	22,183
Total remuneration for work	**32,336**	**31,643**	**23,222**	**23,236**
Social security contributions:				
- management	427	498	181	264
- other personnel	6,607	6,761	4,894	4,979
Total social security contributions	**7,034**	**7,259**	**5,075**	**5,243**
Other personnel expense*	**867**	**431**	**715**	**295**
Total personnel expense	**40,237**	**39,333**	**29,012**	**28,774**
Number of employees at the end of the period	1,583	1,637	1,180	1,227

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

NOTE 10. IMPAIRMENT CHARGES AND REVERSALS

Total net impairment allowance charged to statement of income:

	EUR 000's			
	2014 Group	2013 Group	2014 Bank	2013 Bank
Loans – specifically assessed impairment	(6,879)	(17,729)	(6,045)	(16,874)
Loans – collectively assessed impairment	(6,460)	(3,438)	(4,824)	(3,280)
Available for sale securities	(520)	(130)	(520)	(130)
Other financial and non-financial assets, net	2,130	662	(2,212)	(1,703)
Recovered written-off assets	3,160	491	2,983	291
Total allowance and reversals charged to the statement of income, net	**(8,569)**	**(20,144)**	**(10,618)**	**(21,696)**

Fully impaired assets, recovery of which may become economically unviable, may be written-off. From time to time previously written off assets are recovered due to repayment or sale of pool of overdue assets to companies specialising in recoveries of balances in arrears. Such recoveries are reported as recovered written-off assets.

An analysis of the change in allowances for impairment of loans and receivables is presented as follows:

	EUR 000's			
	2014 Group	2013 Group	2014 Bank	2013 Bank
Total allowance for impairment at the beginning of the period, including:	**93,049**	**89,173**	**72,495**	**67,331**
- loans – specifically assessed impairment	78,477	78,039	58,935	57,051
- loans – collectively assessed impairment	14,572	11,134	13,560	10,280
Charge:	**24,848**	**31,823**	**21,256**	**28,992**
- loans – specifically assessed impairment	17,514	24,916	15,640	22,413
- loans – collectively assessed impairment	7,334	6,907	5,616	6,579
Release:	**(11,509)**	**(10,656)**	**(10,387)**	**(8,838)**
- loans – specifically assessed impairment	(10,635)	(7,187)	(9,595)	(5,539)
- loans – collectively assessed impairment	(874)	(3,469)	(792)	(3,299)
Allowance charged to the statement of income, net, including:	**13,339**	**21,167**	**10,869**	**20,154**
- loans – specifically assessed impairment	6,879	17,729	6,045	16,874
- loans – collectively assessed impairment	6,460	3,438	4,824	3,280
Change of allowance due to write-offs, net	**(17,882)**	**(17,826)**	**(13,826)**	**(15,504)**
Effect of changes in currency exchange rates:	**201**	**535**	**229**	**514**
- loans – specifically assessed impairment	202	535	229	514
- loans – collectively assessed impairment	(1)	-	-	-
Total allowance for impairment at the end of the period, including:	**88,707**	**93,049**	**69,767**	**72,495**
- loans – specifically assessed impairment	67,676	78,477	51,383	58,935
- loans – collectively assessed impairment	21,031	14,572	18,384	13,560

An analysis of the change in impairment of other assets is presented as follows:

	EUR 000's			
	2014 Group	2013 Group	2014 Bank	2013 Bank
Total allowance for impairment at the beginning of the period, including:	**33,585**	**36,140**	**61,206**	**60,984**
- available for sale securities	8,256	9,432	8,256	9,432
- due from credit institutions	758	788	758	788
- other non-financial assets	24,571	25,920	52,192	50,764
Charge:	**1,548**	**2,454**	**2,810**	**2,317**
- available for sale securities	520	372	520	372
- other non-financial assets	1,028	2,082	2,290	1,945
Release:	**(3,158)**	**(2,986)**	**(78)**	**(484)**
- available for sale securities	-	(242)	-	(242)
- other non-financial assets	(3,158)	(2,744)	(78)	(242)
Allowance charged to the statement of income, net, including:	**(1,610)**	**(532)**	**2,732**	**1,833**
- available for sale securities	520	130	520	130
- other financial and non-financial assets	(2,130)	(662)	2,212	1,703
Change of allowance due to write-offs, net:	**(1,506)**	**(1,713)**	**(676)**	**(1,301)**
- available for sale securities	-	(1,029)	-	(1,029)
- due from credit institutions	-	(7)	-	(7)
- other non-financial assets	(1,506)	(677)	(676)	(265)
Effect of changes in currency exchange rates:	**(1,694)**	**(310)**	**(1,621)**	**(310)**
- available for sale securities	(1,714)	(277)	(1,714)	(277)
- due from credit institutions	94	(23)	94	(23)
- other non-financial assets	(74)	(10)	(1)	(10)
Total allowance for impairment at the end of the period, including:	**28,775**	**33,585**	**61,641**	**61,206**
- available for sale securities	7,062	8,256	7,062	8,256
- due from credit institutions	852	758	852	758
- other non-financial assets	20,861	24,571	53,727	52,192

NOTE 11. TAXATION

Corporate income tax expense comprises the following items:

	EUR 000's			
	2014 Group	2013 Group	2014 Bank	2013 Bank
Current corporate income tax	251	40	-	-
Deferred income tax	2,512	3,684	3,059	2,746
Tax withheld abroad	128	132	93	131
Prior year adjustments	(37)	(514)	-	-
Total corporate income tax expense	**2,854**	**3,342**	**3,152**	**2,877**

The reconciliation of the Bank's and the Group's pre-tax profit for the period to the corporate income tax expense for the period may be specified as follows:

	EUR 000's			
	2014 Group	2013 Group	2014 Bank	2013 Bank
Profit before corporate income tax	35,259	16,939	32,396	18,168
Corporate income tax (at 15%)	**5,289**	**2,541**	**4,859**	**2,725**
Effect of tax rates in foreign jurisdictions	82	(189)	-	-
Non deductible expense	1,906	1,497	1,017	1,094
Non taxable income	(7,114)	(2,005)	(2,479)	(1,106)
Other tax differences, net	2,691	1,498	(245)	164
Total effective corporate income tax	**2,854**	**3,342**	**3,152**	**2,877**

The movements in deferred corporate income tax asset / (liability) can be specified as follows:

	EUR 000's			
	2014 Group	2013 Group	2014 Bank	2013 Bank
As at the beginning of the year	32,534	35,830	31,700	34,446
Charge to statement of income	(2,512)	(3,684)	(3,059)	(2,746)
Charge to statement of comprehensive income*	51	388	94	-
Total deferred income tax asset at the end of the year, net	**30,073**	**32,534**	**28,735**	**31,700**

Recognised deferred corporate income tax assets and liabilities can be specified as follows:

	EUR 000's			
	31/12/2014 Group	31/12/2013 Group	31/12/2014 Bank	31/12/2013 Bank
Deferred tax liabilities:				
Accumulated excess of tax depreciation over accounting depreciation	(434)	(2,607)	(434)	(423)
Other deferred tax liabilities	(551)	(286)	(359)	(270)
Deferred tax assets:				
Vacation pay and similar accrual	1,048	886	822	726
Revaluation of securities and derivatives*	380	627	380	775
Temporary impairment allowance differences	2,758	4,173	2,758	2,035
Recognised unutilised tax losses	26,839	29,732	25,568	28,857
Other deferred tax assets	33	9	-	-
Net deferred corporate income tax asset	**30,073**	**32,534**	**28,735**	**31,700**

* All changes in deferred tax that are charged directly to statement of comprehensive income are related to revaluation of securities at Group level.

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

	EUR 000's			
	31/12/2014 Group	31/12/2013 Group	31/12/2014 Bank	31/12/2013 Bank
Expiry:				
2014	-	14,187	-	-
Undated **	224,048	246,799	170,517	192,382
Total unutilised tax losses	**224,048**	**260,986**	**170,517**	**192,382**

** On 15 December 2011 amendments permitting tax loss carry forward for infinite period were passed by Latvian government. These are applicable for tax loss from accounting periods starting in 2008 or later years; amendments are effective from 1 January 2012.

NOTE 12. CASH AND DEPOSITS WITH CENTRAL BANKS

	EUR 000’s			
	31/12/2014 Group	31/12/2013 Group	31/12/2014 Bank	31/12/2013 Bank
Cash	60,303	60,609	57,728	57,516
Deposits with the Bank of Latvia	84,593	226,941	84,593	226,941
Deposits with other central banks	80,503	73,935	329	28,068
Total cash and deposits with central banks	**225,399**	**361,485**	**142,650**	**312,525**

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

Demand deposits with other central banks include balances with central banks of Lithuania, Switzerland and Estonia. As at 31 December 2014 and 31 December 2013 no amounts due from central banks were overdue.

NOTE 13. BALANCES DUE FROM CREDIT INSTITUTIONS

	EUR 000’s			
	31/12/2014 Group	31/12/2013 Group	31/12/2014 Bank	31/12/2013 Bank
Due from credit institutions registered in OECD countries	442,349	231,424	362,104	161,634
Due from credit institutions registered in Latvia	54,040	24,825	51,693	23,080
Due from credit institutions registered in other non-OECD countries	13,867	15,690	51,328	35,272
Total gross balances due from credit institutions	**510,256**	**271,939**	**465,125**	**219,986**
Incl. impaired balances	*852*	*758*	*852*	*758*
Impairment allowance	(852)	(758)	(852)	(758)
Total net balances due from credit institutions	**509,404**	**271,181**	**464,273**	**219,228**

The above balances represent the maximum credit risk exposure to the Group and the Bank respectively.

As at 31 December 2014 and 2013, none of the non-impaired amounts due from credit institutions were past due. For more details on credit quality of the Group’s neither past due nor-impaired balances due from credit institutions refer to Credit risk section of the Note 33. The Bank’s balances with its subsidiary AB “Citadele” Bankas (Lithuania) accounted for 9% (2013: 68%) of the total net balances due from credit institutions registered in other non-OECD countries. As at 31 December 2014 the Group’s largest due from credit institutions exposure with single group of connected institutions was 8% (2013: 39.6%). The exposure was with OECD registered “A rated” credit institutions.

NOTE 14. LOANS AND RECEIVABLES TO CUSTOMERS

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

	Group, EUR 000’s			Group, EUR 000’s		
	31/12/2014			31/12/2013		
	Balance sheet amount	Off-balance sheet credit exposure	Total gross credit exposure	Balance sheet amount	Off-balance sheet credit exposure	Total gross credit exposure
Regular loans	851,694	30,566	882,260	843,370	47,000	890,370
Utilised credit lines	132,114	32,233	164,347	131,502	32,717	164,219
Finance leases	103,138	36	103,174	92,737	-	92,737
Debit balances on settlement cards	57,312	85,388	142,700	67,098	87,393	154,491
Overdraft facilities	13,795	17,454	31,249	8,234	19,626	27,860
Factoring	1,635	2,969	4,604	454	-	454
Due from investment counterparties	4,720	-	4,720	5,576	-	5,576
Total loans and receivables to customers	**1,164,408**	**168,646**	**1,333,054**	**1,148,971**	**186,736**	**1,335,707**
Impairment allowance	(88,707)	-	(88,707)	(93,049)	-	(93,049)
Total net loans and receivables to customers	**1,075,701**	**168,646**	**1,244,347**	**1,055,922**	**186,736**	**1,242,658**

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

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

	Bank, EUR 000’s			Bank, EUR 000’s		
	31/12/2014			31/12/2013		
	Balance sheet amount	Off-balance sheet credit exposure	Total gross credit exposure	Balance sheet amount	Off-balance sheet credit exposure	Total gross credit exposure
Regular loans	720,434	26,717	747,151	716,140	44,899	761,039
Utilised credit lines	222,972	71,917	294,889	208,980	60,247	269,227
Debit balances on settlement cards	50,674	72,529	123,203	59,375	74,863	134,238
Overdraft facilities	12,788	11,243	24,031	7,655	12,553	20,208
Due from investment counterparties	4,186	-	4,186	5,101	-	5,101
Finance leases	42	-	42	158	-	158
Total loans and receivables to customers	**1,011,096**	**182,406**	**1,193,502**	**997,409**	**192,562**	**1,189,971**
Impairment allowance	(69,767)	-	(69,767)	(72,495)	-	(72,495)
Total net loans and receivables to customers	**941,329**	**182,406**	**1,123,735**	**924,914**	**192,562**	**1,117,476**

Loans and advances by customer profile may be specified as follows:

	EUR 000’s			
	31/12/2014 Group	31/12/2013 Group	31/12/2014 Bank	31/12/2013 Bank
Privately held companies	678,373	640,466	657,099	629,053
Private individuals	457,271	474,918	331,408	341,945
State owned enterprises	11,645	14,530	10,646	14,520
Public and religious institutions	7,025	9,409	3,189	5,094
Local municipalities	2,635	5,747	2,158	3,583
Municipality owned enterprises	7,373	3,826	6,535	3,139
Government	86	75	61	75
Total gross loans and receivables to customers	**1,164,408**	**1,148,971**	**1,011,096**	**997,409**
Impairment allowance	(88,707)	(93,049)	(69,767)	(72,495)
Total net loans and receivables to customers	**1,075,701**	**1,055,922**	**941,329**	**924,914**

The borrowers’ industry analysis of the gross portfolio of loans and receivables to other than private individuals before impairment allowance may be specified as follows:

	EUR 000’s			
	31/12/2014 Group	31/12/2013 Group	31/12/2014 Bank	31/12/2013 Bank
Real estate purchase and management	150,455	150,611	184,277	189,226
Manufacturing	129,546	106,259	101,411	87,423
Trade	108,582	92,888	69,028	59,470
Transport and communications	83,477	103,155	60,916	81,402
Agriculture and forestry	76,306	79,889	56,618	58,392
Electricity, gas and water supply	41,961	31,319	38,553	29,586
Construction	39,118	35,434	27,368	26,211
Financial intermediation	16,861	10,838	112,015	89,467
Hotels, restaurants	12,620	13,587	8,920	10,582
Other industries	48,211	50,073	20,582	23,705
Total gross loans and receivables to corporate customers	**707,137**	**674,053**	**679,688**	**655,464**

The following table represents geographical profile of the portfolio of loans and receivables to customers analysed by the place of customers’ reported residence:

	EUR 000’s			
	31/12/2014 Group	31/12/2013 Group	31/12/2014 Bank	31/12/2013 Bank
Latvian residents	750,180	752,853	802,498	801,990
OECD region residents	114,623	95,711	104,186	87,137
Non-OECD region residents	299,605	300,407	104,412	108,282
Total gross loans and receivables to customers	**1,164,408**	**1,148,971**	**1,011,096**	**997,409**
Impairment allowance	(88,707)	(93,049)	(69,767)	(72,495)
Total net loans and receivables to customers	**1,075,701**	**1,055,922**	**941,329**	**924,914**

As at 31 December 2014 and 31 December 2013 the Group’s and the Bank’s exposures with non-consolidated single group of connected parties did not exceeded 5% of total gross loans and receivables to customers. As at 31 December 2014 and 31 December 2013 the Group and the Bank were in compliance with FCMC requirements on credit exposures with single group of connected parties.

NOTE 15. LEASES

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

	EUR 000's			
	31/12/2014 Group	31/12/2013 Group	31/12/2014 Bank	31/12/2013 Bank
Transport vehicles	68,691	56,747	42	158
Manufacturing equipment	15,002	18,741	-	-
Real estate	5,899	6,235	-	-
Other	13,546	11,014	-	-
Total present value of finance lease payments, excluding impairment	**103,138**	**92,737**	**42**	**158**
Impairment allowance	(8,016)	(10,146)	(1)	(3)
Net present value of finance lease payments	**95,122**	**82,591**	**41**	**155**

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

	EUR 000's			
	31/12/2014 Group	31/12/2013 Group	31/12/2014 Bank	31/12/2013 Bank
Gross investment in finance leases receivable:				
within 1 year	21,654	25,141	-	51
later than 1 year and no later than in 5 years	88,317	72,002	46	115
later than in 5 years	2,220	3,328	-	-
Total gross investment in finance leases	**112,191**	**100,471**	**46**	**166**
Unearned finance income receivable:				
within 1 year	2,642	2,157	-	1
later than 1 year and no later than in 5 years	6,236	5,437	4	7
later than in 5 years	175	140	-	-
Total	**9,053**	**7,734**	**4**	**8**
Present value of minimum lease payments receivable:				
within 1 year	19,012	22,984	-	50
later than 1 year and no later than in 5 years	82,081	66,565	42	108
later than in 5 years	2,045	3,188	-	-
Total	**103,138**	**92,737**	**42**	**158**

NOTE 16. FIXED AND NON-FIXED INCOME SECURITIES

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

	EUR 000's 31/12/2014					
	Government bonds	Municipality bonds	Credit institution bonds	Corporate bonds	Other financial institution bonds	Total
Held for trading	9,545	-	1,908	1,728	7,114	20,295
Financial assets designated at fair value through profit or loss	11,749	1,634	29,236	1,093	41,139	84,851
Available for sale	228,426	-	146,294	152,367	14,504	541,591
Held to maturity	161,988	34,455	7,573	2,085	23,151	229,252
Total fixed income securities	**411,708**	**36,089**	**185,011**	**157,273**	**85,908**	**875,989**

	EUR 000's					
	31/12/2013					
	Government bonds	Municipality bonds	Credit institution bonds	Corporate bonds	Other financial institution bonds	Total
Held for trading	9,362	-	7,631	7,292	588	24,873
Financial assets designated at fair value through profit or loss	9,743	-	19,583	24,478	208	54,012
Available for sale	226,852	1,394	88,868	64,253	7,646	389,013
Held to maturity	188,560	36,570	7,006	8,433	3,854	244,423
Total fixed income securities	**434,517**	**37,964**	**123,088**	**104,456**	**12,296**	**712,321**

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

	EUR 000's					
	31/12/2014					
	Government bonds	Municipality bonds	Credit institution bonds	Corporate bonds	Other financial institution bonds	Total
Available for sale	152,476	-	141,160	128,083	11,618	433,337
Held to maturity	153,550	34,455	4,972	-	-	192,977
Total fixed income securities	**306,026**	**34,455**	**146,132**	**128,083**	**11,618**	**626,314**

	EUR 000's					
	31/12/2013					
	Government bonds	Municipality bonds	Credit institution bonds	Corporate bonds	Other financial institution bonds	Total
Available for sale	166,469	1,394	84,169	59,540	7,649	319,221
Held to maturity	184,297	34,425	5,740	-	-	224,462
Total fixed income securities	**350,766**	**35,819**	**89,909**	**59,540**	**7,649**	**543,683**

As at 31 December 2014, there are no Group's and Bank's securities on which payments are past due or which were restructured during the reporting period (2013: EUR nil). No fixed income securities were impaired (2013: nil). The above tables represent the maximum credit risk exposure to the Group and the Bank from fixed income securities.

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

	EUR 000's					
	31/12/2014			31/12/2013		
	Government bonds	Other securities	Total	Government bonds	Other securities	Total
Latvia	253,751	37,978	291,729	290,350	37,714	328,064
Lithuania	86,375	-	86,375	74,015	-	74,015
Finland	13,246	16,312	29,558	17,735	8,002	25,737
United States	12,358	77,321	89,679	-	32,023	32,023
Netherlands	10,080	53,734	63,814	10,447	28,697	39,144
Sweden	5,376	21,342	26,718	-	7,291	7,291
Canada	3,308	24,023	27,331	3,745	19,834	23,579
Australia	693	32,946	33,639	-	17,854	17,854
Norway	-	26,638	26,638	-	13,999	13,999
Germany	-	24,479	24,479	1,150	24,866	26,016
Singapore	-	24,368	24,368	7,319	4,031	11,350
Other countries*	26,521	125,356	151,877	29,756	83,635	113,391
Total fixed income securities and shares, net	**411,708**	**464,497**	**876,205**	**434,517**	**277,946**	**712,463**
Investments in managed funds**	-	32,642	32,642	-	23,848	23,848
Total securities, net	**411,708**	**497,139**	**908,847**	**434,517**	**301,794**	**736,311**

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

	EUR 000’s					
	31/12/2014			31/12/2013		
	Government bonds	Other securities	Total	Government bonds	Other securities	Total
Latvia	241,007	36,955	277,962	288,417	36,734	325,151
United States	12,358	38,612	50,970	-	17,440	17,440
Finland	10,549	16,312	26,861	15,695	8,002	23,697
Netherlands	10,080	34,351	44,431	10,447	17,092	27,539
Canada	3,308	19,356	22,664	3,745	17,349	21,094
Australia	693	24,792	25,485	-	15,106	15,106
Singapore	-	22,820	22,820	7,319	4,031	11,350
Norway	-	19,788	19,788	-	11,097	11,097
Other countries*	28,031	107,501	135,532	25,143	66,192	91,335
Total fixed income securities and shares, net	**306,026**	**320,487**	**626,513**	**350,766**	**193,043**	**543,809**
Investments in managed funds**	-	10,882	10,882	-	12,583	12,583
Total securities, net	**306,026**	**331,369**	**637,395**	**350,766**	**205,626**	**556,392**

* Largest Group’s and Bank’s exposure to a single country within this group is EUR 15,285 thousand and EUR 16,373 thousand respectively (2013: EUR 18,542 thousand and EUR 16,902 thousand).
** Investments in managed funds here are not distributed by their issuer’s country but shown separately.

All fixed income securities as at 31 December 2014 and 31 December 2013 are listed.

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

	EUR 000’s							
	31/12/2014				31/12/2013			
	Foreign equities	Latvian equities	Mutual investment funds	Total	Foreign equities	Latvian equities	Mutual investment funds	Total
Held for trading	-	-	3,655	3,655	-	-	2,941	2,941
Financial assets designated at fair value through profit or loss	-	-	12,598	12,598	-	-	8,324	8,324
Available for sale	116	100	16,389	16,605	114	28	12,583	12,725
Total non-fixed income securities, net	**116**	**100**	**32,642**	**32,858**	**114**	**28**	**23,848**	**23,990**

All exposures in mutual investment funds and equities which are classified as financial assets designated at fair value through profit or loss are unit-linked insurance plan assets. According to unit-linked investment contract terms, the risk associated with the investments made by the insurance underwriter is fully attributable to the counterparty entering the insurance agreement and not the underwriter. As at 31 December 2014 EUR 12,598 thousand (2013: EUR 8,324 thousand) of financial assets designated at fair value through profit or loss relate to this.

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

	EUR 000’s							
	31/12/2014				31/12/2013			
	Foreign equities	Latvian equities	Mutual investment funds	Total	Foreign equities	Latvian equities	Mutual investment funds	Total
Available for sale	99	100	10,882	11,081	98	28	12,583	12,709
Total non-fixed income securities, net	**99**	**100**	**10,882**	**11,081**	**98**	**28**	**12,583**	**12,709**

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

There are no off-balance sheet commitments bearing credit risk that are related to the issuers of the above securities. Further, no payments on the above instruments are past due. As at 31 December 2014, the carrying amount of the Group’s and Bank’s securities, which were impaired but not past due amounted to EUR 1,421 thousand (2013: EUR 1,941 thousand).

As at 31 December 2014 the Bank and Group has investments in mutual investment funds with carrying amount of EUR 6.0 million (2013: EUR 6.6 million) and EUR 13.2 million (EUR 11.7 million) which are managed by CBL Asset Managements IPS or its subsidiaries. These exposures have been acquired only with investment intentions.

NOTE 17. INVESTMENTS IN SUBSIDIARIES AND BUSINESS COMBINATIONS

Changes in the Bank’s investments in subsidiaries may be specified as follows:

	EUR 000’s	
	2014	2013
Balance at the beginning of the period	**62,841**	**63,381**
Establishment of new subsidiaries	8	9
Equity investments in existing subsidiaries	1,025	-
Impairment, net	(2,269)	(549)
Balance at the end of the period	**61,605**	**62,841**

In 2014, the Bank established SIA “Hortus NI”, SIA “Hortus RE”, and SIA “Hortus BR” and increased share capital in several previously established subsidiaries, to continue effective management of repossessed assets. Share capital in repossessed asset management companies was impaired in the amount of EUR 1,023 thousand based on the forecasted performance of the respective companies.

In 2014 the management of the Bank concluded that there is evidence of impairment of investment in AB “Citadele” and a further impairment allowance of EUR 1,246 thousand was recognised.

As at 31 December 2014 and 2013 the Bank held the following direct and indirect investments which are consolidated:

			31/12/2014			31/12/2013			Carrying value EUR 000’s	
Company	Country of registration	Business profile	Share capital EUR 000’s	The Group’s share (%)	% of total voting rights	Share capital EUR 000’s	The Group’s share (%)	% of total voting rights	31/12/2014	31/12/2013
AB “Citadele” Bankas	Lithuania	Banking	43,115	100.0	100.0	43,211	100.0	100.0	40,027	41,271
“AP Anlage & Privatbank” AG	Switzerland	Banking	8,317	100.0	100.0	8,153	100.0	100.0	13,805	13,805
AS “CBL Atklātais Pensiju Fonds”	Latvia	Pension fund	640	100.0	100.0	640	100.0	100.0	646	646
IPAS “CBL Asset Management”	Latvia	Finance	5,905	100.0	100.0	5,905	100.0	100.0	5,906	5,906
OOO “Citadele Asset Management Ukraina”	Ukraine	Finance	758	100.0	100.0	872	100.0	100.0	-	-
UAB “Citadele Investiciju Valdymas”	Lithuania	Finance	1,037	100.0	100.0	1,039	100.0	100.0	-	-
OU “Citadele Leasing & Factoring”	Estonia	Finance	500	100.0	100.0	500	100.0	100.0	445	445
UAB “Citadele faktoringas ir lizingas”	Lithuania	Finance	434	100.0	100.0	435	100.0	100.0	-	-
SIA “Rīgas Pirmā Garāža”	Latvia	Real estate rent and management	19,372	100.0	100.0	19,372	100.0	100.0	-	-
SIA “Citadele Express Kredīts”	Latvia	Leasing	45	100.0	100.0	45	100.0	100.0	38	38
SIA “E&P Baltic Properties”	Latvia	Finance	28	50.0	50.0	28	50.0	50.0	-	-
SIA “Citadele Līzings un Faktorings”	Latvia	Leasing	19,351	100.0	100.0	19,351	100.0	100.0	709	709
AAS “CBL Life”	Latvia	Life insurance	4,269	100.0	100.0	4,269	100.0	100.0	-	-
Calenia Investments Limited	Cyprus	Misc.*	2	100.0	100.0	2	100.0	100.0	-	-
SIA “RPG Interjers”	Latvia	Misc.*	1,355	100.0	100.0	1,355	100.0	100.0	-	-
SIA “Hortus Commercial”	Latvia	Misc.*	3	100.0	100.0	3	100.0	100.0	-	3
SIA “Hortus Land”	Latvia	Misc.*	3	100.0	100.0	3	100.0	100.0	-	3
SIA “Hortus TC”	Latvia	Misc.*	428	100.0	100.0	3	100.0	100.0	23	3
SIA “Hortus Residental”	Latvia	Misc.*	203	100.0	100.0	3	100.0	100.0	-	3
SIA “Hortus LH”	Latvia	Misc.*	3	100.0	100.0	3	100.0	100.0	2	3
SIA “Hortus MD”	Latvia	Misc.*	3	100.0	100.0	3	100.0	100.0	-	3
SIA “Hortus JU”	Latvia	Misc.*	3	100.0	100.0	3	100.0	100.0	-	3
SIA “Hortus RE”	Latvia	Misc.*	3	100.0	100.0	3	-	-	2	-
SIA “Hortus BR”	Latvia	Misc.*	403	100.0	100.0	3	-	-	-	-
SIA “Hortus NI”	Latvia	Misc.*	3	100.0	100.0	3	-	-	2	-
SIA “PR Speciālie Projekti”	Latvia	Misc.*	3	100.0	100.0	3	100.0	100.0	-	-
Total investments in subsidiaries									**61,605**	**62,841**

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

Carrying value of investment in subsidiary SIA “Rīgas Pirmā Garāža” depends directly on the value of the major assets of the company, being the office building and furniture therein, which in the Group’s consolidated accounts are accounted for as property and equipment. For impairment assessment methodology of Group’s property and equipment refer to Note 19.

Carrying value of investment in AB “Citadele” is based on a model where expected free equity distributable to shareholders is estimated. The key assumptions of the model are discount rate (15.5%), minimum target capital adequacy ratio and future profitability of the operations of the entity. Changing applied discount rate by +/-100 basis points would result in EUR (2.3) million loss or EUR 2.7 million gain respectively (2013: EUR (1.8) million loss or EUR 2.6 million gain); adjusting minimum target capital adequacy ratio by +/-100 basis points would result in EUR (3.8) million loss or EUR 3.7 million gain (2013: EUR (3.0) million loss or EUR 2.6 million gain); fluctuation in forecasted profitability by +/-10% would result in EUR 3.5 million gain or EUR (3.5) million loss (2013: EUR 2.6 million gain or EUR (3.0) million loss).

NOTE 18. INTANGIBLE ASSETS

	EUR 000’s			
	31/12/2014 Group	31/12/2013 Group	31/12/2014 Bank	31/12/2013 Bank
Software	1,005	1,049	830	794
Other intangible assets	134	281	77	54
Total intangible assets excluding advances	1,139	1,330	907	848
Advances for intangible assets	569	515	549	502
Total net book value of intangible assets	**1,708**	**1,845**	**1,456**	**1,350**

Movements in the Group’s intangible assets excluding advances for the year ended 31 December 2014 and 2013 can be specified as follows:

	EUR 000’s		
	Software	Other intangible assets	Total intangible assets excluding advances
Historical cost			
As at 31 December 2012	**14,610**	**3,452**	**18,062**
Additions	740	77	817
Disposals	(280)	(183)	(463)
As at 31 December 2013	**15,070**	**3,346**	**18,416**
Additions	299	207	506
Disposals	(232)	(2,361)	(2,593)
As at 31 December 2014	**15,137**	**1,192**	**16,329**
Accumulated amortisation			
As at 31 December 2012	**12,726**	**3,116**	**15,842**
Charge for the year	703	122	825
Reversal due to disposals	(276)	(173)	(449)
As at 31 December 2013	**13,153**	**3,065**	**16,218**
Charge for the year	487	103	590
Reversal due to disposals	(232)	(2,238)	(2,470)
As at 31 December 2014	**13,408**	**930**	**14,338**
Impairment allowance			
As at 31 December 2012	**(1,117)**	**-**	**(1,117)**
Write-offs	249	-	249
As at 31 December 2013	**(868)**	**-**	**(868)**
Write-offs	248	-	248
Net impairment	(104)	(128)	(232)
As at 31 December 2014	**(724)**	**(128)**	**(852)**
Net book value (incl. impairment allowance)			
As at 31 December 2012	**767**	**336**	**1,103**
As at 31 December 2013	**1,049**	**281**	**1,330**
As at 31 December 2014	**1,005**	**134**	**1,139**

Lithuanian banking business at the consolidated level is considered a separate cash generating unit. For fair value calculation of the cash generating unit estimate, the same model is used as for the investment in AB “Citadele” impairment calculation. For details of the calculation please refer to Note 17. The calculation shows that the cash generating unit is impaired, thus Lithuanian banking business’ non-financial assets for which observable market value is not available have been impaired; these are all intangible assets and certain property and equipment.

Movements in the Bank's intangible assets excluding advances for the year ended 31 December 2014 and 2013 can be specified as follows:

	EUR 000's		
	Software	Other intangible assets	Total intangible assets excluding advances
Historical cost			
As at 31 December 2012	**13,090**	**43**	**13,133**
Additions	572	31	603
Disposals	(7)	-	(7)
As at 31 December 2013	**13,655**	**74**	**13,729**
Additions	148	34	182
Disposals	(106)	-	(106)
As at 31 December 2014	**13,697**	**108**	**13,805**
Accumulated amortisation			
As at 31 December 2012	**11,442**	**15**	**11,457**
Charge for the year	558	5	563
Reversal due to disposals	(7)	-	(7)
As at 31 December 2013	**11,993**	**20**	**12,013**
Charge for the year	359	11	370
Reversal due to disposals	(105)	-	(105)
As at 31 December 2014	**12,247**	**31**	**12,278**
Impairment allowance			
As at 31 December 2012	**(1,117)**	**-**	**(1,117)**
Write-offs	249	-	249
As at 31 December 2013	**(868)**	**-**	**(868)**
Write-offs	248	-	248
As at 31 December 2014	**(620)**	**-**	**(620)**
Net book value (incl. impairment allowance)			
As at 31 December 2012	**531**	**28**	**559**
As at 31 December 2013	**794**	**54**	**848**
As at 31 December 2014	**830**	**77**	**907**

NOTE 19. PROPERTY AND EQUIPMENT

	EUR 000's			
	31/12/2014 Group	31/12/2013 Group	31/12/2014 Bank	31/12/2013 Bank
Leasehold improvements	283	380	283	380
Land and buildings	39,121	38,715	924	948
Transport vehicles	659	480	261	238
Other	2,447	3,241	2,182	1,826
Total property and equipment excluding advances	42,510	42,816	3,650	3,392
Advances for property and equipment	15	10	1	10
Total net book value of property and equipment	**42,525**	**42,826**	**3,651**	**3,402**

The following changes in the Group’s property and equipment excluding advances took place during the year ended 31 December 2014 and 2013:

	EUR 000's				
	Leasehold improvements	Land and buildings	Transport vehicles	Other	Total Property and equipment excluding advances
Historical cost					
As at 31 December 2012	**5,128**	**71,124**	**2,450**	**31,756**	**110,458**
Additions	154	102	186	1,374	1,816
Disposals	-	(40)	(869)	(1,440)	(2,349)
As at 31 December 2013	**5,282**	**71,186**	**1,767**	**31,690**	**109,925**
Additions	70	58	440	1,303	1,871
Disposals	(565)	-	(161)	(2,865)	(3,591)
As at 31 December 2014	**4,787**	**71,244**	**2,046**	**30,128**	**108,205**
Accumulated depreciation					
As at 31 December 2012	**4,643**	**11,868**	**1,633**	**27,668**	**45,812**
Charge for the year	259	2,545	245	2,203	5,252
Reversal due to disposals	-	(33)	(591)	(1,422)	(2,046)
As at 31 December 2013	**4,902**	**14,380**	**1,287**	**28,449**	**49,018**
Charge for the year	167	2,562	166	1,703	4,598
Reversal due to disposals	(565)	-	(125)	(2,787)	(3,477)
As at 31 December 2014	**4,504**	**16,942**	**1,328**	**27,365**	**50,139**
Impairment allowance					
As at 31 December 2012	**-**	**(20,565)**	**-**	**-**	**(20,565)**
Net reversal and write-offs	-	2,474	-	-	2,474
As at 31 December 2013	**-**	**(18,091)**	**-**	**-**	**(18,091)**
Net reversal and write-offs	-	2,910	(59)	(316)	2,535
As at 31 December 2014	**-**	**(15,181)**	**(59)**	**(316)**	**(15,556)**
Net book value (incl. impairment allowance)					
As at 31 December 2012	**485**	**38,691**	**817**	**4,088**	**44,081**
As at 31 December 2013	**380**	**38,715**	**480**	**3,241**	**42,816**
As at 31 December 2014	**283**	**39,121**	**659**	**2,447**	**42,510**

Impairment allowance for Group’s land and buildings is calculated internally as the value which is determined as discounted expected future cash flow generated by the property adjusted for capital expenditure. Key assumptions are discount rate (9.5%) and expected net cash flows generated by the property. If discount rate would change by +/-100 basis points the carrying value of the property would change by EUR (4.1) million and EUR +5.4 million respectively (2013: EUR (3.8) million and EUR +5.0 million). If net cash flows adjusted for capital expenses would change by +/-10% the carrying value of the property would change by EUR +/-3.6 million (2013: EUR +/-3.7 million).

The following changes in the Bank’s property and equipment excluding advances took place during the year ended 31 December 2014 and 2013:

	EUR 000’s				
	Leasehold Improvements	Land and buildings	Transport vehicles	Other	Total Property and equipment excluding prepayments
Historical cost					
As at 31 December 2012	**5,128**	**1,214**	**1,332**	**22,174**	**29,848**
Additions	154	-	155	1,216	1,525
Disposals	-	(1)	(302)	(690)	(993)
As at 31 December 2013	**5,282**	**1,213**	**1,185**	**22,700**	**30,380**
Additions	70	-	110	1,096	1,276
Disposals	(565)	-	(4)	(2,183)	(2,752)
As at 31 December 2014	**4,787**	**1,213**	**1,291**	**21,613**	**28,904**
Accumulated depreciation					
As at 31 December 2012	**4,643**	**241**	**1,138**	**20,896**	**26,918**
Charge for the year	259	24	111	666	1,060
Reversal due to disposals	-	-	(302)	(688)	(990)
As at 31 December 2013	**4,902**	**265**	**947**	**20,874**	**26,988**
Charge for the year	167	24	85	715	991
Reversal due to disposals	(565)	-	(2)	(2,158)	(2,725)
As at 31 December 2014	**4,504**	**289**	**1,030**	**19,431**	**25,254**
Net book value					
As at 31 December 2012	**485**	**973**	**194**	**1,278**	**2,930**
As at 31 December 2013	**380**	**948**	**238**	**1,826**	**3,392**
As at 31 December 2014	**283**	**924**	**261**	**2,182**	**3,650**

NOTE 20. OTHER ASSETS

	EUR 000's			
	31/12/2014 Group	31/12/2013 Group	31/12/2014 Bank	31/12/2013 Bank
Deposits with card payment system companies	11,554	15,619	11,554	15,619
Money in transit	28,118	5,751	27,579	5,751
Prepayments	2,416	1,992	1,426	1,373
Other assets *	16,269	16,423	6,514	6,530
Total gross other assets	**58,357**	**39,785**	**47,073**	**29,273**
Impairment allowance	(4,194)	(5,004)	(3,469)	(3,954)
Total net other assets	**54,163**	**34,781**	**43,604**	**25,319**

* As at 31 December 2014, the Group’s other assets with delays gross amount was EUR 317 thousand (2013: EUR 270 thousand) and were fully impaired (2013: EUR 239 thousand). The Bank did not have any other assets with delays (2013: EUR nil). As at 31 December 2014, the Group’s and the Bank’s gross amount of other assets which mostly related to overdue amount collection expenditure amounted to EUR 4,686 thousand (2013: EUR 5,477 thousand) and EUR 3,590 thousand (2013: EUR 4,134 thousand), respectively. These amounts carried impairment allowances of EUR 4,194 thousand for the Group (2013: EUR 5,004 thousand) and EUR 3,469 thousand for the Bank (2013: EUR 3,954 thousand), respectively.

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

	EUR 000's	
	2014 Group	2013 Group
Balance as at the beginning of the period	**16,626**	**14,752**
Premiums received	9,611	7,186
Commissions and risk charges	(626)	(538)
Benefits paid to policyholders	(1,427)	(4,987)
Dividends received	1	-
Securities fair value revaluation result	1	92
Income from insurance contracts	223	144
Other charges	6	-
Currency revaluation result	179	(23)
Balance as at the end of the period	**24,594**	**16,626**

In 2014 from financial liabilities designated at fair value through profit and loss which are not unit-linked the Group has recognised net result of EUR (240) thousand in the statement of income (2013: EUR 45 thousand). Most of the insurance business the Group is involved in relates to investment contracts rather than insurance risk, therefore, premiums received are recognised as liabilities of the Group since settlement in due course is expected. The amount of insurance risk generated by the Group currently is immaterial and, therefore, not further analysed.

NOTE 22. BALANCES DUE TO CREDIT INSTITUTIONS AND CENTRAL BANKS

	EUR 000's			
	31/12/2014 Group	31/12/2013 Group	31/12/2014 Bank	31/12/2013 Bank
Due to credit institutions registered in OECD countries	-	48	27,321	29,071
Due to credit institutions registered in Latvia	24,434	25,366	24,434	25,364
Due to credit institutions registered in other non-OECD countries	602	341	65,242	851
Total balances due to credit institutions and central banks	**25,036**	**25,755**	**116,997**	**55,286**

NOTE 23. DEPOSITS FROM CUSTOMERS

The following table presents deposits from customers according to customer profile:

	EUR 000's			
	31/12/2014 Group	31/12/2013 Group	31/12/2014 Bank	31/12/2013 Bank
Privately held companies	1,198,017	977,360	825,905	726,131
Private individuals	1,005,630	877,595	801,983	747,122
Financial institutions	144,406	141,748	156,198	130,955
State and municipality owned enterprises	127,939	156,146	126,589	155,868
Municipalities	20,303	37,979	20,303	37,979
Public and religious institutions	12,620	9,129	10,605	7,329
Government	8,192	46,955	7,168	45,964
Total deposits from customers	**2,517,107**	**2,246,912**	**1,948,751**	**1,851,348**

	EUR 000's			
	31/12/2014 Group	31/12/2013 Group	31/12/2014 Bank	31/12/2013 Bank
Demand deposits	1,897,101	1,679,094	1,460,857	1,375,675
Term deposits:				
due within 1 month	149,450	141,837	118,034	118,711
due within 1-3 months	85,732	94,506	61,120	76,070
due within 3-6 months	91,548	96,081	61,574	79,513
due within 6-12 months	176,260	170,722	139,941	143,192
due within 1-5 years	108,885	63,127	101,138	56,643
due in more than 5 years	8,131	1,545	6,087	1,544
Total term deposits	620,006	567,818	487,894	475,673
Total deposits from customers	**2,517,107**	**2,246,912**	**1,948,751**	**1,851,348**

As at 31 December 2014 and 31 December 2013 the largest Bank's exposure with single group of connected parties did not exceed 5% of the total deposit portfolio.

NOTE 24. OTHER LIABILITIES

	EUR 000's			
	31/12/2014 Group	31/12/2013 Group	31/12/2014 Bank	31/12/2013 Bank
Accrued expense	12,001	12,019	9,129	8,803
Suspense liabilities and money in transit	5,643	6,349	2,587	2,221
Amounts due to suppliers	743	1,121	243	655
Deferred income	140	174	-	-
Other liabilities	4,955	3,297	2,494	1,276
Total other liabilities	**23,482**	**22,960**	**14,453**	**12,955**

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

NOTE 25. SUBORDINATED LIABILITIES

The following table represents the details of Bank's and Group's subordinated liabilities:

							Amortised cost EUR 000's	
Counterparty	Residence country	Currency	Issue size, 000's	Interest rate	Original agreement date	Maturity date	31/12/2014	31/12/2013
Privatisation Agency	Latvia	EUR	53,128	7.31%	22/05/2009	20/12/2017	54,702	54,709
Privatisation Agency	Latvia	EUR	11,208	7.31%	02/08/2010	08/08/2016	11,537	11,538
EBRD	UK	EUR	7,195	7.31%	11/09/2009	08/08/2016	7,357	7,328
						Total	**73,596**	**73,575**

NOTE 26. ISSUED SHARE CAPITAL

As at 31 December 2014, the Bank's registered and paid-in share capital was EUR 146,556 thousand (2013: EUR 146,556 thousand). Due to Euro adoption, on 8 April 2014 amendments to the statutes of AS Citadele Banka were registered, changing nominal value of one share from LVL 1 to EUR 1. The total number of ordinary shares with voting rights increased to 146,555,796 (2013: 103,000,000). Shareholder structure did not change. All shares as at 31 December 2014 were issued and fully paid. As at 31 December 2014 and 31 December 2013, the Bank did not possess any of its own shares. No dividends were proposed and paid during 2014 or 2013.

As at 31 December 2014, the Bank had 2 (2013: 2) shareholders:

	31/12/2014 and 31/12/2013		
	Paid-in share capital (EUR)	% of total paid-in capital	% of total voting rights
Privatisation Agency	109,916,846	75% minus 1 share	75% minus 1 share
European Bank for Reconstruction and Development	36,638,950	25% plus 1 share	25% plus 1 share
Total	**146,555,796**	**100%**	**100%**

On 16 September 2014 and following a tender process, the Latvian government decided to sell its 75% minus 1 share stake in Citadele to RA Citadele Holdings LLC, an entity wholly owned by Ripplewood Advisors LLC (Ripplewood), and an international group of twelve investors. VAS Privatizācijas aģentūra (Privatisation Agency of the Republic of Latvia) signed the respective agreement on 5 November 2014.

The transaction is expected to close during the first half of 2015, following approvals by the Latvian Finance and Capital Markets Commission, as well as the banking regulators in Lithuania and Switzerland. The European Bank for Reconstruction and Development (EBRD) will retain its 25% stake in Citadele. According to the terms of the deal, the new investors and the EBRD have committed to increase the capital of the bank.

NOTE 27. OFF-BALANCE SHEET ITEMS

Off-balance sheet items comprise contingent liabilities, financial commitments, foreign exchange contracts and derivative financial instruments. The following table provides a specification of contingent liabilities (showing maximum amount payable) and financial commitments outstanding as at 31 December 2014 and 2013.

	EUR 000's			
	31/12/2014 Group	31/12/2013 Group	31/12/2014 Bank	31/12/2013 Bank
Contingent liabilities:				
Outstanding guarantees	58,185	101,740	54,512	96,515
Outstanding letters of credit	32	169	32	51
Total contingent liabilities	**58,217**	**101,909**	**54,544**	**96,566**
Financial commitments:				
Loans granted, not fully drawn down	33,390	67,072	26,536	64,973
Unutilised credit lines and overdraft facilities	49,868	32,271	83,341	52,726
Credit card commitments	85,388	87,393	72,529	74,863
Bank placement commitments	-	-	10,000	-
Total financial commitments	**168,646**	**186,736**	**192,406**	**192,562**

The following table presents the notional amounts and fair values of foreign exchange contracts and derivative financial instruments.

The Group:

	Notional amount EUR 000's		Fair value EUR 000's			
	31/12/2014	31/12/2013	31/12/2014		31/12/2013	
			Assets	Liabilities	Assets	Liabilities
Foreign exchange contracts:						
Forwards	47,142	37,439	534	(420)	60	(1,103)
Swaps	400,854	697,386	5,395	(1,227)	3,488	(2,828)
Total foreign exchange contracts	**447,996**	**734,825**	**5,929**	**(1,647)**	**3,548**	**(3,931)**
Derivative financial instruments	**447,996**	**734,825**	**5,929**	**(1,647)**	**3,548**	**(3,931)**

The Bank:

	Notional amount EUR 000's		Fair value EUR 000's			
	31/12/2014	31/12/2013	31/12/2014		31/12/2013	
			Assets	Liabilities	Assets	Liabilities
Foreign exchange contracts:						
Forwards	46,351	37,293	522	(417)	60	(1,101)
Swaps	437,165	795,502	5,441	(3,150)	3,497	(3,367)
Total foreign exchange contracts	**483,516**	**832,795**	**5,963**	**(3,567)**	**3,557**	**(4,468)**
Derivative financial instruments	**483,516**	**832,795**	**5,963**	**(3,567)**	**3,557**	**(4,468)**

The Group's banks use derivative foreign exchange instruments to manage their currency positions, which arise also due to derivative foreign exchange contracts concluded with the banks' clients. Before entering into derivative foreign currency agreement with private individual or company, the Group's entities assess the counterparty's ability to meet the contractual provisions. As at 31 December 2014, more than 52% (2013: 71%) of the fair value assets on foreign exchange contracts is attributable to credit and finance institutions. As at 31 December 2014, none (2013: nil) of the payments receivable arising out of derivative transactions was past due.

NOTE 28. FUNDS UNDER TRUST MANAGEMENT

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

	EUR 000's			
	31/12/2014 Group	31/12/2013 Group	31/12/2014 Bank	31/12/2013 Bank
Fixed income securities:				
Government bonds	155,495	170,254	-	-
Credit institution bonds	35,755	40,464	-	-
Corporate bonds	71,723	68,022	-	-
Foreign municipality bonds	1,694	2,790	-	-
Other financial institution bonds	1,590	1,848	-	-
Total investments in fixed income securities	**266,257**	**283,378**	**-**	**-**
Other investments:				
Investment funds	227,219	162,427	7,167	-
Deposits with credit institutions	32,808	24,644	1,523	-
Shares	15,515	19,197	-	-
Real estate	9,189	10,764	-	-
Loans	53,611	44,897	44,488	40,387
Other	43,684	57,180	-	7,952
Total other investments	**382,026**	**319,109**	**53,178**	**48,339**
Total assets under trust management agreements	**648,283**	**602,487**	**53,178**	**48,339**

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

	EUR 000's			
	31/12/2014 Group	31/12/2013 Group	31/12/2014 Bank	31/12/2013 Bank
Pension Plans	295,497	226,570	-	-
Insurance companies, investment and pension funds	98,568	116,974	-	-
Other companies	200,854	195,843	53,178	47,647
Private individuals	53,364	63,100	-	692
Total liabilities under trust management agreements	**648,283**	**602,487**	**53,178**	**48,339**

NOTE 29. FINANCIAL ASSETS PLEDGED

	EUR 000's			
	31/12/2014 Group	31/12/2013 Group	31/12/2014 Bank	31/12/2013 Bank
Due from credit institutions and central banks	6,637	8,100	3,752	7,083
Loans to customers	2,338	1,756	1,808	1,756
Fixed income securities	18,531	-	14,802	-
Other assets	11,774	15,811	11,713	15,811
Total financial assets pledged	**39,280**	**25,667**	**32,075**	**24,650**
Total liabilities secured by pledged financial assets	**-**	**-**	**-**	**-**

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

NOTE 30. CASH AND CASH EQUIVALENTS

The table below provides a breakdown of cash and cash equivalents as at 31 December 2014 and 31 December 2013:

	EUR 000's			
	31/12/2014 Group	31/12/2013 Group	31/12/2014 Bank	31/12/2013 Bank
Cash and demand deposits with central banks	225,399	361,485	142,650	312,525
Deposits with other credit institutions*	158,583	252,971	347,232	211,087
Demand deposits due to other credit institutions	(14,971)	(8,510)	(70,657)	(20,752)
Total cash and cash equivalents	**369,011**	**605,946**	**419,225**	**502,860**

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

NOTE 31. LITIGATION AND CLAIMS

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

The management of the Bank believes that any legal proceedings pending as at 31 December 2014 will not result in material losses for the Group in addition to amounts already provided for in these financial statements.

NOTE 32. RELATED PARTIES

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

The Bank of Latvia is not considered a related party as it is operating as an independent institution according to special law.

The following table presents the outstanding balances and terms of the Group’s transactions with counterparties, which were related parties at respective dates.

	EUR 000’s 31/12/2014	Interest income/ expense 2014	EUR 000’s 31/12/2013	Interest income/ expense 2013
Credit exposure to related parties				
Securities:	275,462	7,840	322,843	9,254
Latvian treasury bills and government bonds	*241,007*	*6,585*	*288,418*	*8,008*
Municipality bonds	*34,455*	*1,255*	*34,425*	*1,246*
Loans and receivables:	3,060	83	4,083	46
Management	*337*	*5*	*427*	*7*
State institutions and state controlled companies	*553*	*29*	*70*	*1*
Municipality institutions and municipality controlled companies	*2,170*	*49*	*3,586*	*38*
Financial commitments and outstanding guarantees:	6,202	1	4,664	-
Management	*125*	-	*135*	-
State institutions and state controlled companies	*6,063*	*1*	*4,515*	-
Municipality institutions and municipality controlled companies	*14*	-	*14*	-
Total credit exposure to related parties	**284,724**		**331,590**	
Due to related parties:	123,461	5,476	159,143	5,841
Subordinated loans from shareholders	*73,596*	*5,361*	*73,575*	*5,491*
Management	*555*	*2*	*546*	*3*
State institutions and state controlled companies	*25,895*	*88*	*47,643*	*316*
Municipality institutions and municipality controlled companies	*23,415*	*25*	*37,379*	*31*
Total amounts due to related parties	**123,461**		**159,143**	

No Group’s exposures with related parties as at 31 December 2014 or for the year then ended were impaired (2013: nil).

The following table presents the outstanding balances and terms of the Bank's transactions with counterparties, which were related parties at respective dates.

	EUR 000's 31/12/2014	Interest income/ expense 2014	EUR 000's 31/12/2013	Interest income/ expense 2013
Credit exposure to related parties				
Securities:	275,462	7,840	322,843	9,254
Latvian treasury bills and government bonds	*241,007*	*6,585*	*288,418*	*8,008*
Municipality bonds	*34,455*	*1,255*	*34,425*	*1,246*
Loans and receivables:	197,080	4,135	166,188	3,394
Management	*104*	*5*	*121*	*4*
State institutions and state controlled companies	*553*	*29*	*70*	*1*
Municipality institutions and municipality controlled companies	*2,170*	*49*	*3,586*	*38*
Subsidiaries	*194,253*	*4,052*	*162,411*	*3,351*
Derivatives – assets:	52	-	16	-
Subsidiaries	*52*	-	*16*	-
Financial commitments and outstanding guarantees:	58,309	1	46,363	-
Management	*80*		*84*	-
State institutions and state controlled companies	*6,063*	*1*	*4,515*	-
Municipality institutions and municipality controlled companies	*14*	-	*14*	-
Subsidiaries	*52,152*	-	*41,750*	-
Total credit exposure to related parties	**530,903**		**535,410**	
Due to related parties:	205,454	5,625	183,652	5,985
Subordinated loans from shareholders	*73,596*	*5,361*	*73,575*	*5,491*
Management	*212*	-	*287*	-
State institutions and state controlled companies	*25,895*	*88*	*47,643*	*316*
Municipality institutions and municipality controlled companies	*23,415*	*25*	*37,379*	*31*
Subsidiaries	*82,336*	*151*	*24,768*	*147*
Derivatives – liabilities:	1,935	-	738	-
Subsidiaries	*1,935*	-	*738*	-
Total amounts due to related parties	**207,389**		**184,390**	

In the year ended 31 December 2014 EUR 619 thousand impairment allowance on the Bank's loans and receivables to subsidiaries was recognised (2013: nil). As at 31 December 2014 total impairment allowance recognised on loans and receivables to subsidiaries is EUR 619 thousand (2013: nil). Bank's net investment in subsidiaries is EUR 61,605 thousand (2013: EUR 62,841 thousand) including impairment allowance of EUR 49,638 thousand. No other Bank's exposures with related parties as at 31 December 2014 or for the year then ended were impaired (2013: nil).

The Bank's income from dividends from subsidiaries in 2014 was EUR 1,690 thousand (2013: EUR 3,754 thousand).

During 2014 Bank's administrative expense with related parties amounted to EUR 3.4 million (2013: EUR 3.3 million). This mostly relates to rent and utility fees paid to group's companies. Banks fee and commission income from related parties in 2014 was EUR 2.0 million (2013: EUR 1.4 million) and commission and fee expense EUR 0.3 million (2013: EUR 0.2 million).

NOTE 33. RISK MANAGEMENT

Risk management polices

Risk management principles are set out in Group’s Risk Management Policy. The Group adheres to the following key risk management principles:

- The Group aims to ensure low risk exposure, diversified asset portfolio, limited risks in financial markets and low level of operational risk;
- The Group aims to ensure an acceptable risk level in all operations. Risks are always assessed in relation to the expected return. Risk exposures that are not acceptable for the Group are avoided, limited or hedged;
- The Group does not assume high or uncontrollable risks irrespective of the return they provide. Risks should be diversified and those risks that are quantifiable should be limited or hedged;
- The Group pursues prudent risk management policy, that is aligned with the Group’ business and ensures effective total risk mitigation;
- Risk management is based on awareness of each and every Group’s employee about and responsibility for the nature of transactions he/she carries out and related risks;
- Risk limit system and strict controls are essential risk management elements. Control of risk level and compliance with limits is ensured by structured risk limit systems for all material risks.

Risk management is an essential element of the Group’s management process. Risk management within the Group is controlled by independent unit – Risk and Compliance Sector.

The Group is exposed to the following main risks: credit risk, market risk, interest rate risk, liquidity risk, currency risk and operational risk. The Group has approved risk management policies for each of these risks, which are briefly summarised below.

a) 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 trading activities, as well as in respect to the guarantees issued to third parties and other off-balance sheet commitments to third parties.

Credit risk management is based on adequate risk assessment and decision-making. For material risks, risk analysis is conducted by independent unit of Risk and Compliance Sector. The analysis of credit risk comprises evaluation of customer’s creditworthiness and collateral and its liquidity. The analysis of creditworthiness of a legal entity includes the analysis of industry, the company, its credit history and its current and forecasted financial position. The analysis of creditworthiness of an individual includes the analysis of the customer’s credit history, income and debt-to-income ratio analysis, as well as the analysis of social and demographic factors. In the event of material risks, lending decision is made by the Credit Committee, and further reviewed by the Bank’s Management Board. For securities Group analyses factors such as business profile and financial performance of the issuer, credit ratings assigned by international rating agencies, market based indicators such as credit spreads and liquidity.

After a loan is issued or a security acquired, customers’ financial position and issuers’ risk indicators are monitored on a regular basis in order to timely identify potential credit losses.

To limit its credit risk, the Group has set the following concentration limits: individual counterparty limit, limit for group of mutually related customers, limit for large risk exposures, limit for the Group’s related parties, an industry limit, limit by customer type, loan product, and collateral type.

The Group reviews its loan portfolio and securities portfolio on a regular basis to assess its quality and concentrations, as well as to evaluate the portfolio trends.

Group’s derivative exposures relate to short term derivatives that do not expose the Group to material credit risk and none of the derivative exposures are overdue.

Credit risk identification, monitoring and reporting is the responsibility of Risk and Compliance Sector.

The tables below provide details of the Group's loan portfolio delinquencies:

	Group, EUR 000's 31/12/2014							
	Regular loans	Utilised credit lines	Finance leases	Debit balances on settlement cards	Overdraft facilities	Factoring	Due from investment counterparties	Total
Not delayed - not impaired	715,768	106,090	88,590	48,194	13,597	1,376	3,055	976,670
Not delayed - impaired	39,065	1,704	885	-	71	-	1,665	43,390
Total not delayed loans	**754,833**	**107,794**	**89,475**	**48,194**	**13,668**	**1,376**	**4,720**	**1,020,060**
Past due loans - not impaired								
Delayed days:								
=< 29	23,761	482	4,742	1,538	1	-	-	30,524
30-59	8,330	572	2,943	473	-	-	-	12,318
60-89	3,294	-	565	212	-	-	-	4,071
90 and more	14,982	-	290	415	-	-	-	15,687
Total past due loans - not impaired	**50,367**	**1,054**	**8,540**	**2,638**	**1**	**-**	**-**	**62,600**
Total past due loans - impaired	**46,494**	**23,266**	**5,123**	**6,480**	**126**	**259**	**-**	**81,748**
Total gross loans and receivables to customers	**851,694**	**132,114**	**103,138**	**57,312**	**13,795**	**1,635**	**4,720**	**1,164,408**
Impairment allowance	(55,392)	(14,357)	(8,016)	(8,875)	(471)	(261)	(1,335)	(88,707)
Total net loans and receivables to customers	**796,302**	**117,757**	**95,122**	**48,437**	**13,324**	**1,374**	**3,385**	**1,075,701**

	Group, EUR 000’s 31/12/2013							
	Regular loans	Utilised credit lines	Finance leases	Debit balances on settlement cards	Overdraft facilities	Factoring	Due from investment counterparties	Total
Not delayed - not impaired	698,526	86,380	64,438	52,212	7,948	195	3,722	913,421
Not delayed - impaired	27,609	1,791	5,255	-	130	-	1,854	36,639
Total not delayed loans	**726,135**	**88,171**	**69,693**	**52,212**	**8,078**	**195**	**5,576**	**950,060**
Past due loans - not impaired								
Delayed days:								
=< 29	45,693	18,833	8,394	1,729	18	-	-	74,667
30-59	7,636	-	2,615	458	1	-	-	10,710
60-89	6,116	-	188	274	84	-	-	6,662
90 and more	9,866	949	253	461	53	-	-	11,582
Total past due loans - not impaired	**69,311**	**19,782**	**11,450**	**2,922**	**156**	**-**	**-**	**103,621**
Total past due loans - impaired	**47,924**	**23,549**	**11,594**	**11,964**	**-**	**259**	**-**	**95,290**
Total gross loans and receivables to customers	**843,370**	**131,502**	**92,737**	**67,098**	**8,234**	**454**	**5,576**	**1,148,971**
Impairment allowance	(53,683)	(13,310)	(10,146)	(14,098)	(132)	(256)	(1,424)	(93,049)
Total net loans and receivables to customers	**789,687**	**118,192**	**82,591**	**53,000**	**8,102**	**198**	**4,152**	**1,055,922**

The tables below provide details of the Bank’s loan portfolio delinquencies:

	Bank, EUR 000’s							
	31/12/2014							
	Regular loans	Utilised credit lines	Finance leases	Debit balances on settlement cards	Overdraft facilities	Factoring	Due from investment counterparties	Total
Not delayed - not impaired	608,765	198,477	42	44,000	12,590	-	2,521	866,395
Not delayed - impaired	36,667	544	-	-	71	-	1,665	38,947
Total not delayed loans	**645,432**	**199,021**	**42**	**44,000**	**12,661**	**-**	**4,186**	**905,342**
Past due loans - not impaired								
Delayed days:								
=< 29	17,269	293	-	814	1	-	-	18,377
30-59	6,120	391	-	362	-	-	-	6,873
60-89	2,026	-	-	187	-	-	-	2,213
90 and more	13,866	-	-	415	126	-	-	14,407
Total past due loans - not impaired	**39,281**	**684**	**-**	**1,778**	**127**	**-**	**-**	**41,870**
Total past due loans - impaired	**35,721**	**23,267**	**-**	**4,896**	**-**	**-**	**-**	**63,884**
Total gross loans and receivables to customers	**720,434**	**222,972**	**42**	**50,674**	**12,788**	**-**	**4,186**	**1,011,096**
Impairment allowance for past due loans	(46,911)	(13,774)	(1)	(7,279)	(467)	-	(1,335)	(69,767)
Total net loans and receivables to customers	**673,523**	**209,198**	**41**	**43,395**	**12,321**	**-**	**2,851**	**941,329**

	Bank, EUR 000’s							
	31/12/2013							
	Regular loans	Utilised credit lines	Finance leases	Debit balances on settlement cards	Overdraft facilities	Factoring	Due from investment counterparties	Total
Not delayed - not impaired	598,841	165,704	154	46,953	7,382	-	3,248	822,282
Not delayed - impaired	25,578	71	-	-	129	-	1,853	27,631
Total not delayed loans	**624,419**	**165,775**	**154**	**46,953**	**7,511**	**-**	**5,101**	**849,913**
Past due loans - not impaired								
Delayed days:								
=< 29	36,047	18,722	1	1,036	6	-	-	55,812
30-59	5,827	-	3	387	1	-	-	6,218
60-89	5,287	-	-	248	84	-	-	5,619
90 and more	8,332	949	-	461	53	-	-	9,795
Total past due loans - not impaired	**55,493**	**19,671**	**4**	**2,132**	**144**	**-**	**-**	**77,444**
Total past due loans - impaired	**36,228**	**23,534**		**10,290**	**-**	**-**	**-**	**70,052**
Total gross loans and receivables to customers	**716,140**	**208,980**	**158**	**59,375**	**7,655**	**-**	**5,101**	**997,409**
Impairment allowance	(45,925)	(12,591)	(3)	(12,423)	(129)	-	(1,424)	(72,495)
Total net loans and receivables to customers	**670,215**	**196,389**	**155**	**46,952**	**7,526**	**-**	**3,677**	**924,914**

The following table provides details on changes in the Group’s specific loan portfolio impairment by classes:

	Regular loans	Utilised credit lines	Finance leases	Debit balances on settlement cards	Overdraft facilities	Factoring	Due from investment counterparties	Total
Outstanding specific impairment as at 31/12/2012	**42,259**	**2,301**	**9,139**	**21,339**	**761**	**259**	**1,981**	**78,039**
Impairment charge for the reported period - specific	12,984	9,626	1,945	74	209	-	78	24,916
Release of previously established impairment allowance - specific	(5,424)	(47)	(388)	(770)	-	-	(558)	(7,187)
Impairment charged to the statement of income, net	**7,560**	**9,579**	**1,557**	**(696)**	**209**	**-**	**(480)**	**17,729**
Change of impairment allowance due to write-offs, net	(7,582)	-	(879)	(8,608)	(757)	-	-	(17,826)
Increase/ (decrease) in impairment allowance due to currency fluctuations	775	(1)	16	(87)	(84)	(4)	(80)	535
Outstanding specific impairment as at 31/12/2013	**43,012**	**11,879**	**9,833**	**11,948**	**129**	**255**	**1,421**	**78,477**
Impairment charge for the reported period - specific	12,691	2,997	1,193	401	52	-	180	17,514
Release of previously established impairment allowance - specific	(8,520)	(1,642)	(351)	(69)	(30)	-	(23)	(10,635)
Impairment charged to the statement of income, net	**4,171**	**1,355**	**842**	**332**	**22**	**-**	**157**	**6,879**
Change of impairment allowance due to write-offs, net	(7,722)	(248)	(3,605)	(5,823)	(108)	-	(376)	(17,882)
Increase/ (decrease) in impairment allowance due to currency fluctuations	74	(17)	(7)	11	9	-	132	202
Outstanding specific impairment as at 31/12/2014	**39,535**	**12,969**	**7,063**	**6,468**	**52**	**255**	**1,334**	**67,676**

The following table provides details on changes in the Bank’s specific loan portfolio impairment by classes:

	Regular loans	Utilised credit lines	Finance leases	Debit balances on settlement cards	Overdraft facilities	Factoring	Due from investment counterparties	Total
Outstanding specific impairment as at 31/12/2012	**33,844**	**2,237**	**-**	**18,228**	**761**	**-**	**1,981**	**57,051**
Impairment charge for the reported period - specific	13,088	8,964	-	74	209	-	78	22,413
Release of previously established impairment allowance - specific	(4,310)	-	-	(671)	-	-	(558)	(5,539)
Impairment charged to the statement of income, net	**8,778**	**8,964**	**-**	**(597)**	**209**	**-**	**(480)**	**16,874**
Change of impairment allowance due to write-offs, net	(7,493)	-	-	(7,254)	(757)	-	-	(15,504)
Increase/ (decrease) in impairment allowance due to currency fluctuations	764	-	-	(86)	(84)	-	(80)	514
Outstanding specific impairment as at 31/12/2013	**35,893**	**11,201**	**-**	**10,291**	**129**	**-**	**1,421**	**58,935**
Impairment charge for the reported period - specific	12,321	2,700	-	388	51	-	180	15,640
Release of previously established impairment allowance - specific	(7,914)	(1,627)	-	(1)	(30)	-	(23)	(9,595)
Impairment charged to the statement of income, net	**4,407**	**1,073**	**-**	**387**	**21**	**-**	**157**	**6,045**
Change of impairment allowance due to write-offs, net	(7,299)	(248)	-	(5,795)	(108)	-	(376)	(13,826)
Increase/ (decrease) in impairment allowance due to currency fluctuations	77		-	14	9	-	129	229
Outstanding specific impairment as at 31/12/2014	**33,078**	**12,026**	**-**	**4,897**	**51**	**-**	**1,331**	**51,383**

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

	Group, EUR 000's							
	31/12/2014				31/12/2013			
	LTV < 100%		LTV ≥ 100% and unsecured*		LTV < 100%		LTV ≥ 100% and unsecured*	
	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral
Regular loans	476,217	1,090,016	320,085	245,570	455,520	997,429	334,167	217,550
Utilised credit lines	86,585	242,034	31,172	17,672	80,766	207,823	37,426	19,086
Finance leases	94,274	100,655	848	517	81,136	85,237	1,455	748
Debit balances on settlement cards	285	1,363	48,152	-	36	36	52,964	-
Overdraft facilities	4,214	15,931	9,110	-	243	1,554	7,859	57
Factoring	1,369	1,389	5	-	195	195	3	-
Due from investment counterparties	-	-	3,385	6	-	-	4,152	-
Total net loans	**662,944**	**1,451,388**	**412,757**	**263,765**	**617,896**	**1,292,274**	**438,026**	**237,441**

	Bank, EUR 000's							
	31/12/2014				31/12/2013			
	LTV < 100%		LTV ≥ 100% and unsecured*		LTV < 100%		LTV ≥ 100% and unsecured*	
	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral
Regular loans	352,450	962,912	321,073	260,299	364,662	804,795	305,553	196,355
Utilised credit lines	75,490	230,938	133,708	16,774	74,157	193,165	122,232	17,745
Finance leases	41	171	-	-	155	499	-	-
Debit balances on settlement cards	246	1,261	43,149	-	-	-	46,952	-
Overdraft facilities	3,311	15,027	9,010	-	-	-	7,526	-
Due from investment counterparties	-	-	2,851	-	-	-	3,677	-
Total net loans	**431,538**	**1,210,309**	**509,791**	**277,073**	**438,974**	**998,459**	**485,940**	**214,100**

* As at 31 December 2014 carrying value of Bank’s loans without collateral or with guarantees amount to EUR 207,440 thousand (2013: EUR 166,707 thousand). Mostly, loans falling into categories “regular loans” and “utilised credit lines” are secured by collateral. In general, settlement card loans are granted to clients on a basis of their cash flows’ assessment and no collateral is required in most cases. Finance leases are secured by the respective property leased out (for more details on leasing portfolio please refer to Note 15).

The tables below provide details of the Group’s and Bank’s fixed securities portfolio quality:

	Group, EUR 000’s				
	31/12/2014				
	Held for trading	Financial assets designated at fair value through profit or loss	Available for sale	Held to maturity	Total
Investment grade:					
AAA/Aaa	361	14,063	119,168	2,919	136,511
AA/Aa	4,612	31,565	105,666	7,794	149,637
A	7,459	31,703	259,005	168,037	466,204
BBB/Baa	7,863	7,215	49,761	14,621	79,460
Other lower ratings	-	305	4,632	1,425	6,362
Not rated	-	-	3,359	34,456	37,815
Total fixed income securities	**20,295**	**84,851**	**541,591**	**229,252**	**875,989**

	Group, EUR 000’s				
	31/12/2013				
	Held for trading	Financial assets designated at fair value through profit or loss	Available for sale	Held to maturity	Total
Investment grade:					
AAA/Aaa	3,779	18,233	91,989	2,913	116,914
AA/Aa	287	24,395	40,735	6,851	72,268
A	6,199	7,847	44,701	3,853	62,600
BBB/Baa	13,462	3,193	205,595	191,930	414,180
Other lower ratings	1,145	-	4,876	4,451	10,472
Not rated	1	344	1,117	34,425	35,887
Total fixed income securities	**24,873**	**54,012**	**389,013**	**244,423**	**712,321**

	Bank, EUR 000’s					
	31/12/2014			31/12/2013		
	Held to maturity	Available for sale	Total	Held to maturity	Available for sale	Total
Investment grade:						
AAA/Aaa	2,083	117,620	119,703	2,164	87,186	89,350
AA/Aa	4,972	91,606	96,578	5,740	39,157	44,897
A	151,467	174,117	325,584	-	40,459	40,459
BBB/Baa	-	42,003	42,003	182,133	146,426	328,559
Other lower ratings	-	4,632	4,632	-	4,876	4,876
Not rated	34,455	3,359	37,814	34,425	1,117	35,542
Total net fixed income securities	**192,977**	**433,337**	**626,314**	**224,462**	**319,221**	**543,683**

The tables below provide details of the Group’s due form credit institutions balances credit quality:

	EUR 000’s	
	2014 Group	2014 Bank
Investment grade:		
AAA/Aaa	56,618	-
AA/Aa	10,210	5,407
A	333,834	312,344
BBB/Baa	64,479	64,235
Other lower ratings	89	62
Not rated Latvian registered credit institutions*	44,091	41,767
Citadele Group’s banks	-	40,449
Other not rated credit institutions*	83	9
Total balances due from credit institutions, net	**509,404**	**464,273**

* Mostly balances due from credit institutions falling into category “Not rated” are with subsidiaries of investment grade rated international credit institutions.

GEOGRAPHICAL PROFILE

The following tables provide an analysis of the Group’s assets and liabilities, as well as off-balance sheet items outstanding as at 31 December 2014 and 31 December 2013 by geographical profile. The grouping by is done based on information about the residence of the respective counterparties.

	Group as at 31/12/2014, EUR 000’s					
	Latvia	Lithuania	Other EU countries	CIS countries	Other countries*	Total
Assets						
Cash and deposits with central banks	136,099	11,659	6,551	-	71,090	225,399
Balances due from credit institutions	53,198	2,934	344,865	10,085	98,322	509,404
Securities held for trading	5,530	-	12,160	-	6,260	23,950
Financial assets designated at fair value through profit or loss	6,190	-	50,789	-	40,470	97,449
Available for sale securities	105,252	80,014	153,415	-	219,515	558,196
Loans and receivables to customers	676,574	228,733	107,196	42,380	20,818	1,075,701
Held to maturity securities	187,999	6,361	21,780	-	13,112	229,252
Derivative financial instruments	1,724	-	1,897	7	2,301	5,929
Other assets	106,974	6,225	15,451	92	573	129,315
Total assets	**1,279,540**	**335,926**	**714,104**	**52,564**	**472,461**	**2,854,595**
Liabilities						
Financial liabilities designated at fair value through profit or loss	22,807	-	30	1,717	40	24,594
Financial liabilities measured at amortised cost	1,222,554	214,311	394,664	184,930	611,515	2,627,974
Derivative financial instruments	434	-	515	162	536	1,647
Other liabilities	16,090	5,728	883	11	957	23,669
Total liabilities	**1,261,885**	**220,039**	**396,092**	**186,820**	**613,048**	**2,677,884**
Equity	176,711	-	-	-	-	176,711
Total liabilities and equity	**1,438,596**	**220,039**	**396,092**	**186,820**	**613,048**	**2,854,595**
Off-balance sheet items						
Contingent liabilities	51,189	1,418	1,071	2,330	2,209	58,217
Financial commitments	127,070	33,879	3,301	3,606	790	168,646

* For more detailed analysis of geographical distribution of securities exposures please refer to note 16. All Group's cash and deposit with central banks balances presented as "Other countries" are with central bank of Switzerland. Group’s balances due from credit institutions presented as "Other countries" are with Swiss credit institutions (EUR 51.2 million), Japanese credit institutions (EUR 33.8 million) and United States registered credit institutions (EUR 12.0 million) besides others.

	Group as at 31/12/2013, EUR 000’s					
	Latvia	Lithuania	Other EU countries	CIS countries	Other countries	Total
Assets						
Cash and deposits with central banks	266,218	10,090	34,634	-	50,543	361,485
Balances due from credit institutions	24,825	4,173	140,420	10,748	91,015	271,181
Securities held for trading	3,523	343	12,255	6,611	5,082	27,814
Financial assets designated at fair value through profit or loss	4,273	-	33,486	1,659	22,918	62,336
Available for sale securities	115,724	69,408	101,799	6,497	108,310	401,738
Loans and receivables to customers	679,716	219,131	88,447	46,515	22,113	1,055,922
Held to maturity securities	224,462	4,264	3,963	5,854	5,880	244,423
Derivative financial instruments	175	-	1,387	149	1,837	3,548
Other assets	85,538	8,029	18,817	131	560	113,075
Total assets	**1,404,454**	**315,438**	**435,208**	**78,164**	**308,258**	**2,541,522**
Liabilities						
Financial liabilities designated at fair value through profit or loss	15,216	-	28	1,171	211	16,626
Financial liabilities measured at amortised cost	1,247,307	136,974	300,242	179,666	490,368	2,354,557
Derivative financial instruments	730	-	766	83	2,352	3,931
Other liabilities	14,402	6,138	388	236	1,796	22,960
Total liabilities	**1,277,655**	**143,112**	**301,424**	**181,156**	**494,727**	**2,398,074**
Equity	143,448	-	-	-	-	143,448
Total liabilities and equity	**1,421,103**	**143,112**	**301,424**	**181,156**	**494,727**	**2,541,522**
Off-balance sheet items						
Contingent liabilities	92,966	2,419	551	2,982	2,991	101,909
Financial commitments	126,998	43,625	4,158	11,310	645	186,736

The following tables provide an analysis of the Bank's assets and liabilities, as well as off-balance sheet items outstanding as at 31 December 2014 and 31 December 2013 by geographical profile. The grouping by is done based on information about the residence of the respective counterparties.

	Bank as at 31/12/2014, EUR 000's					
	Latvia	Lithuania	Other EU countries	CIS countries	Other countries	Total
Assets						
Cash and deposits with central banks	136,099	-	6,551	-	-	142,650
Balances due from credit institutions	50,870	40,478	300,135	9,984	62,806	464,273
Available for sale securities	98,077	10,767	143,880	-	191,694	444,418
Loans and receivables to customers	732,406	53,176	102,582	38,523	14,642	941,329
Held to maturity securities	185,922	-	7,055	-	-	192,977
Derivative financial instruments	1,712	8	1,899	7	2,337	5,963
Other assets	67,148	43,838	14,223	28	13,814	139,051
Total assets	**1,272,234**	**148,267**	**576,325**	**48,542**	**285,293**	**2,330,661**
Liabilities						
Financial liabilities measured at amortised cost	1,228,467	65,650	294,680	127,806	422,741	2,139,344
Derivative financial instruments	432	8	515	162	2,450	3,567
Other liabilities	14,234	19	162	2	36	14,453
Total liabilities	**1,243,133**	**65,677**	**295,357**	**127,970**	**425,227**	**2,157,364**
Equity	173,297	-	-	-	-	173,297
Total liabilities and equity	**1,416,430**	**65,677**	**295,357**	**127,970**	**425,227**	**2,330,661**
Off-balance sheet items						
Contingent liabilities	51,133	521	372	1,899	619	54,544
Financial commitments	153,304	27,155	7,553	3,606	788	192,406

	Bank as at 31/12/2013, EUR 000's					
	Latvia	Lithuania	Other EU countries	CIS countries	Other countries	Total
Assets						
Cash and deposits with central banks	266,218	-	34,634	-	11,673	312,525
Balances due from credit institutions	23,080	24,019	105,462	10,485	56,182	219,228
Available for sale securities	115,220	10,741	95,217	6,497	104,255	331,930
Loans and receivables to customers	735,017	43,482	81,798	46,034	18,583	924,914
Held to maturity securities	224,462	-	-	-	-	224,462
Derivative financial instruments	175	16	1,387	149	1,830	3,557
Other assets	51,248	41,273	18,163	6	13,922	124,612
Total assets	**1,415,420**	**119,531**	**336,661**	**63,171**	**206,445**	**2,141,228**
Liabilities						
Financial liabilities measured at amortised cost	1,250,229	1,608	238,083	146,764	343,525	1,980,209
Derivative financial instruments	730	611	766	82	2,279	4,468
Other liabilities	12,587	26	92	101	149	12,955
Total liabilities	**1,263,546**	**2,245**	**238,941**	**146,947**	**345,953**	**1,997,632**
Equity	143,596	-	-	-	-	143,596
Total liabilities and equity	**1,407,142**	**2,245**	**238,941**	**146,947**	**345,953**	**2,141,228**
Off-balance sheet items						
Contingent liabilities	92,902	522	339	2,490	313	96,566
Financial commitments	152,794	19,648	8,166	11,310	644	192,562

b) *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 Investment Committee (GIC). The decisions of 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 Risk and Compliance Sector.

The Group manages market risk by developing investment guidelines for every significant portfolio, as well as by setting individual limits to issuers and financial instruments, ensuring that maximum limit volumes are closely linked to the results of risk assessment. The Group puts a large emphasis on concentration risk applying a framework, where limits are set based on risk weighted exposures for every country and sector combination. To assess position risk the Group uses sensitivity analysis and scenario analysis, which identifies and quantifies negative impact of adverse events on portfolio of the Group taking into consideration regional, sector and credit rating profile.

c) *Interest rate risk*

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

Interest rate risk management in the Group is carried out in accordance with the Group’s Interest rate Risk Management Policy. Interest rate risk is assessed and decisions are made by Assets and Liabilities Management Committee (ALCO). The decisions of ALCO are approved by the Bank’s Management Board. 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 Treasury Sector, while Risk and Compliance Sector ensures proper oversight and prepares analytical reports to ALCO and the Bank’s Management Board.

The Group manages interest rate risk by using the gap analysis of the risk sensitive assets and liabilities, duration analysis and sensitivity analysis of assets and liabilities as well as stress testing of interest rate risk. 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, ALCO sets customer deposit interest rates.

The following table represents the impact of a parallel change in all interest rates and security yields by 1.0% (but not below 0%) on Group’s and Bank’s pre-tax profit (in 12-months time) and available for sale securities’ fair value revaluation reserve in equity:

Scenario: +1%	EUR 000’s			
	2014 Group	2013 Group	2014 Bank	2013 Bank
Pre-tax profit / (loss)	7,472	5,417	7,208	5,516
Securities fair value revaluation reserve	(8,955)	(5,221)	(5,667)	(4,163)
Total pre-tax effect on equity	**(1,483)**	**196**	**1,541**	**1,353**
Estimated net effect on equity	**(1,261)**	**167**	**1,310**	**1,150**
Scenario: -1%, but not below 0%				
Pre-tax profit / (loss)	(3,594)	(2,978)	(3,533)	(3,529)
Securities fair value revaluation reserve	5,373	3,394	3,474	3,061
Total pre-tax effect on equity	**1,779**	**416**	**(59)**	**(468)**
Estimated net effect on equity	**1,512**	**354**	**(50)**	**(398)**

The following table represents the impact of a 2.0% parallel change in all interest rates and security yields (but not below 0%) by currencies on Bank's pre-tax profit and available for sale securities' fair value revaluation reserve in equity:

	EUR 000's						
Scenario: +2%	31/12/2014			31/12/2013			
	EUR	USD	Other currencies	LVL	EUR	USD	Other currencies
Pre-tax profit/ (loss)	9,711	5,969	(1,289)	731	5,011	5,481	(216)
Securities fair value revaluation reserve	(3,620)	(7,285)	(233)	(2,363)	(1,878)	(3,836)	(94)
Total pre-tax effect on equity	**6,091**	**(1,316)**	**(1,522)**	**(1,632)**	**3,133**	**1,645**	**(310)**
Estimated net effect on equity	**5,177**	**(1,119)**	**(1,294)**	**(1,387)**	**2,663**	**1,398**	**(264)**
Scenario: -2%, but not below 0%							
Pre-tax profit/ (loss)	(1,795)	(1,919)	181	(249)	(1,692)	(1,653)	65
Securities fair value revaluation reserve	363	3,566	26	842	726	2,136	23
Total pre-tax effect on equity	**(1,432)**	**1,647**	**207**	**593**	**(966)**	**483**	**88**
Estimated net effect on equity	**(1,217)**	**1,400**	**176**	**504**	**(821)**	**411**	**75**

d) 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 the Group's Currency Risk Management Policy. Currency risk is assessed and decisions on limits set are made by the Financial Market and Counterparty Committee (FMCC). The decisions of FMCC are approved by the Bank's Management Board. FMCC 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 Treasury Sector, while risk monitoring and reporting is the responsibility of Risk and Compliance Sector. The Group has set a limit for open currency positions in each currency at 10% of its equity, and the limit for the total open currency position at 20% of its equity. The limits are in compliance with the requirements of Latvian legislation. In assessing its currency risk the Group also makes use of several widely applied methodologies: value at risk, expected shortfall and scenario analysis.

In the event of exchange rates for the following currencies in which the Group and the Bank has open positions adversely change as per scenario below, the potential total decrease in the Group's and Bank's pre-tax profit would amount approximately to the following:

	Group EUR 000's						
	31/12/2014			31/12/2013			
Scenario:	USD	CHF	Total for all currencies*	USD	CHF	LTL	Total for all currencies*
2% adverse change	58	54	7	4	50	724	30
5% adverse change	145	134	18	10	125	1,811	74

	Bank EUR 000's						
	31/12/2014			31/12/2013			
Scenario:	USD	CHF	Total for all currencies*	USD	CHF	LTL	Total for all currencies*
2% adverse change	28	-	2	30	-	1	26
5% adverse change	71	1	6	74	1	3	64

* Excluding adverse changes as at 31/12/2013 for EUR currency as on 1 January 2014 Latvia adopted EUR and the Bank's functional currency and the Group's presentation currency was changed to Euros and excluding adverse changes as at 31/12/2014 for LTL currency as on 1 January 2015 Lithuania adopted EUR.

In 2014 and 2013 the Bank was in compliance with currency position limits.

The following table provides an analysis of the Group's and Bank's assets and liabilities and shareholders' equity as well as off-balance sheet items outstanding as at 31 December 2014 and 2013 by currency profile:

	Group as at 31/12/2014, EUR 000's						
	EUR	USD	CHF	LTL	RUB	Other	Total
Assets							
Cash and deposits with central banks	137,031	3,328	71,201	10,825	104	2,910	225,399
Balances due from credit institutions	229,958	162,476	10,459	153	9,952	96,406	509,404
Securities held for trading	16,099	6,189	1,662	-	-	-	23,950
Financial assets designated at fair value through profit or loss	31,461	53,731	9,788	-	-	2,469	97,449
Available for sale securities	170,514	311,731	-	59,192	-	16,759	558,196
Loans and receivables to customers	955,260	56,182	3,468	60,539	99	153	1,075,701
Held to maturity securities	203,580	21,378	-	4,294	-	-	229,252
Derivative financial instruments	5,911	-	7	11	-	-	5,929
Other assets	91,014	30,162	543	5,905	52	1,639	129,315
Total assets	**1,840,828**	**645,177**	**97,128**	**140,919**	**10,207**	**120,336**	**2,854,595**
Liabilities							
Financial liabilities designated at fair value through profit or loss	21,985	2,609	-	-	-	-	24,594
Financial liabilities measured at amortised cost	1,529,310	838,536	26,977	134,862	14,798	83,491	2,627,974
Derivative financial instruments	1,632	-	13	2	-	-	1,647
Other liabilities	16,308	3,901	944	2,108	139	269	23,669
Total liabilities	**1,569,235**	**845,046**	**27,934**	**136,972**	**14,937**	**83,760**	**2,677,884**
Equity	176,711	-	-	-	-	-	176,711
Total liabilities and equity	**1,745,946**	**845,046**	**27,934**	**136,972**	**14,937**	**83,760**	**2,854,595**
Net long/ (short) position for balance sheet items	94,882	(199,869)	69,194	3,947	(4,730)	36,576	-
Off-balance sheet claims arising from foreign exchange							
Spot exchange contracts	(29,532)	32,733	(144)	-	(601)	(644)	1,812
Forward foreign exchange contracts	(2,299)	2,527	(370)	-	-	258	116
Swap exchange contracts	(68,525)	167,513	(65,993)	-	5,338	(35,952)	2,381
Net long/ (short) positions on foreign exchange	*(100,356)*	*202,773*	*(66,507)*	-	*4,737*	*(36,338)*	*4,309*
Net long/ (short) position as at 31 December 2014	**(5,474)**	**2,904**	**2,687**	**3,947**	**7**	**238**	**4,309**
Exchange rates applied as at 31 December 2014 (EUR for 1 foreign currency unit)	-	0.824	0.832	0.290	0.0138	-	-

As at 31 December 2014 and 31 December 2013 LTL currency is pegged to the EUR at a fixed rate. On 1 January 2015 the Republic of Lithuania adopted Euro as the national currency. At that date all Group's and Bank's balances denominated in Litas were converted to Euros at the fixed official exchange rate.

	Group as at 31/12/2013, EUR 000’s							
	LVL	USD	EUR	CHF	LTL	RUB	Other	Total
Assets								
Cash and deposits with central banks	252,208	4,293	53,978	39,122	8,338	434	3,112	361,485
Balances due from credit institutions	1,246	208,576	39,404	649	134	8,463	12,709	271,181
Securities held for trading	1,622	5,354	15,861	4,408	-	569	-	27,814
Financial assets designated at fair value through profit or loss	-	28,971	25,532	7,581	-	-	252	62,336
Available for sale securities	73,570	153,359	111,325	498	52,365	-	10,621	401,738
Loans and receivables to customers	112,003	63,284	817,777	2,718	58,728	511	901	1,055,922
Held to maturity securities	163,040	7,871	69,248	-	4,264	-	-	244,423
Derivative financial instruments	3,509	-	36	3	-	-	-	3,548
Other assets	81,979	8,611	10,277	448	7,827	101	3,832	113,075
Total assets	**689,177**	**480,319**	**1,143,438**	**55,427**	**131,656**	**10,078**	**31,427**	**2,541,522**
Liabilities								
Financial liabilities designated at fair value through profit or loss	7,396	1,919	7,311	-	-	-	-	16,626
Financial liabilities measured at amortised cost	552,998	692,469	902,175	16,631	92,562	39,857	57,865	2,354,557
Derivative financial instruments	3,730	-	-	201	-	-	-	3,931
Other liabilities	12,257	3,108	2,746	1,651	2,877	116	205	22,960
Total liabilities	**576,381**	**697,496**	**912,232**	**18,483**	**95,439**	**39,973**	**58,070**	**2,398,074**
Equity	143,448	-	-	-	-	-	-	143,448
Total liabilities and equity	**719,829**	**697,496**	**912,232**	**18,483**	**95,439**	**39,973**	**58,070**	**2,541,522**
Net long/ (short) position for balance sheet items	(30,652)	(217,177)	231,206	36,944	36,217	(29,895)	(26,643)	-
Off-balance sheet claims arising from foreign exchange								
Spot exchange contracts	-	(2,770)	3,045	-	-	(445)	142	(28)
Forward foreign exchange contracts	-	21,454	(22,517)	-	-	-	-	(1,063)
Swap exchange contracts	-	198,685	(221,323)	(34,426)	-	30,550	27,174	660
Net long/ (short) positions on foreign exchange	*-*	*217,369*	*(240,795)*	*(34,426)*		*30,105*	*27,316*	*(431)*
Net long/ (short) position as at 31 December 2013	**(30,652)**	**192**	**(9,589)**	**2,518**	**36,217**	**210**	**673**	**(431)**
Exchange rates applied as at 31 December 2013 (EUR for 1 foreign currency unit)	-	0.733	1.000	0.815	0.290	0.022	-	-

	Bank as at 31/12/2014, EUR 000’s						
	EUR	USD	CHF	LTL	RUB	Other	Total
Assets							
Cash and deposits with central banks	136,428	3,045	72	360	104	2,641	142,650
Balances due from credit institutions	226,732	127,283	8,443	28	9,912	91,875	464,273
Available for sale securities	161,888	265,770	-	-	-	16,760	444,418
Loans and receivables to customers	890,252	47,356	3,468	-	99	154	941,329
Held to maturity securities	192,977	-	-	-	-	-	192,977
Derivative financial instruments	5,963	-	-	-	-	-	5,963
Other assets	53,599	30,004	13,807	40,032	3	1,606	139,051
Total assets	**1,667,839**	**473,458**	**25,790**	**40,420**	**10,118**	**113,036**	**2,330,661**
Liabilities							
Financial liabilities measured at amortised cost	1,366,335	630,428	12,243	40,418	13,898	76,022	2,139,344
Derivative financial instruments	3,567	-	-	-	-	-	3,567
Other liabilities	12,358	1,800	5	3	103	184	14,453
Total liabilities	**1,382,260**	**632,228**	**12,248**	**40,421**	**14,001**	**76,206**	**2,157,364**
Equity	173,297	-	-	-	-	-	173,297
Total liabilities and equity	**1,555,557**	**632,228**	**12,248**	**40,421**	**14,001**	**76,206**	**2,330,661**
Net long/ (short) position for balance sheet items	112,282	(158,770)	13,542	(1)	(3,883)	36,830	-
Off-balance sheet claims arising from foreign exchange							
Spot exchange contracts	(30,149)	33,363	(168)	-	(601)	(632)	1,813
Forward foreign exchange contracts	(1,720)	1,939	(370)	-	-	258	107
Swap exchange contracts	(79,428)	124,895	(12,992)	-	4,483	(36,466)	492
Net long/ (short) positions on foreign exchange	*(111,297)*	*160,197*	*(13,530)*	-	*3,882*	*(36,840)*	*2,412*
Net long/ (short) position as at 31 December 2014	**985**	**1,427**	**12**	**(1)**	**(1)**	**(10)**	**2,412**
Exchange rates applied as at 31 December 2014 (EUR for 1 foreign currency unit)	-	0.824	0.832	0.290	0.0138	-	-

	Bank as at 31/12/2013, EUR 000’s							
	LVL	USD	EUR	CHF	LTL	RUB	Other	Total
Assets								
Cash and deposits with central banks	252,208	3,607	52,894	236	196	434	2,950	312,525
Balances due from credit institutions	1	176,418	24,872	179	58	8,210	9,490	219,228
Available for sale securities	73,570	141,089	106,649	-	-	-	10,622	331,930
Loans and receivables to customers	167,818	59,839	693,875	2,718	-	511	153	924,914
Held to maturity securities	163,039	-	61,423	-	-	-	-	224,462
Derivative financial instruments	3,521	-	36	-	-	-	-	3,557
Other assets	48,509	8,541	8,665	13,806	41,274	60	3,757	124,612
Total assets	**708,666**	**389,494**	**948,414**	**16,939**	**41,528**	**9,215**	**26,972**	**2,141,228**
Liabilities								
Financial liabilities measured at amortised cost	555,774	525,681	800,715	9,253	683	36,463	51,640	1,980,209
Derivative financial instruments	4,468	-	-	-	-	-	-	4,468
Other liabilities	10,601	1,358	735	4	4	112	141	12,955
Total liabilities	**570,843**	**527,039**	**801,450**	**9,257**	**687**	**36,575**	**51,781**	**1,997,632**
Equity	143,596	-	-	-	-	-	-	143,596
Total liabilities and equity	**714,439**	**527,039**	**801,450**	**9,257**	**687**	**36,575**	**51,781**	**2,141,228**
Net long/ (short) position for balance sheet items	(5,773)	(137,545)	146,964	7,682	40,841	(27,360)	(24,809)	-
Off-balance sheet claims arising from foreign exchange								
Spot exchange contracts	-	(2,221)	2,460	-	-	(434)	174	(21)
Forward foreign exchange contracts	-	21,599	(22,662)	-	-	-	-	(1,063)
Swap exchange contracts	-	116,690	(121,140)	(7,666)	(40,782)	27,894	25,132	128
Net long/ (short) positions on foreign exchange	-	*136,068*	*(141,342)*	*(7,666)*	*(40,782)*	*27,460*	*25,306*	*(956)*
Net long/ (short) position as at 31 December 2013	**(5,773)**	**(1,477)**	**5,622**	**16**	**59**	**100**	**497**	**(956)**
Exchange rates applied as at 31 December 2013 (EUR for 1 foreign currency unit)	-	0.733	1.000	0.815	0.290	0.022	-	-

e) 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 sufficient to meet potential obligations.

The Group manages its liquidity risk in accordance with the Group’s Liquidity Risk Management Policy. Liquidity risk is assessed and decisions are made by ALCO. The decisions of ALCO are approved by the Bank’s Management Board. ALCO sets the acceptable liquidity risk level, the Group’s internal limit system and defines instruments for the management of liquidity risk, as well as monitors the compliance with the set limits. Daily liquidity management, as well as control is ensured by the Treasury Sector. Liquidity risk management and reporting in the Group is coordinated by the Risk and Compliance Sector.

The Bank evaluates liquidity risk by using scenario analysis. For this purpose several scenarios of Bank’s operations under a variety of conditions are developed: gentle crisis (base case scenario), bank's crisis, general market crisis and a combined scenario. The Bank evaluates its liquidity position for each of the scenarios for a variety of periods (ranging from 1 week to 3 months). System of liquidity risk limits and early warning indicators has been implemented in the Bank. The Bank also estimates costs it could suffer under conditions of prolonged liquidity crisis. In addition to scenarios analysis, the Bank also prepares yearly cash flows, which incorporate assumptions about the most likely flows of funds. For general assessment of asset and liability gaps the Bank regularly prepares and analyses liquidity term structure.

In 2014 and 2013 the Bank was in compliance with liquidity ratio requirements and met mandatory reserve requirements in the Bank of Latvia.

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

Year	*Highest*	*Lowest*	*Average*	*Year-end*
2014	59%	50%	55%	59%
2013	58%	53%	56%	56%

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

Group’s assets, liabilities and off-balance sheet items by contractual maturity structure as at 31 December 2014

	Group as at 31/12/2014, EUR 000’s						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years and undated	Total
Assets							
Cash and deposits with central banks	224,685	714	-	-	-	-	225,399
Balances due from credit institutions	499,249	5,748	108	-	-	4,299	509,404
Securities held for trading	6,474	426	1,513	2,664	-	12,873	23,950
Financial assets designated at fair value through profit or loss	14,059	4,215	3,786	9,899	-	65,490	97,449
Available for sale securities	27,035	13,641	28,033	68,266	295,477	125,744	558,196
Loans and receivables to customers	29,456	46,519	61,766	129,805	581,871	226,284	1,075,701
Held to maturity securities	-	2,945	16,986	74,972	99,699	34,650	229,252
Derivative financial instruments	3,598	2,239	77	15	-	-	5,929
Other assets	30,043	532	515	474	1,011	96,740	129,315
Total assets	**834,599**	**76,979**	**112,784**	**286,095**	**978,058**	**566,080**	**2,854,595**
Liabilities							
Financial liabilities designated at fair value through profit or loss	32	135	301	1,198	20,217	2,711	24,594
Financial liabilities measured at amortised cost	2,071,155	88,361	91,548	176,260	180,611	20,039	2,627,974
Derivative financial instruments	876	763	8	-	-	-	1,647
Other liabilities	20,319	57	1,466	328	13	1,486	23,669
Total liabilities	**2,092,382**	**89,316**	**93,323**	**177,786**	**200,841**	**24,236**	**2,677,884**
Equity	-	-	-	-	-	176,711	176,711
Total liabilities and equity	**2,092,382**	**89,316**	**93,323**	**177,786**	**200,841**	**200,947**	**2,854,595**
Net balance sheet position – long/ (short)	(1,257,783)	(12,337)	19,461	108,309	777,217	365,133	-
Off-balance sheet items							
Contingent liabilities	58,217	-	-	-	-	-	58,217
Financial commitments	168,646	-	-	-	-	-	168,646

Group’s contractual undiscounted cash flows of the financial liabilities as at 31 December 2014

	EUR 000’s						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total contractual cash flows
Financial liabilities designated at fair value through profit or loss	32	135	301	1,287	20,564	2,748	25,067
Financial liabilities measured at amortised cost	2,071,564	89,546	92,488	181,123	194,682	26,761	2,656,164
Off-balance sheet items							
Contingent liabilities	58,217	-	-	-	-	-	58,217
Financial commitments	168,646	-	-	-	-	-	168,646

Group’s assets, liabilities and off-balance sheet items by contractual maturity structure as at 31 December 2013

	Group as at 31/12/2013, EUR 000’s						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years and undated	Total
Assets							
Cash and deposits with central banks	361,485	-	-	-	-	-	361,485
Balances due from credit institutions	248,931	20,700	-	-	1,550	-	271,181
Securities held for trading	-	1,049	1,308	3,009	18,137	4,311	27,814
Financial assets designated at fair value through profit or loss	1,816	5,303	5,592	3,241	35,854	10,530	62,336
Available for sale securities	7,728	14,592	44,613	52,568	256,128	26,109	401,738
Loans and receivables to customers	10,691	32,531	82,289	106,153	595,119	229,139	1,055,922
Held to maturity securities	-	898	33,408	42,531	166,024	1,562	244,423
Derivative financial instruments	3,422	46	7	30	43	-	3,548
Other assets	24,351	105	251	552	180	87,636	113,075
Total assets	**658,424**	**75,224**	**167,468**	**208,084**	**1,073,035**	**359,287**	**2,541,522**
Liabilities							
Financial liabilities designated at fair value through profit or loss	85	51	542	346	13,320	2,282	16,626
Financial liabilities measured at amortised cost	1,846,551	95,198	96,340	174,415	140,282	1,771	2,354,557
Derivative financial instruments	2,094	1,195	575	67	-	-	3,931
Other liabilities	21,560	222	74	20	1,084	-	22,960
Total liabilities	**1,870,290**	**96,666**	**97,531**	**174,848**	**154,686**	**4,053**	**2,398,074**
Equity	-	-	-	-	-	143,448	143,448
Total liabilities and equity	**1,870,290**	**96,666**	**97,531**	**174,848**	**154,686**	**147,501**	**2,541,522**
Net balance sheet position – long/ (short)	(1,211,866)	(21,442)	69,937	33,236	918,349	211,786	-
Off-balance sheet items							
Contingent liabilities	101,909	-	-	-	-	-	101,909
Financial commitments	186,736	-	-	-	-	-	186,736

Group’s contractual undiscounted cash flows of the financial liabilities as at 31 December 2013

	EUR 000’s						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total contractual cash flows
Financial liabilities designated at fair value through profit or loss	85	51	542	346	13,721	2,379	17,124
Financial liabilities measured at amortised cost	1,846,862	98,577	98,377	177,690	159,995	1,547	2,383,048
Off-balance sheet items							
Contingent liabilities	101,909	-	-	-	-	-	101,909
Financial commitments	186,736	-	-	-	-	-	186,736

Bank's assets, liabilities and off-balance sheet items by contractual maturity structure as at 31 December 2014

	Bank as at 31/12/2014, EUR 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years and undated	Total
Assets							
Cash and deposits with central banks	142,650	-	-	-	-	-	142,650
Balances due from credit institutions	460,521		-	-	-	3,752	464,273
Available for sale securities	21,512	13,641	28,033	66,979	295,477	18,776	444,418
Loans and receivables to customers	25,869	134,905	44,342	102,768	440,262	193,183	941,329
Held to maturity securities	-	2,945	16,986	73,347	99,699	-	192,977
Derivative financial instruments	3,648	2,232	68	15	-	-	5,963
Other assets	27,680	1	2	14	37	111,317	139,051
Total assets	**681,880**	**153,724**	**89,431**	**243,123**	**835,475**	**327,028**	**2,330,661**
Liabilities							
Financial liabilities measured at amortised cost	1,683,947	66,405	65,718	144,023	173,164	6,087	2,139,344
Derivative financial instruments	1,723	1,832	12	-	-	-	3,567
Other liabilities	14,453	-	-	-	-	-	14,453
Total liabilities	**1,700,123**	**68,237**	**65,730**	**144,023**	**173,164**	**6,087**	**2,157,364**
Equity	-	-	-	-	-	173,297	173,297
Total liabilities and equity	**1,700,123**	**68,237**	**65,730**	**144,023**	**173,164**	**179,384**	**2,330,661**
Net balance sheet position – long/ (short)	(1,018,243)	85,487	23,701	99,100	662,311	147,644	-
Off-balance sheet items							
Contingent liabilities	54,544	-	-	-	-	-	54,544
Financial commitments	192,406	-	-	-	-	-	192,406

Bank's contractual undiscounted cash flows of the financial liabilities as at 31 December 2014

	EUR 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total contractual cash flows
Financial liabilities measured at amortised cost	1,683,947	67,294	66,274	148,317	187,402	7,210	2,160,444
Off-balance sheet items							
Contingent liabilities	54,544	-	-	-	-	-	54,544
Financial commitments	192,406	-	-	-	-	-	192,406

Bank's assets, liabilities and off-balance sheet items by contractual maturity structure as at 31 December 2013

	Bank as at 31/12/2013, EUR 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years and undated	Total
Assets							
Cash and deposits with central banks	312,525	-	-	-	-	-	312,525
Balances due from credit institutions	211,495	4,098	3,635	-	-	-	219,228
Available for sale securities	7,726	11,770	40,023	52,349	193,969	26,093	331,930
Loans and receivables to customers	9,780	110,940	75,812	94,506	479,065	154,811	924,914
Held to maturity securities	-	-	32,663	41,053	150,746	-	224,462
Derivative financial instruments	3,434	43	7	30	43	-	3,557
Other assets	22,340	-	-	-	-	102,272	124,612
Total assets	**567,300**	**126,851**	**152,140**	**187,938**	**823,823**	**283,176**	**2,141,228**
Liabilities							
Financial liabilities measured at amortised cost	1,541,552	82,401	80,183	144,858	129,671	1,544	1,980,209
Derivative financial instruments	2,831	995	575	67	-	-	4,468
Other liabilities	12,955	-	-	-	-	-	12,955
Total liabilities	**1,557,338**	**83,396**	**80,758**	**144,925**	**129,671**	**1,544**	**1,997,632**
Equity	-	-	-	-	-	143,596	143,596
Total liabilities and equity	**1,557,338**	**83,396**	**80,758**	**144,925**	**129,671**	**145,140**	**2,141,228**
Net balance sheet position – long/ (short)	(990,038)	43,455	71,382	43,013	694,152	138,036	-
Off-balance sheet items							
Contingent liabilities	96,566	-	-	-	-	-	96,566
Financial commitments	192,562	-	-	-	-	-	192,562

Bank's contractual undiscounted cash flows of the financial liabilities as at 31 December 2013

	EUR 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total contractual cash flows
Financial liabilities measured at amortised cost	1,541,707	84,846	80,803	148,955	146,160	1,547	2,004,018
Off-balance sheet items							
Contingent liabilities	96,566	-	-	-	-	-	96,566
Financial commitments	192,562	-	-	-	-	-	192,562

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

	Group, 31/12/2014 EUR 000’s						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total
Derivatives settled on a net basis							
Foreign exchange derivatives	1,303	(144)	1	15	-	-	1,175
Derivatives settled on a gross basis							
Foreign exchange derivatives:							
outflow	(117,996)	(79,633)	(5,741)	-	-	-	(203,370)
inflow	119,418	81,257	5,676	-	-	-	206,351

	Group, 31/12/2013 EUR 000’s						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total
Derivatives settled on a net basis							
Foreign exchange derivatives	1,144	(81)	(575)	-	-	-	488
Derivatives settled on a gross basis							
Foreign exchange derivatives:							
outflow	(23,408)	(63,261)	(2,968)	(12,010)	(3,256)	-	(104,903)
inflow	23,567	62,150	3,015	11,973	3,300	-	104,005

	Bank, 31/12/2014 EUR 000’s						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total
Derivatives settled on a net basis							
Foreign exchange derivatives	1,339	71	(54)	8	-	-	1,364
Derivatives settled on a gross basis							
Foreign exchange derivatives:							
outflow	(141,525)	(90,154)	(5,165)	-	-	-	(236,844)
inflow	142,147	90,691	5,223	-	-	-	238,061

	Bank, 31/12/2013 EUR 000’s						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total
Derivatives settled on a net basis							
Foreign exchange derivatives	545	(81)	(575)	-	-	-	(111)
Derivatives settled on a gross basis							
Foreign exchange derivatives:							
outflow	(34,116)	(47,039)	(2,968)	(12,010)	(3,256)	-	(99,389)
inflow	34,152	46,128	3,015	11,973	3,298	-	98,566

f) Fair values of financial assets and liabilities

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

For illiquid financial assets and liabilities, including loans and advances to customers, there are, by definition, no active markets. Accordingly, fair value has been estimated using appropriate valuation techniques. The methods used to determine the fair value of balance sheet items not carried at fair value are as follows:

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

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

Loans and receivables to customers
The fair value of loans and advances to customers is calculated by discounting expected future cash flows. The discount rates consist of money market rates as at the end of year and credit margins, which are adjusted for current market conditions. If all the assumed discount rates would change by 10%, the fair value of the loan portfolio would change by EUR 11.2 million (2013: EUR 10.5 million).

Held to maturity securities
Held to maturity securities are valued using unadjusted quoted prices in active markets, where available. In other instances, either quotes of market participants are used or value of securities is determined using valuation models employing observable or non-observable market inputs. One of the non-observable market input is CDS rate of certain municipality. If the CDS rate would change by +20 basis points the fair value would change by EUR 243 thousand (2013: EUR (301) thousand).

Available for sale securities
The fair value for certain available for sale securities is calculated using valuation techniques with non-market observable inputs. Fair value of these available for sale securities is estimated based on specific real estate prices. If market price for similar real estate properties would change by +/-10%, the fair value of these available for sale securities would change by EUR +/-142 thousand (2013: EUR +/-193 thousand).

Customer deposits
The fair value of customer deposits repayable on demand is their carrying amount. The fair value of other deposits is calculated by discounting expected cash flows using average market interest rates close to or at year-end. If all the assumed discount rates would change by 10%, the fair value of the deposit portfolio would change by EUR 0.09 million (2013: EUR 0.07 million).

Subordinated liabilities
The fair value of subordinated liabilities approximates the carrying amount as the borrowing rates are periodically repriced to reflect changes in market rates. If the discount rate would change by +/-50 basis points the fair value would change by EUR 0.8 million (2013: EUR 1.1 million).

Financial liabilities designated at fair value through profit or loss
The fair value of unit-linked investment contract liabilities is their notional amount which equals fair value of unit-linked insurance plan assets. The fair value of other financial liabilities designated at fair value through profit is calculated by discounting expected cash flows using current effective finance rates. If the assumed discount rates would change by 10%, the fair value of the portfolio would change by EUR +218 thousand and EUR (192) thousand respectively (2013: EUR +0.05 million and EUR (0.03) million respectively).

Other financial liabilities and other financial assets
Other financial assets and other financial liabilities generally are short term instruments, for example cash in transit or payables to suppliers. Due to their short term nature their fair value equals their carrying value.

Fair value hierarchy

Quoted market prices (Level 1)
Financial instruments are valued using unadjusted quoted prices in active markets.

Valuation technique - observable market inputs (Level 2)
Financial instruments are valued using techniques based on observable market data. In some instances, valuations received from independent third party are used.

Valuation technique - non-market observable inputs (Level 3)
Financial instruments are valued using techniques for which significant inputs are not based on observable market data.

The following table presents fair values of Group’s financial assets and liabilities as at 31 December 2014.

			Fair value hierarchy (where applicable)		
	Carrying value	**Total fair value**	Quoted market prices	Valuation technique - observable market inputs	Valuation technique - non-market observable inputs
Cash and deposits with central banks	225,399	225,399	-	-	-
Balances due from credit institution	509,404	509,404	-	-	-
Held for trading securities	23,950	23,950	23,950	-	-
Financial assets designated at fair value through profit or loss	97,449	97,449	97,449	-	-
Derivatives	5,929	5,929	-	5,929	-
Available for sale securities	558,196	558,196	556,560	-	1,636
Loans and receivables to customers	1,075,701	1,070,066	-	-	1,070,066
Held to maturity securities	229,252	234,260	201,992	-	32,268
Other financial assets	45,567	45,567	-	-	45,567
Total financial assets	**2,770,847**	**2,770,220**	**879,951**	**5,929**	**1,149,537**
Derivatives	1,647	1,647	-	1,647	-
Financial liabilities designated at fair value through profit or loss	24,594	24,594	12,784	-	11,810
Financial liabilities measured at amortised cost:					
Balances due to credit institutions and central banks	25,036	25,036	-	-	-
Customer deposits	2,517,107	2,519,836	-	-	2,519,836
Subordinated liabilities	73,596	73,596	-	-	73,596
Other financial liabilities	22,697	22,496	-	-	22,496
Total financial liabilities	**2,664,677**	**2,667,205**	**12,784**	**1,647**	**2,627,738**

The following table presents fair values of Group’s financial assets and liabilities as at 31 December 2013.

			Fair value hierarchy (where applicable)		
	Carrying value	**Total fair value**	Quoted market prices	Valuation technique - observable market inputs	Valuation technique - non-market observable inputs
Cash and deposits with central banks	361,485	361,485	-	-	-
Balances due from credit institution	271,181	271,181	-	-	-
Held for trading securities	27,814	27,814	27,814	-	-
Financial assets designated at fair value through profit or loss	62,336	62,336	62,336	-	-
Derivatives	3,548	3,548	-	3,548	-
Available for sale securities	401,738	401,738	399,769	-	1,969
Loans and receivables to customers	1,055,922	1,044,577	-	-	1,044,577
Held to maturity securities	244,423	249,724	217,830	-	31,894
Other financial assets	28,949	28,949	-	-	28,949
Total financial assets	**2,457,396**	**2,451,352**	**707,749**	**3,548**	**1,107,389**
Derivatives	3,931	3,931	-	3,931	-
Financial liabilities designated at fair value through profit or loss	16,626	16,626	8,666	-	7,960
Financial liabilities measured at amortised cost:					
Balances due to credit institutions and central banks	25,755	25,755	-	-	-
Customer deposits	2,246,912	2,248,721	-	-	2,248,721
Subordinated liabilities	73,575	73,575	-	-	73,575
Other financial liabilities	18,429	18,176	-	-	18,176
Total financial liabilities	**2,385,228**	**2,386,784**	**8,666**	**3,931**	**2,348,432**

The following table presents fair values of Bank’s financial assets and liabilities as at 31 December 2014.

			Fair value hierarchy (where applicable)		
	Carrying value	**Total fair value**	Quoted market prices	Valuation technique - observable market inputs	Valuation technique - non-market observable inputs
Cash and deposits with central banks	142,650	142,650	-	-	-
Balances due from credit institution	464,273	464,273	-	-	-
Derivatives	5,963	5,963	-	5,963	-
Available for sale securities	444,418	444,418	442,798	-	1,620
Loans and receivables to customers	941,329	929,739	-	-	929,739
Held to maturity securities	192,977	197,188	164,920	-	32,268
Other financial assets	41,639	41,639	-	-	41,639
Total financial assets	**2,233,249**	**2,225,870**	**607,718**	**5,963**	**1,005,266**
Derivatives	3,567	3,567	-	3,567	-
Financial liabilities measured at amortised cost:					
Balances due to credit institutions and central banks	116,997	116,997	-	-	-
Customer deposits	1,948,751	1,951,049	-	-	1,951,049
Subordinated liabilities	73,596	73,596	-	-	73,596
Other financial liabilities	5,325	5,325	-	-	5,325
Total financial liabilities	**2,148,236**	**2,150,534**	**-**	**3,567**	**2,029,970**

The following table presents fair values of Bank’s financial assets and liabilities as at 31 December 2013.

			Fair value hierarchy (where applicable)		
	Carrying value	**Total fair value**	Quoted market prices	Valuation technique - observable market inputs	Valuation technique - non-market observable inputs
Cash and deposits with central banks	312,525	312,525	-	-	-
Balances due from credit institution	219,228	219,228	-	-	-
Derivatives	3,557	3,557	-	3,557	-
Available for sale securities	331,930	331,930	329,961	-	1,969
Loans and receivables to customers	924,914	908,424	-	-	908,424
Held to maturity securities	224,462	229,353	197,459	-	31,894
Other financial assets	23,164	23,164	-	-	23,164
Total financial assets	**2,039,780**	**2,028,181**	**527,420**	**3,557**	**965,451**
Derivatives	4,468	4,468	-	4,468	-
Financial liabilities measured at amortised cost:					
Balances due to credit institutions and central banks	55,286	55,286	-	-	-
Customer deposits	1,851,348	1,852,798	-	-	1,852,798
Subordinated liabilities	73,575	73,575	-	-	73,575
Other financial liabilities	4,019	4,019	-	-	4,019
Total financial liabilities	**1,988,696**	**1,990,146**	**-**	**4,468**	**1,930,392**

Changes in available for sale securities categorised as Level 3

	EUR 000's			
	31/12/2014 Group	31/12/2013 Group	31/12/2014 Bank	31/12/2013 Bank
As at the beginning of the period, net	**1,969**	**1,940**	**1,969**	**1,940**
Transfer between fair value Levels	115	-	99	-
Increase in existing exposure	72	29	72	29
Impairment charges	(520)	-	(520)	-
Fair value revaluation gain recognised in statement of income, net	-	-	-	-
As at the end of the period, net	**1,636**	**1,969**	**1,620**	**1,969**

Fair value of available for sale securities for which fair value is calculated based on non-market observable inputs is categorised as Level 3 as these shares and investments in mutual investment funds are not listed on an exchange and there are no sufficient recent observable transitions on the market.

g) Operational risk

The Group defines operational risk as the risk of losses resulting from processes that are deficient or non-compliant with requirements of external and internal regulations, losses resulting from actions of employees and system malfunctioning, as well as losses resulting from actions of third parties or from other external conditions, including legal risk (risk of penalty fees, sanctions applied by external institutions, losses resulting from litigation and other similar events), but excluding strategic risk and reputation risk. The Group further divides operational risk into the following categories: personnel risk, process risk, IT and systems risk, external risk.

The Group does not accept operational risks with potential impact exceeding 10% of the Group's net annual revenues and with probability of occurrence at least once per ten years or risks with unquantifiable impact which are unmanageable, irrespective of the financial gains this could bring (i.e., the Group does not perform business activities incurring such operational risks).

The Group applies following approaches for operational risk management:

- Self-assessment of operational risk – the business-owners of the products and processes perform identification and evaluation of potential operational risk events, assessment of the existing control systems and the analysis of the required risk mitigation measures using self-assessment questionnaires and brainstorming sessions with the experts of the respective process;
- Defining operational risk indicators – use of statistical, financial and other indicators that reflect the level of various operational risk types and its changes within the Group;
- Operational risk measurement by recording and analysing operational risk events, the extent of the respective damage incurred, causes and other related information (data base of operational risk losses and incidents);
- Business continuity planning;
- Risk assessment within development projects.

h) Capital management

Capital adequacy ratios in these financial statements are calculated in accordance with the CRD IV package which transposes – via a regulation (575/2013) and a directive (2013/36/EU) – the new global standards on bank capital (the Basel III agreement) into EU law. It is applicable from 1 January 2014.

Capital adequacy refers to the sufficiency of the Group's capital resources to cover the credit risks and market risks arising from the portfolio of assets and the off-balance sheet exposures and other operational risks. The Financial and Capital Markets Commission's (FCMC), the banking regulator, regulations require Latvian banks to maintain a total capital adequacy ratio based on financial statements prepared under IFRS as adopted by EU of 8.0% of the total risk weighted exposure amounts. The new rules also introduce 4.5% minimum common equity Tier 1 capital ratio and 6.0% minimum Tier 1 capital ratio. Additionally a 2.5% capital conversion buffer is established, limiting dividend payout and certain other Tier 1 equity instrument buy-back, effectively implying well capitalised bank Tier 1 capital ratio target of 8.5% and total capital ratio target of 10.5%. Also FCMC has calculated Bank's individual capital adequacy ratio based on FCMC policies and guidelines. The 2014 results of the calculation indicated that the minimum capital adequacy ratio that corresponds to the Bank's business model should be at least 10.9%. The increase in ratio is related to the non-resident business of the Bank. The ratio should be complied with also on a consolidated level. The management believe that the Group and the Bank will comply with the aforementioned minimum capital ratio requirements.

The Bank has subsidiaries, which are financial institutions, thus it should comply with the regulatory requirements based on both the Group's financial statements and the Bank's financial statements as a stand-alone entity. The Bank and the Group complied with the capital adequacy requirements at the end of the reporting period.

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

The capital adequacy calculation of Bank and Group in accordance with FCMC regulations (*Basel III* framework, Pillar I) can be disclosed as follows:

	EUR 000’s	
	31/12/2014 Group	31/12/2014 Bank
Common equity Tier 1 capital		
Paid up capital instruments	146,556	146,556
Retained earnings and eligible profits	28,750	24,747
Deductible other intangible assets	(1,690)	(1,456)
Other capital components, deductions and transitional adjustments, net	(4,689)	(820)
Tier 2 capital		
Eligible part of subordinated loans	31,568	31,568
Own funds	**200,495**	**200,595**
Risk weighted exposure amounts for credit risk, counterparty credit risk and dilution risk		
Central governments or central banks	16,596	11,252
Regional governments or local authorities	35,611	35,082
Public sector entities	43	43
Multilateral Development Banks	1,052	407
Institutions	179,590	167,617
Corporates	631,548	649,329
Retail	98,655	60,870
Secured by mortgages on immovable property	236,922	155,962
Exposures in default	38,807	34,216
Items associated with particular high risk	158,356	163,832
Claims on institutions and corporates with a short-term credit assessment	4,334	-
Collective investments undertakings	16,389	10,882
Equity	10,938	62,875
Other items	177,823	110,900
Total exposure amounts for position, foreign currency open position and commodities risk		
Traded debt instruments	7,126	2,427
Equity	867	-
Foreign Exchange	9,741	1,647
Total exposure amounts for operational risk	196,501	157,347
Total exposure amounts for credit valuation adjustment	1,142	1,135
Total risk exposure amount	**1,822,041**	**1,625,823**
Total capital adequacy ratio	**11.0%**	**12.3%**
Common equity Tier 1 capital ratio	**9.3%**	**10.4%**

* AAS “Citadele Life” is not included in the consolidation group for capital adequacy purposes. The investment value constitutes a risk exposure in the Group’s capital adequacy ratio calculation.

As at 31 December 2013 the Group’s and the Bank’s capital adequacy ratios, calculated in accordance with the Basel II capital regulations, were 10.3% and 11.7% respectively; Basel II and Basel III capital adequacy ratios are not directly comparable due to substantial changes in the regulation.

The Bank implements the internal capital adequacy assessment process (ICAAP) by estimating individual capital charges for every significant risk type inherent to the Bank. The internal modelling takes account of a greater number of risks than is provided for in minimum capital requirements (e.g. interest rate risk in the banking book, concentration risk, reputation risk etc). Furthermore, to ensure sustainability even at times of distress, the Bank simulates its capital adequacy position under assumptions of the adverse macroeconomic scenario. The following represents the qualitative assessment summary of risk profile, where risk level is measured as a perceived likelihood of unfavourable deviation of a given size from a budgeted income over one-year horizon:

Risk type	Risk subtype	Risk level	Regulatory risk calculation method	Internal risk calculation method
Credit risk	Loan portfolio	Moderate	Standardized approach	Scenario analysis, with elements of Credit value at risk
	Security portfolio of debt instruments	Low	Standardized approach	Credit value at risk
	Counterparty default	Low	Standardized approach	n/a
	Other (participations etc)	n/a	Standardized approach	n/a
Market risk	Position risk	Moderate	Standardized approach	Scenario analysis
	FX risk	Low	Standardized approach	Value at risk
Operational risk		Low	Basic indicator approach	Loss distribution approach
Concentration risk	Loan portfolio	Not assessed in isolation	Simplified approach	Incorporated in credit risk calculation
	Counterparty default	Not assessed in isolation	n/a	n/a
	Security portfolio	Not assessed in isolation	n/a	Incorporated in position and credit risk calculation
Interest rate risk in the banking book		Low	200bp parallel shift impact on economic value	200bp parallel shift impact on economic value (enhanced duration gap)
Liquidity risk		Moderate	n/a	Stressed refinancing simulation
Other risks	AML risk	Moderate	Simplified approach: turnover criteria	n/a
	Reputation risk	Low	5% of minimum capital requirement	n/a
	Strategic risk	Low	Part of reputation risk	n/a

KPMG Baltics SIA
Vesetas iela 7
Riga LV 1013
Latvia

Phone +371 670 380 00
Fax +371 670 380 02
Internet: www.kpmg.lv

Independent Auditors' Report

To the shareholders of AS "Citadele banka"

Report on the Separate and Consolidated Financial Statements

We have audited the accompanying separate financial statements of AS "Citadele banka" (the "Bank"), as set out on pages 11 to 77. Separate financial statements comprise the separate balance sheet as at 31 December 2014, the separate statements of income and other comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes. We have also audited the accompanying consolidated financial statements of AS "Citadele banka" and its subsidiaries ("the Group"), as set out on pages 11 to 77. Consolidated financial statements comprise the consolidated balance sheet as at 31 December 2014, the consolidated statements of income and other comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these separate and consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether these financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate and consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of these financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the Bank's and Group's preparation and fair presentation of these financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's and Group's internal controls. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the separate and consolidated financial statements.

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

Opinion

In our opinion, the separate financial statements give a true and fair view of the financial position of AS "Citadele banka" as at 31 December 2014 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of AS "Citadele banka" and its subsidiaries as at 31 December 2014 and of the consolidated financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on Other Legal and Regulatory Requirements

In addition, our responsibility is to assess whether the accounting information included in the Management Report, as set out on pages 3 to 8, the preparation of which is the responsibility of management, is consistent with the accompanying separate and consolidated financial statements. Our work with respect to the Management Report was limited to the aforementioned scope and did not include a review of any information other than drawn from the accompanying financial statements of the Group. In our opinion, the Management Report is consistent with the separate and consolidated financial statements.

KPMG Baltics SIA
License No 55

Ondrej Fikrle
Partner pp KPMG Baltics SIA
Riga, Latvia
23 March 2015

Inga Lipšāne
Sworn Auditor
Certificate No 112

This report is an English translation of the original Latvian. In the event of discrepancies between the two reports, the Latvian version prevails.

AS Citadele banka

Annual report

for the year ended
31 December 2015

Citadele

KEY FIGURES

EUR millions	Group			Bank		
	2015 Audited	**2014 Audited**	**Change**	**2015 Audited**	**2014 Audited**	**Change**
Net interest income	60.5	62.5	(3%)	48.1	52.1	(8%)
Net commission and fee income	35.5	33.4	6%	25.3	24.4	3%
Operating income(1)	112.7	111.9	1%	86.5	90.1	(4%)
Impairment charge and reversals, net	(6.2)	(9.2)	(33%)	(6.2)	(10.6)	(41%)
Net profit	26.1	32.4	(20%)	19.5	29.2	(33%)
Return on average assets (ROA)(2)	0.90%	1.20%	(0.30pp)	0.82%	1.31%	(0.48pp)
Return on average equity (ROE)(3)	13.2%	20.2%	(7.09pp)	10.2%	18.5%	(8.23pp)
Cost to income ratio (CIR)(4)	68.5%	60.2%	8.28pp	67.1%	52.3%	14.78pp
Cost of risk ratio (COR)(5)	0.8%	1.3%	(0.48pp)	0.7%	1.2%	(0.48pp)
Capital adequacy ratio (CAR)	13.4%	11.0%	2.4pp	15.1%	12.3%	2.8pp
Adjusted for IPO costs(6):						
Net profit	31.1	32.4	(4%)	24.5	29.2	(16%)
Return on average assets (ROA)(2)	1.07%	1.20%	(0.13pp)	1.03%	1.31%	(0.28pp)
Return on average equity (ROE)(3)	15.5%	20.2%	(4.76pp)	12.7%	18.5%	(5.79pp)

EUR millions	Group			Bank		
	2015 Audited	**2014 Audited**	**Change**	**2015 Audited**	**2014 Audited**	**Change**
Total assets	2,960	2,855	4%	2,409	2,331	3%
Loans to customers	1,172	1,076	9%	983	941	4%
Deposits from customers	2,570	2,517	2%	2,037	1,949	5%
Shareholders' equity	220	177	24%	209	173	21%
Loan-to-deposit ratio(7)	46%	43%	3pp	48%	48%	(0pp)

(1) Operating income consists the following items of statement of income: of net interest income, net commission and fee income, net Gain on transactions with financial instruments and other income.

(2) Return on average assets (ROA) is calculated as annualised net profit for the relevant period divided by the period end average total assets.

(3) Return on average equity (ROE) is calculated as annualised net profit for the relevant period divided by the period end average total equity.

(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 collective and specific loans impairments divided by the period end average net loans.

(6) One-time costs that had to be recognised in the statement of income of 2015 due to the postponed IPO process amount to EUR 5.0 million.

(7) Loan to deposit ratio is calculated as the carrying value of loans to customers divided by deposits from customers at the end of the relevant period.

CONTENTS

Rounding and Percentages

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

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

HIGHLIGHTS OF 2015

- **Citadele continues to finance Baltic businesses, maintain strong liquidity and improves capital position**
  Citadele banka has increased lending to Baltic businesses in accordance with its strategy. At the same time it has maintained a sound liquidity profile by increasing customer deposits. With the support of the new shareholders, as well as profit generation, the capital base has continued to grow.

- **Citadele's primary card product adds new exciting features**
  Citadele is the only bank in the market that offers its customers a unique payment card with integrated e-ticket and contactless payment functionality. The e-ticket function now enables Citadele's payment cards to serve as electronic tickets for rides on public transport in Riga.

- **Change of ownership**
  In April 2015, a consortium of international investors led by New York-based Ripplewood Advisors LLC and its founder Timothy Collins acquired a 75% plus one share stake in Citadele banka from the Latvian Privatization Agency. The European Bank for Reconstruction and Development (EBRD) holds a 25% minus one share stake.

- **Rating upgrade**
  Moody's Investors Service upgraded Citadele bank's long-term deposit ratings to B1 from B2, and changed its long-term outlook for Citadele banka to “positive”. Additionally, Moody's upgraded Latvia's sovereign ratings to A3 from Baa1 reflecting continued macroeconomic improvements.

- **Experienced Supervisory Board**
  The new Supervisory Board now includes seven new members. Timothy C. Collins and Elizabeth Critchley have been appointed as Chairman and Deputy Chairman, respectively, while James L. Balsillie, Dhananjaya Dvivedi, David Shuman, and Lawrence N. Lavine have been newly elected to join them on the Supervisory Board. Sylvia Y. Gansser-Potts has also been newly appointed to serve alongside. Geoffrey Dunn continues to serve as the EBRD's appointed board member. Klāvs Vasks continues to serve as an independent board member.

LETTER FROM THE MANAGEMENT BOARD

Strong domestic demand underpins GDP growth Latvia[1]

GDP growth in Latvia increased to 2.8% in 2015 (up from 2.4% in 2014), driven primarily by domestic demand and rising incomes. Russian macro issues have had a minimal impact on the local Latvian economy due to Russia's low share of exports, and this decline has been offset by increased exports to other markets within and outside the EU. As a result, total goods exported in Latvia increased slightly in 2015 compared to 2014. Latvia expects to see reductions in the fiscal deficit and government debt in 2015, and this trend should continue with the establishment of the new government in February 2016 that is expected to promote policies for further fiscal consolidation and economic growth.

In 2015, retail trade grew by 4.9% on the back of an improving labour market. After two years of stagnant output, manufacturing output increased by 4.1% and experienced a significant boost in March and April when the largest steel maker in the Baltics resumed production. In 2015, the best performing sectors of manufacturing were furniture, computer and optical equipment manufacturing.

Despite the strengthening labour market, consumer price inflation remained under control in 2015 at 0.2% growth. As a result of the drop in global commodity prices, domestic fuel and food prices in 2015 declined by an average of 14.4% and 1.6%, respectively. This was offset by an increase in electricity prices resulting from the liberalization of the household electricity market, as well as an increase in prices for public transport.

Overall economic activity in 2015 was supported by a strong labour market as unemployment declined from 10.8% in 2014 to around 10.0% in 2015. Wages grew by more than 6.5%, while labour productivity growth since 2010 has averaged 2.5-3.0%. The declining working age population could put pressure on wage growth in the coming years.

Moderate economic recovery in the EU continues

In 2015, the economic recovery in the EU and euro area continued to strengthen. GDP growth in 2015 is expected to reach 1.9% in the EU and 1.6% in the euro area compared to 1.4% and 0.9% growth respectively in 2014. Growth across the EU remains uneven as GDP growth in Ireland, Sweden and many CEE countries significantly exceeds the EU growth average while Greece, Italy, Finland and France continue to underperform.

Faster growth in the EU was supported by a number of positive factors, such as lower oil prices, depreciation of euro exchange rate and improving financial conditions in combination with a broadly neutral fiscal stance. Faster economic growth has contributed to a further fall in the overall unemployment rate that is expected to reach 9.5% in the EU, down from 10.2% in 2014.

ECB further eases monetary policy as global risks increase

In response to persistently low inflation, weak economic growth in the euro area and deteriorating inflation expectations in the euro area, the ECB continued to ease monetary policy. In January 2015, the ECB introduced a QE programme for sovereign bonds, the Public Sector Purchase Programme (PSPP), which was started on 9 March 2015 and was initially scheduled to last until at least September 2016.

However, inflation in euro area has remained low, in part due to the sharp decline in global oil and food prices. In December 2015 the persistently low inflation, the slowdown in emerging markets and the weakest global GDP growth since 2009 led the ECB to extend the QE programme until March 2017 and cut the ECB deposit rate by a further 10bp to -0.3%.

Easing of monetary policy has led to deprecation of the euro vis-à-vis U.S. dollar and other major currencies and that has helped to boost GDP growth in euro area in 2015.

Experienced shareholders join the Supervisory Board

2015 brought a change in Citadele ownership that was anticipated for several years. A consortium of international investors led by New York-based Ripplewood Advisors LLC acquired a 75% + 1 share stake in AS Citadele banka from the Latvian Privatization Agency. The deal signalled a major milestone in the history of the bank. With support from the experienced and committed group of international investors, Citadele is now well-positioned to transform into a banking leader in Latvia and across the Baltics. The European Bank for Reconstruction and Development (EBRD) holds the remaining 25% - 1 share of the Group. The consortium of investors and the EBRD also increased the capital of Citadele by EUR 10 million at transaction closing in April 2015.

The newly elected Supervisory Board comprises seven new members who now sit alongside two members from the previous board. They each bring a wealth of experience from different sectors and geographies, and we have been benefitting greatly from their combined insights and acumen.

Up until privatization closing in April 2015, Citadele was operating under the European Commission Restructuring plan. The plan placed a number of restrictions on Citadele, such as caps on lending and deposit amounts in all Baltic countries, a cap on the capital adequacy ratio, a dividend ban, and other restrictions. Despite having these

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[1] Source: Central Statistical Bureau of Latvia, Eurostat, ECB, European Commission Winter 2016 Economic Forecast, Citadele calculations.

restrictions in place, Citadele was able to improve operating results each year and increase profitability, and this solid performance was recognised by Moody's Investors Service. In June 2015 Citadele’s long-term deposit rating was upgraded to B1 from B2. This decision was taken in light of the improved financial results and profitability, as well as the increase in Citadele’s loan portfolio quality. Furthermore, the rating agency looked favourably upon the privatization of the Bank, which allowed the Bank to shape a stronger capital base and the remove European Commission restrictions.

Strategic Focus – Retail And SME Banking

Shortly after privatization in mid-2015, the Bank worked alongside new shareholders to create a region specific growth strategy for Citadele. Citadele aims to become the “primary bank of choice” for aspiring retail and small business customers across the Baltics, and continue to improve products and services for clients in the corporate and private capital management segments. The strategy will be implemented using following tactical steps:

- Becoming the primary bank of choice for mass affluent retail customers by increasing new and existing customers that use Citadele as their primary bank and develop current account “hook” products, new card products and new online banking features.
- Enhancing consumer lending products to retail customers by building strong relationships with retailers, offering card products, and improving the loan approvals process.
- Driving growth in the underserved SMEs and micro-SMEs segments by expanding product offerings such as small business overdrafts, improving customer relationship management, and building advisory package for customers.
- Expanding the scope of offer in Private Capital Management, Asset Management and Pension product offerings to promote product usage among Bank clients and commission income growth.

We see significant growth potential in the Baltics and will align our strategy to the local market dynamics in each country. To facilitate the execution of the strategy, we have accelerated investments in new services and information technology infrastructure to ensure an easy, reliable and secure banking environment for our clients. We have already launched several unique products and features during the first months of 2016, such as issuing payment cards with a unique e-ticket feature and extending micro-loans to SMEs. We believe that by striving to be the leading local bank, Citadele will continue to understand and respond effectively to the needs of its customer base and remain responsive and adaptive to market dynamics.

IPO process

In October 2015, the Bank and its shareholders decided to launch an Initial Public Offering for Citadele, which would have been the first Latvian IPO in 11 years. The purpose of the IPO was to attract and raise capital from international investors to fund Citadele’s growth strategy and optimize the capital structure. Whilst there was positive interest from retail and institutional investors, market conditions and the pricing environment were unfavourable. We therefore swiftly decided to post-pone the IPO process and assess other potential strategic alternatives. The IPO road show was a productive means to market both Citadele’s and the Baltic region’s equity story. We intend to continue to focus on executing Citadele’s growth strategy and enhancing our market position to demonstrate performance.

Whilst Citadele’s core strategy is to grow the business organically and focus upon expanding its customer base, we may also consider potential value-enhancing strategic opportunities to build Citadele’s market position across the Baltics that provide incremental operational and growth benefits

Financial Performance

Citadele Group maintained solid performance in 2015that saw increases in the core lending portfolio and continued improvements in asset quality. Gross loans for the group grew 8.4% to EUR 1,263 million in 2015 from EUR 1,164 million in 2014, driven by increases across all business segments and geographies. Portfolio quality also improved with continued reductions in the NPL ratio and an increase in NPL coverage. Revenue generation remained healthy in 2015 despite the low interest rate environment and net commission income increased, leading to sustained core profitability. The overall capital adequacy ratio further improved to 13.4% in 2015 from 11.0% in 2014.

Reported net profit for the Group for 2015 was EUR 26.1 million (Bank: EUR 19.5 million). When adjusted for costs related to IPO of EUR 5.0 million, adjusted net profit for the year was EUR 31.1 million. The adjusted net profit translates into 15.7% ROE and 1.07% ROA (Bank: 12.8% ROE and 1.04% ROA).The majority of the reported net profit was generated in the Latvian banking operations – EUR 19.5 million (2014: EUR 29.2 million). Lithuanian banking operations added EUR 3.4 million (2014: EUR 0.2 million), Asset management EUR 1.7 million (2014: EUR 1.3 million), Baltic leasing EUR 0.1 million (2014: EUR -0.2 million) and other group entities added EUR 2.2 million (2014: EUR 1.2 million).

Net interest income decreased by 3% to EUR 60.5 million (Bank: -8% to EUR 48.1 million) as a result of the negative interest rate environment and payments to the Single Resolution Fund. These negative effects were partially offset by the growth in the loan portfolio, where we continue to deliver a healthy interest yield. The growth in the loan portfolio also helped to offset the reduced interest income from the fixed income securities book, where several high-yielding sovereign bonds matured at the end of the year.

Net commission income grew by 6% to EUR 35.5 million (Bank: +3% to EUR 25.3 million), mainly driven by payment cards and merchant business, as well as payment transfers. Total operating income increased by EUR 0.8 million (Bank: EUR -3.6 million).

Operating expense increased by EUR 9.8 million (Bank: EUR 10.9 million).This was mainly the result of a EUR 5.0million expense related to the IPO process, as well as payments related to the Advisory Services Agreement of EUR 2.5 million including VAT effect. The number of active employees increased to 1,625 at the end of 2015 (Bank: 1,263), compared to 1,535 at the end of 2014 (Bank: 1,167). This increase in staff was predominantly in the sales force and IT development areas, in-line with our strategy to grow and support the business.

Asset quality improved –the Group's NPL ratio improved and reached 10.8% (Bank: 11.0%) and impairment charges were EUR 3.0 million less than in 2014 (Bank: EUR 4.4 million less). Impairment coverage ratio for 90 and more days past due loans strengthened significantly– 148% (Bank: 163%), compared to 111% at the end of 2014 (Bank: 110%).

Compared to 2014, total assets grew by EUR 106 million (Bank: EUR 78 million) or 3.7% over the prior year, thanks to an 8.4% increase in the loan portfolio across all business segments. The growth was especially notable in Estonia and the Baltic leasing segments, with growth rates of 52% and 33%, accordingly. Growth in the overall lending portfolio was achieved together with strong yield loan portfolio yield of 5.7% (Bank: 5.5%) in 2015, compared to 6.1% in 2014 (Bank: 6.0%).

Customer deposits remained the key source of funding for the Group. The large deposit base and prudent liquidity management ensured the strong liquidity position of the Group, with loans-to-deposits ratio at 46% (Bank: 48%), compared to 43% (Bank: 48%) at the end of 2014. We strongly believe that a robust customer deposit base represents one of the key pillars of a successful regional bank and a key funding source. Therefore, retail deposits and cash management solutions for companies will continue to play a significant role in Citadele's client offerings and ongoing strategy.

We further improved the Group's capital base, represented by the common tier 1 ratio and the capital adequacy ratio, which amounted to 11.7% and 13.4% accordingly, as at 31 December 2015 (Bank: 13.1% and 15.1%, accordingly). This is an increase of 2.40pp and 2.40pp (Bank: 2.70pp and 2.80pp) compared to 31 December 2014, accordingly. The improvement was a result of the share capital increase of EUR 10 million, the positive impact of the restructuring and partial repayment of the subordinated loans, the profit from operations, as well as the one-time positive revaluation impact of EUR 8.5 million from VISA Europe shares held by Citadele that will be acquired by VISA Inc. as part of its acquisition announced on November 2, 2015.

Lithuanian Banking

Lithuanian bank achieved a net profit of EUR 3.4 million in 2015, which was EUR 3.2 million more than in 2014, mostly as a result of successful investment policy. The core business continued to grow during 2015, with customer loans increasing by 32% to EUR 237 million and deposits increasing by 10% to EUR 326 million. We see great potential in the Lithuanian market and will continue to expand our offering to Lithuanian SME and retail customers.

Swiss Private Bank

AP Anlage & Privatbank generated EUR 0.5 million of profits in 2015. While this was EUR 0.2 million less than in 2014, prior year results included one-off items. The bank was successful in managing the client deposit base in the negative rate environment, and successfully increased operating income by EUR 0.5 million when compared to previous year.

Baltic Leasing

The leasing segment was one of the fastest growing segments in the Group. During 2015, the leasing portfolio grew by 33% to EUR 132 million. The net results of EUR 0.1 million was negatively impacted by a EUR 1.5 million one-off impairment in the Estonian business after strengthened methodology. We see further growth potential for this business in all Baltic countries as the overall economic situation improves.

Asset Management

CBL Asset management, one of the leading asset managers in Latvia, generated EUR 1.7 million of net profit, compared to EUR 1.0 million a year ago. The result was achieved on the back of better performance in fund management. Assets under management increased by 7%.

New Initiatives

In early 2015 Management recognized that the change in Group ownership structure would lead to a lifting of the restrictions imposed by the European Commission and would offer the Group an opportunity to grow at a faster pace. With this in mind, the Group began preparations for its new growth strategy. By mid-2015, a number of innovative products and services were launched, many of them technology-oriented and investments in internal systems were made driven by a desire to introduce greater client-centricity in sales, service and back-office procedures.

The notable example is the introduction of Citadele's MobileSCAN authorising tool for on-line banking. The smartphone module serves as a substitute to code-cards and stand-alone password generator devices. MobileSCAN improves and facilitates the customer authentication process to access mobile and online banking services and provides a higher-level security than traditional alternatives. By introducing MobileSCAN, the Bank now complies with requirements that will come into effect in the European Union in 2017 – to replace traditional code cards with new authentication tools or devices to ensure a higher level of security for data protection.

Another achievement during 2015 was introduction of a payment card with e-ticket and contactless payment functionality. The e-ticket function enables Citadele's payment cards to serve as electronic tickets for use on the public transport system in Riga. Clients no longer need to replenish their e-tickets, or purchase new ones, because they can pay for rides on public transport directly from the associated bank account. Since the launch of the new card, more than 290,000 rides have been paid using the new payment card.

A number of initiatives related to e-commerce were launched in 2015 such as the development of a new mobile application and the creation of a new and harmonized web page for the Group. In the third quarter, a more convenient and quicker consumer loan approvals process was introduced, reducing the approval time from 2 days to 30 minutes. Compared to the first half of 2015, the number of consumer loans issued by the Bank in Latvia increased by 120%. The number of newly issued cards in Latvia in the second half increased by 57%.

Finally, in mid-2015 Citadele launched a pilot program for micro-lending to SMEs in Latvia, and formally announced the program in December. Under this program, Citadele has been offering micro-loans to small retailers, who use payment card processing (POS) terminals. Clients can receive up to a EUR 20,000 credit facility based on their POS turnover volume. Shortly after the program’s full implementation, micro-loans were issued to 49 companies by the end of the year. A similar micro-lending product was developed in Lithuania in 2015 and was launched in January 2016.

Social Responsibility

In 2015, the Bank continued to support projects to help disabled people to expand their abilities and to become better integrated into society. This social responsibility strategy is based on the "You Are. You Can" movement, which the Bank launched in 2012 to support Latvia's Paralympic team at the London Paralympic Games. In 2015, the Bank continued to support the Latvian Paralympic Committee financially as well as by launching awareness and fund raising campaigns to help athletes qualify and participate in the Paralympic games in Rio 2016. The Group’s bank in Lithuania also elected to become a sponsor of Lithuanian Paralympic Committee at the end of 2015. During 2015, the Bank supported a number of other projects benefiting people with disabilities, including the launch of scholarships enabling people with disabilities to pursue higher education. As an employer, Citadele regularly carries out activities that foster employee commitment, supporting employee sports teams, joint out of office activities for employees, and participation in a range of citizenship projects, such as participation in blood donation and job-shadowing for adolescents.

In 2015, the Bank took part in developing The Social Charter of Banks in Latvia, a document that stipulates the best practice guidelines of the banking sector, and signed the charter. The Social Charter of Banks include the best practice guidelines for the banking sector with the goal of supporting the establishment of a reliable, trusted and sustainable banking system in Latvia that will contribute to economic growth and welfare.

Distribution of Profit

Pursuant to the Latvian Law on Credit Institutions, the Management team has to propose to the shareholders how the net profit should be distributed. In order to strengthen the capital base for future growth, the Management team proposes to transfer the Group’s and Bank’s net profit for 2015 to retained earnings.

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

Riga,
26 February 2016

CORPORATE GOVERNANCE

AS Citadele Banka (“the Bank or Citadele bank or Citadele”) is the parent company of Citadele Group (“the Group”). As a joint stock company, Citadele bank is prefixed with the abbreviation “AS”.

On 20 April 2015, the Latvian Privatization Agency (VAS “Privatizācijas aģentūra”) completed the sale of its 75% plus one stake in Citadele bank to a consortium of 12 international investors led by RA Citadele Holdings, LLC (Ripplewood Advisors LLC). The European Bank for Reconstruction and Development (EBRD) has retained a 25% minus one stake.

On 20 April 2015, following the closing of the transaction, shareholders voted to increase the number of seats on the Supervisory Board and appointed seven new members to the board (see the changes below).

Name	Current Position	Date of first appointment	End of current appointment
Timothy Clark Collins	Chairman of the Supervisory Board	20 April 2015	19 April 2020
Elizabeth Critchley	Deputy chairperson of the Supervisory Board	20 April 2015	19 April 2020
James Laurence Balsillie	Member of the Supervisory Board	20 April 2015	19 April 2020
Dhananjaya Dvivedi	Member of the Supervisory Board	20 April 2015	19 April 2020
Lawrence Neal Lavine	Member of the Supervisory Board	20 April 2015	19 April 2020
David Shuman	Member of the Supervisory Board	20 April 2015	19 April 2020
Geoffrey Richard Dunn	Member of the Supervisory Board	30 June 2010	19 April 2020
Sylvia Yumi Gansser-Potts	Member of the Supervisory Board	20 April 2015	19 April 2020
Klāvs Vasks	Member of the Supervisory Board	30 June 2010	19 April 2020
Aldis Greitāns	-	12 October 2012	20 April 2015
Baiba Anda Rubesa	-	12 October 2012	20 April 2015

The following persons constitute Citadele’s Supervisory Board:

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

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

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

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

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

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

Geoffrey R. Dunn has been a Supervisory Board member nominated by the European Bank for Reconstruction and Development since Citadele Banka was established in 2010. Previously, Mr Dunn worked as Chief Financial Officer of the UK's Northern Rock bank during its restructuring. He was also Business Finance Director for Co-operative Financial Services, Finance Director of the Bank of England and Chief Financial Officer of SWIFT. He held leading positions in several financial companies in the UK. Mr Dunn holds a Master in Computing from University of Manchester and a diploma in Business Administration from Manchester Business School.

Sylvia Y. Gansser-Potts is a Director in the Financial Institutions Team of the European Bank for Reconstruction and Development (EBRD). During her 23 years with the EBRD, she has successfully managed various financial divisions, supervising the operation of banks in Europe, North Africa and Middle East. She started her career at the investment company Swiss Bank Corporation (SBC) where she worked in Switzerland and Japan. Mrs Gansser-Potts holds a degree in business and economics from Dauphine Paris IX Université and an MBA from Insead.

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

The following persons constitute Citadele's current Management Board:

Name	Current 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
Aldis Paegle	Member of the Management Board
Santa Purgaile	Member of the Management Board

In the reporting period there were no changes in the Management Board of the Bank.

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

Member of the Management Board since 30 June 2010 and Chairman since 1 May 2012. Mr Beļavskis' managerial responsibilities include Marketing, Human Resources, Corporate Communication, and the Private Capital Management business. As Chairman of the Board he is responsible for the general management of the bank, and the implementation of the decisions and resolutions of the Management Board, the Supervisory Board and the Annual General Meeting.

Guntis Beļavskis, born 1973, has 13 years of experience in the banking sector and over 23 years of experience in business operations. In 2002, he was appointed head of the sales department of Parex banka. Following his promotion as head of sales and marketing he became head of the retail and SME services network. In December 2008, when the Latvian State took over Parex banka, Guntis Beļavskis was appointed to the new Management Board, and after the successful split-up, he assumed the same post at Citadele. He has a bachelor's degree in business management from the Riga Transport and Telecommunications Institute. Mr Beļavskis does not own any shares in AS Citadele banka. He also does not hold a position in another capital company.

Aldis Paegle, Chief Financial Officer (CFO)

Mr Paegle has been a Board member since 1 January 2014. His managerial responsibilities include Controlling and Accounting, and he is responsible for the financial management of the Group.

Mr Paegle, born 1979, has worked in the banking sector since 2006. He headed Citadele's Finance Division and since November 2013 he has led the Finance and Treasury Sector. He is a member of the Supervisory Board of the subsidiary of Citadele bank IPAS CBL Asset Management (until 22 December 2014 named IPAS Citadele Asset Management), until 26 June 2014 he was a member of Supervisory Board of the subsidiary of Citadele Banka AAS CBL Life (until 22 December 2014 named AAS Citadele Life), member of Supervisory Board of the subsidiary of Citadele Banka, AS CBL Atklātais Pensiju Fonds (until 22 December 2014 named AS Citadele Atklātais Pensiju Fonds), and member of Management Board of subsidiary of Citadele bank SIA Citadele Express Kredīts. Prior to Citadele, Mr Paegle worked in the auditing industry, spending five years as a financial auditor for Ernst & Young Baltic with a focus on companies from the financial industry. He holds a bachelor's degree in business administration from the Vidzeme University College, and currently attends an Executive MBA programme at the Stockholm School of Economics. Mr Paegle does not own any shares in AS Citadele banka. He also does not hold a position in another capital company.

Valters Ābele, Risk Director

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

He is responsible for risk management functions at Citadele and leads the Risk and Compliance, as well as Legal Sectors. He is a Risk director and a member of the Supervisory Board of the subsidiary of Citadele banka in Lithuania AB Citadele bankas.

Mr Ābele, born 1975, previously managed the Credit Risk Department at Parex Banka. In December 2008, when the Latvian State took over Parex banka, he was asked to join the new Board of the bank, and after the successful separation, he assumed the same post in the Management Board of Citadele. Mr Ābele has acquired extensive experience in auditing and financial consulting at companies such as Ernst & Young and Arthur Andersen. He is a member of Latvian Association of Sworn Auditors and Association of Chartered Certified Accountants. Valters Ābele holds a master's degree in business management and international economic relations from the University of Latvia. Mr Ābele does not own any shares in AS Citadele banka.

Santa Purgaile

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

Ms Purgaile is responsible for the development and management of the banking group's business in Latvia and the Baltic States in relation to various aspects of client services. She is a member of the Supervisory Board of the Lithuanian subsidiary of Citadele banka, AB Citadele bankas.

Santa Purgaile, born 1976, has 18 years of experience in the banking sector, including nine years at the management level in various areas of business. Prior to joining the Board, she ran the SEB Bank private banking business in Latvia and the Baltic States. Ms Purgaile has also served as director of SEB Bank's SME Business Support and as director of the Vidzeme region for the bank. She holds a bachelor's degree in business administration from the Turība School of Business and a master's degree in international economics and business from the University of Latvia. Ms Purgaile does not own any shares in AS Citadele banka.

Kaspars Cikmačs

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

He is responsible for IT and the bank's operational services, including back office, security, real estate, archive and the Cash-In-Transit business line. He is a member of the Management Board of the Citadele banka subsidiaries SIA Hortus Land, SIA Hortus Commercial, SIA Hortus Residential, SIA Hortus TC, SIA Hortus LH, SIA Hortus NI, SIA Hortus RE, SIA Hortus BR, SIA Hortus MD, SIA Hortus JU.

Kaspars Cikmačs, born 1977, has been working in banking since 1996. Previously, he headed the Hansabanka Help Desk and ran the Baltic IT Monitoring Department and IT maintenance processes. Kaspars Cikmačs became the Head of IT Operations at Swedbank Baltic Banking. He has a bachelor's degree in Computer Science from the University of Latvia, graduated from the Business Leadership Programme for top-performing managers at INSEAD University in France, and he has an Executive MBA degree from the Stockholm School of Economics. Mr Cikmačs does not own any shares in AS Citadele banka.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY

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

The financial statements set out on pages 13 to 71 are prepared in accordance with the source documents and present fairly the financial position of the Bank and the Group as at 31 December 2015 and 2014 and the results of their operations, changes in shareholders' equity and cash flows for the years then ended. The management report set out on pages 4 to 8 presents fairly the financial results of the reporting period and future prospects of the Bank and the Group.

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

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

Guntis Beļavskis
Chairman of the Management Board

Klāvs Vasks
Member of the Supervisory Board

Riga,
26 February 2016

INCOME STATEMENT

		EUR 000's			
	Notes	2015 Group	2014 Group as restated (Note 4)	2015 Bank	2014 Bank
Interest income	6	79,148	80,707	63,695	67,462
Interest expense	6	(18,682)	(18,241)	(15,595)	(15,359)
Net interest income		**60,466**	**62,466**	**48,100**	**52,103**
Commission and fee income	7	51,208	47,796	38,576	36,423
Commission and fee expense	7	(15,671)	(14,413)	(13,313)	(11,984)
Net commission and fee income		**35,537**	**33,383**	**25,263**	**24,439**
Gain on transactions with financial instruments, net	8	13,625	13,471	11,082	10,404
Other income		3,048	2,588	2,081	3,185
Other expense	9	(5,299)	(1,457)	(4,556)	(523)
Administrative expense	9,10	(67,892)	(61,420)	(51,780)	(45,233)
Amortisation and depreciation charge		(4,000)	(4,523)	(1,689)	(1,361)
Impairment charges and reversals, net	11	(6,241)	(9,249)	(6,232)	(10,618)
Profit before taxation		**29,244**	**35,259**	**22,269**	**32,396**
Corporate income tax	12	(3,173)	(2,854)	(2,723)	(3,152)
Net profit for the period		**26,071**	**32,405**	**19,546**	**29,244**

The notes on pages 18 to 71 are an integral part of these financial statements.

The financial statements on pages 13 to 71 have been approved and authorised for issue by the Management Board and Supervisory Board and signed on their behalf by:

Guntis Beļavskis
Chairman of the Management Board

Klāvs Vasks
Member of the Supervisory Board

STATEMENT OF COMPREHENSIVE INCOME

	EUR 000's			
	2015 Group	**2014 Group**	**2015 Bank**	**2014 Bank**
Net profit for the period	**26,071**	**32,405**	**19,546**	**29,244**
Other comprehensive income:				
Fair value revaluation reserve: held to maturity securities				
Amortisation	211	(288)	200	368
Deferred income tax charged directly to equity	(6)	(10)	-	-
Fair value revaluation reserve: available for sale securities				
Fair value revaluation reserve charged to statement of income	(4,746)	(3,106)	(2,811)	(1,288)
Change in fair value of available for sale securities	9,314	3,472	8,848	1,283
Deferred income tax charged / (credited) directly to equity	281	61	62	94
Other reserves				
Foreign currency retranslation and other reserves	1,935	729	-	-
Other comprehensive income / (loss) for the period	**6,989**	**858**	**6,299**	**457**
Total comprehensive income for the period	**33,060**	**33,263**	**25,845**	**29,701**

The notes on pages 18 to 71 are an integral part of these financial statements.

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

BALANCE SHEET

		EUR 000's			
	Notes	31/12/2015 Group	31/12/2014 Group	31/12/2015 Bank	31/12/2014 Bank
Assets					
Cash and deposits with central banks	13	555,078	225,399	348,960	142,650
Balances due from credit institutions	14	181,145	509,404	301,280	464,273
Securities held for trading:					
- fixed income	15	11,081	20,295	-	-
- shares and other non-fixed income	15	4,991	3,655	-	-
Derivative financial instruments	28	4,907	5,929	4,960	5,963
Financial assets designated at fair value through profit or loss:					
- fixed income	15	91,764	84,851	-	-
- shares and other non-fixed income	15	19,323	12,598	-	-
Available for sale securities:					
- fixed income	15	590,166	541,591	469,559	433,337
- shares and other non-fixed income	15	19,864	16,605	19,847	11,081
Loans and receivables from customers	16,17	1,172,345	1,075,701	983,425	941,329
Held to maturity securities	15	203,718	229,252	165,293	192,977
Property and equipment	18	43,111	42,525	4,393	3,651
Intangible assets	19	2,538	1,708	2,213	1,456
Investment property		189	409	-	-
Investments in subsidiaries	20	-	-	61,580	61,605
Current income tax assets		259	437	-	-
Deferred income tax assets	12	27,769	30,073	26,157	28,735
Other assets	21	32,215	54,163	21,333	43,604
Total assets		**2,960,463**	**2,854,595**	**2,409,000**	**2,330,661**
Liabilities					
Derivative financial instruments	28	1,901	1,647	1,897	3,567
Financial liabilities designated at fair value through profit or loss	22	33,915	24,594	-	-
Financial liabilities measured at amortised cost:					
- balances due to credit institutions and central banks	23	41,635	25,036	87,778	116,997
- deposits from customers	24	2,569,625	2,517,107	2,037,349	1,948,751
- other financial liabilities		13,405	12,235	-	-
Current income tax liabilities		233	187	-	-
Other liabilities	25	25,263	23,482	18,119	14,453
Subordinated liabilities	26	54,715	73,596	54,715	73,596
Total liabilities		**2,740,692**	**2,677,884**	**2,199,858**	**2,157,364**
Equity					
Share capital	27	156,556	146,556	156,556	146,556
Reserves		7,565	545	8,293	1,994
Retained earnings		55,650	29,610	44,293	24,747
Total equity		**219,771**	**176,711**	**209,142**	**173,297**
Total liabilities and equity		**2,960,463**	**2,854,595**	**2,409,000**	**2,330,661**
Off-balance sheet items					
Contingent liabilities	28	38,517	58,217	34,242	54,544
Financial commitments	28	178,121	168,646	176,181	192,406

The notes on pages 18 to 71 are an integral part of these financial statements.

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Klāvs Vasks
Member of the Supervisory Board

STATEMENT OF CHANGES IN EQUITY

Changes in the Group's equity:

	EUR 000's						
	Attributable to equity holders of the Bank						
	Issued Share capital	**Securities fair value revaluation reserve**	**Foreign currency retranslation**	**Other reser -ves**	**Restruc-turing reserve**	**Retained earnings/ (accumula-ted loss)**	**Total equity**
Balance as at 31/12/2013	**146,556**	**2,933**	**1,781**	**170**	**(4,710)**	**(3,282)**	**143,448**
Total comprehensive income for the period							
Net profit for the period	-	-	-	-	-	32,405	32,405
Other comprehensive income / (loss) for the period	-	129	153	-	-	576	858
Transactions with shareholders							
Transfer to other reserve	-	-	-	89	-	(89)	-
Balance as at 31/12/2014	**146,556**	**3,062**	**1,934**	**259**	**(4,710)**	**29,610**	**176,711**
Total comprehensive income for the period							
Net profit for the period	-	-	-	-	-	26,071	26,071
Other comprehensive income / (loss) for the period	-	5,054	1,895	-	-	40	6,989
Transactions with shareholders							
Transfer to other reserve	-	-	-	12	59	(71)	-
Shares issued (see *0*)	10,000	-	-	-	-	-	10,000
Balance as at 31/12/2015	**156,556**	**8,116**	**3,829**	**271**	**(4,651)**	**55,650**	**219,771**

Changes in the Bank's equity:

	EUR 000's			
	Attributable to equity holders of the Bank			
	Issued share capital	**Securities fair value revaluation reserve**	**Retained earnings/ (accumulated loss)**	**Total equity**
Balance as at 31/12/2013	**146,556**	**1,537**	**(4,497)**	**143,596**
Total comprehensive income for the period				
Net profit for the period	-	-	29,244	29,244
Other comprehensive income / (loss) for the period	-	457	-	457
Balance as at 31/12/2014	**146,556**	**1,994**	**24,747**	**173,297**
Total comprehensive income for the period				
Net profit for the period	-	-	19,546	19,546
Other comprehensive income / (loss) for the period	-	6,299	-	6,299
Transactions with shareholders				
Shares issued (see *0*)	10,000	-	-	10,000
Balance as at 31/12/2015	**156,556**	**8,293**	**44,293**	**209,142**

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STATEMENT OF CASH FLOWS

		EUR 000's			
	Notes	**2015 Group**	**2014 Group**	**2015 Bank**	**2014 Bank**
Cash flows from operating activities					
Profit before tax		29,244	35,259	22,269	32,396
Dividends received		-	-	(238)	(1,690)
Amortisation of intangible assets, depreciation of property, equipment and investment property		4,000	4,523	1,689	1,361
Change in impairment allowances and other provisions	11	6,241	9,249	6,232	10,618
Interest income	6	(79,148)	(80,707)	(63,695)	(67,462)
Interest expense	6	18,682	18,241	15,595	15,359
Other non-cash items*		(31,903)	(25,194)	(21,066)	(20,735)
Cash flows before changes in assets and liabilities		**(52,884)**	**(38,629)**	**(39,214)**	**(30,153)**
Change in derivative financial instruments		1,276	(4,665)	(667)	(3,307)
(Increase) / decrease in other assets		21,840	(19,883)	22,131	(18,228)
Increase / (decrease)in other liabilities		2,957	4,434	3,666	1,498
(Increase) / decrease in trading investments and items designated at fair value through profit or loss		3,561	(23,281)	-	-
(Increase) / decrease in balances due from credit institutions		338,148	(332,604)	108,730	(108,882)
(Increase) / decrease in loans and receivables from customers		(104,988)	(28,954)	(48,761)	(23,367)
Increase / (decrease)in balances due to credit institutions and central banks		17,670	(7,175)	16,814	11,828
Increase / (decrease) in deposits from customers		51,702	269,832	87,694	97,271
Cash generated from operating activities before corporate income tax		**279,282**	**(180,925)**	**150,393**	**(73,340)**
Interest received during the period		79,380	78,919	63,988	65,781
Interest paid during the period		(18,378)	(17,580)	(15,196)	(14,953)
Corporate income tax paid during the period		(336)	(162)	-	-
Net cash flows from operating activities		**339,948**	**(119,748)**	**199,185**	**(22,512)**
Cash flows from investing activities					
Purchase of property, equipment and intangible assets		(3,944)	(2,436)	(3,265)	(1,496)
Proceeds from disposal of property and equipment		153	21	33	14
Purchase of held to maturity securities		(81,528)	(72,498)	(80,173)	(49,541)
Proceeds from held to maturity securities		109,268	87,669	106,789	81,026
Purchase of available for sale securities		(351,556)	(433,831)	(261,907)	(301,764)
Cash inflows from available for sale securities		336,689	303,888	245,592	209,981
Dividends received		-	-	238	1,690
Acquisitions and investments in subsidiaries		-	-	(1)	(1,033)
Net cash flows from investing activities		**9,082**	**(117,187)**	**7,306**	**(61,123)**
Cash flows from financing activities					
Issued share capital		10,000	-	10,000	-
Repayment of subordinated liabilities		(18,400)	-	(18,400)	-
Net cash flows from financing activities		**(8,400)**	**-**	**(8,400)**	**-**
Net cash flows for the period		**340,630**	**(236,935)**	**198,091**	**(83,635)**
Cash and cash equivalents at the beginning of the period		**369,011**	**605,946**	**419,225**	**502,860**
Cash and cash equivalents at the end of the period	31	**709,641**	**369,011**	**617,316**	**419,225**

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

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Klāvs Vasks
Member of the Supervisory Board

NOTES TO THE FINANCIAL STATEMENT

If not mentioned otherwise, referral to Group's policies and procedures should be also considered as referral to the respective Bank's policies and procedures. Figures in parenthesis represent amounts as at 31 December 2014 or for the year ended 31 December 2014, unless stated otherwise.

NOTE 1. AUTHORISATION OF THE FINANCIAL STATEMENTS

These financial statements have been authorised for issuance by the Management Board on 16 February 2016 and Supervisory Board on 26 February 2016 and comprise the financial information of AS Citadele banka (hereinafter – the Bank) and its subsidiaries (together – the Group). In accordance with the Commercial Law of the Republic of Latvia, the shareholders' meeting has the right to make the decision on the approval of the financial statements.

NOTE 2. GENERAL INFORMATION

The Bank was registered as a joint stock company on 30 June 2010. The Bank commenced its operations on 1 August 2010. The Bank was established as a result of implementation of an EC restructuring plan, which was approved by the Cabinet of Ministers of the government of Latvia in the spring of 2010 and pursuant to which AS Citadele Banka was to take over from AS Parex Banka certain assets and liabilities and other items, i.e. an undertaking. The transfer of undertaking took place on 1 August 2010.

The Bank's head office is located in Riga, Latvia. The legal address of the Bank is Republikas laukums 2a, Riga, LV-1010. As at 31 December 2015, the Bank was operating a total of 35 (2014: 36) branches and client service centres in Riga and throughout Latvia. The Bank has 2 (2014: 2) foreign branches and client service centres in Tallinn (Estonia). The Bank owns directly and indirectly 25 (2014: 26) subsidiaries, which operate in various financial markets sectors. The Bank is the parent company of the Group. In the reporting period the Latvian Privatisation Agency completed the sale of shares in the Citadele Bank. For more details on the change in shareholders please refer to
1/

Share Capital.

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

As at 31 December 2015, the Group had 1,625 (2014: 1,535) and the Bank had 1,263 (2014: 1,167) full time equivalent employees.

NOTE 3. RESTRUCTURING

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

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

NOTE 4. RESTATEMENT

In 2015 the Group has changed the approach to presentation of depreciation charges on impaired property and equipment items. Previously in income statements' line amortisation and depreciation charges the depreciation was calculated as allocation of each item's initial acquisition cost, less its residual value, over assets remaining useful life. Impaired property and equipment items were regularly tested for impairment and if necessary impairment was released in income statements' line impairment charges and reversals.

Since 2015 for impaired property and equipment items, the depreciation charge at the moment of impairment is adjusted to allocate the asset's revised carrying amount, less its residual value, on a systematic basis over its remaining useful life. Consequently the depreciation charges reported in income statements' line amortisation and depreciation charge are lower and corresponding impairment reversals previously reported in income statements' line impairment charges and reversals are smaller. Net result of the Group is not affected by this change. Comparatives have been restated accordingly. This change has no impact on the Bank's income statement as it has no impaired property and equipment items.

Effect of changes on the Group's income statement:

	EUR 000's		
	2014 **As reported**	**Restatement**	**2014** **As restated**
Amortisation and depreciation charge	(5,204)	680	(4,523)
Impairment charges and reversals, net	(8,569)	(680)	(9,249)
Net profit	32,405		32,405

NOTE 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Certain new IFRSs became effective for the Group from 1 January 2015. Listed below are those new or amended standards or interpretations which the Group has adopted in preparation of these financial statements.

The following guidance with effective date of 1 January 2015 did not have any impact on these consolidated financial statements:

- *IFRIC 21* guidance on a levy imposed by government
- Annual Improvements to IFRSs

Certain new standards, amendments to standards and interpretations have been published that become endorsed for the annual accounting periods beginning after 1 January 2016 or are not yet effective in the EU and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early.

- *IFRS 11: Accounting for Acquisitions of Interests in Joint Operations (effective for annual periods beginning on or after 1 January 2016)*. These Amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business. Business combination accounting also applies to the acquisition of additional interests in a joint operation while the joint operator retains joint control. The additional interest acquired will be measured at fair value. The previously held interests in the joint operation will not be re-measured.
- *IAS 1 – Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2016)*. The Amendments include the five, narrow-focus improvements to the disclosure requirements contained in the standard.
- *IAS 16 – Property, Plant and Equipment and IAS 38 – Intangible Assets (effective for annual periods beginning on or after 1 January 2016)*. The amendments explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. In addition, the amendments introduce a rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate. This presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue.
- *IAS 19 – Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after 1 February 2015)*. The amendments are relevant only to defined benefit plans that involve contributions from employees or third parties meeting certain criteria. When these criteria are met, a company is permitted (but not required) to recognise them as a reduction of the service cost in the period in which the related service is rendered.
- *IAS 27 – Separate Financial Statements (effective for annual periods beginning on or after 1 January 2016)*. The amendments allow an entity to use the equity method in its separate financial statements to account for investments in subsidiaries, associates and joint ventures.
- *Annual Improvements to IFRSs*. The improvements introduce ten amendments to ten standards and consequential amendments to other standards and interpretations. These amendments are applicable to annual periods beginning on or after either 1 February 2015 or 1 January 2016, with earlier adoption permitted.

As of issuance of these financial statements, the Management doesn't intend to use the newly permitted equity method accounting for investments in subsidiaries. Therefore, amendments to IAS 27 (*Separate Financial Statements*) are expected to have no impact on the Bank's separate financial statements. The Group is in the process of evaluating the potential effect if any of other changes from these new standards and interpretations.

a) *Basis of preparation*

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

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

b) Functional and presentation currency

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

c) Accounting for restructuring / transfer of undertaking

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

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

d) Basis of consolidation

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. The investments in the subsidiaries are presented in the Bank's financial statements at acquisition cost. More detailed information on the Group's subsidiaries is presented in Note 20.

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

e) Income and expense recognition

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

Commissions in respect of the acquisition of financial assets or the issue of financial liabilities that are not at fair value through profit or loss are deferred and recognised as an adjustment to the effective yield on the respective asset or liability. Other commissions and fees are credited and/ or charged to the statement of income as services are provided or on the execution of a significant act, as applicable, under the line "commission and fee income" or "commission and fee expense", as appropriate.

Penalty income is recognised on cash-received basis.

f) Foreign currency translation

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

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

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

The principal rates of exchange (foreign currency quoted per unit of EUR) set forth by the European Central Bank and used in the preparation of the Group's and the Bank's financial reports 2015 were as follows:

Reporting date	USD	CHF	RUB	LTL
As at 31 December 2015	1.0887	1.0835	80.6736	-
As at 31 December 2014	1.2141	1.2024	72.3370	3.4528

g) Taxation

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

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

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

h) Financial instruments

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

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

Financial assets and liabilities held for trading

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

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

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

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

Held to maturity investments

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

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

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

Available for sale financial assets

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

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

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

In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in the recognition of an impairment loss. If any such evidence exists for available for sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the statement of income. Impairment losses recognised in the statement of income on equity instruments are not reversed through the statement of income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the statement of income.

Derivative Financial Instruments

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

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

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

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

Loans and receivables

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

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

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

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

i) Sale and repurchase agreements

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

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

j) Derecognition of financial assets and liabilities

Financial assets

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

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

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

Financial liabilities

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

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

Issued debt, subordinated liabilities and other borrowed funds

The Group recognises financial liabilities on its balance on drawdown.

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

k) Leases

Finance leases – Group as lessor

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

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

Operating leases – Group as lessor

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

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

Operating leases – Group as lessee

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

l) Renegotiated loans and debt forbearances

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

m) Impairment of loans and receivables from customers

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

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

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

- significant financial difficulty of the borrower;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the granting to the borrower of a concession, for economic or legal reasons relating to the borrower's financial difficulty, that the Group would not otherwise consider;
- it becoming probable that the insolvency process may be initiated against the borrower, or the borrower will enter other financial reorganisation;
- the worsening of economic conditions in the market segment, where the borrower operates; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans and receivables from customers since the initial recognition of those loans and receivables, although the decrease cannot yet be identified with the individual loans in the portfolio, including:
  - adverse changes in the payment status of borrowers in the portfolio; or
  - national or local economic conditions that correlate with defaults on the loans and receivables in the portfolio.

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

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

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

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

When loans and receivables cannot be recovered, they are written off and charged against impairment allowance. They are not written off until the necessary legal procedures have been completed and the amount of the loss is finally determined. Subsequent recoveries of amounts previously written off are reported in the statement of income as other operating income.

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

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

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

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

o) Intangible assets

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

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

Subsequent to the initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment loss. Leasehold rights are amortised over the remaining lease contract on a straight-line basis. Annual amortisation rates applied on a straight-line basis to software and other intangible assets range from 10% to 50%. All intangible assets, except for goodwill, are with definite lives.

p) Property and equipment

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

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

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

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

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

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

q) Inventories

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

r) Assets held for sale

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

s) Investment properties

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

t) Insurance business

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

u) Provisions

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

v) Off-balance sheet financial commitments and contingent liabilities

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

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

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

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

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

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

w) Non-financial assets

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

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

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

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

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

x) Trust activities

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

y) Fair values of financial assets and liabilities

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

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

z) Cash and cash equivalents

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

aa) Offsetting

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

bb) Staff costs and related contributions

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

cc) Events after the balance sheet date

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

dd) Use of estimates in the preparation of financial statements

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

ee) Customer loyalty programmes

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

Impairment of loans

The Group regularly reviews its loans and receivables for assess impairment. The estimation of potential impairment losses is inherently uncertain and dependent upon many factors. On an on-going basis potential issues are identified promptly as a result of individual loans being regularly monitored. Impairment losses are calculated on an individual basis with reference to expected future cash flows including those arising from the realisation of collateral. The Group uses its experienced judgement to estimate the amount of any impairment loss considering matters such as future economic conditions and the resulting trading performance of the borrower and the value of collateral, for which there may not be a readily accessible market. As a result, the impairment losses can be subject to significant variation as time progresses and the circumstances become clearer. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Changes in net present value of estimated future cash flows of loans and receivables from customers by +/-5% would result in EUR 0.2 million lower or EUR 0.3 million higher specific impairment allowance for the Bank (2014: EUR 0.4 million lower or EUR 0.7 million higher). If estimated value of collaterals of loans and receivables from customers would differ by +/-5% the estimated specific impairment allowance for loans and receivables would differ by EUR1.9 million lower or EUR 2.8 million higher respectively (2014: -6.7 million or EUR +5.5 million).

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

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

The future credit quality of the loan portfolio for which the collective impairment losses are estimated is subject to uncertainties that could cause actual credit losses to differ materially from reported impairment losses. These uncertainties include factors such as international and local economic conditions, borrower specific factors, industry and market trends, interest rates, unemployment rates and other external factors. Changes in LGD ratio by 500 basis points would result in increase/ decrease in collectively assessed impairment by ca. EUR +/-2.3 million for the Bank and EUR +/-3.5 million for the Group (2014: EUR +/-2.3 million for the Bank and EUR +/-3.3 million for the Group). The bank entities within the Group apply a judgmental element to probability of default rates that incorporates the Group's management's judgment on the level of incurred losses within the current loan portfolio. Changes in the PD ratio relating to not overdue category by 100 basis points would result in increase/ decrease in collectively assessed impairment by ca. EUR +/-2.2 for the Bank million and EUR +/-2.4 million for the Group (2014: EUR +/-1.9 million for the Bank and EUR +/-2.1 million for the Group).

Impairment of securities classified as available for sale or held to maturity

The Group makes various estimates to determine the value of securities assessed for impairment. When the value of securities, for which loss event have occurred, is assessed for impairment, an estimate is made involving factors such as liquidity (quoted prices and volumes from several reliable providers as well as judgemental evaluation), spreads (estimation of securities' spreads and spreads on securities rated Caa1 and below), ratings (subordination) and loss-given-default (LGD) rates.

The future credit quality of the securities for which the impairment losses are estimated is subject to uncertainties that could cause actual credit losses to differ materially from reported impairment losses. These uncertainties include factors such as international, regional and local economic conditions, issuer specific factors, market activity and depth, interest rates and other external factors. As at 31 December 2015, increase or decrease in credit spread delta by 200 basis points would not change Bank's impairment (2014: nil). For additional information on fixed and non-fixed income securities fair value assessment refer to Note 34.

Impairment of other financial and non-financial assets

The Bank and the Group at the end of each reporting period assesses whether there is any indication that a non-financial asset may be impaired other than inventory and deferred tax. If any such indication exists, the recoverable amount of the particular asset or cash generating unit is estimate. Recoverable amount estimates depend on uncertainties in future free cash flow estimates and discount rates applied. For more details on the approach and key assumptions in recoverable amount estimates of the Bank's investments in subsidiaries and Group's property and plant refer to Note 20 and Note 18 respectively.

Deferred tax asset

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

Consolidation group

The Group consolidates all entities where it controls the investee. The Group controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. For list of investees included in the consolidation group refer to Note 20. For investments in securities which are not consolidated refer to Note 15. In the ordinary course of business IPS CBL Asset Management (CBL AM) provides management services to several funds where its interest held is only fees from servicing. The Bank has made an investment solely with a view to diversify its securities portfolio also in funds managed by CBL AM. According to the prospectus of the funds, the investment decisions are made collectively by CBL AM Investment Committee. The Bank has no intention to participate in decision making regarding the asset allocation of any of the funds. Moreover, interfering with Investment Committee's decision making process would be against the corporate governance principles maintained by that Bank since its inception. As such, the Bank believes it does not have the control over the funds, as per IFRS 10, and the fund should not be consolidated.

NOTE 6. INTEREST INCOME AND EXPENSE

	EUR 000's			
	2015 Group	2014 Group	2015 Bank	2014 Bank
Interest income:				
- interest on financial assets measured at amortised cost:	70,626	72,736	58,547	63,174
- interest on loans and receivables from customers	*63,864*	*64,906*	*52,757*	*55,969*
- interest on balances due from credit institutions and central banks	*815*	*736*	*728*	*762*
- interest on held to maturity securities	*5,947*	*7,094*	*5,062*	*6,443*
- interest on available for sale securities	7,138	6,020	5,148	4,288
- interest on held for trading securities	366	695	-	-
- interest income on financial assets designated at fair value through profit or loss	1,018	1,256	-	-
Total interest income	**79,148**	**80,707**	**63,695**	**67,462**
Interest expense:				
- interest on financial liabilities measured at amortised cost:	(18,382)	(18,001)	(15,595)	(15,359)
- interest on deposits from customers	*(12,495)*	*(12,325)*	*(9,534)*	*(9,548)*
- interest on subordinated liabilities	*(4,432)*	*(5,361)*	*(4,432)*	*(5,361)*
- interest on balances due to credit institutions and central banks	*(1,144)*	*(81)*	*(1,319)*	*(218)*
- other interest expense	*(311)*	*(234)*	*(310)*	*(232)*
- interest expense on financial liabilities designated at fair value through profit or loss	(300)	(240)	-	-
Total interest expense	**(18,682)**	**(18,241)**	**(15,595)**	**(15,359)**
Net interest income	**60,466**	**62,466**	**48,100**	**52,103**

In the current economic environment the overall effective interest rate on some high quality liquid assets has turned negative. The Group is mainly affected by negative interest rates applied on certain balances due from central banks and some credit institutions. As the interest resulting from a negative effective interest rate on financial assets reflects an outflow of economic benefits, this is presented as interest expense.

	EUR 000's			
	2015 Group	2014 Group	2015 Bank	2014 Bank
Interest income recognised on impaired assets	2,152	2,634	1,575	2,287

NOTE 7. COMMISSION AND FEE INCOME AND EXPENSE

	EUR 000's			
	2015 Group	2014 Group	2015 Bank	2014 Bank
Commission and fee income:				
- transactions with settlement cards	21,496	20,808	19,636	18,844
- payment transfers	10,602	9,594	8,344	7,311
- custody, trust and asset management fees	7,882	7,973	1,336	1,171
- account maintenance	3,396	2,480	2,244	1,707
- cash collection	2,259	2,128	2,259	2,128
- cash operations	1,253	1,379	1,037	1,134
- securities, financial instrument brokerage fees	746	819	646	670
- review of loan applications and collateral evaluation	675	670	672	667
- letters of credit and guarantees	495	545	327	371
- other fees	2,404	1,400	2,075	2,420
Total commission and fee income	**51,208**	**47,796**	**38,576**	**36,423**

	EUR 000's			
	2015 Group	2014 Group	2015 Bank	2014 Bank
Commission and fee expense:				
- fees related to settlement cards	(12,426)	(11,491)	(11,317)	(10,200)
- fees related to correspondent accounts	(1,467)	(1,319)	(1,195)	(1,048)
- brokerage and custodian fees:	(815)	(735)	(599)	(587)
- other fees	(963)	(868)	(202)	(149)
Total commission and fee expense	**(15,671)**	**(14,413)**	**(13,313)**	**(11,984)**
Net commission and fee income	**35,537**	**33,383**	**25,263**	**24,439**

NOTE 8. GAIN ON TRANSACTIONS WITH FINANCIAL INSTRUMENTS, NET

	EUR 000's			
	2015 Group	2014 Group	2015 Bank	2014 Bank
Gain from foreign exchange trading and revaluation of open positions, net	8,959	10,757	7,420	9,109
Gain / (loss) from disposal of available for sale securities, net	4,746	3,106	2,811	1,288
Gain / (loss) from trading and revaluation of securities and derivatives held for trading purposes, net	720	88	851	-
Gain from trading and revaluation of other derivatives, net	-	7	-	7
Gain / (loss) on financial assets measured at amortised cost, net	-	(91)	-	-
Gain / (loss) on financial assets or financial liabilities designated at fair value through profit or loss	(800)	(396)	-	-
Gain on trading with financial instruments, net	**13,625**	**13,471**	**11,082**	**10,404**

	EUR 000's			
	2015 Group	2014 Group	2015 Bank	2014 Bank
Net gain / (loss) on financial instruments not at fair value through profit or loss	4,746	3,015	2,811	1,288
Net gain on financial instruments at fair value through profit or loss	8,879	10,456	8,271	9,116
Total gain on financial instruments, net	**13,625**	**13,471**	**11,082**	**10,404**

NOTE 9. ADMINISTRATIVE AND OTHER EXPENSE

	EUR 000's			
	2015 Group	2014 Group	2015 Bank	2014 Bank
Personnel	41,998	40,237	31,098	29,012
Rent, utilities, maintenance	3,645	3,905	4,835	4,843
IT expense	3,695	3,209	2,560	2,213
Non-refundable value added tax*	3,731	2,924	3,003	2,248
Consulting and professional services	5,465	2,343	4,211	1,424
Advertising, marketing and sponsorship	2,755	2,321	2,153	1,798
Office administration	780	723	558	527
Communications	631	662	404	405
Other	5,192	5,096	2,958	2,763
Total administrative expense	**67,892**	**61,420**	**51,780**	**45,233**
Other expense*	5,299	1,457	4,556	523
Total administrative and other expenses	**73,191**	**62,887**	**56,336**	**45,756**

* One-time costs that had to be recognised in the statement of income of 2015 due to the postponed IPO process in the amount of EUR 5.0 million.

NOTE 10. PERSONNEL EXPENSE

Personnel expense has been presented in these financial statements within administrative expenses. Personnel expense includes remuneration for work to the personnel and related social security contributions and bonuses and other short-term benefits costs.

	EUR 000's			
	2015 Group	2014 Group	2015 Bank	2014 Bank
Remuneration:				
- management	2,715	2,788	1,236	1,306
- other personnel	30,818	29,548	23,415	21,916
Total remuneration for work	**33,533**	**32,336**	**24,651**	**23,222**
Social security contributions:				
- management	342	427	106	181
- other personnel	6,923	6,607	5,239	4,894
Total social security contributions	**7,265**	**7,034**	**5,345**	**5,075**
Other personnel expense*	**1,200**	**867**	**1,102**	**715**
Total personnel expense	**41,998**	**40,237**	**31,098**	**29,012**
Number of full time equivalent employees at the end of the period	1,625	1,535	1,263	1,167

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

NOTE 11. IMPAIRMENT CHARGES AND REVERSALS

Total net impairment allowance charged to statement of income:

	EUR 000's			
	2015 Group	**2014 Group as restated**	**2015 Bank**	**2014 Bank**
Loans – specifically assessed impairment	(7,243)	(6,879)	(6,450)	(6,045)
Loans – collectively assessed impairment	(1,391)	(6,460)	(144)	(4,824)
Available for sale securities	(510)	(520)	(510)	(520)
Other financial and non-financial assets, net	1,603	1,450	(165)	(2,212)
Recovered written-off assets	1,300	3,160	1,037	2,983
Total allowance and reversals charged to the statement of income, net	**(6,241)**	**(9,249)**	**(6,232)**	**(10,618)**

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

Change in allowances for impairment of loans and receivables:

	EUR 000's			
	2015 Group	**2014 Group**	**2015 Bank**	**2014 Bank**
Total allowance for impairment at the beginning of the period, including:	**88,707**	**93,049**	**69,767**	**72,495**
- loans – specifically assessed impairment	67,676	78,477	51,383	58,935
- loans – collectively assessed impairment	21,031	14,572	18,384	13,560
Charge:	**16,418**	**24,848**	**12,127**	**21,256**
- loans – specifically assessed impairment	10,743	17,514	8,561	15,640
- loans – collectively assessed impairment	5,675	7,334	3,566	5,616
Release:	**(7,784)**	**(11,509)**	**(5,533)**	**(10,387)**
- loans – specifically assessed impairment	(3,500)	(10,635)	(2,111)	(9,595)
- loans – collectively assessed impairment	(4,284)	(874)	(3,422)	(792)
Allowance charged to the statement of income, net, including:	**8,634**	**13,339**	**6,594**	**10,869**
- loans – specifically assessed impairment	7,243	6,879	6,450	6,045
- loans – collectively assessed impairment	1,391	6,460	144	4,824
Change of allowance due to write-offs, net	**(7,433)**	**(17,882)**	**(2,964)**	**(13,826)**
Effect of changes in currency exchange rates:	**267**	**201**	**265**	**229**
- loans – specifically assessed impairment	265	202	266	229
- loans – collectively assessed impairment	2	(1)	(1)	-
Total allowance for impairment at the end of the period, including:	**90,175**	**88,707**	**73,662**	**69,767**
- loans – specifically assessed impairment	67,751	67,676	55,135	51,383
- loans – collectively assessed impairment	22,424	21,031	18,527	18,384

During the ordinary course of business recoverability of some loans deteriorate while for others improve. This directly affects specifically assessed impairment allowance for loans. Changes in Group's and Bank's collectively assessed impairment allowance for loans in the reporting period mainly related to application of more prudent criteria in collective impairment assessment process, as well as due to changes in past due days of unimpaired loan balances.

Change in impairment of other assets:

	EUR 000's			
	2015 Group	2014 Group as restated	2015 Bank	2014 Bank
Total allowance for impairment at the beginning of the period, including:	**28,775**	**33,585**	**61,641**	**61,206**
- available for sale securities	7,062	8,256	7,062	8,256
- due from credit institutions	852	758	852	758
- other non-financial assets	20,861	24,571	53,727	52,192
Charge:	**1,225**	**1,548**	**798**	**2,810**
- available for sale securities	510	520	510	520
- other non-financial assets	715	1,028	288	2,290
Release:	**(2,318)**	**(2,478)**	**(123)**	**(78)**
- available for sale securities	-	-	-	-
- other non-financial assets	(2,318)	(2,478)	(123)	(78)
Allowance charged to the statement of income, net, including:	**(1,093)**	**(930)**	**675**	**2,732**
- available for sale securities	510	520	510	520
- other financial and non-financial assets	(1,603)	(1,450)	165	2,212
Change of allowance due to write-offs, net:	**(1,169)**	**(2,186)**	**(325)**	**(676)**
- available for sale securities	-	-	-	-
- due from credit institutions	-	-	-	-
- other non-financial assets	(1,169)	(2,186)	(325)	(676)
Effect of changes in currency exchange rates:	**(592)**	**(1,694)**	**(550)**	**(1,621)**
- available for sale securities	(648)	(1,714)	(648)	(1,714)
- due from credit institutions	98	94	98	94
- other non-financial assets	(42)	(74)	-	(1)
Total allowance for impairment at the end of the period, including:	**25,921**	**28,775**	**61,441**	**61,641**
- available for sale securities	6,924	7,062	6,924	7,062
- due from credit institutions	950	852	950	852
- other non-financial assets	18,047	20,861	53,567	53,727

Changes in impairment allowance of non-financial assets consist mostly of changes in impairment for property and equipment mainly relating to the reduction in impairment allowance for the Citadele headquarters building. Based on the re-estimate of the fair value, the carrying amount of the building is approximately the same as at year end 2014, and accordingly, a reversal of impairment took place.

NOTE 12. TAXATION

Corporate income tax expense comprises the following items:

	EUR 000's			
	2015 Group	2014 Group	2015 Bank	2014 Bank
Current corporate income tax	511	251	-	-
Deferred income tax	2,579	2,512	2,640	3,059
Tax withheld abroad	83	128	83	93
Prior year adjustments	-	(37)	-	-
Total corporate income tax expense	**3,173**	**2,854**	**2,723**	**3,152**

The reconciliation of the Bank's and the Group's pre-tax profit for the period to the corporate income tax expense for the period may be specified as follows:

	EUR 000's			
	2015 Group	2014 Group	2015 Bank	2014 Bank
Profit before corporate income tax	29,244	35,259	22,269	32,396
Corporate income tax (at 15%)	**4,387**	**5,289**	**3,340**	**4,859**
Effect of tax rates in foreign jurisdictions	179	82	-	-
Non deductible expense	1,700	653	851	286
Non taxable income	(3,053)	(3,129)	(1,773)	(1,979)
Other tax differences, net (incl. changes in unrecognised deferred tax assets)	(40)	(41)	305	(14)
Total effective corporate income tax	**3,173**	**2,854**	**2,723**	**3,152**

The movements in deferred corporate income tax asset / (liability)can be specified as follows:

	EUR 000's			
	2015 Group	2014 Group	2015 Bank	2014 Bank
As at the beginning of the year	30,073	32,534	28,735	31,700
Charge to statement of income	(2,579)	(2,512)	(2,640)	(3,059)
Charge to statement of comprehensive income	275	51	62	94
Total deferred income tax asset at the end of the year, net	**27,769**	**30,073**	**26,157**	**28,735**

Recognised deferred corporate income tax assets and liabilities can be specified as follows:

	EUR 000's			
	31/12/2015 Group	31/12/2014 Group	31/12/2015 Bank	31/12/2014 Bank
Deferred tax assets/(liabilities):				
Accumulated excess of tax depreciation over accounting depreciation	(700)	(434)	(698)	(434)
Other deferred tax liabilities	-	(551)	-	(359)
Vacation pay and similar accrual	1,139	1,048	837	822
Revaluation of securities and derivatives	(97)	380	(97)	380
Temporary impairment allowance differences	2,779	2,758	2,779	2,758
Recognised unutilised tax losses	24,590	26,839	23,304	25,568
Other deferred tax assets	58	33	32	-
Net deferred corporate income tax asset	**27,769**	**30,073**	**26,157**	**28,735**

Part of the Group's unutilised tax losses are not recognised for deferred tax asset purposes as there is uncertainty about availability of sufficient future taxable profits with which to offset accumulated tax losses at particular subsidiary level. Also there are legal limitations on transferability of unutilised tax loses both between entities operating in the same jurisdiction as well as operating in different jurisdictions. .

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

	EUR 000's			
	31/12/2015 Group	31/12/2014 Group	31/12/2015 Bank	31/12/2014 Bank
Total unutilised tax losses with undated expiry date as per current tax legislation	**223,246**	**224,048**	**155,363**	**170,517**
Including part unrecognised as deferred tax asset	*59,313*	*45,121*	**-**	**-**

NOTE 13. CASH AND DEPOSITS WITH CENTRAL BANKS

	EUR 000's			
	31/12/2015 Group	31/12/2014 Group	31/12/2015 Bank	31/12/2014 Bank
Cash	51,270	60,303	46,737	57,728
Deposits with the Bank of Latvia	299,091	84,593	299,091	84,593
Deposits with other central banks	204,717	80,503	3,132	329
Total cash and deposits with central banks	**555,078**	**225,399**	**348,960**	**142,650**

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

Demand deposits with other central banks include balances with central banks of Lithuania, Switzerland and Estonia. As at 31 December 2015 and 31 December 2014 no amounts due from central banks were overdue.

NOTE 14. BALANCES DUE FROM CREDIT INSTITUTIONS

	EUR 000's			
	31/12/2015 Group	31/12/2014 Group	31/12/2015 Bank	31/12/2014 Bank
Due from credit institutions registered in OECD countries	168,160	442,349	291,936	362,104
Due from credit institutions registered in Latvia	3,945	54,040	1,024	51,693
Due from credit institutions registered in other non-OECD countries	9,990	13,867	9,270	51,328
Total gross balances due from credit institutions	**182,095**	**510,256**	**302,230**	**465,125**
Incl. impaired balances	*950*	*852*	*950*	*852*
Impairment allowance	(950)	(852)	(950)	(852)
Total net balances due from credit institutions	**181,145**	**509,404**	**301,280**	**464,273**

The above balances represent the maximum credit risk exposure to the Group and the Bank respectively.

As at 31 December 2015 and 2014, none of the non-impaired amounts due from credit institutions were past due. For more details on credit quality of the Group's neither past due nor-impaired balances due from credit institutions refer to Credit risk section of the Note 34 (*Risk Management*).

NOTE 15. FIXED AND NON-FIXED INCOME SECURITIES

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

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

In 2015, the Group and the Bank re-assessed the profile of a certain credit linked note with carrying amount of EUR 34.4 million classified as held to maturity. The re-assessment resulted in presentation of this security as a German credit institution bond as opposed to its previous presentation as a Latvian municipality bond. The profile has changed as a result of the separate presentation of the embedded derivative within the derivatives caption. Latvian municipality exposure still remains, but has not been presented as part of the securities credit risk profile.

	EUR 000's 31/12/2014				
	Government bonds	**Municipality bonds**	**Credit institution bonds**	**Corporate and other bonds**	**Total**
Held for trading	9,545	-	1,908	8,842	20,295
Financial assets designated at fair value through profit or loss	11,749	1,634	29,236	42,232	84,851
Available for sale	228,426	-	146,294	166,871	541,591
Held to maturity	161,988	34,455	7,573	25,236	229,252
Total fixed income securities	**411,708**	**36,089**	**185,011**	**243,181**	**875,989**

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

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

	EUR 000's 31/12/2014				
	Government bonds	**Municipality bonds**	**Credit institution bonds**	**Corporate and other bonds**	**Total**
Available for sale	152,476	-	141,160	139,701	433,337
Held to maturity	153,550	34,455	4,972	-	192,977
Total fixed income securities	**306,026**	**34,455**	**146,132**	**139,701**	**626,314**

As at 31 December 2015, there are no Group's and Bank's securities on which payments are past due or which were restructured during the reporting period (2014: EUR nil). No fixed income securities were impaired (2014: nil). The above tables represent the maximum credit risk exposure to the Group and the Bank from fixed income securities.

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

	EUR 000’s					
	31/12/2015			**31/12/2014**		
	Government bonds	**Other securities**	**Total**	**Government bonds**	**Other securities**	**Total**
Latvia	232,246	4,378	236,624	253,751	37,978	291,729
United States	7,773	90,510	98,283	12,358	77,321	89,679
Germany	-	67,140	67,140	-	24,479	24,479
Netherlands	-	56,681	56,681	10,080	53,734	63,814
Lithuania	56,454	-	56,454	86,375	-	86,375
Sweden	15,573	19,787	35,360	5,376	21,342	26,718
Canada	3,681	24,521	28,202	3,308	24,023	27,331
Australia	-	23,635	23,635	693	32,946	33,639
Norway	-	25,648	25,648	-	26,638	26,638
Finland	13,066	19,188	32,254	13,246	16,312	29,558
Great Britain	-	38,578	38,578	-	6,808	6,808
Singapore	-	24,481	24,481	-	24,368	24,368
Multilateral development banks	-	27,407	27,407	-	12,902	12,902
Other countries*	27,312	127,355	154,667	26,521	105,646	132,167
Total fixed income securities and shares, net	**356,105**	**549,309**	**905,414**	**411,708**	**464,497**	**876,205**
Investments in managed funds**	-	35,493	35,493	-	32,642	32,642
Total securities, net	**356,105**	**584,802**	**940,907**	**411,708**	**497,139**	**908,847**

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

	EUR 000’s					
	31/12/2015			**31/12/2014**		
	Government bonds	**Other securities**	**Total**	**Government bonds**	**Other securities**	**Total**
Latvia	218,930	3,189	222,119	241,007	36,955	277,962
Germany	-	54,588	54,588	-	16,373	16,373
United States	7,773	48,813	56,586	12,358	38,612	50,970
Netherlands	-	35,223	35,223	10,080	34,351	44,431
Sweden	6,431	19,787	26,218	4,143	21,342	25,485
Canada	3,681	20,767	24,448	3,308	19,356	22,664
Finland	9,276	17,807	27,083	10,549	16,312	26,861
Norway	-	19,682	19,682	-	19,788	19,788
Singapore	-	22,790	22,790	-	22,820	22,820
Australia	-	15,839	15,839	693	24,792	25,485
Great Britain	-	25,899	25,899	-	5,462	5,462
Multilateral development banks	-	21,615	21,615	-	12,902	12,902
Other countries*	22,802	68,628	91,430	23,888	51,422	75,310
Total fixed income securities and shares, net	**268,893**	**374,627**	**643,520**	**306,026**	**320,487**	**626,513**
Investments in managed funds**	-	11,179	11,179	-	10,882	10,882
Total securities, net	**268,893**	**385,806**	**654,699**	**306,026**	**331,369**	**637,395**

* Largest Group’s and Bank’s exposure to a single country within this group as at period end is EUR 13,667 thousand and EUR 10,804 thousand respectively (2014: EUR 15,285 thousand and EUR 10,767 thousand).

** Investments in managed funds here are not distributed by their issuer’s country but shown separately.

In November 2015, Visa Inc. announced that it’s planned acquisition of Visa Europe, where Citadele is a member. Citadele has received indicative value of its share of Visa Europe sale proceeds. The up-front consideration amounts to EUR 11.4 million and consists of EUR 8.5million cash and EUR 2.9 million in Visa Inc. preferred stock. In addition, the second tranche is a potential earn-out, subject to certain achievements. The earn-out would, if fulfilled, be paid in cash around year 2020. The transaction is subject to regulatory approval and is expected to close only in the 2nd quarter of 2016. Based on the indicative value of the shares, Citadele has recognised EUR 8.5 million revaluation gain in other comprehensive income. Citadele has not recognised neither any value of preferred stock, nor of the earn-out due to the uncertainties surrounding the transaction, exact timing and final allocation of distribution proceeds.

All fixed income securities as at 31 December 2015 and 31 December 2014 are listed.

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

	EUR 000's							
	31/12/2015				31/12/2014			
	Foreign equities	**Latvian equities**	**Mutual investment funds**	**Total**	**Foreign equities**	**Latvian equities**	**Mutual investment funds**	**Total**
Held for trading	-	-	4,991	4,991	-	-	3,655	3,655
Financial assets designated at fair value through profit or loss	-	-	19,323	19,323	-	-	12,598	12,598
Available for sale	8,585	100	11,179	19,864	116	100	16,389	16,605
Total non-fixed income securities, net	**8,585**	**100**	**35,493**	**44,178**	**116**	**100**	**32,642**	**32,858**

All exposures in mutual investment funds and equities which are classified as financial assets designated at fair value through profit or loss are unit-linked insurance plan assets. According to unit-linked investment contract terms, the risk associated with the investments made by the insurance underwriter is fully attributable to the counterparty entering the insurance agreement and not the underwriter. As at 31 December 2015 EUR 19,323 thousand (2014: EUR 12,598 thousand) of financial assets designated at fair value through profit or loss relate to this.

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

	EUR 000's							
	31/12/2015				31/12/2014			
	Foreign equities	**Latvian equities**	**Mutual investment funds**	**Total**	**Foreign equities**	**Latvian equities**	**Mutual investment funds**	**Total**
Available for sale	8,568	100	11,179	19,847	99	100	10,882	11,081
Total non-fixed income securities, net	**8,568**	**100**	**11,179**	**19,847**	**99**	**100**	**10,882**	**11,081**

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

There are no off-balance sheet commitments bearing credit risk that are related to the issuers of the above securities. Further, no payments on the above instruments are past due. As at 31 December 2015, the carrying amount of the Group's and Bank's securities, which were impaired but not past due amounted to EUR 910 thousand (2014: EUR 1,421 thousand).

As at 31 December 2015 the Bank and Group has investments in mutual investment funds with carrying amount of EUR 6.5 million (2014: EUR 6.0 million) and EUR 19.5 million (EUR 13.2 million) which are managed by CBL Asset Management IPS or its subsidiaries. These exposures have been acquired only with investment intentions.

NOTE 16. LOANS AND RECEIVABLES FROM CUSTOMERS

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

	EUR 000's					
	31/12/2015			31/12/2014		
	Balance sheet amount	**Off-balance sheet credit exposure**	**Total gross credit exposure**	**Balance sheet amount**	**Off-balance sheet credit exposure**	**Total gross credit exposure**
Regular loans	924,016	35,706	959,722	851,694	30,566	882,260
Utilised credit lines	120,935	27,359	148,294	132,114	32,233	164,347
Finance leases	134,455	-	134,455	103,138	36	103,174
Debit balances on settlement cards	54,329	86,853	141,182	57,312	85,388	142,700
Overdraft facilities	19,943	19,907	39,850	13,795	17,454	31,249
Factoring	5,197	7,790	12,987	1,635	2,969	4,604
Due from investment counterparties	3,645	-	3,645	4,720	-	4,720
Total loans and receivables from customers	**1,262,520**	**177,615**	**1,440,135**	**1,164,408**	**168,646**	**1,333,054**
Impairment allowance	(90,175)	-	(90,175)	(88,707)	-	(88,707)
Total net loans and receivables from customers	**1,172,345**	**177,615**	**1,349,960**	**1,075,701**	**168,646**	**1,244,347**

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

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

	EUR 000's					
	31/12/2015			31/12/2014		
	Balance sheet amount	**Off-balance sheet credit exposure**	**Total gross credit exposure**	**Balance sheet amount**	**Off-balance sheet credit exposure**	**Total gross credit exposure**
Regular loans	784,808	32,820	817,628	720,434	26,717	747,151
Utilised credit lines	161,667	40,288	201,955	222,972	71,917	294,889
Debit balances on settlement cards	49,384	74,251	123,635	50,674	72,529	123,203
Overdraft facilities	58,169	28,822	86,991	12,788	11,243	24,031
Due from investment counterparties	3,035	-	3,035	4,186	-	4,186
Finance leases	24	-	24	42	-	42
Total loans and receivables from customers	**1,057,087**	**176,181**	**1,233,268**	**1,011,096**	**182,406**	**1,193,502**
Impairment allowance	(73,662)	-	(73,662)	(69,767)	-	(69,767)
Total net loans and receivables from customers	**983,425**	**176,181**	**1,159,606**	**941,329**	**182,406**	**1,123,735**

Loans and advances by customer profile:

	EUR 000's			
	31/12/2015 Group	**31/12/2014 Group**	**31/12/2015 Bank**	**31/12/2014 Bank**
Privately held companies	748,585	678,373	696,658	657,099
Private individuals	489,309	457,271	342,108	331,408
State owned enterprises	8,127	11,645	7,551	10,646
Public and religious institutions	2,962	7,025	2,888	3,189
Local municipalities	5,661	2,635	1,465	2,158
Municipality owned enterprises	7,876	7,373	6,417	6,535
Government	-	86	-	61
Total gross loans and receivables from customers	**1,262,520**	**1,164,408**	**1,057,087**	**1,011,096**
Impairment allowance	(90,175)	(88,707)	(73,662)	(69,767)
Total net loans and receivables from customers	**1,172,345**	**1,075,701**	**983,425**	**941,329**

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

	EUR 000's			
	31/12/2015 Group	**31/12/2014 Group**	**31/12/2015 Bank**	**31/12/2014 Bank**
Real estate purchase and management	171,161	150,455	199,835	184,277
Manufacturing	139,205	129,546	106,682	101,411
Trade	122,001	108,582	82,216	69,028
Transport and communications	101,682	83,477	70,973	60,916
Agriculture and forestry	77,711	76,306	59,098	56,618
Electricity, gas and water supply	37,186	41,961	33,673	38,553
Construction	39,867	39,118	27,698	27,368
Financial intermediation	14,070	16,861	105,264	112,015
Hotels, restaurants	15,101	12,620	11,316	8,920
Other industries	55,227	48,211	18,224	20,582
Total gross loans and receivables from corporate customers	**773,211**	**707,137**	**714,979**	**679,688**

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

	EUR 000's			
	31/12/2015 Group	**31/12/2014 Group**	**31/12/2015 Bank**	**31/12/2014 Bank**
Latvian residents	802,794	750,180	852,330	802,498
OECD region residents	152,282	114,623	141,428	104,186
Non-OECD region residents	307,444	299,605	63,329	104,412
Total gross loans and receivables from customers	**1,262,520**	**1,164,408**	**1,057,087**	**1,011,096**
Impairment allowance	(90,175)	(88,707)	(73,662)	(69,767)
Total net loans and receivables from customers	**1,172,345**	**1,075,701**	**983,425**	**941,329**

As at 31 December 2015 and 31 December 2014 the Group's and the Bank's exposures with non-consolidated single group of connected parties did not exceeded 5% of total gross loans and receivables from customers. As at 31 December 2015 and 31 December 2014 the Group and the Bank were in compliance with FCMC requirements on credit exposures with single group of connected parties.

Group's loan portfolio by overdue days:

	EUR 000's					
	31/12/2015			31/12/2014		
	Gross Loans	Impairment allowance	Net carrying amount	Gross loans	Impairment allowance	Net carrying amount
Not past due – not impaired	1,078,334	-	1,078,334	976,670	-	976,670
Not past due – impaired	59,263	(24,747)	34,516	43,390	(20,054)	23,336
Total not past due loans	**1,137,597**	**(24,747)**	**1,112,850**	**1,020,060**	**(20,054)**	**1,000,006**
Past due loans - not impaired						
Delayed days:						
=< 29	31,999	-	31,999	30,524	-	30,524
30-59	12,812	-	12,812	12,318	-	12,318
60-89	3,247	-	3,247	4,071	-	4,071
90 and more	9,618	-	9,618	15,687	-	15,687
Total past due loans - not impaired	**57,676**	**-**	**57,676**	**62,600**	**-**	**62,600**
Past due loans – impaired						
Delayed days:						
=< 89	16,076	(5,896)	10,180	17,776	(5,846)	11,930
90 and more	51,171	(37,108)	14,063	63,972	(41,776)	22,196
Total past due loans - impaired	**67,247**	**(43,004)**	**24,243**	**81,748**	**(47,622)**	**34,126**
Total loans and receivables from customers	**1,262,520**	**(67,751)**	**1,194,769**	**1,164,408**	**(67,676)**	**1,096,732**
Collective impairment allowance		(22,424)	(22,424)		(21,031)	(21,031)
Total net loans and receivables from customers			**1,172,345**			**1,075,701**

Bank's loan portfolio by overdue days:

	EUR 000's					
	31/12/2015			31/12/2014		
	Gross loans	Impairment allowance	Net carrying amount	Gross loans	Impairment allowance	Net carrying amount
Not past due – not impaired	918,927	-	918,927	866,395	-	866,395
Not past due – impaired	57,264	(22,281)	34,983	38,947	(16,574)	22,373
Total not past due loans	**976,191**	**(22,281)**	**953,910**	**905,342**	**(16,574)**	**888,768**
Past due loans - not impaired						
Delayed days:						
=< 29	15,036	-	15,036	18,377	-	18,377
30-59	6,391	-	6,391	6,873	-	6,873
60-89	979	-	979	2,213	-	2,213
90 and more	5,993	-	5,993	14,407	-	14,407
Total past due loans - not impaired	**28,399**	**-**	**28,399**	**41,870**	**-**	**41,870**
Past due loans – impaired						
Delayed days:						
=< 89	13,397	(4,954)	8,443	14,981	(4,915)	10,066
90 and more	39,100	(27,900)	11,200	48,903	(29,894)	19,009
Total past due loans – impaired	**52,497**	**(32,854)**	**19,643**	**63,884**	**(34,809)**	**29,075**
Total loans and receivables from customers	**1,057,087**	**(55,135)**	**1,001,952**	**1,011,096**	**(51,383)**	**959,713**
Collective impairment allowance		(18,527)	(18,527)		(18,384)	(18,384)
Total net loans and receivables from customers			**983,425**			**941,329**

Certain loan portfolio's financial ratios

	EUR 000's			
	31/12/2015 Group	31/12/2014 Group	31/12/2015 Bank	31/12/2014 Bank
Non-performing loans ratio1)	10.8%	12.1%	11.0%	11.6%
Non-performing loans coverage ratio2)	66.2%	63.0%	63.6%	59.5%
90 days past due ratio3)	4.8%	6.8%	4.3%	6.3%
90 days past due coverage ratio4)	148%	111%	163%	110%

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

2) Non-performing loans coverage ratio is calculated as total allowance for impairment for loans and receivables from customers at

the end of the relevant period, divided by gross non-performing loans, as at the end of the relevant period.

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

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

NOTE 17. LEASES

The following table represents finance leases by type of assets:

	EUR 000's			
	31/12/2015 Group	31/12/2014 Group	31/12/2015 Bank	31/12/2014 Bank
Transport vehicles	89,727	68,691	24	42
Manufacturing equipment	20,833	15,002	-	-
Real estate	4,459	5,899	-	-
Other	19,436	13,546	-	-
Total present value of finance lease payments, excluding impairment	**134,455**	**103,138**	**24**	**42**
Impairment allowance	(9,453)	(8,016)	-	(1)
Net present value of finance lease payments	**125,002**	**95,122**	**24**	**41**

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

	EUR 000's			
	31/12/2015 Group	31/12/2014 Group	31/12/2015 Bank	31/12/2014 Bank
Gross investment in finance leases receivable:				
within 1 year	57,471	21,654	-	-
later than 1 year and no later than in 5 years	86,814	89,450	24	46
later than in 5 years	1,819	1,087	-	-
Total gross investment in finance leases	**146,104**	**112,191**	**24**	**46**
Unearned finance income receivable:				
within 1 year	5,541	2,642	-	-
later than 1 year and no later than in 5 years	6,101	6,374	-	4
later than in 5 years	7	37	-	-
Total	**11,649**	**9,053**	**-**	**4**
Present value of minimum lease payments receivable:				
within 1 year	51,930	19,012	-	-
later than 1 year and no later than in 5 years	80,713	83,075	24	42
later than in 5 years	1,812	1,050	-	-
Total	**134,455**	**103,138**	**24**	**42**

NOTE 18. PROPERTY AND EQUIPMENT

	EUR 000's			
	31/12/2015 Group	31/12/2014 Group	31/12/2015 Bank	31/12/2014 Bank
Leasehold improvements	179	283	179	283
Land and buildings	38,978	39,121	926	924
Transport vehicles	623	659	288	261
Other	3,284	2,447	2,962	2,182
Total excluding prepayments	**43,064**	**42,510**	**4,355**	**3,650**
Prepayments for property and equipment	47	15	38	1
Total net book value of property and equipment	**43,111**	**42,525**	**4,393**	**3,651**

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

	EUR 000's				
	Leasehold improvements	**Land and buildings**	**Transport vehicles**	**Other**	**Total excluding prepayments**
Historical cost					
As at 31 December 2013	**5,282**	**71,186**	**1,767**	**31,690**	**109,925**
Additions	70	58	440	1,303	1,871
Disposals	(565)	-	(161)	(2,865)	(3,591)
As at 31 December 2014	**4,787**	**71,244**	**2,046**	**30,128**	**108,205**
Additions	79	26	184	2,040	2,329
Disposals	(206)	(128)	(257)	(1,788)	(2,379)
As at 31 December 2015	**4,660**	**71,142**	**1,973**	**30,380**	**108,155**
Accumulated depreciation					
As at 31 December 2013	**4,902**	**14,380**	**1,287**	**28,449**	**49,018**
Charge for the year	167	1,882	166	1,703	3,918
Impairment release/(charge) (as restated)	-	680	-	-	680
Reversal due to disposals	(565)	-	(125)	(2,787)	(3,477)
As at 31 December 2014	**4,504**	**16,942**	**1,328**	**27,365**	**50,139**
Charge for the year	109	1,982	198	1,038	3,327
Impairment release/(charge)	-	566	-	-	566
Reversal due to disposals	(132)	(97)	(222)	(1,680)	(2,131)
As at 31 December 2015	**4,481**	**19,393**	**1,304**	**26,723**	**51,901**
Impairment allowance					
As at 31 December 2013	**-**	**(18,091)**	**-**	**-**	**(18,091)**
Net reversal and write-offs	-	2,910	(59)	(316)	2,535
As at 31 December 2014	**-**	**(15,181)**	**(59)**	**(316)**	**(15,556)**
Net reversal and write-offs	-	2,410	13	(57)	2,366
As at 31 December 2015	**-**	**(12,771)**	**(46)**	**(373)**	**(13,190)**
Net book value (incl. impairment allowance)					
As at 31 December 2013	**380**	**38,715**	**480**	**3,241**	**42,816**
As at 31 December 2014	**283**	**39,121**	**659**	**2,447**	**42,510**
As at 31 December 2015	**179**	**38,978**	**623**	**3,284**	**43,064**

Impairment allowance for Group's land and buildings is calculated internally as the value which is determined as discounted expected future cash flow generated by the property adjusted for capital expenditure. Key assumptions are discount rate (2015:9.5% and 2014: 9.5%) and expected net cash flows generated by the property. If discount rate would change by +/-100 basis points the carrying value of the property would change by EUR -4.1 million and EUR +5.4 million respectively (2014: EUR -4.1 million and EUR +5.4 million). If net cash flows adjusted for capital expenses would change by +/-10% the carrying value of the property would change by EUR +/-3.8 million (2014: EUR +/-3.6 million).

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

	EUR 000's				
	Leasehold Improvements	**Land and buildings**	**Transport vehicles**	**Other**	**Total excluding prepayments**
Historical cost					
As at 31 December 2013	**5,282**	**1,213**	**1,185**	**22,700**	**30,380**
Additions	70	-	110	1,096	1,276
Disposals	(565)	-	(4)	(2,183)	(2,752)
As at 31 December 2014	**4,787**	**1,213**	**1,291**	**21,613**	**28,904**
Additions	79	26	143	1,701	1,949
Disposals	(206)	-	(86)	(1,557)	(1,849)
As at 31 December 2015	**4,660**	**1,239**	**1,348**	**21,757**	**29,004**
Accumulated depreciation					
As at 31 December 2013	**4,902**	**265**	**947**	**20,874**	**26,988**
Charge for the year	167	24	85	715	991
Reversal due to disposals	(565)	-	(2)	(2,158)	(2,725)
As at 31 December 2014	**4,504**	**289**	**1,030**	**19,431**	**25,254**
Charge for the year	110	24	112	920	1,166
Reversal due to disposals	(133)	-	(82)	(1,556)	(1,771)
As at 31 December 2015	**4,481**	**313**	**1,060**	**18,795**	**24,649**
Net book value					
As at 31 December 2013	**380**	**948**	**238**	**1,826**	**3,392**
As at 31 December 2014	**283**	**924**	**261**	**2,182**	**3,650**
As at 31 December 2015	**179**	**926**	**288**	**2,962**	**4,355**

NOTE 19. INTANGIBLE ASSETS

	EUR 000's			
	31/12/2015 Group	31/12/2014 Group	31/12/2015 Bank	31/12/2014 Bank
Software	2,113	1,005	1,969	830
Other intangible assets	109	134	64	77
Total excluding prepayments	**2,222**	**1,139**	**2,033**	**907**
Prepayments for intangible assets	316	569	180	549
Total net book value of intangible assets	**2,538**	**1,708**	**2,213**	**1,456**

Movements in the Group's intangible assets excluding prepayments:

	EUR 000's		
	Software	Other intangible assets	Total excluding prepayments
Historical cost			
As at 31 December 2013	**15,070**	**3,346**	**18,416**
Additions	299	207	506
Disposals	(232)	(2,361)	(2,593)
As at 31 December 2014	**15,137**	**1,192**	**16,329**
Additions	1,803	19	1,822
Disposals	(172)	(53)	(225)
As at 31 December 2015	**16,768**	**1,158**	**17,926**
Accumulated amortisation			
As at 31 December 2013	**13,153**	**3,065**	**16,218**
Charge for the year	487	103	590
Reversal due to disposals	(232)	(2,238)	(2,470)
As at 31 December 2014	**13,408**	**930**	**14,338**
Charge for the year	621	42	663
Impairment release/(charge)	248	-	248
Reversal due to disposals	(130)	(31)	(161)
As at 31 December 2015	**14,147**	**941**	**15,088**
Impairment allowance			
As at 31 December 2013	**(868)**	**-**	**(868)**
Write-offs	248	-	248
Net impairment	(104)	(128)	(232)
As at 31 December 2014	**(724)**	**(128)**	**(852)**
Write-offs	276	22	298
Net impairment	(60)	(2)	(62)
As at 31 December 2015	**(508)**	**(108)**	**(616)**
Net book value (incl. impairment allowance)			
As at 31 December 2013	**1,049**	**281**	**1,330**
As at 31 December 2014	**1,005**	**134**	**1,139**
As at 31 December 2015	**2,113**	**109**	**2,222**

Lithuanian banking business at the consolidated level is considered a separate cash generating unit. For fair value calculation of the cash generating unit estimate, the same model is used as for the investment in AB Citadele bankas impairment calculation. For details of the calculation please refer to Note 20 (*Investments in Subsidiaries and Business Combinations*). The calculation shows that the cash generating unit is impaired, thus Lithuanian banking business' non-financial assets for which observable market value is not available have been impaired; these are all intangible assets and certain property and equipment.

Movements in the Bank's intangible assets excluding prepayments:

	EUR 000's		
	Software	**Other intangible assets**	**Total excluding prepayments**
Historical cost			
As at 31 December 2013	**13,655**	**74**	**13,729**
Additions	148	34	182
Disposals	(106)	-	(106)
As at 31 December 2014	**13,697**	**108**	**13,805**
Additions	1,631	17	1,648
Disposals	(4)	-	(4)
As at 31 December 2015	**15,324**	**125**	**15,449**
Accumulated amortisation			
As at 31 December 2013	**11,993**	**20**	**12,013**
Charge for the year	359	11	370
Reversal due to disposals	(105)	-	(105)
As at 31 December 2014	**12,247**	**31**	**12,278**
Charge for the year	493	31	524
Impairment release/(charge)	248	-	248
Reversal due to disposals	(4)	(2)	(6)
As at 31 December 2015	**12,984**	**60**	**13,044**
Impairment allowance			
As at 31 December 2013	**(868)**	**-**	**(868)**
Write-offs	248	-	248
As at 31 December 2014	**(620)**	**-**	**(620)**
Write-offs	248	-	248
As at 31 December 2015	**(372)**	**-**	**(372)**
Net book value (incl. impairment allowance)			
As at 31 December 2013	**794**	**54**	**848**
As at 31 December 2014	**830**	**77**	**907**
As at 31 December 2015	**1,969**	**64**	**2,033**

NOTE 20. INVESTMENTS IN SUBSIDIARIES AND BUSINESS COMBINATIONS

Changes in the Bank's investments in subsidiaries may be specified as follows:

	EUR 000's	
	31/12/2015	**31/12/2014**
Balance at the beginning of the period	**61,605**	**62,841**
Establishment of new subsidiaries	-	8
Equity investments in existing subsidiaries	1	1,025
Impairment, net	(26)	(2,269)
Balance at the end of the period	**61,580**	**61,605**

Based on the forecasted performance of the repossessed asset management companies, share capital in some of the respective subsidiaries was impaired (net) by EUR 26 thousand in 2015 and by EUR 1,023 thousand in 2014. In 2014, the Bank established SIA Hortus NI, SIA Hortus R", and SIA Hortus BR and increased share capital in several previously established subsidiaries, to continue effective management of repossessed assets. Also in 2014 the management of the Bank concluded that there is evidence of impairment of investment in AB Citadele bankas and a further impairment allowance of EUR 1,246 thousand was recognised.

On 6 August 2015 UAB Citadele investiciju valdymas was formally liquidated as the company had no ongoing operations. On 25 March 2015 OOO Citadele Asset Management Ukraina legal name was changed to OOO Mizush Asset Management Ukraine. On 22 December 2014 legal names of IPAS CBL Asset Management (former legal name IPAS Citadele Asset Management), AS CBL atklātais pensiju fonds (former legal name AS Citadele atklātais pensiju fonds), and AAS CBL Life (former legal name AAS Citadele Life) were changed. The purpose of the new name is to strengthen the companies' international reputation while maintaining links to the Citadele Bank and its name. "CBL" is an abbreviation of "Citadele Bank Latvia".

As at 31 December 2015 and 2014 the Bank held the following direct and indirect investments which are consolidated:

Company	Country of registration	Business profile	31/12/2015			31/12/2014			Carrying value EUR 000's	
			Share capital EUR 000's	The Group's share (%)	% of total voting rights	Share capital EUR 000's	The Group's share (%)	% of total voting rights	31/12/2015	31/12/2014
AB Citadele bankas	Lithuania	Banking	43,112	100	100	43,115	100	100	40,025	40,027
AP Anlage & Privatbank AG	Switzerland	Banking	8,317	100	100	8,317	100	100	13,805	13,805
SIA Citadele Līzings un Faktorings	Latvia	Leasing	19,351	100	100	19,351	100	100	709	709
OU Citadele Leasing & Factoring	Estonia	Finance	500	100	100	500	100	100	445	445
UAB Citadele faktoringas ir lizingas	Lithuania	Finance	434	100	100	434	100	100	-	-
IPAS CBL Asset Management	Latvia	Finance	5,905	100	100	5,905	100	100	5,906	5,906
AS CBL Atklātais Pensiju Fonds	Latvia	Pension fund	640	100	100	640	100	100	646	646
AAS CBL Life	Latvia	Life insurance	4,269	100	100	4,269	100	100	-	-
SIA E&P Baltic Properties	Latvia	Finance	28	50	50	28	50	50	-	-
SIA PR Speciālie Projekti	Latvia	Misc.*	3	100	100	3	100	100	-	-
Calenia Investments Limited	Cyprus	Misc.*	2	100	100	2	100	100	-	-
OOO Mizush Asset Management Ukraina	Ukraine	Finance	618	100	100	758	100	100	-	-
UAB Citadele Investiciju Valdymas	Lithuania	Finance	-	-	-	1,037	100	100	-	-
SIA Citadele Express Kredīts	Latvia	Leasing	45	100	100	45	100	100	38	38
SIA Rīgas Pirmā Garāža	Latvia	Real estate rent and management	19,372	100	100	19,372	100	100	-	-
SIA RPG Interjers	Latvia	Misc.*	1,355	100	100	1,355	100	100	-	-
SIA Hortus Commercial	Latvia	Misc.*	3	100	100	3	100	100	-	-
SIA Hortus Land	Latvia	Misc.*	3	100	100	3	100	100	-	-
SIA Hortus TC	Latvia	Misc.*	428	100	100	428	100	100	3	23
SIA Hortus Residential	Latvia	Misc.*	203	100	100	203	100	100	-	-
SIA Hortus LH	Latvia	Misc.*	3	100	100	3	100	100	2	2
SIA Hortus MD	Latvia	Misc.*	3	100	100	3	100	100	-	-
SIA Hortus JU	Latvia	Misc.*	3	100	100	3	100	100	-	-
SIA Hortus RE	Latvia	Misc.*	3	100	100	3	100	100	1	2
SIA Hortus BR	Latvia	Misc.*	403	100	100	403	100	100	-	-
SIA Hortus NI	Latvia	Misc.*	3	100	100	3	100	100	-	2
Total investments in subsidiaries									**61,580**	**61,605**

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

Carrying value of investment in subsidiary SIA Rīgas Pirmā Garāža depends directly on the value of the major assets of the company, being the office building and furniture therein, which in the Group's consolidated accounts are accounted for as property and equipment. For impairment assessment methodology of Group's property and equipment refer to Note 18.

Carrying value of investment in AB Citadele bankas is based on a model where expected free equity distributable to shareholders is estimated. The key assumptions of the model are discount rate (2015: 18% and 2014: 15.5%), minimum target capital adequacy ratio and future profitability of the operations of the entity. Changing applied discount rate by +/-100 basis points would result in EUR -2.1 million loss or EUR 2.4 million gain respectively (2014: EUR-2.3 million loss or EUR 2.7 million gain); adjusting minimum target capital adequacy ratio by +/-100 basis points would result in EUR -4.2 million loss or EUR 4.2 million gain (2014: EUR-3.8 million loss or EUR3.7 million gain); fluctuation in forecasted profitability by +/-10% would result in EUR -4.1 million gain or EUR 4.1 million loss (2014: EUR 3.5 million gain or EUR -3.5 million loss).

NOTE 21. OTHER ASSETS

	EUR 000's			
	31/12/2015 Group	31/12/2014 Group	31/12/2015 Bank	31/12/2014 Bank
Deposits with card payment system companies	12,653	11,554	12,653	11,554
Money in transit	5,190	28,118	4,309	27,579
Prepayments	3,371	2,416	1,443	1,426
Other assets *	15,139	16,269	6,459	6,514
Total gross other assets	**36,353**	**58,357**	**24,864**	**47,073**
Impairment allowance	(4,138)	(4,194)	(3,531)	(3,469)
Total net other assets	**32,215**	**54,163**	**21,333**	**43,604**

* As at 31 December 2015, gross amount of the Group's other assets with delays was EUR nil thousand (2014: EUR 317 thousand) of which nil were fully impaired (2014: EUR 317thousand). The Bank did not have any other assets with delays (2014: EUR nil). As at 31 December 2015, the Group's and the Bank's gross amount of other assets which mostly related to overdue amount collection expenditure amounted to EUR 5,898 thousand (2014: EUR 4,686 thousand) and EUR 5,046 thousand (2014: EUR 3,590 thousand), respectively. These amounts carried impairment allowances of EUR 3,816 thousand for the Group (2014: EUR 4,149 thousand) and EUR 3,531 thousand for the Bank (2014: EUR 3,469 thousand), respectively.

NOTE 22. FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

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

	EUR 000's			
	2015 Unit-linked	2015 Other	2014 Unit-linked	2014 Other
Balance as at the beginning of the period	**12,784**	**11,810**	**8,667**	**7,959**
Premiums received	8,253	3,503	5,129	4,482
Commissions and risk charges	(436)	(298)	(319)	(307)
Paid to policyholders	(1,602)	(815)	(859)	(568)
Dividends received	2	-	1	-
Securities fair value revaluation result	-	-	1	-
Other	-	360	-	229
Currency revaluation result	340	14	164	15
Balance as at the end of the period	**19,341**	**14,574**	**12,784**	**11,810**

In 2015 from financial liabilities designated at fair value through profit or loss which are not unit-linked the Group has recognised net revaluation result of EUR -86 thousand in the statement of income (2014: EUR nil thousand). Most of the insurance business the Group is involved in relates to investment contracts rather than insurance risk, therefore, premiums received are recognised as liabilities of the Group since settlement in due course is expected. The amount of insurance risk generated by the Group currently is immaterial and, therefore, not further disclosed in detail in these financial statements.

NOTE 23. BALANCES DUE TO CREDIT INSTITUTIONS AND CENTRAL BANKS

	EUR 000's			
	31/12/2015 Group	31/12/2014 Group	31/12/2015 Bank	31/12/2014 Bank
Due to credit institutions registered in OECD countries	35	-	22,943	27,321
Due to credit institutions registered in Latvia	39,463	24,434	39,463	24,434
Due to credit institutions registered in other non-OECD countries	2,137	602	25,372	65,242
Total balances due to credit institutions and central banks	**41,635**	**25,036**	**87,778**	**116,997**

NOTE 24. DEPOSITS FROM CUSTOMERS

Deposits from customers according to customer profile:

	EUR 000's			
	31/12/2015 Group	31/12/2014 Group	31/12/2015 Bank	31/12/2014 Bank
Privately held companies	1,180,403	1,198,017	850,492	825,905
Private individuals	1,072,706	1,005,630	860,243	801,983
Financial institutions	129,796	144,406	144,397	156,198
State and municipality owned enterprises	103,370	127,939	102,404	126,589
Municipalities	10,853	20,303	10,853	20,303
Public and religious institutions	66,458	12,620	64,432	10,605
Government	6,039	8,192	4,528	7,168
Total deposits from customers	**2,569,625**	**2,517,107**	**2,037,349**	**1,948,751**

	EUR 000's			
	31/12/2015 Group	31/12/2014 Group	31/12/2015 Bank	31/12/2014 Bank
Demand deposits	1,872,294	1,897,101	1,510,265	1,460,857
Term deposits:				
due within 1 month	242,254	149,450	196,598	118,034
due within 1-3 months	71,325	85,732	49,133	61,120
due within 3-6 months	71,045	91,548	37,761	61,574
due within 6-12 months	164,814	176,260	118,433	139,941
due within 1-5 years	141,597	108,885	121,718	101,138
due in more than 5 years	6,296	8,131	3,441	6,087
Total term deposits	697,331	620,006	527,084	487,894
Total deposits from customers	**2,569,625**	**2,517,107**	**2,037,349**	**1,948,751**

As at 31 December 2015 and 31 December 2014 the largest Bank's exposure with single group of connected parties did not exceed 5% of the total deposit portfolio.

NOTE 25. OTHER LIABILITIES

	EUR 000's			
	31/12/2015 Group	31/12/2014 Group	31/12/2015 Bank	31/12/2014 Bank
Accrued expense	14,702	12,001	11,772	9,129
Suspense liabilities and money in transit	2,882	5,643	2,573	2,587
Amounts due to suppliers	3,246	743	2,811	243
Deferred income	231	140	-	-
Other liabilities	4,202	4,955	963	2,494
Total other liabilities	**25,263**	**23,482**	**18,119**	**14,453**

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

NOTE 26. SUBORDINATED LIABILITIES

On 20 April 2015 a portion of subordinated liabilities amounting to EUR 18.4 million was repaid to Latvian Privatisation Agency and EUR 11.2 million subordinated liabilities transferred from Latvian Privatisation agency to European Bank for Reconstruction and Development (EBRD). The maturity of the outstanding subordinated liabilities to EBRD was extended to 2020. The Group's and Bank's capitalisation was positively affected by changes in the subordinated liabilities and the increase in the Bank's share capital. For more details on capital refer to *Capital management* section of Note 34 (*Risk Management*).

Details of the Group's and the Bank's subordinated liabilities as at 31 December 2015:

Counterparty	Currency	Interest rate	Maturity date	Principal (EUR 000's)	Amortised cost (EUR 000's)
Privatisation Agency	EUR	7.05%	20/12/2017	34,728	35,701
EBRD	EUR	8.35%	08/08/2020	18,400	19,014
					54,715

Details of the Group's and the Bank's subordinated liabilities as at 31 December 2014:

Counterparty	Currency	Interest rate	Maturity date	Principal (EUR 000's)	Amortised cost (EUR 000's)
Privatisation Agency	EUR	7.13%	20/12/2017	53,128	54,702
Privatisation Agency	EUR	7.13%	08/08/2016	11,208	11,537
EBRD	EUR	7.13%	08/08/2016	7,195	7,357
					73,596

NOTE 27. SHARE CAPITAL

As at 31 December 2015, the Bank's registered and paid-in share capital was EUR 156,556 thousand (2014: EUR 146,556 thousand). All shares as at 31 December 2015 and 31 December 2014 were issued and fully paid. As at 31 December 2015 and 31 December 2014, the Bank did not possess any of its own shares. No dividends were proposed and paid during the year ended 31 December 2015 or 2014.

In October 2015 in anticipation of IPO which subsequently was postponed, Citadele re-designated its share capital into three separate categories of shares; the table sets out shareholdings of the shareholders, nominal per share, voting rights and dividend entitlement after re-designation and as at 31 December 2015.

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

* These shares are owned by an international group of twelve investors.

Ordinary A shares and ordinary B shares have equal rights to share in Citadele's assets on a liquidation (liquidation quota); but ordinary C share rights to liquidation quota are limited to receive EUR 0.10 for each C share and these rights can be exercised only in case if each A share and each B share holder has received liquidation quota in amount of EUR 10 million for each paid ordinary A share and/or ordinary B share on a winding up. Such structure is valid until 1 March 2016 unless the Shareholders Meeting resolves otherwise before 1 March 2016. In such case the structure would be reverted back to previous single class share capital structure with nominal of each single class share in the amount of 1 EUR, and each single class share would have one voting right equal to dividend rights and equal liquidation quota.

On 16 September 2014 following a tender process, the Latvian government decided to sell its 75% less 1 share stake in Citadele to RA Citadele Holdings LLC (United States), an entity wholly owned by Ripplewood Advisors LLC (Ripplewood), and an international group of twelve investors. VAS Privatizācijas aģentūra (Latvian Privatisation Agency) signed the agreement on 5 November 2014. The transaction was closed on 20 April 2015. Regulatory approvals have been received from the European Central Bank, as well as the banking regulators in Lithuania and Switzerland. The European Bank for Reconstruction and Development (EBRD) retained its stake in Citadele. Immediately upon acquisition, the new shareholders and the EBRD increased the Citadele Bank's share capital by EUR 10 million (10 million shares at par value of 1 EUR per share). After the increase, the Bank's share capital is EUR 156.6 million where EBRD's stake is 25% less 1 share. After the change in ownership there is no singe majority beneficial owner of the Group and Bank.

NOTE 28. OFF-BALANCE SHEET ITEMS

Off-balance sheet items comprise contingent liabilities, financial commitments, foreign exchange contracts and derivative financial instruments. The following table provides a specification of contingent liabilities (showing maximum amount payable) and financial commitments outstanding as at 31 December 2015 and 2014.

	EUR 000's			
	31/12/2015 Group	**31/12/2014 Group**	**31/12/2015 Bank**	**31/12/2014 Bank**
Contingent liabilities:				
Outstanding guarantees	38,517	58,185	34,242	54,512
Outstanding letters of credit	-	32	-	32
Total contingent liabilities	**38,517**	**58,217**	**34,242**	**54,544**
Financial commitments:				
Loans granted, not fully drawn down	41,669	33,390	32,820	26,536
Unutilised credit lines and overdraft facilities	47,267	49,868	69,110	83,341
Credit card commitments	86,853	85,388	74,251	72,529
Bank placement commitments	2,332	-	-	10,000
Total financial commitments	**178,121**	**168,646**	**176,181**	**192,406**

The following table presents the notional amounts and fair values of foreign exchange contracts and derivative financial instruments.

Group:

	Notional amount EUR 000's		**Fair value EUR 000's**			
	31/12/2015	**31/12/2014**	**31/12/2015**		**31/12/2014**	
			Assets	**Liabilities**	**Assets**	**Liabilities**
Foreign exchange contracts:						
Forwards	68,049	47,142	595	(91)	534	(420)
Swaps	610,854	400,854	4,311	(1,810)	5,395	(1,227)
Total foreign exchange contracts	**678,904**	**447,996**	**4,907**	**(1,901)**	**5,929**	**(1,647)**
Derivative financial instruments	**678,904**	**447,996**	**4,907**	**(1,901)**	**5,929**	**(1,647)**

Bank:

	Notional amount EUR 000's		Fair value EUR 000's			
	31/12/2015	31/12/2014	31/12/2015		31/12/2014	
			Assets	Liabilities	Assets	Liabilities
Foreign exchange contracts:						
Forwards	66,880	46,351	592	(87)	522	(417)
Swaps	621,887	437,165	4,368	(1,810)	5,441	(3,150)
Total foreign exchange contracts	**688,767**	**483,516**	**4,960**	**(1,897)**	**5,963**	**(3,567)**
Derivative financial instruments	**688,767**	**483,516**	**4,960**	**(1,897)**	**5,963**	**(3,567)**

The Group's banks use derivative foreign exchange instruments to manage their currency positions, which arise also due to derivative foreign exchange contracts concluded with the banks' clients. Before entering into derivative foreign currency agreement with private individual or company, the Group's entities assess the counterparty's ability to meet the contractual provisions. As at 31 December 2015, more than 74% (2014: 52%) of the fair value of derivative assets on foreign exchange contracts is attributable to credit and finance institutions. As at 31 December 2015, none (2014: nil) of the payments receivable arising out of derivative transactions was past due.

NOTE 29. FUNDS UNDER TRUST MANAGEMENT

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

	EUR 000's			
	31/12/2015 Group	31/12/2014 Group	31/12/2015 Bank	31/12/2014 Bank
Fixed income securities:				
Government bonds	158,013	155,495	-	-
Credit institution bonds	30,086	35,755	-	-
Corporate bonds	75,257	71,723	-	-
Foreign municipality bonds	1,750	1,694	-	-
Other financial institution bonds	5,347	1,590	-	-
Total investments in fixed income securities	**270,453**	**266,257**	**-**	**-**
Other investments:				
Investment funds	273,033	227,219	6,733	7,167
Deposits with credit institutions	25,999	32,808	1,956	1,523
Shares	21,131	15,515	-	-
Real estate	4,269	9,189	-	-
Loans	54,698	53,611	54,698	44,488
Other	32,901	43,684	-	-
Total other investments	**412,031**	**382,026**	**63,387**	**53,178**
Total assets under trust management agreements	**682,484**	**648,283**	**63,387**	**53,178**

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

	EUR 000's			
	31/12/2015 Group	31/12/2014 Group	31/12/2015 Bank	31/12/2014 Bank
Pension Plans	332,274	295,497	-	-
Insurance companies, investment and pension funds	117,347	98,568	-	-
Other companies	178,926	200,854	63,387	53,178
Private individuals	53,937	53,364		-
Total liabilities under trust management agreements	**682,484**	**648,283**	**63,387**	**53,178**

NOTE 30. FINANCIAL ASSETS PLEDGED

	EUR 000's			
	31/12/2015 Group	31/12/2014 Group	31/12/2015 Bank	31/12/2014 Bank
Due from credit institutions and central banks	7,158	6,637	5,028	3,752
Loans to customers	1,341	2,338	731	1,808
Fixed income securities	30,115	18,531	30,115	14,802
Other assets	12,822	11,774	12,750	11,713
Total financial assets pledged	**51,436**	**39,280**	**48,624**	**32,075**
Total liabilities secured by pledged financial assets	**-**	**-**	**-**	**-**

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

NOTE 31. CASH AND CASH EQUIVALENTS

The table below provides a breakdown of cash and cash equivalents as at 31 December 2015 and 31 December 2014:

	EUR 000's			
	31/12/2015 Group	31/12/2014 Group	31/12/2015 Bank	31/12/2014 Bank
Cash and deposits with central banks	555,078	225,399	348,960	142,650
Deposits with other credit institutions*	168,457	158,583	292,973	347,232
Demand deposits due to credit institutions and central banks	(13,894)	(14,971)	(24,617)	(70,657)
Total cash and cash equivalents	**709,641**	**369,011**	**617,316**	**419,225**

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

NOTE 32. LITIGATIONS AND CLAIMS

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

The management of the Bank believes that any legal proceedings pending as at 31 December 2015 will not result in material losses for the Group in addition to amounts already provided for in these financial statements.

NOTE 33. RELATED PARTIES

Related parties are defined as shareholders who have significant influence over the Group, members of the Supervisory Board and Management Board, key Management personnel, their close relatives and companies in which they have a controlling interest as well as the Group's subsidiaries and associated companies. For the purpose of this disclosure, the key management of the Group's companies and the Bank and their related companies are stated in one line, accordingly. All transactions with related parties were made on terms equivalent to those that prevail in arm's length transactions, except that in the case of the below described advisory services agreement with Ripplewood Advisors LLC, where such assessment was not performed.

On 20 April 2015 the composition of related parties of the Group changed significantly. As described in 0 (
1/

Share Capital) on that date RA Citadele Holdings LLC (United States) and an international group of twelve investors acquired shares previously owned by VAS Privatisation Agency of the Republic of Latvia. Since then transactions with parties affiliated with Privatisation Agency, including Latvian state and municipal institutions, are not considered related party transactions.

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

	EUR 000's			
	31/12/2015 Group	31/12/2014 Group	31/12/2015 Bank	31/12/2014 Bank
Credit exposures to other related parties, net				
Loans and receivables from customers and balances due from credit institutions, net				
- Management	418	337	155	104
- Consolidated subsidiaries	-	-	309,461	194,253
Derivatives	-	-	55	52
Investments in subsidiaries, net	-	-	61,580	61,605
Financial commitments and guarantees outstanding	70	125	29,756	52,152
Total credit exposures to other related parties, net	**488**	**462**	**401,007**	**308,166**
Liabilities to other related parties				
Deposits from customers and balances due to credit institutions				
- Management	875	555	468	212
- Consolidated subsidiaries	-	-	29,631	82,336
Subordinated liabilities (EBRD)	18,995	7,357	18,995	7,357
Derivatives	-	-	-	1,935
Total liabilities to other related parties	**19,870**	**7,912**	**49,094**	**91,840**

As at 31 December 2015 the impairment allowance recognised on loans and receivables from consolidated subsidiaries relates to subsidiaries which are engaged in managing properties that are bought in auctions as a result of foreclosure processes undertaken by Group's companies. The ultimate recoverability of loans issued to these subsidiaries depends on the holding period and sales price of the properties in the portfolio.

The Bank has entered into the Advisory Services Agreement with Ripplewood Advisors LLC, where Ripplewood would be paid EUR 2 million per annum for services rendered to Citadele Group. Examples of these advisory services include business plan development, risk management, capital allocation, strategic analysis, operating efficiency, human resource management and similar.

	EUR 000's			
	2015	**2014**	**2015**	**2014**
	Group	**Group**	**Bank**	**Bank**
Interest income	5	5	3,375	4,069
Interest expense	(1,284)	(569)	(2,096)	(832)
Loss on transactions with financial instruments, net	-	-	(1,642)	(179)
Dividends received from consolidated subsidiaries	-	-	238	1,690
Other income	13	13	2,775	2,850
Other expense	(2)	(2)	(10)	(34)

During 2015 Bank's administrative expense with related parties amounted to EUR 5.6 million (2014: EUR 3.4 million). This mostly relates to rent and utility fees paid to group's companies and Advisory Service Agreement fee. Banks fee and commission income from related parties in 2015 was EUR 1.4 million (2014: EUR 2.0 million) and commission and fee expense EUR 31 thousand (2014: EUR 10 thousand).

NOTE 34. RISK MANAGEMENT

Risk management polices

Risk management principles are set out in Group's Risk Management Policy. The Group adheres to the following key risk management principles:

- The Group aims to ensure low risk exposure, diversified asset portfolio, limited risks in financial markets and low level of operational risk;
- The Group aims to ensure an acceptable risk level in all operations. Risks are always assessed in relation to the expected return. Risk exposures that are not acceptable for the Group are avoided, limited or hedged;
- The Group does not assume high or uncontrollable risks irrespective of the return they provide. Risks should be diversified and those risks that are quantifiable should be limited or hedged;
- The Group pursues prudent risk management policy, that is aligned with the Group' business and ensures effective total risk mitigation;
- Risk management is based on awareness of each and every Group's employee about and responsibility for the nature of transactions he/she carries out and related risks;
- Risk limit system and strict controls are essential risk management elements. Control of risk level and compliance with limits is ensured by structured risk limit systems for all material risks.

Risk management is an essential element of the Group's management process. Risk management within the Group is controlled by independent unit – Risk and Compliance Sector.

The Group is exposed to the following main risks: credit risk, market risk, interest rate risk, liquidity risk, currency risk and operational risk. The Group has approved risk management policies for each of these risks, which are briefly summarised below.

Credit risk

Credit risk is the risk that the Group will incur a loss from debtor's non-performance or default. The Group is exposed to credit risk in its lending, investing and transaction activities, as well as in respect to the guarantees issued to third parties and other off-balance sheet commitments to third parties.

Credit risk management is based on adequate risk assessment and decision-making. For material risks, risk analysis is conducted by independent unit of Risk and Compliance Sector. The analysis of credit risk comprises evaluation of customer's creditworthiness and collateral and its liquidity. The analysis of creditworthiness of a legal entity includes the analysis of industry, the company, its credit history and its current and forecasted financial position. The analysis of creditworthiness of an individual includes the analysis of the customer's credit history, income and debt-to-income ratio analysis, as well as the analysis of social and demographic factors. In the event of material risks, lending decision is made by the Credit Committee, and further reviewed by the Bank's Management Board. For securities Group analyses factors such as business profile and financial performance of the issuer, credit ratings assigned by international rating agencies, market based indicators such as bond credit spreads and stock performance.

After a loan is issued or a security acquired, customers' financial position and issuers' risk indicators are monitored on a regular basis in order to timely identify potential credit losses.

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 risk weighted exposures in a particular country/sector combination, limit for group of mutually related customers, limit for large risk exposures, limit for the Group's related parties, an industry limit, limit by customer type, loan product, and collateral type.

The Group reviews its loan portfolio and securities portfolio on a regular basis to assess its quality and concentrations, as well as to evaluate the portfolio trends.

Group's derivative exposures relate to short term derivatives that do not expose the Group to material credit risk and none of the derivative exposures are overdue.

Credit risk identification, monitoring and reporting is the responsibility of Risk and Compliance Sector.

Group’s loan portfolio delinquencies:

	EUR 000’s 31/12/2015							
	Regular loans	**Utilised credit lines**	**Finance leases**	**Debit balances on settlement cards**	**Overdraft facilities**	**Factoring**	**Due from investment counterparties**	**Total**
Not delayed - not impaired	789,476	107,055	109,762	46,838	19,298	3,727	2,178	1,078,334
Not delayed - impaired	50,549	2,877	4,370	-	-	-	1,467	59,263
Total not delayed loans	**840,025**	**109,932**	**114,132**	**46,838**	**19,298**	**3,727**	**3,645**	**1,137,597**
Past due loans - not impaired								
Delayed days:								
=< 29	20,361	939	8,161	1,428	78	1,032	-	31,999
30-59	7,629	628	4,090	438	2	25	-	12,812
60-89	2,012	54	997	175	9	-	-	3,247
90 and more	7,384	615	906	275	438	-	-	9,618
Total past due loans - not impaired	**37,386**	**2,236**	**14,154**	**2,316**	**527**	**1,057**	**-**	**57,676**
Total past due loans - impaired	**46,605**	**8,767**	**6,169**	**5,175**	**118**	**413**	**-**	**67,247**
Total gross loans and receivables from customers	**924,016**	**120,935**	**134,455**	**54,329**	**19,943**	**5,197**	**3,645**	**1,262,520**
Impairment allowance	(58,981)	(11,704)	(9,462)	(7,542)	(741)	(478)	(1,267)	(90,175)
Total net loans and receivables from customers	**865,035**	**109,231**	**124,993**	**46,787**	**19,202**	**4,719**	**2,378**	**1,172,345**

	EUR 000’s 31/12/2014							
	Regular loans	**Utilised credit lines**	**Finance leases**	**Debit balances on settlement cards**	**Overdraft facilities**	**Factoring**	**Due from investment counterparties**	**Total**
Not delayed - not impaired	715,768	106,090	88,590	48,194	13,597	1,376	3,055	976,670
Not delayed - impaired	39,065	1,704	885	-	71	-	1,665	43,390
Total not delayed loans	**754,833**	**107,794**	**89,475**	**48,194**	**13,668**	**1,376**	**4,720**	**1,020,060**
Past due loans - not impaired								
Delayed days:								
=< 29	23,761	482	4,742	1,538	1	-	-	30,524
30-59	8,330	572	2,943	473	-	-	-	12,318
60-89	3,294	-	565	212	-	-	-	4,071
90 and more	14,982	-	290	415	-	-	-	15,687
Total past due loans - not impaired	**50,367**	**1,054**	**8,540**	**2,638**	**1**	**-**	**-**	**62,600**
Total past due loans - impaired	**46,494**	**23,266**	**5,123**	**6,480**	**126**	**259**	**-**	**81,748**
Total gross loans and receivables from customers	**851,694**	**132,114**	**103,138**	**57,312**	**13,795**	**1,635**	**4,720**	**1,164,408**
Impairment allowance	(55,392)	(14,357)	(8,016)	(8,875)	(471)	(261)	(1,335)	(88,707)
Total net loans and receivables from customers	**796,302**	**117,757**	**95,122**	**48,437**	**13,324**	**1,374**	**3,385**	**1,075,701**

Bank’s loan portfolio delinquencies:

EUR 000's
31/12/2015

	Regular loans	**Utilised credit lines**	**Finance leases**	**Debit balances on settlement cards**	**Overdraft facilities**	**Factoring**	**Due from investment counterparties**	**Total**
Not delayed - not impaired	672,817	144,312	24	42,605	57,601		1,568	918,927
Not delayed - impaired	48,895	6,902	-	-	-		1,467	57,264
Total not delayed loans	**721,712**	**151,214**	**24**	**42,605**	**57,601**	**-**	**3,035**	**976,191**
Past due loans - not impaired								
Delayed days:								
=< 29	13,450	683	-	903	-		-	15,036
30-59	5,442	568	-	379	2		-	6,391
60-89	810	-	-	160	9		-	979
90 and more	4,845	435	-	275	438		-	5,993
Total past due loans - not impaired	**24,547**	**1,686**	**-**	**1,717**	**449**	**-**	**-**	**28,399**
Total past due loans - impaired	**38,549**	**8,767**	**-**	**5,062**	**119**			52,497
Total gross loans and receivables from customers	**784,808**	**161,667**	**24**	**49,384**	**58,169**	**-**	**3,035**	**1,057,087**
Impairment allowance for past due loans	(52,983)	(11,260)	-	(7,428)	(724)		(1,267)	(73,662)
Total net loans and receivables from customers	**731,825**	**150,407**	**24**	**41,956**	**57,445**	**-**	**1,768**	**983,425**

EUR 000's
31/12/2014

	Regular loans	**Utilised credit lines**	**Finance leases**	**Debit balances on settlement cards**	**Overdraft facilities**	**Factoring**	**Due from investment counterparties**	**Total**
Not delayed - not impaired	608,765	198,477	42	44,000	12,590	-	2,521	866,395
Not delayed - impaired	36,667	544	-	-	71	-	1,665	38,947
Total not delayed loans	**645,432**	**199,021**	**42**	**44,000**	**12,661**	**-**	**4,186**	**905,342**
Past due loans - not impaired								
Delayed days:								
=< 29	17,269	293	-	814	1	-	-	18,377
30-59	6,120	391	-	362	-	-	-	6,873
60-89	2,026	-	-	187	-	-	-	2,213
90 and more	13,866	-	-	415	126	-	-	14,407
Total past due loans - not impaired	**39,281**	**684**	**-**	**1,778**	**127**	**-**	-	**41,870**
Total past due loans - impaired	**35,721**	**23,267**	**-**	**4,896**	**-**	**-**	**-**	**63,884**
Total gross loans and receivables from customers	**720,434**	**222,972**	**42**	**50,674**	**12,788**	**-**	**4,186**	**1,011,096**
Impairment allowance	(46,911)	(13,774)	(1)	(7,279)	(467)	-	(1,335)	(69,767)
Total net loans and receivables from customers	**673,523**	**209,198**	**41**	**43,395**	**12,321**	**-**	**2,851**	**941,329**

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

	Regular loans	Utilised credit lines	Finance leases	Debit balances on settlement cards	Overdraft facilities	Factoring	Due from investment counterparties	Total
Outstanding specific impairment as at 31/12/2013	**43,012**	**11,879**	**9,833**	**11,948**	**129**	**255**	**1,421**	**78,477**
Impairment charge for the reported period - specific	12,691	2,997	1,193	401	52	-	180	17,514
Release of previously established impairment allowance - specific	(8,520)	(1,642)	(351)	(69)	(30)	-	(23)	(10,635)
Impairment charged to the statement of income, net	**4,171**	**1,355**	**842**	**332**	**22**	**-**	**157**	**6,879**
Change of impairment allowance due to write-offs, net	(7,722)	(248)	(3,605)	(5,823)	(108)	-	(376)	(17,882)
Change of impairment allowance due to currency fluctuations	74	(17)	(7)	11	9	-	132	202
Outstanding specific impairment as at 31/12/2014	**39,535**	**12,969**	**7,063**	**6,468**	**52**	**255**	**1,334**	**67,676**
Impairment charge for the reported period - specific	11,410	(2,960)	1,155	784	-	155	199	10,743
Release of previously established impairment allowance - specific	(2,837)	(114)	(245)	(304)	-	-	-	(3,500)
Impairment charged to the statement of income, net	**8,573**	**(3,074)**	**910**	**480**	**-**	**155**	**199**	**7,243**
Change of impairment allowance due to write-offs, net	(4,443)	-	(786)	(1,791)	(1)	-	(412)	(7,433)
Change of impairment allowance due to currency fluctuations	179	(61)	-	7	-	-	140	265
Outstanding specific impairment as at 31/12/2015	**43,844**	**9,834**	**7,187**	**5,164**	**51**	**410**	**1,261**	**67,751**

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

	Regular loans	Utilised credit lines	Finance Leases	Debit balances on settlement cards	Overdraft facilities	Factoring	Due from investment counterparties	Total
Outstanding specific impairment as at 31/12/2013	**35,893**	**11,201**	**-**	**10,291**	**129**	**-**	**1,421**	**58,935**
Impairment charge for the reported period - specific	12,321	2,700	-	388	51	-	180	15,640
Release of previously established impairment allowance - specific	(7,914)	(1,627)	-	(1)	(30)	-	(23)	(9,595)
Impairment charged to the statement of income, net	**4,407**	**1,073**	**-**	**387**	**21**	**-**	**157**	**6,045**
Change of impairment allowance due to write-offs, net	(7,299)	(248)	-	(5,795)	(108)	-	(376)	(13,826)
Change of impairment allowance due to currency fluctuations	77		-	14	9	-	129	229
Outstanding specific impairment as at 31/12/2014	**33,078**	**12,026**	**-**	**4,897**	**51**	**-**	**1,331**	**51,383**
Impairment charge for the reported period - specific	9,989	(2,378)	-	751	-	-	199	8,561
Release of previously established impairment allowance - specific	(1,989)	(119)	-	(3)	-	-	-	(2,111)
Impairment charged to the statement of income, net	**8,000**	**(2,497)**	**-**	**748**	**-**	**-**	**199**	**6,450**
Change of impairment allowance due to write-offs, net	(1,962)	-	-	(589)	-	-	(413)	(2,964)
Change of impairment allowance due to currency fluctuations	177	(61)	-	7	-	-	143	266
Outstanding specific impairment as at 31/12/2015	**39,293**	**9,468**	**-**	**5,063**	**51**	**-**	**1,260**	**55,135**

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

Group:

	EUR 000's							
	31/12/2015				31/12/2014			
	LTV < 100%		LTV ≥ 100% and unsecured		LTV < 100%		LTV ≥ 100% and unsecured	
	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral
Regular loans	735,677	1,566,223	129,360	78,082	597,070	1,139,362	199,232	132,224
Utilised credit lines	98,831	238,820	10,400	9,248	105,834	257,600	11,923	9,055
Finance leases	120,142	124,629	4,851	4,755	94,285	100,822	837	523
Debit balances on settlement cards	189	1,317	46,598	2	285	1,363	48,152	1
Overdraft facilities	17,850	56,443	1,352	100	4,035	11,257	9,289	1,799
Factoring	4,482	4,884	235	2	1,369	1,389	5	-
Due from investment counterparties	-	-	2,378	-	-	-	3,385	-
Total net loans	**977,171**	**1,992,316**	**195,174**	**92,189**	**802,878**	**1,511,793**	**272,823**	**143,602**

Bank:

	EUR 000's							
	31/12/2015				31/12/2014			
	LTV < 100%		LTV ≥ 100% and unsecured		LTV < 100%		LTV ≥ 100% and unsecured	
	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral
Regular loans	596,114	1,221,321	87,215	46,262	470,307	1,008,774	152,988	107,688
Utilised credit lines	84,059	187,911	9,390	8,314	94,739	246,505	10,887	8,157
Finance leases	24	282	-	-	41	337	-	-
Debit balances on settlement cards	179	1,298	41,776	2	246	1,261	43,149	-
Overdraft facilities	15,090	42,601	1,226	101	3,134	10,353	9,187	1,799
Due from investment counterparties	-	-	1,768	-	-	-	2,847	-
Loans to subsidiaries	-	-	146,584	39,265	-	-	153,804	-
Total net loans	**695,466**	**1,453,413**	**287,959**	**93,944**	**568,467**	**1,267,230**	**372,862**	**117,644**

In 2015, the management revised the methodology for determining the value of collateral used for the purposes of the disclosure. As of 31 December 2015, for loans that are not development projects, collateral value is determined using both estimated fair value of the real estate and 50% of all assets, excluding fixed assets, under commercial pledge. For development projects future loan-to-value ratio is used to reflect the completion rate of the project at the date of the report. Previously, only real estate value was used in calculating the fair value of collateral. Comparative data for 31 December 2014 were restated using the updated methodology.

Mostly, loans falling into categories "regular loans" and "utilised credit lines" are secured by collateral or commercial pledges. In general, settlement card loans are granted to clients on a basis of their cash flows' assessment and no collateral is required in most cases. Finance leases are secured by the respective property leased out.

The tables below provide details of Group's fixed securities portfolio quality:

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

	EUR 000's				
	31/12/2014				
	Held for trading	**Financial assets designated at fair value through profit or loss**	**Available for sale**	**Held to maturity**	**Total**
Investment grade:					
AAA/Aaa	361	14,063	119,168	2,919	136,511
AA/Aa	4,612	31,565	105,666	7,794	149,637
A	7,459	31,703	259,005	168,037	466,204
BBB/Baa	7,863	7,215	49,761	14,621	79,460
Other lower ratings	-	305	4,632	1,425	6,362
Not rated	-	-	3,359	34,456	37,815
Total fixed income securities	**20,295**	**84,851**	**541,591**	**229,252**	**875,989**

The tables below provide details of Bank's fixed securities portfolio quality:

	EUR 000's					
	31/12/2015			31/12/2014		
	Held to maturity	**Available for sale**	**Total**	**Held to maturity**	**Available for sale**	**Total**
Investment grade:						
AAA/Aaa	2,739	109,890	112,629	2,083	117,620	119,703
AA/Aa	-	105,779	105,779	4,972	91,606	96,578
A	128,104	186,074	314,178	151,467	174,117	325,584
BBB/Baa	-	59,271	59,271	-	42,003	42,003
Other lower ratings	-	3,548	3,548	-	4,632	4,632
Not rated	34,450	4,997	39,447	34,455	3,359	37,814
Total net fixed income securities	**165,293**	**469,559**	**634,852**	**192,977**	**433,337**	**626,314**

The tables below provide details of due from credit institutions balances credit quality:

	EUR 000's			
	2015 Group	**2014 Group**	**2015 Bank**	**2014 Bank**
Investment grade:				
AAA/Aaa	-	56,618	-	-
AA/Aa	29,494	10,210	5,845	5,407
A	62,588	333,834	59,288	312,344
BBB/Baa	72,431	64,479	63,131	64,235
Other lower ratings	8,219	89	8,198	62
Not rated Latvian registered credit institutions*	2,573	44,091	1,024	41,767
Citadele Group's banks	-	-	162,877	40,449
Other not rated credit institutions*	5,840	83	917	9
Total balances due from credit institutions, net	**181,145**	**509,404**	**301,280**	**464,273**

* Mostly balances due from credit institutions falling into category "Not rated" are with subsidiaries of investment grade rated international credit institutions.

GEOGRAPHICAL PROFILE

Group’s assets and liabilities, as well as off-balance sheet items outstanding as at 31 December 2015 and 31 December 2014 by geographical profile. The grouping is done based on information about the residence of the respective counterparties.

	EUR 000’s						
	31/12/2015						
	Latvia	**Lithuania**	**Estonia**	**Other EU countries**	**CIS countries**	**Other countries**	**Total**
Assets							
Cash and balances with central banks	339,537	28,890	5,332	-	-	181,319	555,078
Balances due from credit institutions	3,945	785	27	82,948	8,253	85,187	181,145
Securities held for trading	6,252	-	1,101	4,549	-	4,170	16,072
Financial assets designated at fair value through profit or loss	11,125	-	-	62,682	-	37,280	111,087
Available for sale securities	108,431	49,877	10,759	180,063	-	260,900	610,030
Loans and receivables from customers	738,765	262,329	115,306	17,334	23,604	15,007	1,172,345
Held to maturity securities	130,309	6,577	-	53,172	-	13,660	203,718
Derivative financial instruments	1,728	-	-	1,666	2	1,511	4,907
Other assets	82,817	6,004	1,549	14,971	96	644	106,081
Total assets	**1,422,909**	**354,462**	**134,074**	**417,385**	**31,955**	**599,678**	**2,960,463**
Liabilities							
Financial liabilities designated at fair value through profit or loss	29,898	-	-	103	2,521	1,393	33,915
Balances due to credit institutions and central banks	39,463	2,124	35	-	7	6	41,635
Deposits from customers	1,111,405	219,596	98,490	322,357	211,496	606,281	2,569,625
Subordinated liabilities	35,701	-	-	19,014	-	-	54,715
Other financial liabilities	-	13,405	-	-	-	-	13,405
Derivative financial instruments	263	-	-	1,111	107	420	1,901
Other liabilities	20,217	3,383	601	153	163	979	25,496
Total liabilities	**1,236,947**	**238,508**	**99,126**	**342,738**	**214,294**	**609,079**	**2,740,692**
Off-balance sheet items							
Contingent liabilities	29,482	2,164	405	2,977	834	2,655	38,517
Financial commitments	137,039	25,894	12,713	432	852	1,191	178,121

* For additional information on geographical distribution of securities exposures please refer to Note 15. All Group's cash and deposit with central banks balances presented as "Other countries" are with Swiss National Bank (EUR 177.2 million). Group’s balances due from credit institutions presented as "Other countries" are with Swiss credit institutions (EUR 58.5 million) and United States registered credit institutions (EUR 24.8 million) among others.

	EUR 000’s						
	31/12/2014						
	Latvia	**Lithuania**	**Estonia**	**Other EU countries**	**CIS countries**	**Other countries**	**Total**
Assets							
Cash and balances with central banks	136,099	11,659	774	5,777	-	71,090	225,399
Balances due from credit institutions	53,198	2,934	1	344,864	10,085	98,322	509,404
Securities held for trading	5,530	-	805	11,355	-	6,260	23,950
Financial assets designated at fair value through profit or loss	6,190	-	-	50,789	-	40,470	97,449
Available for sale securities	105,252	80,014	-	153,415	-	219,515	558,196
Loans and receivables from customers	676,574	228,733	84,249	22,947	42,380	20,818	1,075,701
Held to maturity securities	187,999	6,361	-	21,780	-	13,112	229,252
Derivative financial instruments	1,724	-	153	1,744	7	2,301	5,929
Other assets	106,974	6,225	1,653	13,798	92	573	129,315
Total assets	**1,279,540**	**335,926**	**87,635**	**626,469**	**52,564**	**472,461**	**2,854,595**
Liabilities							
Financial liabilities designated at fair value through profit or loss	22,807	-	-	30	1,717	40	24,594
Balances due to credit institutions and central banks	24,433	227	-	-	82	294	25,036
Deposits from customers	1,131,933	201,849	101,944	285,312	184,848	611,221	2,517,107
Subordinated liabilities	66,188	-	-	7,408	-	-	73,596
Other financial liabilities	-	12,235	-	-	-	-	12,235
Derivative financial instruments	434	-	298	217	162	536	1,647
Other liabilities	16,090	5,728	784	99	11	957	23,669
Total liabilities	**1,261,885**	**220,039**	**103,026**	**293,066**	**186,820**	**613,048**	**2,677,884**
Off-balance sheet items							
Contingent liabilities	51,189	1,418	187	884	2,330	2,209	58,217
Financial commitments	127,070	33,879	2,977	324	3,606	790	168,646

* For additional information on geographical distribution of securities exposures please refer to Note 15. All Group's cash and deposit with central banks balances presented as "Other countries" are with Swiss National Bank. Group’s balances due from credit institutions presented as "Other countries" are with Swiss credit institutions (EUR 51.2 million), Japanese credit institutions (EUR 33.8 million) and United States registered credit institutions (EUR 12.0 million) among others.

Bank's assets and liabilities, as well as off-balance sheet items outstanding as at 31 December 2015 and 31 December 2014 by geographical profile. The grouping by is done based on information about the residence of the respective counterparties.

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

	31/12/2014, EUR 000's						
	Latvia	Lithuania	Estonia	Other EU countries	CIS countries	Other countries	Total
Assets							
Cash and balances with central banks	136,099	-	774	5,777	-	-	142,650
Balances due from credit institutions	50,870	40,478	-	300,135	9,984	62,806	464,273
Available for sale securities	98,077	10,767	-	143,880	-	191,694	444,418
Loans and receivables from customers	732,406	53,176	83,231	19,351	38,523	14,642	941,329
Held to maturity securities	185,922	-	-	7,055	-	-	192,977
Derivative financial instruments	1,712	8	153	1,746	7	2,337	5,963
Other assets	67,148	43,838	485	13,738	28	13,814	139,051
Total assets	**1,272,234**	**148,267**	**84,643**	**491,682**	**48,542**	**285,293**	**2,330,661**
Liabilities							
Balances due to credit institutions and central banks	24,434	64,870	-	-	78	27,615	116,997
Deposits from customers	1,137,845	780	104,493	182,779	127,728	395,126	1,948,751
Subordinated liabilities	66,188	-	-	7,408	-	-	73,596
Derivative financial instruments	432	8	298	217	162	2,450	3,567
Other liabilities	14,234	19	134	28	2	36	14,453
Total liabilities	**1,243,133**	**65,677**	**104,925**	**190,432**	**127,970**	**425,227**	**2,157,364**
Off-balance sheet items							
Contingent liabilities	51,133	521	187	185	1,899	619	54,544
Financial commitments	153,304	27,155	7,332	221	3,606	788	192,406

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 Investment Committee (GIC). The decisions of 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 Risk and Compliance Sector.

The Group manages market risk by developing investment guidelines for every significant portfolio, as well as by setting individual limits to issuers and financial instruments, ensuring that maximum limit volumes are closely linked to the results of risk assessment. The Group puts a large emphasis on concentration risk applying a framework, where limits are set based on risk weighted exposures for every country and sector combination. To assess position risk the Group uses sensitivity analysis and scenario analysis, which identifies and quantifies negative impact of adverse events on portfolio of the Group taking into consideration regional, sector and credit rating profile.

Interest rate risk

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

Interest rate risk management in the Group is carried out in accordance with the Group's Interest rate Risk Management Policy. Interest rate risk is assessed and decisions are made by Assets and Liabilities Management Committee (ALCO). The decisions of ALCO are approved by the Bank's Management Board. 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 Treasury Sector, while Risk and Compliance Sector ensures proper oversight and prepares analytical reports to ALCO and the Bank's Management Board.

The Group manages interest rate risk by using the gap analysis of the risk sensitive assets and liabilities, duration analysis and sensitivity analysis of assets and liabilities as well as stress testing of interest rate risk. 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, ALCO sets customer deposit interest rates.

The following table represents the impact of a parallel change in all interest rates and security yields by 1.0% (also allowing for negative rates below 0%) on Group's and Bank's pre-tax profit (in 12-months time) and available for sale securities' fair value revaluation reserve in equity:

Scenario: +1%	**EUR 000's**			
	2015 Group	**2014 Group**	**2015 Bank**	**2014 Bank**
Pre-tax profit / (loss)	7,100	7,472	6,040	7,208
Securities fair value revaluation reserve	(9,953)	(8,955)	(5,958)	(5,667)
Total pre-tax effect on equity	**(2,853)**	**(1,483)**	**82**	**1,541**
Estimated net effect on equity	**(2,425)**	**(1,261)**	**70**	**1,310**
Scenario: -1%				
Pre-tax profit / (loss)	(7,129)	(7,495)	(6,068)	(7,234)
Securities fair value revaluation reserve	9,953	8,955	6,201	5,875
Total pre-tax effect on equity	**2,824**	**1,460**	**133**	**(1,359)**
Estimated net effect on equity	**2,400**	**1,241**	**113**	**(1,155)**

The following table represents the impact of a 2.0% parallel change in all interest rates and security yields (also allowing for negative rates below 0%) by currencies on Bank's pre-tax profit and available for sale securities' fair value revaluation reserve in equity:

Scenario: +2%	**31/12/2015**			**31/12/2014**		
	EUR	**USD**	**Other currencies**	**EUR**	**USD**	**Other currencies**
Pre-tax profit/ (loss)	8,810	5,837	(2,594)	9,711	5,969	(1,289)
Securities fair value revaluation reserve	(3,483)	(8,063)	(142)	(3,620)	(7,285)	(233)
Total pre-tax effect on equity	**5,327**	**(2,226)**	**(2,736)**	**6,091**	**(1,316)**	**(1,522)**
Estimated net effect on equity	**4,528**	**(1,892)**	**(2,326)**	**5,177**	**(1,119)**	**(1,294)**
Scenario: -2%						
Pre-tax profit/ (loss)	(8,897)	(5,861)	2,594	(9,796)	(5,984)	1,286
Securities fair value revaluation reserve	3,803	8,708	148	3,884	7,839	244
Total pre-tax effect on equity	**(5,094)**	**2,847**	**2,742**	**(5,912)**	**1,855**	**1,530**
Estimated net effect on equity	**(4,330)**	**2,420**	**2,331**	**(5,025)**	**1,577**	**1,301**

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 the Group's Currency Risk Management Policy. Currency risk is assessed and decisions on limits set are made by the Financial Market and Counterparty Committee (FMCC). The decisions of FMCC are approved by the Bank's Management Board. FMCC 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 Treasury Sector, while risk monitoring and reporting is the responsibility of Risk and Compliance Sector. The Group has set a limit for open currency positions in each currency at 10% of its equity, and the limit for the total open currency position at 20% of its equity. The limits are in compliance with the requirements of Latvian legislation. In assessing its currency risk the Group also makes use of several widely applied methodologies: value at risk, expected shortfall and scenario analysis.

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

Group
EUR 000's

	31/12/2015			31/12/2014		
Scenario:	**USD**	**CHF**	**Other currencies***	**USD**	**CHF**	**Other currencies***
2%adverse change	34	114	22	58	54	7
5% adverse change	84	285	55	145	134	18

Bank
EUR 000's

	31/12/2015			31/12/2014		
Scenario:	**USD**	**CHF**	**Other currencies***	**USD**	**CHF**	**Other currencies***
2%adverse change	7	2	15	28	-	2
5% adverse change	18	4	39	71	1	6

* Excluding adverse changes as at 31/12/2014 for LTL currency as on 1 January 2015 Lithuania adopted EUR.

During 2015 and 2014 the Bank was in compliance with the currency position limits.

The following table provides Group's and Bank's assets and liabilities and shareholders' equity as well as off-balance sheet items outstanding as at 31 December 2015 and 2014 by currency profile:

	31/12/2015, EUR 000's					
	EUR	**USD**	**CHF**	**RUB**	**Other**	**Total**
Assets						
Cash and balances with central banks	370,607	2,623	177,587	161	4,100	555,078
Balances due from credit institutions	49,331	67,501	6,185	8,038	50,090	181,145
Securities held for trading	11,789	2,836	1,447	-	-	16,072
Financial assets designated at fair value through profit or loss	49,372	50,471	10,356	-	888	111,087
Available for sale securities	182,908	403,863	-	-	23,259	610,030
Loans and receivables from customers	1,123,754	44,836	3,460	178	117	1,172,345
Held to maturity securities	181,791	21,927	-	-	-	203,718
Derivative financial instruments	4,907	-	-	-	-	4,907
Other assets	93,645	11,428	609	28	371	106,081
Total assets	**2,068,104**	**605,485**	**199,644**	**8,405**	**78,825**	**2,960,463**
Liabilities						
Financial liabilities designated at fair value through profit or loss	28,901	5,014	-	-	-	33,915
Balances due to credit institutions and central banks	3,670	35,660	-	1,956	349	41,635
Deposits from customers	1,646,993	814,029	20,261	16,778	71,564	2,569,625
Subordinated liabilities	54,715	-	-	-	-	54,715
Other financial liabilities	13,405	-	-	-	-	13,405
Derivative financial instruments	1,900	-	1	-	-	1,901
Other liabilities	21,353	3,040	801	131	171	25,496
Total liabilities	**1,770,937**	**857,743**	**21,063**	**18,865**	**72,084**	**2,740,692**
Equity	221,136	(1,363)	-	-	(2)	219,771
Total liabilities and equity	**1,992,073**	**856,380**	**21,063**	**18,865**	**72,082**	**2,960,463**
Net long/ (short) position for balance sheet items	76,031	(250,895)	178,581	(10,460)	6,743	-
Off-balance sheet claims arising from foreign exchange						
Spot exchange contracts	18,488	(21,195)	(366)	(507)	3,466	(114)
Forward foreign exchange contracts	(66,471)	316	-	-	66,660	505
Swap exchange contracts	(34,012)	273,452	(172,507)	11,039	(76,138)	1,834
Net long/ (short) positions on foreign exchange	*(81,995)*	*252,573*	*(172,873)*	*10,532*	*(6,012)*	*2,225*
Net long/ (short) total position	**(5,964)**	**1,678**	**5,708**	**72**	**731**	**2,225**

	31/12/2014, EUR 000's						
	EUR	USD	CHF	LTL	RUB	Other	Total
Assets							
Cash and balances with central banks	137,031	3,328	71,201	10,825	104	2,910	225,399
Balances due from credit institutions	229,958	162,476	10,459	153	9,952	96,406	509,404
Securities held for trading	16,099	6,189	1,662	-	-	-	23,950
Financial assets designated at fair value through profit or loss	31,461	53,731	9,788	-	-	2,469	97,449
Available for sale securities	170,514	311,731	-	59,192	-	16,759	558,196
Loans and receivables from customers	955,260	56,182	3,468	60,539	99	153	1,075,701
Held to maturity securities	203,580	21,378	-	4,294	-	-	229,252
Derivative financial instruments	5,911	-	7	11	-	-	5,929
Other assets	91,014	30,162	543	5,905	52	1,639	129,315
Total assets	**1,840,828**	**645,177**	**97,128**	**140,919**	**10,207**	**120,336**	**2,854,595**
Liabilities							
Financial liabilities designated at fair value through profit or loss	21,985	2,609	-	-	-	-	24,594
Balances due to credit institutions and central banks	3,574	12,079	-	191	933	8,259	25,036
Deposits from customers	1,445,683	826,457	26,977	128,893	13,865	75,232	2,517,107
Subordinated liabilities	73,596	-	-	-	-	-	73,596
Other financial liabilities	6,457	-	-	5,778	-	-	12,235
Derivative financial instruments	1,632	-	13	2	-	-	1,647
Other liabilities	16,308	3,901	944	2,108	139	269	23,669
Total liabilities	**1,569,235**	**845,046**	**27,934**	**136,972**	**14,937**	**83,760**	**2,677,884**
Equity	176,711	-	-	-	-	-	176,711
Total liabilities and equity	**1,745,946**	**845,046**	**27,934**	**136,972**	**14,937**	**83,760**	**2,854,595**
Net long/ (short) position for balance sheet items	94,882	(199,869)	69,194	3,947	(4,730)	36,576	-
Off-balance sheet claims arising from foreign exchange							
Spot exchange contracts	(29,532)	32,733	(144)	-	(601)	(644)	1,812
Forward foreign exchange contracts	(2,299)	2,527	(370)	-	-	258	116
Swap exchange contracts	(68,525)	167,513	(65,993)	-	5,338	(35,952)	2,381
Net long/ (short) positions on foreign exchange	*(100,356)*	*202,773*	*(66,507)*	-	*4,737*	*(36,338)*	*4,309*
Net long/ (short) total position	**(5,474)**	**2,904**	**2,687**	**3,947**	**7**	**238**	**4,309**

As at 31 December 2014 LTL currency is pegged to the EUR at a fixed rate due to Republic of Lithuania adoption of Euro. At that date all Group's and Bank's balances denominated in Litas were converted to Euros at the fixed official exchange rate.

	Bank as at 31/12/2015, EUR 000's					
	EUR	USD	CHF	RUB	Other	Total
Assets						
Cash and balances with central banks	342,669	2,267	329	161	3,534	348,960
Balances due from credit institutions	34,809	47,599	162,900	8,001	47,971	301,280
Available for sale securities	151,499	314,648	-	-	23,259	489,406
Loans and receivables from customers	942,084	37,585	3,460	178	118	983,425
Held to maturity securities	165,293	-	-	-	-	165,293
Derivative financial instruments	4,960	-	-	-	-	4,960
Other assets	90,656	10,857	13,819	-	344	115,676
Total assets	**1,731,970**	**412,956**	**180,508**	**8,340**	**75,226**	**2,409,000**
Liabilities						
Balances due to credit institutions and central banks	8,673	68,111	143	2,091	8,760	87,778
Deposits from customers	1,342,682	609,377	10,164	15,940	59,186	2,037,349
Subordinated liabilities	54,715	-	-	-	-	54,715
Derivative financial instruments	1,897	-	-	-	-	1,897
Other liabilities	15,124	2,708	5	128	154	18,119
Total liabilities	**1,423,091**	**680,196**	**10,312**	**18,159**	**68,100**	**2,199,858**
Equity	209,964	(819)	-	-	(3)	209,142
Total liabilities and equity	**1,633,055**	**679,377**	**10,312**	**18,159**	**68,097**	**2,409,000**
Net long/ (short) position for balance sheet items	**98,916**	**(266,421)**	**170,196**	**(9,819)**	**7,129**	**-**
Off-balance sheet claims arising from foreign exchange						
Spot exchange contracts	17,980	(20,707)	(366)	(472)	3,453	(111)
Forward foreign exchange contracts	(66,169)	(2)	-	-	66,676	505
Swap exchange contracts	(49,324)	287,487	(169,909)	10,345	(76,710)	1,889
Net long/ (short) positions on foreign exchange	*(97,513)*	*266,778*	*(170,275)*	*9,873*	*(6,580)*	*2,283*
Net long/ (short) total position	**1,402**	**357**	**(79)**	**54**	**549**	**2,283**

	Bank as at 31/12/2014, EUR 000's						
	EUR	USD	CHF	LTL	RUB	Other	Total
Assets							
Cash and balances with central banks	136,428	3,045	72	360	104	2,641	142,650
Balances due from credit institutions	226,732	127,283	8,443	28	9,912	91,875	464,273
Available for sale securities	161,888	265,770	-	-	-	16,760	444,418
Loans and receivables from customers	890,252	47,356	3,468	-	99	154	941,329
Held to maturity securities	192,977	-	-	-	-	-	192,977
Derivative financial instruments	5,963	-	-	-	-	-	5,963
Other assets	53,599	30,004	13,807	40,032	3	1,606	139,051
Total assets	**1,667,839**	**473,458**	**25,790**	**40,420**	**10,118**	**113,036**	**2,330,661**
Liabilities							
Balances due to credit institutions and central banks	12,483	47,631	3	40,319	1,041	15,520	116,997
Deposits from customers	1,280,256	582,797	12,240	99	12,857	60,502	1,948,751
Subordinated liabilities	73,596	-	-	-	-	-	73,596
Derivative financial instruments	3,567	-	-	-	-	-	3,567
Other liabilities	12,358	1,800	5	3	103	184	14,453
Total liabilities	**1,382,260**	**632,228**	**12,248**	**40,421**	**14,001**	**76,206**	**2,157,364**
Equity	173,297	-	-	-	-	-	173,297
Total liabilities and equity	**1,555,557**	**632,228**	**12,248**	**40,421**	**14,001**	**76,206**	**2,330,661**
Net long/ (short) position for balance sheet items	112,282	(158,770)	13,542	(1)	(3,883)	36,830	-
Off-balance sheet claims arising from foreign exchange							
Spot exchange contracts	(30,149)	33,363	(168)	-	(601)	(632)	1,813
Forward foreign exchange contracts	(1,720)	1,939	(370)	-	-	258	107
Swap exchange contracts	(79,428)	124,895	(12,992)	-	4,483	(36,466)	492
Net long/ (short) positions on foreign exchange	*(111,297)*	*160,197*	*(13,530)*	-	*3,882*	*(36,840)*	*2,412*
Net long/ (short) total position	**985**	**1,427**	**12**	**(1)**	**(1)**	**(10)**	**2,412**

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

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 sufficient to meet potential obligations.

The Group manages its liquidity risk in accordance with the Group's Liquidity Risk Management Policy. Liquidity risk is assessed and decisions are made by ALCO. The decisions of ALCO are approved by the Bank's Management Board. ALCO sets the acceptable liquidity risk level, the Group's internal limit system and defines instruments for the management of liquidity risk, as well as monitors the compliance with the set limits. Daily liquidity management, as well as control is ensured by the Treasury Sector. Liquidity risk management and reporting in the Group is coordinated by the Risk and Compliance Sector.

The Bank evaluates liquidity risk by using scenario analysis. For this purpose several scenarios of Bank's operations under a variety of conditions are developed: moderate crisis (base case scenario), bank's crisis, general market crisis and a combined scenario. The Bank evaluates its liquidity position for each of the scenarios for a variety of periods (ranging from 1 week to 3 months). System of liquidity risk limits and early warning indicators has been implemented in the Bank. The Bank also estimates costs it could suffer under conditions of prolonged liquidity crisis. In addition to scenarios analysis, the Bank also prepares yearly cash flows, which incorporate assumptions about the most likely flows of funds. For general assessment of asset and liability gaps the Bank regularly prepares and analyses liquidity term structure.

Liquidity risk for the Citadele Group is assessed for each significant currency that the Group transacts. Liquidity risk limits are reviewed at least once a year depending on changes of Citadele's operations or high impact external factors. A liquidity contingency plan has been developed and is updated on a regular basis.

Citadele's balance sheet structure is planned for at least a one-year period and is aligned with actual business development plans. The major current and potential sources of liquidity are regularly analysed and controlled across the Group.

In 2015 and 2014 the Bank was in compliance with liquidity ratio requirements and met mandatory reserve requirements in the Bank of Latvia.

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

Year	Highest	Lowest	Average	Year-end
2015	63%	55%	59%	57%
2014	59%	50%	55%	59%

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

Regulation EC 575/2013 introduces the concept of liquidity coverage ratio and net stable funding ratio as measurements of the Bank's and Group's liquidity position. However European Union's regulations implementing these ratios are not yet finalised.

Therefore, the Group in calculation these ratios has applied non-final legislation and in particular for net stable funding ratio the definitions and required stable funding factors as per Basel Committee's on Banking Supervision guidelines.

	EUR 000's			
	31/12/2015 Group	**31/12/2014 Group**	**31/12/2015 Bank**	**31/12/2014 Bank**
Liquidity coverage ratio	239%	543%	366%	406%
Net stable funding ratio	136%	130%	128%	119%

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

	Group as at 31/12/2015, EUR 000's						
	Within 1 month	**2-3 months**	**4-6 months**	**7-12 months**	**2-5 years**	**Over 5 years and undated**	**Total**
Assets							
Cash and balances with central banks	555,078	-	-	-	-	-	555,078
Balances due from credit institutions	145,810	107	7,786	1,163	1,242	25,037	181,145
Securities held for trading	-	-	900	1,447	6,228	7,497	16,072
Financial assets designated at fair value through profit or loss	1,335	8,422	6,377	18,920	52,495	23,538	111,087
Available for sale securities	23,908	43,637	37,373	82,980	384,190	37,942	610,030
Loans and receivables from customers	37,069	52,256	75,418	134,437	631,264	241,901	1,172,345
Held to maturity securities	31,315	4,588	2,431	32,610	118,880	13,894	203,718
Derivative financial instruments	3,844	854	209	-	-	-	4,907
Other assets	7,132	465	815	675	645	96,349	106,081
Total assets	**805,491**	**110,329**	**131,309**	**272,232**	**1,194,944**	**446,158**	**2,960,463**
Liabilities							
Financial liabilities designated at fair value through profit or loss	67	283	493	2,690	27,306	3,076	33,915
Balances due to credit institutions and central banks	40,561	639	200	200	35	-	41,635
Deposits from customers	2,114,548	71,325	71,045	164,814	141,597	6,296	2,569,625
Subordinated liabilities	-	1,607	-	-	53,108	-	54,715
Other financial liabilities	2	-	105	-	13,298	-	13,405
Derivative financial instruments	1,523	306	72	-	-	-	1,901
Other liabilities	23,631	796	517	362	48	142	25,496
Total liabilities	**2,180,332**	**74,956**	**72,432**	**168,066**	**235,392**	**9,514**	**2,740,692**
Equity	-	-	-	-	-	219,771	219,771
Total liabilities and equity	**2,180,332**	**74,956**	**72,432**	**168,066**	**235,392**	**229,285**	**2,960,463**
Net balance sheet position – long/ (short)	(1,374,841)	35,373	58,877	104,166	959,552	216,873	-
Off-balance sheet items							
Contingent liabilities	38,517	-	-	-	-	-	38,517
Financial commitments	178,121	-	-	-	-	-	178,121

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

	EUR 000's						
	Within 1 month	**2-3 months**	**4-6 months**	**7-12 months**	**2-5 years**	**Over 5 years**	**Total**
Financial liabilities designated at fair value through profit or loss	67	283	493	2,690	27,447	3,138	34,118
Financial liabilities measured at amortised cost*	2,161,414	114,975	73,930	172,065	216,224	9,852	2,748,460
Off-balance sheet items							
Contingent liabilities	38,517	-	-	-	-	-	38,517
Financial commitments	178,121	-	-	-	-	-	178,121

** Includes Balances due to credit institutions and central banks, Deposits from customers, Subordinated liabilities, and Other financial liabilities.*

Group's assets, liabilities and off-balance sheet items by contractual maturity structure as at 31 December 2014

	31/12/2014, EUR 000's						
	Within 1 month	**2-3 months**	**4-6 months**	**7-12 months**	**2-5 years**	**Over 5 years and undated**	**Total**
Assets							
Cash and balances with central banks	224,685	714	-	-	-	-	225,399
Balances due from credit institutions	499,249	5,748	108	-	-	4,299	509,404
Securities held for trading	6,474	426	1,513	2,664	-	12,873	23,950
Financial assets designated at fair value through profit or loss	14,059	4,215	3,786	9,899	-	65,490	97,449
Available for sale securities	27,035	13,641	28,033	68,266	295,477	125,744	558,196
Loans and receivables from customers	29,456	46,519	61,766	129,805	581,871	226,284	1,075,701
Held to maturity securities	-	2,945	16,986	74,972	99,699	34,650	229,252
Derivative financial instruments	3,598	2,239	77	15	-	-	5,929
Other assets	30,043	532	515	474	1,011	96,740	129,315
Total assets	**834,599**	**76,979**	**112,784**	**286,095**	**978,058**	**566,080**	**2,854,595**
Liabilities							
Financial liabilities designated at fair value through profit or loss	32	135	301	1,198	20,217	2,711	24,594
Balances due to credit institutions and central banks	24,526	510	-	-	-	-	25,036
Deposits from customers	2,046,552	85,732	91,548	176,260	108,884	8,131	2,517,107
Subordinated liabilities	-	2,119	-	-	71,477	-	73,596
Other financial liabilities	77	-	-	-	250	11,908	12,235
Derivative financial instruments	876	763	8	-	-	-	1,647
Other liabilities	20,319	57	1,466	328	13	1,486	23,669
Total liabilities	**2,092,382**	**89,316**	**93,323**	**177,786**	**200,841**	**24,236**	**2,677,884**
Equity	-	-	-	-	-	176,711	176,711
Total liabilities and equity	**2,092,382**	**89,316**	**93,323**	**177,786**	**200,841**	**200,947**	**2,854,595**
Net balance sheet position – long/ (short)	(1,257,783)	(12,337)	19,461	108,309	777,217	365,133	-
Off-balance sheet items							
Contingent liabilities	58,217	-	-	-	-	-	58,217
Financial commitments	168,646	-	-	-	-	-	168,646

Group's contractual undiscounted cash flows of the financial liabilities as at 31 December 2014

	EUR 000's						
	Within 1 month	**2-3 months**	**4-6 months**	**7-12 months**	**2-5 years**	**Over 5 years**	**Total**
Financial liabilities designated at fair value through profit or loss	32	135	301	1,287	20,564	2,748	25,067
Financial liabilities measured at amortised cost*	2,071,564	89,546	92,488	181,123	194,682	26,761	2,656,164
Off-balance sheet items							
Contingent liabilities	58,217	-	-	-	-	-	58,217
Financial commitments	168,646	-	-	-	-	-	168,646

** Includes Balances due to credit institutions and central banks, Deposits from customers, Subordinated liabilities, and Other financial liabilities.*

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

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

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

	EUR 000's						
	Within 1 month	**2-3 months**	**4-6 months**	**7-12 months**	**2-5 years**	**Over 5 years**	**Total**
Financial liabilities measured at amortised cost*	1,788,099	56,076	42,853	125,112	190,329	1,649	2,204,118
Off-balance sheet items							
Contingent liabilities	34,242	-	-	-	-	-	34,242
Financial commitments	176,181	-	-	-	-	-	176,181

** Includes Balances due to credit institutions and central banks, Deposits from customers, Subordinated liabilities, and Other financial liabilities.*

Bank's assets, liabilities and off-balance sheet items by contractual maturity structure as at 31 December 2014

	EUR 000's						
	Within 1 month	**2-3 months**	**4-6 months**	**7-12 months**	**2-5 years**	**Over 5 years and undated**	**Total**
Assets							
Cash and balances with central banks	142,650	-	-	-	-	-	142,650
Balances due from credit institutions	460,521		-	-	-	3,752	464,273
Available for sale securities	21,512	13,641	28,033	66,979	295,477	18,776	444,418
Loans and receivables from customers	25,869	134,905	44,342	102,768	440,262	193,183	941,329
Held to maturity securities	-	2,945	16,986	73,347	99,699	-	192,977
Derivative financial instruments	3,648	2,232	68	15	-	-	5,963
Other assets	27,680	1	2	14	37	111,317	139,051
Total assets	**681,880**	**153,724**	**89,431**	**243,123**	**835,475**	**327,028**	**2,330,661**
Liabilities							
Balances due to credit institutions and central banks	105,056	3,166	4,144	4,082	549	-	116,997
Deposits from customers	1,578,891	61,120	61,574	139,941	101,138	6,087	1,948,751
Subordinated liabilities	-	2,119	-	-	71,477	-	73,596
Derivative financial instruments	1,723	1,832	12	-	-	-	3,567
Other liabilities	14,453	-	-	-	-	-	14,453
Total liabilities	**1,700,123**	**68,237**	**65,730**	**144,023**	**173,164**	**6,087**	**2,157,364**
Equity	-	-	-	-	-	173,297	173,297
Total liabilities and equity	**1,700,123**	**68,237**	**65,730**	**144,023**	**173,164**	**179,384**	**2,330,661**
Net balance sheet position – long/ (short)	(1,018,243)	85,487	23,701	99,100	662,311	147,644	-
Off-balance sheet items							
Contingent liabilities	54,544	-	-	-	-	-	54,544
Financial commitments	192,406	-	-	-	-	-	192,406

Bank's contractual undiscounted cash flows of the financial liabilities as at 31 December 2014

	EUR 000's						
	Within 1 month	**2-3 months**	**4-6 months**	**7-12 months**	**2-5 years**	**Over 5 years**	**Total contractual cash flows**
Financial liabilities measured at amortised cost*	1,683,947	67,294	66,274	148,317	187,402	7,210	2,160,444
Off-balance sheet items							
Contingent liabilities	54,544	-	-	-	-	-	54,544
Financial commitments	192,406	-	-	-	-	-	192,406

** Includes Balances due to credit institutions and central banks, Deposits from customers, Subordinated liabilities, and Other financial liabilities.*

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

	Group, 31/12/2015 EUR 000's						
	Within 1 month	**2-3 months**	**4-6 months**	**7-12 months**	**2-5 years**	**Over 5 years**	**Total**
Derivatives settled on a net basis							
Foreign exchange derivatives	1,325	102	195	-	851	-	2,473
Derivatives settled on a gross basis							
Foreign exchange derivatives:							
outflow	(145,568)	(37,708)	(12,955)	-	-	-	(196,231)
inflow	145,664	38,198	12,915	-	-	-	196,777

	Group, 31/12/2014 EUR 000's						
	Within 1 month	**2-3 months**	**4-6 months**	**7-12 months**	**2-5 years**	**Over 5 years**	**Total**
Derivatives settled on a net basis							
Foreign exchange derivatives	1,303	(144)	1	15	-	-	1,175
Derivatives settled on a gross basis							
Foreign exchange derivatives:							
outflow	(117,996)	(79,633)	(5,741)	-	-	-	(203,370)
inflow	119,418	81,257	5,676	-	-	-	206,351

	Bank, 31/12/2015 EUR 000's						
	Within 1 month	**2-3 months**	**4-6 months**	**7-12 months**	**2-5 years**	**Over 5 years**	**Total**
Derivatives settled on a net basis							
Foreign exchange derivatives	1,381	102	195	-	851	-	2,529
Derivatives settled on a gross basis							
Foreign exchange derivatives:							
outflow	(142,211)	(37,542)	(12,153)	-	-	-	(191,906)
inflow	142,304	38,032	12,115	-	-	-	192,451

	Bank, 31/12/2014 EUR 000's						
	Within 1 month	**2-3 months**	**4-6 months**	**7-12 months**	**2-5 years**	**Over 5 years**	**Total**
Derivatives settled on a net basis							
Foreign exchange derivatives	1,339	71	(54)	8	-	-	1,364
Derivatives settled on a gross basis							
Foreign exchange derivatives:							
outflow	(141,525)	(90,154)	(5,165)	-	-	-	(236,844)
inflow	142,147	90,691	5,223	-	-	-	238,061

Fair values of financial assets and liabilities

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

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

Cash and demand deposits with central banks

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

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

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

Loans and receivables from customers

The fair value of loans and advances to customers is calculated by discounting expected future cash flows. The discount rates consist of money market rates as at the end of year and credit margins, which are adjusted for current market conditions. If all the assumed discount rates would change by 10%, the fair value of the loan portfolio would change by EUR 10.0 million (2014: EUR 11.2 million).

Held to maturity securities

Held to maturity securities are valued using unadjusted quoted prices in active markets, where available. In other instances, either quotes of market participants are used or value of securities is determined using valuation models employing observable or non-observable market inputs.

Available for sale securities

The fair value for certain closed-end fund investments is calculated using valuation techniques with non-market observable inputs. Fair value of these available for sale securities is estimated based on specific real estate prices. If market price for similar real estate properties would change by +/-10%, the fair value of these available for sale securities would change by EUR +/-91 thousand (2014: EUR +/-142 thousand).

Derivatives

Currency derivatives are valued using unadjusted current market prices. Fair value of other derivatives is determined using valuation models employing non-observable market inputs. One of the non-observable market input is CDS rate. If the CDS rate would change by +/-20 basis points the fair value would change by EUR +200 thousand or EUR -236 thousand respectively.

Customer deposits

The fair value of customer deposits repayable on demand is their carrying amount. The fair value of other deposits is calculated by discounting expected cash flows using average market interest rates close to or at period-end. If all the assumed discount rates would change by 10%, the fair value of the deposit portfolio would change by EUR 0.12 million (2014: EUR 0.09 million).

Subordinated liabilities

The fair value of subordinated liabilities approximates the carrying amount as the borrowing rates are periodically reprised to reflect changes in market rates. If the discount rate would change by +/-50 basis points the fair value would change by EUR 0.6 million (2014: EUR 0.8 million).

Financial liabilities designated at fair value through profit or loss

The fair value of unit-linked investment contract liabilities is their notional amount which equals fair value of unit-linked insurance plan assets. The fair value of other financial liabilities designated at fair value through profit is calculated by discounting expected cash flows using current effective finance rates. If the assumed discount rates would change by 10%, the fair value of the portfolio would change by EUR +15 thousand and EUR -11 thousand respectively (2014: EUR +218 thousand and EUR -192 thousand respectively).

Fair value hierarchy

Quoted market prices (Level 1)
Financial instruments are valued using unadjusted quoted prices in active markets.

Valuation technique - observable market inputs (Level 2)
Financial instruments are valued using techniques based on observable market data. In some instances, valuations received from independent third party are used.

Valuation technique - non-market observable inputs (Level 3)
Financial instruments are valued using techniques for which significant inputs are not based on observable market data.

The following table presents fair values of Group's financial assets and liabilities as at 31 December 2015.

			Fair value hierarchy (where applicable)		
	Carrying value	Total fair value	Quoted market prices	Valuation technique - observable inputs	Valuation technique – non-market observable inputs
Held for trading securities	16,072	16,072	16,072	-	-
Financial assets designated at fair value through profit or loss	111,087	111,087	111,087	-	-
Derivatives	4,907	4,907	-	4,056	851
Available for sale securities	610,030	610,030	600,435	-	9,595
Financial assets not measured at fair value:					
Cash and deposits with central banks	555,078	555,078	-	-	-
Balances due from credit institution	181,145	181,145	-	-	-
Loans and receivables from customers	1,172,345	1,166,678	-	-	1,166,678
Held to maturity securities	203,718	206,473	172,120	-	34,353
Total assets	**2,854,382**	**2,851,470**	**899,714**	**4,056**	**1,211,477**
Derivatives	1,901	1,901	-	1,901	-
Financial liabilities designated at fair value through profit or loss	33,915	33,915	19,341	-	14,574
Financial liabilities not measured at fair value:					
Balances due to credit institutions and central banks	41,635	41,635	-	-	-
Customer deposits	2,569,625	2,573,220	-	-	2,573,220
Other financial liabilities	13,405	13,298	-	-	13,298
Subordinated liabilities	54,715	54,715	-	-	54,715
Total liabilities	**2,715,196**	**2,718,684**	**19,341**	**1,901**	**2,655,807**

The following table presents fair values of Group's financial assets and liabilities as at 31 December 2014.

			Fair value hierarchy (where applicable)		
	Carrying value	Total fair value	Quoted market prices	Valuation technique - observable inputs	Valuation technique – non-market observable inputs
Held for trading securities	23,950	23,950	23,950	-	-
Financial assets designated at fair value through profit or loss	97,449	97,449	97,449	-	-
Derivatives	5,929	5,929	-	5,929	-
Available for sale securities	558,196	558,196	556,560	-	1,636
Financial assets not measured at fair value:					
Cash and deposits with central banks	225,399	225,399	-	-	-
Balances due from credit institution	509,404	509,404	-	-	-
Loans and receivables from customers	1,075,701	1,070,066	-	-	1,070,066
Held to maturity securities	229,252	234,260	201,992	-	32,268
Total assets	**2,725,280**	**2,724,653**	**879,951**	**5,929**	**1,103,970**
Derivatives	1,647	1,647	-	1,647	-
Financial liabilities designated at fair value through profit or loss	24,594	24,594	12,784	-	11,810
Financial liabilities not measured at fair value:					
Balances due to credit institutions and central banks	25,036	25,036	-	-	-
Customer deposits	2,517,107	2,519,836	-	-	2,519,836
Other financial liabilities	12,235	12,034	-	-	12,034
Subordinated liabilities	73,596	73,596	-	-	73,596
Total liabilities	**2,654,215**	**2,656,743**	**12,784**	**1,647**	**2,617,276**

In November 2015, Visa Inc. announced that it's planned acquisition of Visa Europe, where Citadele is a member. Citadele has received indicative value of its share of Visa Europe sale proceeds. The up-front consideration amounts to EUR 11.4 million and consists of EUR 8.5million cash and EUR 2.9 million in Visa Inc. preferred stock. In addition, the second tranche is a potential earn-out, subject to certain achievements. The earn-out would, if fulfilled, be paid in cash around year 2020. The transaction is subject to regulatory approval and is expected to close only in the 2nd quarter of 2016. Based on the indicative value of the shares, Citadele has recognised EUR 8.5 million revaluation gain in other comprehensive income. Citadele has not recognised neither any value of preferred stock, nor of the earn-out due to the uncertainties surrounding the transaction, exact timing and final allocation of distribution proceeds.

The following table presents fair values of Bank's financial assets and liabilities as at 31 December 2015.

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

The following table presents fair values of Bank's financial assets and liabilities as at 31 December 2014.

			Fair value hierarchy (where applicable)		
	Carrying value	Total fair value	Quoted market prices	Valuation technique - observable inputs	Valuation technique – non-market observable inputs
Derivatives	5,963	5,963	-	5,963	-
Available for sale securities	444,418	444,418	442,798	-	1,620
Financial assets not measured at fair value:					
Cash and deposits with central banks	142,650	142,650	-	-	-
Balances due from credit institution	464,273	464,273	-	-	-
Loans and receivables from customers	941,329	929,739	-	-	929,739
Held to maturity securities	192,977	197,188	164,920	-	32,268
Total assets	**2,191,610**	**2,184,231**	**607,718**	**5,963**	**963,627**
Derivatives	3,567	3,567	-	3,567	-
Financial liabilities not measured at fair value:					
Balances due to credit institutions and central banks	116,997	116,997	-	-	-
Customer deposits	1,948,751	1,951,049	-	-	1,951,049
Subordinated liabilities	73,596	73,596	-	-	73,596
Total liabilities	**2,142,911**	**2,145,209**	**-**	**3,567**	**2,024,645**

Changes in available for sale securities categorised as Level 3

	EUR 000's			
	2015 Group	**2014 Group**	**2015 Bank**	**2014 Bank**
As at the beginning of the period, net	**1,636**	**1,969**	**1,620**	**1,969**
Gain on derivatives	1,596	-	1,595	-
Settlement	(745)	-	(745)	-
Transfer between fair value Levels	-	115	-	99
Increase in existing exposure	8,469	72	8,469	72
Impairment charges	(510)	(520)	(510)	(520)
As at the end of the period, net	**10,446**	**1,636**	**10,429**	**1,620**

Fair value of available for sale securities for which fair value is calculated based on non-market observable inputs is categorised as Level 3 as these shares and investments in mutual investment funds are not listed on an exchange and there are no sufficient recent observable transitions on the market. All increase in existing level 3 exposures of available for sale securities in 2015 relates to increase in value of Citadele's share of Visa Europe. In November 2015, Visa Inc. announced its planned acquisition of Visa Europe, where Citadele is a member. Citadele has received indicative value of its share of Visa Europe sale proceeds. The up-front consideration amounts to EUR 11.4 million and consists of EUR 8.5million cash and EUR 2.9 million in Visa Inc. preferred stock. In addition, the second tranche is a potential earn-out, subject to certain achievements. The earn-out would, if fulfilled, be paid in cash around year 2020. The transaction is subject to regulatory approval and is expected to close only in the 2nd quarter of 2016. Based on the indicative value of the shares, Citadele has recognised EUR 8.5 million revaluation gain in other comprehensive income. Citadele has not recognised neither any value of preferred stock, nor of the earn-out due to the uncertainties surrounding the transaction, exact timing and final allocation of distribution proceeds.

Operational risk

Citadele has adopted the Basel definition of operational risk: the probability to incur 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 in the following categories: personnel risk, process risk, IT and system risk, external risk.

Operational risk is managed by integrated and comprehensive framework of policies, methodologies, procedures, and regulations for identification, analysis, mitigation, control and reporting of operational risk have been implemented. Operational risk management is an indispensable part of the day-to-day management process and is binding to all Group participants, process, product and service owners, structural units, their heads and employees in their daily operations in line with their specific features. Citadele's target is to ensure that each employee knows not just how to perform a specific transaction, but also understands the justification of the use of the specific mode of performance.

The purpose of operational risk management system is to maintain possibly low level of economically justified risk facilitating the sustainability of the Group's performance and business profit in the long-term.

The Group does not accept operational risks with potential impact exceeding 10% of the Group's net annual revenues and with probability of occurrence at least once per ten years or risks with unquantifiable impact which are unmanageable, irrespective of the financial gains this could bring (i.e., the Group does not perform business activities incurring such operational risks).

The Group applies following approaches for operational risk management:

- Operational risk assessment in development projects – new and updated services and products are introduced only after a thorough risk assessment has been carried out;
- Regular operational risk-control self-assessment – identification and assessment of potential operational risk events, assessment of the control systems in place and analysis of the necessary risk reduction measures;
- Determining operational risk indicators – usage of statistical, financial, and other indicators, which represent the level of operational risk in variable activities of the Group;
- Operational risk measurement, analysis, monitoring, reporting and escalation – registering and analysing operational risk events, severity of these events, causes, and other important information in operational risk loss and incident database;
- Scenario analysis and stress testing;
- Business Continuity planning – regular Business Impact Analysis is carried out and Disaster Recovery plan is implemented.

Capital management

Capital adequacy ratios in these financial statements are calculated in accordance with the CRD IV package which transposes – via a regulation (575/2013) and a directive (2013/36/EU) – the new global standards on bank capital (the Basel III agreement) into EU law. It is applicable from 1 January 2014.

Capital adequacy refers to the sufficiency of the Group's capital resources to cover the credit risks and market risks arising from the portfolio of assets and the off-balance sheet exposures and other operational risks. The Financial and Capital Markets Commission's (FCMC), the banking regulator, regulations require Latvian banks to maintain a total capital adequacy ratio based on financial statements prepared under IFRS as adopted by EU of 8.0% of the total risk weighted exposure amounts. The CRD IV rules also introduce 4.5% minimum common equity Tier 1 capital ratio and 6.0% minimum Tier 1 capital ratio. Additionally a 2.5% capital conservation buffer is established, limiting dividend pay-out and certain other Tier 1 equity instrument buy-back, effectively implying well capitalised bank Tier 1 capital ratio target of 8.5% and total capital ratio target of 10.5%. FCMC has also calculated the Bank's individual capital adequacy ratio based on FCMC policies and guidelines. The 2015 results of the calculation indicated that the minimum capital adequacy ratio that corresponds to the Bank's business model should be at least 10.9%. The increase in ratio is related to the business with non-Baltic customers of the Bank. The ratio should be complied with also on the consolidated level. During the first quarter of 2015, until including the audited profits of 2015 in Tier 1 equity, the Group's capital adequacy ratio was somewhat below 10.9%. Capital adequacy ratios (which includes audited profits for 2014) as at 31 December 2014 and capital adequacy ratios as of 31 December 2015 complied with this requirement. In April 2015, the Group's regulatory capital increased by almost EUR 19 million as a result of 10 million share capital increase and amendments in subordinated loan agreements. As at 31 December 2015, the Group's regulatory capital complies with these FCMC's requirement.

The Bank has subsidiaries, which are financial institutions, thus it should comply with the regulatory requirements based on both the Group's level and the Bank's level as a stand-alone entity. The Bank and the Group complied with the capital adequacy requirements at the end of the reporting period.

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

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

	EUR 000's			
	31/12/2015 Group*	31/12/2014 Group*	31/12/2015 Bank	31/12/2014 Bank
Common equity Tier 1 capital				
Paid up capital instruments	156,556	146,556	156,556	146,556
Retained earnings and eligible profits	55,431	28,750	44,293	24,747
Deductible other intangible assets	(2,506)	(1,690)	(2,213)	(1,456)
Other capital components, deductions and transitional adjustments, net	(3,915)	(4,689)	(432)	(820)
Tier 2 capital				
Eligible part of subordinated liabilities	30,633	31,568	30,633	31,568
Own funds	**236,199**	**200,495**	**228,837**	**200,595**
Risk weighted exposure amounts for credit risk, counterparty credit risk and dilution risk				
Central governments or central banks	16,500	16,596	12,250	11,252
Regional governments or local authorities	806	35,611	453	35,082
Public sector entities	23	43	23	43
Multilateral Development Banks	2,578	1,052	1,833	407
Institutions	134,322	179,590	142,061	167,617
Corporates	730,788	631,548	684,767	649,329
Retail	111,333	98,655	43,908	60,870
Secured by mortgages on immovable property	255,935	236,922	200,881	155,962
Exposures in default	72,986	38,807	72,835	34,216
Items associated with particularly high risk	37,213	158,356	36,691	163,832
Claims on institutions and corporates with a short-term credit assessment	1,178	4,334	-	-
Collective investments undertakings	11,179	16,389	11,179	10,882
Equity	19,407	10,938	70,300	62,875
Other items	131,813	177,823	55,617	110,900
Total exposure amounts for position, foreign currency open position and commodities risk				
Traded debt instruments	13,881	7,126	11,099	2,427
Equity	249	867	-	-
Foreign Exchange	7,878	9,741	1,176	1,647
Commodities	6,975	-	6,975	-
Total exposure amounts for settlement	-	-	-	-
Total exposure amounts for operational risk	206,687	196,501	165,649	157,347
Total exposure amounts for credit valuation adjustment	1,067	1,142	1,060	1,135
Total risk exposure amount	**1,762,798**	**1,822,041**	**1,518,757**	**1,625,823**
Total capital adequacy ratio	**13.4%**	**11.0%**	**15.1%**	**12.3%**
Common equity Tier 1 capital ratio	**11.7%**	**9.3%**	**13.1%**	**10.4%**

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

The Bank implements the internal capital adequacy assessment process (ICAAP) by estimating individual capital charges for every significant risk type inherent to the Bank. The internal modelling takes account of a greater number of risks than is provided for in minimum capital requirements (e.g. interest rate risk in the banking book, concentration risk, reputation risk etc). Furthermore, to ensure sustainability even at times of distress, the Bank simulates its capital adequacy position under assumptions of the adverse macroeconomic scenario. The following represents the qualitative assessment summary of risk profile, where risk level is measured as a perceived likelihood of unfavourable deviation of a given size from a budgeted income over one-year horizon:

Risk type	Risk subtype	2016 forward looking risk assessment *	Regulatory risk calculation method	Internal risk calculation method
Credit risk	Loan portfolio	Moderate	Standardized approach	Stress scenario with elements of credit value at risk
	Security portfolio of debt instruments	Moderate	Standardized approach	Credit value at risk
	Counterparty default	Low	Standardized approach	n/a
	Other (participations etc)	n/a	Standardized approach	n/a
Market risk	Position risk	Moderate	Standardized approach	Stress scenario
	FX risk	Low	Standardized approach	Value at risk
Operational risk		Low	Basic indicator approach	Loss distribution approach
Concentration risk	Loan portfolio	Not assessed in isolation	Simplified approach	Incorporated in credit risk calculation
	Counterparty default	Not assessed in isolation	n/a	n/a
	Security portfolio	Not assessed in isolation	n/a	Incorporated in position and credit risk calculation
Interest rate risk in the banking book		Moderate	200bp parallel shift impact on economic value	200bp parallel shift impact on economic value (enhanced duration gap)
Liquidity risk		Low	n/a	Stressed refinancing simulation
Other risks	AML risk	Moderate	Simplified approach: turnover criteria	n/a
	Reputation risk	Moderate	5% of minimum capital requirement	n/a
	Strategic risk	Moderate	Part of reputation risk	n/a

* on a 4-grade scale: low, moderate, elevated, high.

KPMG Baltics SIA
Vesetas iela 7
Riga, LV-1013
Latvia

Telephone +371 67038000
Telefax +371 67038002
kpmg.com/lv

Independent Auditors' Report

To the shareholders of AS "Citadele banka"

Report on the Separate and Consolidated Financial Statements

We have audited the accompanying separate financial statements of AS "Citadele banka" ("the Bank"), which comprise the separate balance sheet as at 31 December 2015, the separate statements of income and other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 13 to 71. We have also audited the accompanying consolidated financial statements of AS "Citadele banka" and its subsidiaries ("the Group"), which comprise the consolidated balance sheet as at 31 December 2015, the consolidated statements of income and other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 13 to 71.

Management's Responsibility for the Separate and Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these separate and consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether these separate and consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate and consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of these separate and consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the Bank's and the Group's preparation and fair presentation of these separate and consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's and the Group's internal controls. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by the Bank and the Group management, as well as evaluating the overall presentation of the separate and consolidated financial statements.

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

Opinion

In our opinion, the separate financial statements give a true and fair view of the financial position of the AS "Citadele banka" as at 31 December 2015, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the AS "Citadele banka" and its subsidiaries as at 31 December 2015, and of the consolidated financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on Other Legal and Regulatory Requirements

In addition, our responsibility is to assess whether the accounting information included in the Letter from the Management Board, as set out on pages 5 to 8, the preparation of which is the responsibility of management, is consistent with the consolidated and separate financial statements. Our work with respect to the Letter from the Management Board was limited to the aforementioned scope and did not include a review of any information other than drawn from the consolidated and separate financial statements. In our opinion, the Letter from the Management Board is consistent with the consolidated and separate financial statements.

KPMG Baltics SIA
Licence No 55

Ondrej Fikrle
Partner pp KPMG Baltics SIA
Riga, Latvia
26 February 2016

Vilāns

Rainers Vilāns
Sworn Auditor
Certificate No 200

This report is an English translation of the original Latvian. In the event of discrepancies between the two reports, the Latvian version prevails.

CONTACT DETAILS

AS Citadele banka
Republikas laukums 2A, Riga,
LV-1010, Latvia

www.citadele.lv

Phone: (371) 67010 000
Facsimile: (371) 67010 001

Registration number: 40103303559

Corporate Communications

E-mail: pr@citadele.lv

AS Citadele banka

Interim financial report

for the six month period
ended 30 June 2016

Citadele

KEY FIGURES

EUR millions	Group			Bank		
	H1 2016	**H1 2015**	**Change**	**H1 2016**	**H1 2015**	**Change**
Net interest income	31.1	29.5	5%	23.6	23.7	(0%)
Net commission and fee income	18.3	17.2	6%	13.1	12.3	6%
Operating income(1)	70.6	54.6	29%	55.9	41.3	35%
Impairment charge and reversals, net	(5.1)	(3.1)	66%	(5.6)	(4.4)	27%
Net profit	25.4	14.9	70%	20.6	10.1	104%
Return on average assets (ROA)(2)	1.66%	1.06%	0.6pp	1.68%	0.88%	0.8pp
Return on average equity (ROE)(3)	22.1%	15.7%	6.4pp	19.0%	11.0%	8.0pp
Cost to income ratio (CIR)(4)	55.8%	64.4%	(8.6pp)	52.5%	62.3%	(9.8pp)
Cost of risk ratio (COR)(5)	1.0%	0.9%	0.2pp	1.2%	1.1%	0.1pp
Adjusted for VISA income(7):						
Net profit	14.0	14.9	(6%)	9.3	10.1	(8%)
Return on average assets (ROA)(2)	0.92%	1.06%	(0.14pp)	0.75%	0.88%	(0.12pp)
Return on average equity (ROE)(3)	12.2%	15.7%	(3.51pp)	8.6%	11.0%	(2.44pp)

EUR millions	Group			Bank		
	H1 2016	**2015**	**Change**	**H1 2016**	**2015**	**Change**
Total assets	3,140	2,960	6%	2,506	2,409	4%
Loans to customers	1,231	1,172	5%	1,013	983	3%
Deposits from customers	2,748	2,583	6%	2,098	2,037	3%
Shareholders' equity	240	220	9%	224	209	7%
Loan-to-deposit ratio(6)	45%	45%	(1pp)	48%	48%	0pp

(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 net collective and specific loans impairment charges divided by the average of net loans at the beginning and the end of the period.

(6) Loan-to-deposit ratio is calculated as the carrying value of loans and receivables from customers divided by deposits from customers at the end of the relevant period.

(7) One-time income recognised in the statement of income of 2016 in amount of EUR 11.3 million due to sale of Citadele's share in Visa Europe to Visa Inc.

CONTENTS

Rounding and Percentages

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

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

LETTER FROM THE MANAGEMENT BOARD

FINANCIAL PERFORMANCE

In the first six months of the year, the Group reported a **net profit** of EUR 25.4 million, which was a 70% increase compared to the same period in 2015 when the Group earned EUR 14.9 million. In the reporting period a gain of EUR 11.3 million was recognised on the disposal of Citadele's shares in Visa Europe to Visa Inc. Consequently, the Group achieved excellent profitability ratios: 22.1% ROE and 1.66% ROA (Bank: 19.0% ROE and 1.68% ROA). Even when disregarding the one-time gain, the Group's operating income increased by 9%, reflecting growth in the core business.

Group's **net loan portfolio** increased to EUR 1,231 million (+14% compared to June 2015), with Estonian and Baltic leasing segment portfolios demonstrating the highest growth rates. Thanks to the new business strategy, Citadele's loan portfolio growth was also significantly higher than the banking sector – total loans in Latvia increased by only 2.4% in the first half of 2016, according to Financial and Capital Markets Commission data.

Group's **net interest income** reached EUR 31.1 million (Bank: EUR 23.6 million), which was a 5% increase compared to the same period in 2015. This demonstrated that the Group's strategy to increase the loan portfolio in all key segments in all three home markets – Latvia, Lithuania and Estonia - is yielding results despite an environment of declining market rates and bond yields.

Net commission income for the Group grew by 6% up to EUR 18.3 million (Bank: EUR 13.1 million). The increase was mostly driven by an increase in income from payment transfers as well as payment cards where the Group benefited from strong growth in its merchant business and its customer base.

Group's **administrative expense** increased by 12% when compared to the same period in 2015 (Bank: 14%), which was mostly driven by personnel costs. By the end of June 2016, the number of active employees in the Group increased to 1,666 (Bank: 1,299). The increase was the result of the Group's strategy to further strengthen the sales force and IT teams.

Group's **asset quality** continued to improve. NPL ratio decreased to 9.6% (Bank: 10.0%) compared to 12.0% in June 2015 (Bank: 12.2%). Although net impairment charges increased, Group's cost of risk remained at 1.0% (Bank: 1.2%), which was a similar level to the one seen a year ago.

Group's **liquidity** and **capital position** remained strong: the deposit book grew by 14% compared to the respective period last year, maintaining the loan-to-deposit ratio at prudent 45% level, and the total capital adequacy ratio was 12.5% (Bank: 13.7%), which excludes the profit generated in the first half of 2016.

DEVELOPMENTS AND EVENTS IN LENDING

Active lending to SMEs in all three Baltic States, and retail lending in Latvia and Lithuania, shaped the basis of the loan portfolio growth. Growth in the retail and SME sectors reflected Citadele's new strategy to become the primary bank of choice for customers in these segments.

Retail segment Latvia

In the Latvian retail segment the loan portfolio registered a 9% increase year-over–year, with the total loan portfolio increasing by EUR 26 million and reaching EUR 304 million. Central to growth has been speeding up the loan application reviewing periods and developing a new application channel: a web-based credit scoring tool that Citadele introduced in May. The tool invites existing and potential new clients to learn their individual credit capacity. The amount of available consumer lending and individual interest rate is calculated based on data submitted by interested clients via the web form without having to formally register. The ease of use of the web portal and openness in communicating Citadele's proposition resonated well with consumers.

Company segment Latvia

While both SME and Corporate loan portfolios in Latvia continued to grow, the SME segment demonstrated the most rapid growth: a 15% increase year-over-year. In the first half of 2016, Citadele launched a series of "Support Loan" products tailored to a range of industries for SMEs. For example, these new products enabled companies and farmers to receive micro loans of up to EUR 20,000 based on the client's cash flow and waived the requirement for collateral. The offering has enabled Citadele to increase its client base in the micro-SME sub-segment, a segment historically underserved by the market in lending.

Lithuania and Estonia

Growth in lending is also reflected in Citadele's operations in Lithuania and Estonia, where Citadele continued to strengthen its business. In Estonia, the total loan portfolio reached EUR 92 million (a 54% increase, compared to June 2015). In Lithuania the total loan portfolio reached EUR 229 million (a 19% increase, compared to June 2015).

DEVELOPMENTS AND EVENTS IN INNOVATIONS

In order to continuously improve Citadele's customer experience and competitiveness of services, the Group is maintaining a steady focus on innovation in customer service and technologies. In addition to introducing a range of micro-loans in the MSME segment and providing an on-demand web-based credit-scoring tool for retail consumers, there were also a number of other innovations in 2016.

Mobile

During 1Q 2016, Citadele invested in developing a brand new mobile application with online-banking functionality. A distinctive feature is a MobileSCAN authorization tool built into the mobile application and linked to a particular device – smartphone or tablet. It enables users to connect to the internet bank by merely entering the user's name, password and PIN code, waiving the need for a separate code card or calculator (which are normally required by banks). Since the beginning of the year, the number of Citadele mobile app users in Latvia has increased by more than 2.5 times.

Branches

In 2016 Citadele continued to invest in refining its approach to the retail branch concept and design. In February Citadele opened a branch office at Skanstes Street, Riga, Latvia that featured a novel concept: the branch is designed with an informal house-like atmosphere. In May, Citadele opened a new branch in Vilnius, Lithuania, jointly with the "Coffee Inn" chain, featuring a cafe and bank on the same premises.

Product design

For retail product design Citadele developed and launched a distinctive fixed-price service bundle offering to new clients in Latvia and Lithuania in order to increase its base of primary-banking clients who use Citadele for their everyday money transfers and card payments. The approach differentiates Citadele's offering from other offers in market.

AWARDS

Citadele's dedication to growth and continued effort in refining customer service has been recognized by third parties.

Euromoney Awards of Excellence

In June, Citadele was declared "Central and Eastern Europe's Best Bank Transformation" in Euromoney magazine's annual "Euromoney Awards of Excellence". The following is a statement by Euromoney: "Restructured, recapitalised and renewed – Citadele can no longer be seen as the unsuccessful lender which was left over after the influential collapse of Parex. Citadele is now in a good place from which to serve Latvia's economic recovery."

Customer service

In 2016, Citadele received high recognition for its services in Latvia and Lithuania from "Dive", a customer satisfaction research company commissioned to carry out Baltic banking service studies annually. In Lithuania, Citadele was recognized as the best customer service provider among Lithuanian banks, whereas in Latvia Citadele was recognized as the runner-up in terms of the customer service.

CORPORATE GOVERNANCE

Supervisory Board of the Bank

Name	Current Position	Date of first appointment
Timothy Clark Collins	Chairman of the Supervisory Board	20 April 2015
Elizabeth Critchley	Deputy chairperson of the Supervisory Board	20 April 2015
James Laurence Balsillie	Member of the Supervisory Board	20 April 2015
Dhananjaya Dvivedi	Member of the Supervisory Board	20 April 2015
Lawrence Neal Lavine	Member of the Supervisory Board	20 April 2015
David Shuman	Member of the Supervisory Board	20 April 2015
Geoffrey Richard Dunn	Member of the Supervisory Board	30 June 2010
Sylvia Yumi Gansser-Potts	Member of the Supervisory Board	20 April 2015
Klāvs Vasks	Member of the Supervisory Board	30 June 2010

In the reporting period, there were no changes in the Supervisory Council of the Bank.

Management Board of the Bank

Name	Current position	Responsibility
Guntis Beļavskis	Chairman of the Management Board, per procura	Chief Executive Officer
Valters Ābele	Member of the Management Board, per procura	Chief Risk Officer
Kaspars Cikmačs	Member of the Management Board	Chief Operations Officer
Aldis Paegle	Member of the Management Board, per procura	Chief Financial Officer
Santa Purgaile	Member of the Management Board	Chief Business Officer

In the reporting period, there were no changes in the Management Board of the Bank.

INCOME STATEMENT

		EUR 000's			
	Notes	Jan-Jun 2016 Group	Jan-Jun 2015 Group	Jan-Jun 2016 Bank	Jan-Jun 2015 Bank
Interest income	5	40,233	39,570	31,573	32,078
Interest expense	5	(9,100)	(10,027)	(7,950)	(8,349)
Net interest income		**31,133**	**29,543**	**23,623**	**23,729**
Commission and fee income		26,498	24,500	20,183	18,481
Commission and fee expense		(8,208)	(7,287)	(7,114)	(6,168)
Net commission and fee income		**18,290**	**17,213**	**13,069**	**12,313**
Gain on transactions with financial instruments, net	6	19,889	6,286	17,793	4,184
Other income		1,260	1,533	1,427	1,098
Other expense		(425)	(306)	(85)	(184)
Administrative expenses		(36,633)	(32,800)	(28,162)	(24,747)
Amortisation and depreciation charge		(2,296)	(2,032)	(1,089)	(803)
Impairment charges and reversals, net	7	(5,110)	(3,072)	(5,583)	(4,379)
Profit before taxation		**26,108**	**16,365**	**20,993**	**11,211**
Income tax		(755)	(1,433)	(394)	(1,127)
Net profit for the period		**25,353**	**14,932**	**20,599**	**10,084**
Basic earnings per share in EUR		0.16	0.10	0.13	0.07
Weighted average number of shares outstanding during the period in thousands	14	156,556	150,478	156,556	150,478

The notes on pages 12 to 34 are an integral part of these interim condensed financial statements.

The interim condensed financial statements on pages 7 to 34 have been approved and authorised for issue by the Management Board and Supervisory Board and signed on their behalf by:

Guntis Beļavskis
Chairman of the Management Board

Klāvs Vasks
Member of the Supervisory Board

STATEMENT OF COMPREHENSIVE INCOME

	EUR 000's			
	Jan-Jun 2016 Group	Jan-Jun 2015 Group	Jan-Jun 2016 Bank	Jan-Jun 2015 Bank
Net profit for the period	**25,353**	**14,932**	**20,599**	**10,084**
Other comprehensive income items that are or may be reclassified to profit or loss:				
Fair value revaluation reserve: held to maturity securities				
Amortisation	(28)	65	(34)	42
Deferred income tax charged directly to equity	(1)	(3)	-	-
Fair value revaluation reserve: available for sale securities				
Fair value revaluation reserve charged to statement of income	(12,728)	(2,333)	(12,087)	(785)
Change in fair value of available for sale securities	7,854	1,229	6,313	571
Deferred income tax charged / (credited) directly to equity	(290)	111	(155)	(16)
Other reserves				
Foreign exchange revaluation and other reserves	(51)	2,717	-	-
Other comprehensive income / (loss) for the period	**(5,244)**	**1,786**	**(5,963)**	**(188)**
Total comprehensive income for the period	**20,109**	**16,718**	**14,636**	**9,896**

The notes on pages 12 to 34 are an integral part of these interim condensed financial statements.

BALANCE SHEET

		EUR 000's			
	Notes	**30/06/2016 Group**	**31/12/2015 Group**	**30/06/2016 Bank**	**31/12/2015 Bank**
Assets					
Cash and balances with central banks		508,529	555,078	83,805	348,960
Balances due from credit institutions		235,583	181,145	544,165	301,280
Securities held for trading:	8				
- fixed income		9,279	11,081	-	-
- shares and other non-fixed income		5,784	4,991	-	-
Derivative financial instruments		4,468	4,907	3,905	4,960
Financial assets designated at fair value through profit or loss:	8				
- fixed income		103,020	91,764	-	-
- shares and other non-fixed income		19,523	19,323	-	-
Available for sale securities:	8				
- fixed income		691,267	590,166	552,098	469,559
- shares and other non-fixed income		12,332	19,864	12,316	19,847
Loans and receivables from customers	9	1,230,647	1,172,345	1,012,516	983,425
Held to maturity securities	8	210,926	203,718	179,770	165,293
Property and equipment		43,618	43,111	4,819	4,393
Intangible assets		3,012	2,538	2,664	2,213
Investment property		186	189	-	-
Investments in subsidiaries	10	-	-	61,925	61,580
Current income tax assets		346	259	-	-
Deferred income tax assets		27,101	27,769	25,622	26,157
Other assets		33,985	32,215	22,370	21,333
Total assets		**3,139,606**	**2,960,463**	**2,505,975**	**2,409,000**
Liabilities					
Derivative financial instruments		3,761	1,901	3,783	1,897
Financial liabilities designated at fair value through profit or loss	11	35,531	33,915	-	-
Balances due to credit institutions and central banks		36,065	41,635	110,993	87,778
Deposits from customers	12	2,747,509	2,583,030	2,098,237	2,037,349
Current income tax liabilities		186	233	-	-
Other liabilities		21,981	25,263	14,491	18,119
Subordinated liabilities	13	54,693	54,715	54,693	54,715
Total liabilities		**2,899,726**	**2,740,692**	**2,282,197**	**2,199,858**
Equity					
Share capital	14	156,556	156,556	156,556	156,556
Reserves		2,491	7,565	2,330	8,293
Retained earnings		80,833	55,650	64,892	44,293
Total equity		**239,880**	**219,771**	**223,778**	**209,142**
Total liabilities and equity		**3,139,606**	**2,960,463**	**2,505,975**	**2,409,000**
Off-balance sheet items					
Contingent liabilities		29,682	38,517	25,343	34,242
Financial commitments		185,589	178,121	234,244	176,181

The notes on pages 12 to 34 are an integral part of these interim condensed financial statements.

The interim condensed financial statements on pages 7 to 34 have been approved and authorised for issue by the Management Board and Supervisory Board and signed on their behalf by:

Guntis Beļavskis
Chairman of the Management Board

Klāvs Vasks
Member of the Supervisory Board

STATEMENT OF CHANGES IN EQUITY

Changes in the Group's equity are as follows:

	EUR 000's						
	Attributable to equity holders of the Bank						
	Issued share capital	Securities fair value revaluation reserve	Foreign exchange reserves	Other reserves	Restructuring reserve	Retained earnings	Total equity
Balance as at 31 December 2014	**146,556**	**3,062**	**1,934**	**259**	**(4,710)**	**29,610**	**176,711**
Total comprehensive income for the period							
Net profit for the period	-	-	-	-	-	14,932	14,932
Other comprehensive income / (loss) for the period	-	(931)	2,697	-	-	20	1,786
Transactions with shareholders							
Transfer to other reserve	-	-	-	12	-	(12)	-
Shares issued (see *Note 14*)	10,000	-	-	-	-	-	10,000
Balances as at 30 June 2015	**156,556**	**2,131**	**4,631**	**271**	**(4,710)**	**44,550**	**203,429**
Balance as at 31 December 2015	**156,556**	**8,116**	**3,829**	**271**	**(4,651)**	**55,650**	**219,771**
Total comprehensive income for the period							
Net profit for the period	-	-	-	-	-	25,353	25,353
Other comprehensive income / (loss) for the period	-	(5,193)	(51)	-	-	-	(5,244)
Transactions with shareholders							
Transfer to other reserve	-	-	-	170	-	(170)	-
Balances as at 30 June 2016	**156,556**	**2,923**	**3,778**	**441**	**(4,651)**	**80,833**	**239,880**

Changes in the Bank's equity are as follows:

	EUR 000's			
	Attributable to equity holders of the Bank			
	Issued share capital	Securities fair value revaluation reserve	Retained earnings	Total equity
Balance as at 31 December 2014	**146,556**	**1,994**	**24,747**	**173,297**
Total comprehensive income for the period				
Net profit for the period	-	-	10,084	10,084
Other comprehensive income / (loss) for the period	-	(188)	-	(188)
Transactions with shareholders				
Shares issued (see *Note 14*)	10,000	-	-	10,000
Balances as at 30 June 2015	**156,556**	**1,806**	**34,831**	**193,193**
Balance as at 31 December 2015	**156,556**	**8,293**	**44,293**	**209,142**
Total comprehensive income for the period				
Net profit for the period	-	-	20,599	20,599
Other comprehensive income / (loss) for the period	-	(5,963)	-	(5,963)
Balances as at 30 June 2016	**156,556**	**2,330**	**64,892**	**223,778**

The notes on pages 12 to 34 are an integral part of these interim condensed financial statements.

The interim condensed financial statements on pages 7 to 34 have been approved and authorised for issue by the Management Board and Supervisory Board and signed on their behalf by:

Guntis Beļavskis
Chairman of the Management Board

Klāvs Vasks
Member of the Supervisory Board

STATEMENT OF CASH FLOWS

		EUR 000's			
	Notes	**Jan-Jun 2016 Group**	**Jan-Jun 2015 Group**	**Jan-Jun 2016 Bank**	**Jan-Jun 2015 Bank**
Cash flows from operating activities					
Profit before tax		26,108	16,365	20,993	11,211
Dividends income		-	-	-	(238)
Amortisation of intangible assets, depreciation of property, equipment and investment property		2,296	2,032	1,089	803
Change in impairment allowances and other provisions		5,110	3,072	5,583	4,379
Interest income		(40,233)	(39,570)	(31,573)	(32,078)
Interest expense		9,100	10,027	7,950	8,349
Other non-cash items*		2,175	(29,362)	499	(20,918)
Cash flows before changes in assets and liabilities		**4,556**	**(37,436)**	**4,541**	**(28,492)**
Change in derivative financial instruments		2,299	5,138	2,941	3,243
(Increase) / decrease in other assets		(2,074)	(411)	(1,317)	125
Increase / (decrease) in other liabilities		(3,282)	2,808	(3,628)	3,201
(Increase) / decrease in trading investments and items designated at fair value through profit or loss		(8,831)	3,529	-	-
(Increase) / decrease in balances due from credit institutions		7,832	346,586	7,803	116,623
(Increase) / decrease in loans and receivables from customers		(65,512)	(10,521)	(35,763)	27,627
Increase / (decrease)in balances due to credit institutions and central banks		(23,070)	984	277	11,337
Increase / (decrease) in deposits from customers		164,526	(109,734)	61,141	(50,217)
Cash generated from operating activities before corporate income tax		**76,444**	**200,943**	**35,995**	**83,447**
Interest received during the period		40,330	39,748	31,841	32,162
Interest paid during the period		(9,188)	(10,380)	(8,204)	(8,571)
Corporate income tax paid during the period		(152)	(218)	(14)	(47)
Net cash flows from operating activities		**107,434**	**230,093**	**59,618**	**106,991**
Cash flows from investing activities					
Purchase of property, equipment and intangible assets		(2,689)	(650)	(2,026)	(422)
Proceeds from disposal of property and equipment		50	10	14	10
Purchase of held-to-maturity securities		(181,579)	(38,831)	(181,299)	(37,476)
Proceeds from held-to-maturity securities		173,151	22,616	165,896	19,860
Purchase of available-for-sale securities		(388,991)	(150,201)	(292,178)	(95,142)
Cash inflows from available-for-sale securities		290,829	173,837	212,960	111,538
Dividends received		-	-	-	238
Acquisitions and investments in subsidiaries		-	-	(350)	-
Net cash flows from investing activities		**(109,229)**	**6,781**	**(96,983)**	**(1,394)**
Cash flows from financing activities					
Issued share capital		-	10,000	-	10,000
Repayment of subordinated liabilities		-	(18,400)	-	(18,400)
Net cash flow from financing activities		**-**	**(8,400)**	**-**	**(8,400)**
Net cash flows for the period		**(1,795)**	**228,474**	**(37,365)**	**97,197**
Cash and cash equivalents at the beginning of the period		**709,641**	**369,011**	**617,316**	**419,225**
Cash and cash equivalents at the end of the period	22	**707,846**	**597,485**	**579,951**	**516,422**

* Other non-cash items from operating activities in the 6 month period ended 30 June 2015 mostly relate to foreign exchange revaluation of securities investment.

The notes on pages 12 to 34 are an integral part of these interim condensed financial statements.

The interim condensed financial statements on pages 7 to 34 have been approved and authorised for issue by the Management Board and Supervisory Board and signed on their behalf by:

Guntis Beļavskis
Chairman of the Management Board

Klāvs Vasks
Member of the Supervisory Board

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENT

If not mentioned otherwise, referral to Group's policies and procedures should be also considered as referral to the respective Bank's policies and procedures. Figures in parenthesis represent amounts as at 31 December 2015 or for the six month period ended 30 June 2015, unless stated otherwise.

NOTE 1. AUTHORISATION OF THE FINANCIAL STATEMENTS

These interim condensed financial statements have been authorised for issuance by the Management Board on 16 August 2016 and Supervisory Board on 30 August 2016 and comprise the financial information of AS Citadele banka (hereinafter – the Bank) and its subsidiaries (together – the Group).

NOTE 2. GENERAL INFORMATION

The Bank was registered as a joint stock company on 30 June 2010. The Bank commenced its operations on 1 August 2010. The Bank was established as a result of implementation of an EC restructuring plan, which was approved by the Cabinet of Ministers of the government of Latvia in the spring of 2010 and pursuant to which AS Citadele Banka was to take over from AS Parex Banka certain assets and liabilities and other items, i.e. an undertaking. The transfer of undertaking took place on 1 August 2010.

The Bank's head office is located in Riga, Latvia. The legal address of the Bank is Republikas laukums 2a, Riga, LV-1010. As at 30 June 2016, the Bank was operating a total of 35 (2015: 35) branches and client service centres in Riga and throughout Latvia. The Bank has 2 (2015: 2) foreign branches and client service centres in Tallinn (Estonia). The Bank owns directly and indirectly 25 (2015: 25) subsidiaries, which operate in various financial markets sectors. The Bank is the parent company of the Group.

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

As at 30 June 2016, the Group had 1,666 (2015: 1,625) and the Bank had 1,299 (2015: 1,263) full time equivalent active employees.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These interim condensed financial statements are prepared in accordance with International Accounting Standard (IAS) 34, Interim Financial Reporting as adopted by EU on a going concern basis. Selected explanatory notes are included to explain events and transactions that are significant to an understanding of changes in financial position and performance of the Group and Bank since the last annual consolidated and Bank financial statements for the year ended 31 December 2015. They do not include all the information required for a complete set of financial statements prepared in accordance with IFRS as adopted by European Union. These interim condensed financial statements should be read in conjunction with the 2015 full annual financial statements for the Group and the Bank.

The accounting policies used in the preparation of the interim financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2015, which have been prepared in accordance with IFRS as adopted by EU.

Previously, group reported certain special purpose financing received from government related agencies as other financial liabilities at amortised cost. In order to simplify balance sheet and as these balances qualify for deposit presentation, since 30 June 2016 these liabilities are presented within deposits form state and municipality owned enterprises. Comparatives have been adjusted accordingly.

Adoption of new or revised standards and interpretations

Certain new standards, interpretations and amendments to the existing standards have been published that become effective for the accounting periods beginning on or after 1 January 2016 or later periods and which are not relevant to the Group or are not yet endorsed by the EU. The Group is in the process of evaluating the potential effect if any of these new standards and interpretations.

Functional and Presentation Currency

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

Going Concern

Having reassessed the main risks, the Management considers it appropriate to adopt going concern basis of accounting in preparing these interim financial statements; there are no material uncertainties with regard to applying going concern basis of accounting.

Restructuring reserve

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

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

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

Use of estimates in the preparation of financial statements

In preparing these condensed interim financial statements, significant judgements made by the management in applying the accounting policies and the key sources of estimation uncertainty were the same as those applicable to the financial statements as at and for the year ended 31 December 2015 (evaluation of impairment for financial asset, determining fair values of financial assets and liabilities, impairment of non-financial assets, estimating future periods' taxable profits for deferred tax asset assessment and determination of the control of investees for consolidation purposes).

The Bank continued to monitor it's and Group's loan portfolios and reassess impairment on a periodic basis in normal course of business. For details on changes in impairment please refer to Note 7 (*Impairment Charges and Reversals*).

Interim period income tax is accrued based on the estimated effective tax rate that would be applicable to the expected total annual earnings. As 2016 earnings include a non-taxable gain from sale of Citadele's share in Visa Europe to Visa Inc., the effective tax rate for the 6 month period ended 30 June 2016 is considerably lower than for the same period in 2015.

NOTE 4. RISK MANAGEMENT

All aspects of the Group's risk management objectives and policies are consistent with that disclosed in the consolidated financial statements as at and for the year ended 31 December 2015. Sensitivity to changes in interest rates and susceptibility to foreign exchange rate volatility was at a similar level as compared to the year ended 31 December 2015.

NOTE 5. INTEREST INCOME AND EXPENSE

	EUR 000's			
	Jan-Jun 2016 Group	**Jan-Jun 2015 Group**	**Jan-Jun 2016 Bank**	**Jan-Jun 2015 Bank**
Interest income on:				
- financial assets measured at amortised cost:	35,649	35,281	28,444	29,518
- loans and receivables from customers	*34,030*	*31,748*	*27,255*	*26,566*
- balances due from credit institutions and central banks	*397*	*493*	*347*	*329*
- held-to-maturity securities	*1,222*	*3,040*	*842*	*2,623*
- available-for-sale securities	3,972	3,582	3,129	2,560
- held for trading securities	127	204	-	-
- financial assets designated at fair value through profit or loss	485	503	-	-
Total interest income	**40,233**	**39,570**	**31,573**	**32,078**
Interest expense on:				
- financial liabilities measured at amortised cost:	(8,123)	(9,743)	(7,140)	(8,206)
- deposits from customers	*(5,134)*	*(6,708)*	*(4,068)*	*(5,279)*
- subordinated liabilities	*(2,005)*	*(2,358)*	*(2,005)*	*(2,358)*
- balances due to credit institutions and central banks	*(984)*	*(677)*	*(1,067)*	*(569)*
- financial liabilities designated at fair value through profit or loss	(167)	(141)	-	-
- other interest expense	(810)	(143)	(810)	(143)
Total interest expense	**(9,100)**	**(10,027)**	**(7,950)**	**(8,349)**
Net interest income	**31,133**	**29,543**	**23,623**	**23,729**

In the current economic environment the overall effective interest rate on some high quality liquid assets has turned negative. The Group is also affected by negative interest rates applied on certain balances due from central banks and some credit institutions. As the interest resulting from a negative effective interest rate on financial assets reflects an outflow of economic benefits, this is presented as interest expense.

NOTE 6. GAIN ON TRANSACTIONS WITH FINANCIAL INSTRUMENTS, NET

	EUR 000's			
	Jan-Jun 2016 Group	Jan-Jun 2015 Group	Jan-Jun 2016 Bank	Jan-Jun 2015 Bank
Gain from foreign exchange trading and revaluation of open positions, net	6,057	3,498	5,428	2,684
Gain / (loss) from disposal of available for sale securities, net	12,728	2,333	12,087	785
Gain / (loss) from trading and revaluation of securities and derivatives held for trading purposes, net	580	733	278	715
Gain / (loss) on financial assets or financial liabilities designated at fair value through profit and loss	524	(278)	-	-
Gain on transactions with financial instruments, net	**19,889**	**6,286**	**17,793**	**4,184**

In the reporting period a gain of EUR 11.3 million was recognised on the disposal of Citadele's available for sale shares in Visa Europe to Visa Inc. The consideration included a cash transfer of EUR 9.0 million, deferred cash payment of EUR 0.8 million, and an equity interest in Visa Inc. For more information on valuation of preference stocks in Visa Inc. which was received as part of the consideration refer to Note 23 (*Fair Values of Financial Assets and Liabilities*).

NOTE 7. IMPAIRMENT CHARGES AND REVERSALS

Total net impairment allowance charged to income statement:

	EUR 000's			
	Jan-Jun 2016 Group	Jan-Jun 2015 Group	Jan-Jun 2016 Bank	Jan-Jun 2015 Bank
Loans – specifically assessed impairment	(3,269)	(1,199)	(3,149)	(1,636)
Loans – collectively assessed impairment	(2,952)	(3,464)	(2,664)	(3,283)
Available-for-sale securities	109	-	109	-
Other financial and non-financial assets	505	940	(286)	7
Recovered written-off assets	497	651	407	533
Total impairment allowance charged to income statement, net	**(5,110)**	**(3,072)**	**(5,583)**	**(4,379)**

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

An analysis of the change in impairment allowance of loans and receivables:

	EUR 000's			
	Jan-Jun 2016 Group	Jan-Jun 2015 Group	Jan-Jun 2016 Bank	Jan-Jun 2015 Bank
Total impairment allowance at the beginning of the period:	**90,175**	**88,707**	**73,662**	**69,767**
- loans – specifically assessed impairment	67,751	67,676	55,135	51,383
- loans – collectively assessed impairment	22,424	21,031	18,527	18,384
Charge:	**13,486**	**8,860**	**11,588**	**7,271**
- loans – specifically assessed impairment	8,825	4,206	7,813	3,516
- loans – collectively assessed impairment	4,661	4,654	3,775	3,755
Release:	**(7,265)**	**(4,197)**	**(5,775)**	**(2,352)**
- loans – specifically assessed impairment	(5,556)	(3,007)	(4,664)	(1,880)
- loans – collectively assessed impairment	(1,709)	(1,190)	(1,111)	(472)
Allowance charged to the statement of income, net:	**6,221**	**4,663**	**5,813**	**4,919**
- loans – specifically assessed impairment	3,269	1,199	3,149	1,636
- loans – collectively assessed impairment	2,952	3,464	2,664	3,283
Change of allowance due to write-offs	**(4,661)**	**(2,781)**	**(3,084)**	**-**
Effect of changes in currency exchange rates:	**(50)**	**246**	**(52)**	**244**
- loans – specifically assessed impairment	(52)	244	(52)	244
- loans – collectively assessed impairment	2	2	-	-
Total impairment allowance at the end of the period:	**91,685**	**90,835**	**76,339**	**74,930**
- loans – specifically assessed impairment	66,307	66,338	55,148	53,263
- loans – collectively assessed impairment	25,378	24,497	21,191	21,667

During the ordinary course of business recoverability of some loans deteriorate while for others improve; also loans which cannot be recovered are written-off. This directly affects specifically assessed impairment allowance for loans. Changes in Group's and Bank's collectively assessed impairment allowance for loans in the reporting period relates to growth in Group's and Bank's lending business, particularly retail segment, as well as due to fluctuations in past due days of unimpaired loan balances.

An analysis of the change in impairment of other assets:

	EUR 000's			
	Jan-Jun 2016 Group	**Jan-Jun 2015 Group**	**Jan-Jun 2016 Bank**	**Jan-Jun 2015 Bank**
Total impairment allowance at the beginning of the period:	**25,921**	**28,775**	**61,441**	**61,641**
- available-for-sale securities	6,924	7,062	6,924	7,062
- due from credit institutions	950	852	950	852
- other financial and non-financial assets	18,047	20,861	53,567	53,727
Charge:	**607**	**196**	**286**	**103**
- available-for-sale securities	-	-	-	-
- other financial and non-financial assets	607	196	286	103
Release:	**(1,221)**	**(1,136)**	**(109)**	**(110)**
- available-for-sale securities	(109)	-	(109)	-
- other financial and non-financial assets	(1,112)	(1,136)	-	(110)
Allowance charged to the statement of income, net:	**(614)**	**(940)**	**177**	**(7)**
- available-for-sale securities	(109)	-	(109)	-
- other financial and non-financial assets	(505)	(940)	286	(7)
Change of allowance due to write-offs:	**(5,473)**	**(494)**	**(5,174)**	**(124)**
- available-for-sale securities	(5,044)	-	(5,044)	-
- other financial and non-financial assets	(429)	(494)	(130)	(124)
Effect of changes in currency exchange rates:	**(111)**	**(402)**	**(104)**	**(375)**
- available-for-sale securities	(86)	(448)	(86)	(448)
- due from credit institutions	(18)	73	(18)	73
- other financial and non-financial assets	(7)	(27)	-	-
Total impairment allowance at the end of the period:	**19,723**	**26,939**	**56,340**	**61,135**
- available-for-sale securities	1,685	6,614	1,685	6,614
- due from credit institutions	932	925	932	925
- other financial and non-financial assets	17,106	19,400	53,723	53,596

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

NOTE 8. FIXED AND NON-FIXED INCOME SECURITIES

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

	EUR 000's 30/06/2016				
	Government bonds	**Municipality bonds**	**Credit institution bonds**	**Corporate and other bonds**	**Total**
Held for trading	4,503	-	-	4,776	9,279
Financial assets designated at fair value through profit or loss	16,610	1,365	38,700	46,345	103,020
Available for sale	274,116	1,359	185,088	230,704	691,267
Held to maturity	147,516	-	37,247	26,163	210,926
Total fixed income securities	**442,745**	**2,724**	**261,035**	**307,988**	**1,014,492**

The Group and the Bank has classified as held to maturity a credit linked note with carrying amount of EUR 34.4 million (2015: EUR 34.4 million). This instrument includes an embedded derivative, which is presented separately within the derivatives caption. Latvian municipality exposure associated with this derivative, has not been presented as part of the fixed and non-fixed income securities credit risk profile.

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

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

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

	EUR 000's				
	30/06/2016				
	Government bonds	Municipality bonds	Credit institution bonds	Corporate and other bonds	Total
Available for sale	209,643	-	133,734	208,721	552,098
Held to maturity	143,153	-	36,617	-	179,770
Total fixed income securities	**352,796**	**-**	**170,351**	**208,721**	**731,868**

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

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

As at 30 June 2016, there are no Group's or Bank's securities on which payments are past due or which were restructured during the reporting period (2015: EUR nil). No fixed income securities were impaired as at June 30 2016 (2015: nil). The above tables represent the maximum credit risk exposure to the Group and the Bank from fixed income securities.

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

	EUR 000's					
	30/06/2016			31/12/2015		
	Government bonds	Other securities	Total	Government bonds	Other securities	Total
Latvia	266,256	4,037	270,293	232,246	4,378	236,624
United States	6,537	80,080	86,617	7,773	90,510	98,283
Netherlands	4,637	73,636	78,273	-	56,681	56,681
Germany	-	67,480	67,480	-	67,140	67,140
Lithuania	58,616	-	58,616	56,454	-	56,454
Japan	41,221	1,292	42,513	3,815	2,027	5,842
Canada	3,619	38,481	42,100	3,681	24,521	28,202
Sweden	15,365	22,033	37,398	15,573	19,787	35,360
Finland	17,008	17,076	34,084	13,066	19,188	32,254
Australia	-	33,487	33,487	-	23,635	23,635
United Kingdom	-	33,210	33,210	-	38,578	38,578
Singapore	-	27,703	27,703	-	24,481	24,481
Norway	-	25,168	25,168	-	25,648	25,648
Multilateral development banks	-	26,864	26,864	-	27,407	27,407
Other countries*	29,486	122,969	152,455	23,497	125,328	148,825
Total fixed income securities and shares, net	**442,745**	**573,516**	**1,016,261**	**356,105**	**549,309**	**905,414**
Investments in investment funds **	-	35,870	35,870	-	35,493	35,493
Total securities, net	**442,745**	**609,386**	**1,052,131**	**356,105**	**584,802**	**940,907**

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

	EUR 000's					
	30/06/2016			31/12/2015		
	Government bonds	Other securities	Total	Government bonds	Other securities	Total
Latvia	253,088	3,305	256,393	218,930	3,189	222,119
United States	6,537	53,959	60,496	7,773	48,813	56,586
Germany	-	57,346	57,346	-	54,588	54,588
Netherlands	4,637	45,780	50,417	-	35,223	35,223
Japan	41,221	-	41,221	3,815	-	3,815
Finland	13,375	15,717	29,092	9,276	17,807	27,083
Sweden	6,326	22,032	28,358	6,431	19,787	26,218
Singapore	-	26,015	26,015	-	22,790	22,790
Canada	3,619	20,728	24,347	3,681	20,767	24,448
Multilateral development banks	-	20,639	20,639	-	21,615	21,615
Other countries*	23,993	115,304	139,297	18,987	130,048	149,035
Total fixed income securities and shares, net	**352,796**	**380,825**	**733,621**	**268,893**	**374,627**	**643,520**
Investments in investment funds **	-	10,563	10,563	-	11,179	11,179
Total securities, net	**352,796**	**391,388**	**744,184**	**268,893**	**385,806**	**654,699**

* Largest Group's and Bank's exposure to a single country within this group as at period end is EUR 17,896 thousand and EUR 19,912 thousand respectively (2015: EUR 13,667 thousand and EUR 25,899 thousand).
** Investments in managed funds here are not distributed by their issuer's country but shown in a separate line.

All fixed income securities as at 30 June 2016 and 31 December 2015 were listed.

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

	EUR 000's							
	30/06/2016				31/12/2015			
	Foreign equities	**Latvian equities**	**Mutual investment funds**	**Total**	**Foreign equities**	**Latvian equities**	**Mutual investment funds**	**Total**
Held for trading	-	-	5,784	5,784	-	-	4,991	4,991
Financial assets designated at fair value through profit or loss	-	-	19,523	19,523	-	-	19,323	19,323
Available for sale	1,669	100	10,563	12,332	8,585	100	11,179	19,864
Total non-fixed income securities, net	**1,669**	**100**	**35,870**	**37,639**	**8,585**	**100**	**35,493**	**44,178**

All exposures in mutual investment funds which are classified as financial assets designated at fair value through profit or loss are unit-linked insurance plan assets. According to unit-linked investment contract terms, the risk associated with the investments made by the insurance underwriter is fully attributable to the counterparty entering the insurance agreement and not the underwriter. As at 30 June 2016 EUR 19,523 thousand (2015: EUR 19,323 thousand) of financial assets designated at fair value through profit or loss relate to this.

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

	EUR 000's							
	30/06/2016				31/12/2015			
	Foreign equities	**Latvian equities**	**Mutual investment funds**	**Total**	**Foreign equities**	**Latvian equities**	**Mutual investment funds**	**Total**
Available for sale	1,653	100	10,563	12,316	8,568	100	11,179	19,847
Total non-fixed income securities, net	**1,653**	**100**	**10,563**	**12,316**	**8,568**	**100**	**11,179**	**19,847**

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

There are no off-balance sheet commitments bearing credit risk that are related to the issuers of the above securities. Further, no payments on the above instruments are past due. As at 30 June 2016, the carrying amount of the Group's and Bank's securities, which were impaired but not past due was nil EUR (2015: EUR 910 thousand).

NOTE 9. LOANS AND RECEIVABLES FROM CUSTOMERS

	Group, EUR 000's					
	30/06/2016			31/12/2015		
	Gross loans	**Impairment allowance**	**Net carrying amount**	**Gross loans**	**Impairment allowance**	**Net carrying amount**
Not past due – not impaired	1,125,178	-	1,125,178	1,078,334	-	1,078,334
Not past due – impaired	53,000	(23,487)	29,513	59,263	(24,747)	34,516
Total not past due loans	**1,178,178**	**(23,487)**	**1,154,691**	**1,137,597**	**(24,747)**	**1,112,850**
Past due loans - not impaired						
Delayed days:						
=< 29	51,219	-	51,219	31,999	-	31,999
30-59	15,165	-	15,165	12,812	-	12,812
60-89	4,168	-	4,168	3,247	-	3,247
90 and more	9,758	-	9,758	9,618	-	9,618
Total past due loans - not impaired	**80,310**	**-**	**80,310**	**57,676**	**-**	**57,676**
Past due loans – impaired						
Delayed days:						
=< 89	3,962	(1,594)	2,368	16,076	(5,896)	10,180
90 and more	59,882	(41,226)	18,656	51,171	(37,108)	14,063
Total past due loans - impaired	**63,844**	**(42,820)**	**21,024**	**67,247**	**(43,004)**	**24,243**
Total loans and receivables from customers	**1,322,332**	**(66,307)**	**1,256,025**	**1,262,520**	**(67,751)**	**1,194,769**
Collective impairment allowance		(25,378)	(25,378)		(22,424)	(22,424)
Total net loans and receivables from customers			**1,230,647**			**1,172,345**

	Bank, EUR 000's					
	30/06/2016			31/12/2015		
	Gross loans	**Impairment allowance**	**Net carrying amount**	**Gross loans**	**Impairment allowance**	**Net carrying amount**
Not past due – not impaired	937,642	-	937,642	918,927	-	918,927
Not past due – impaired	50,470	(20,835)	29,635	57,264	(22,281)	34,983
Total not past due loans	**988,112**	**(20,835)**	**967,277**	**976,191**	**(22,281)**	**953,910**
Past due loans - not impaired						
Delayed days:						
=< 29	31,688	-	31,688	15,036	-	15,036
30-59	8,770	-	8,770	6,391	-	6,391
60-89	2,300	-	2,300	979	-	979
90 and more	6,394	-	6,394	5,993	-	5,993
Total past due loans - not impaired	**49,152**	**-**	**49,152**	**28,399**	**-**	**28,399**
Past due loans – impaired						
Delayed days:						
=< 89	1,701	(834)	867	13,397	(4,954)	8,443
90 and more	49,890	(33,479)	16,411	39,100	(27,900)	11,200
Total past due loans - impaired	**51,591**	**(34,313)**	**17,278**	**52,497**	**(32,854)**	**19,643**
Total loans and receivables from customers	**1,088,855**	**(55,148)**	**1,033,707**	**1,057,087**	**(55,135)**	**1,001,952**
Collective impairment allowance		(21,191)	(21,191)		(18,527)	(18,527)
Total net loans and receivables from customers			**1,012,516**			**983,425**

Certain loan portfolio's financial ratios

	EUR 000's			
	30/06/2016 Group	**31/12/2015 Group**	**30/06/2016 Bank**	**31/12/2015 Bank**
Non-performing loans ratio¹⁾	9.6%	10.8%	10.0%	11.0%
Non-performing loans coverage ratio²⁾	72.4%	66.2%	70.4%	63.6%
90 days past due ratio³⁾	5.3%	4.8%	5.2%	4.3%
90 days past due coverage ratio⁴⁾	132%	148%	136%	163%

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

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

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

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

NOTE 10. INVESTMENTS IN SUBSIDIARIES

Changes in the Bank's investments in subsidiaries:

	EUR 000's	
	Jan-Jun 2016	**Jan-Jun 2015**
Net balance at the beginning of the period	**61,580**	**61,605**
Establishment of new subsidiaries/increase of share capital	350	-
Impairment, net	(5)	(10)
Net balance at the end of the period	**61,925**	**61,595**

Based on the forecasted performance of the repossessed asset management companies, share capital in some of the respective subsidiaries was impaired (net) by EUR (5) thousand in the 6 month period ended 30 June 2016 (2015: EUR (10) thousand). On 16 March 2016 the legal name of SIA "Hortus LH" was changed to SIA "CBL Cash Logistics" and its share capital increased by EUR 350 thousand.

Carrying value of investment in AB Citadele (100% owned banking subsidiary of the Bank) is based on a model where expected free equity distributable to shareholders is estimated. The key assumptions of the model are discount rate (18.0%), minimum target capital adequacy ratio and future profitability of the operations of the entity. In 2016 the management has assessed the model's inputs and concluded that there are no circumstances that require changes to these inputs.

NOTE 11. FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

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

	EUR 000's			
	Jan-Jun 2016 Unit-linked	Jan-Jun 2016 Other	Jan-Jun 2015 Unit-linked	Jan-Jun 2015 Other
Balance at the beginning of the period	**19,341**	**14,574**	**12,784**	**11,810**
Premiums received	1,683	1,325	4,543	1,223
Commissions and risk charges	(145)	(137)	(212)	(127)
Paid to policyholders	(1,094)	(366)	(552)	(234)
Dividends received	1	-	1	-
Securities fair value revaluation result	312	-	397	-
Other	-	126	-	180
Currency revaluation result	(87)	(2)	227	12
Balance at the end of the period	**20,011**	**15,520**	**17,188**	**12,864**

During the 6 months ended 30 June 2016 from financial liabilities designated at fair value through profit or loss which are not unit-linked the Group has recognised net revaluation result of EUR 43 thousand in the statement of income (2015: EUR (61) thousand). Most of the insurance business the Group is involved in relates to investment contracts rather than insurance risk, therefore, premiums received are recognised as liabilities of the Group since settlement in due course is expected. The amount of insurance risk generated by the Group currently is immaterial and, therefore, not further disclosed in detail in these financial statements.

NOTE 12. DEPOSITS FROM CUSTOMERS

Deposits from customers according to customer profile:

	EUR 000's			
	30/06/2016 Group	31/12/2015 Group	30/06/2016 Bank	31/12/2015 Bank
Privately held companies	1,149,747	1,180,403	758,559	850,492
Private individuals	1,149,332	1,072,706	894,201	860,243
Financial institutions	265,190	129,796	280,664	144,397
State and municipality owned enterprises	136,618	116,775	123,072	102,404
Municipalities	23,524	10,853	23,524	10,853
Public and religious institutions	15,779	66,458	13,629	64,432
Government	7,319	6,039	4,588	4,528
Total deposits from customers	**2,747,509**	**2,583,030**	**2,098,237**	**2,037,349**

Certain special purpose financing received from government related agencies previously presented as other financial liabilities at amortised cost since 30 June 2016 is presented within deposits form state and municipality owned enterprises. For more details refer to Note 3 (Summary of Significant of Significant Accounting Policies).

Deposits from customers according to contractual maturity:

	EUR 000's			
	30/06/2016 Group	31/12/2015 Group	30/06/2016 Bank	31/12/2015 Bank
Demand deposits	2,052,729	1,872,294	1,639,574	1,510,265
Term deposits:				
due within 1 month	119,842	242,256	83,082	196,598
due within 2-3 months	79,638	71,325	36,123	49,133
due within 4-6 months	130,109	71,150	80,459	37,761
due within 7-12 months	194,414	164,814	129,495	118,433
due within 1-5 years	164,012	154,895	126,164	121,718
due in more than 5 years	6,765	6,296	3,340	3,441
Total term deposits	694,780	710,736	458,663	527,084
Total deposits from customers	**2,747,509**	**2,583,030**	**2,098,237**	**2,037,349**

NOTE 13. SUBORDINATED LIABILITIES

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

					Amortised cost (EUR 000's)	
Counterparty	Currency	Interest rate	Maturity date	Principal (EUR 000's)	30/06/2016	31/12/2015
Privatisation Agency	EUR	6.898%	20/12/2017	34,728	35,686	35,701
EBRD	EUR	8.30%	08/08/2020	18,400	19,007	19,014
					54,693	**54,715**

NOTE 14. ISSUED SHARE CAPITAL

On 5 April 2016 Citadele's share structure was reverted to single class share capital structure with nominal of each single class share in the amount of 1 EUR, and each single class share having one voting right, equal dividend rights and equal liquidation quota. As at 30 June 2016, the Bank's registered and paid-in share capital was EUR 156,556 thousand. Nominal value of one share is one EUR. The total number of ordinary shares with voting rights is 156,555,796. All shares as at 30 June 2016 and 31 December 2015 were issued and fully paid. As at 30 June 2016 and 31 December 2015, the Bank did not possess any of its own shares. No dividends were proposed and paid during the 6 month period ended 30 June 2016 or 2015.

Bank's shareholders as at 30 June 2016:

	30/06/2016	
	Paid-in share capital (EUR)	**Total shares with voting rights**
European Bank for Reconstruction and Development	39,138,948	39,138,948
RA Citadele Holdings LLC *	35,082,302	35,082,302
Other shareholders **	82,334,546	82,334,546
Total	**156,555,796**	**156,555,796**

* RA Citadele Holdings LLC (United States) is an entity wholly owned by Ripplewood Advisors LLC.

** These shares are owned by an international group of twelve investors represented by Ripplewood Advisors LLC.

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

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

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

In April 2015 Citadele's share capital was increased by EUR 10 million with corresponding increase in number of shares outstanding. This change in the number of shares is reflected in calculation of weighted average number of shares outstanding during the 6 month period ended 30 June 2015. In 6 month period ended 30 June 2016 a share structure of Citadele was changed from three categories of shares with differentiated dividend rights and nominal to a single category share structure with equal dividend rights and equal nominal. As there were no cash dividend payments to shareholders in the six month period ended 30 June 2016 and since the share structure has been simplified considerably during the period, for more transparent presentation purposes the earnings per share calculation uses the same number of shares outstanding for 30 June 2016 and for 2016.

NOTE 15. CAPITAL ADEQUACY

Capital adequacy ratios in these financial statements are calculated in accordance with the CRD IV package which transposes – via a regulation (575/2013) and a directive (2013/36/EU) – the new global standards on bank capital (the Basel III agreement) into EU law.

Capital adequacy refers to the sufficiency of the Group's capital resources to cover the credit risks and market risks arising from the portfolio of assets and the off-balance sheet exposures and other operational risks. The Financial and Capital Markets Commission's (FCMC's) regulations require Latvian banks to maintain a total capital adequacy ratio based on financial statements prepared under IFRS as adopted by EU of 8.0% of the total risk weighted exposure amounts. The CRD IV rules also introduce 4.5% minimum common equity Tier 1 capital ratio and 6.0% minimum Tier 1 capital ratio. Additionally a 2.5% capital conservation buffer is established, limiting dividend pay-out and certain other Tier 1 equity instrument buy-back, effectively implying well capitalised bank Tier 1 capital ratio target of 8.5% and total capital ratio target of 10.5%. Besides this, countercyclical buffer norms apply as well based on the risk exposure by geographical distribution. FCMC has also calculated the Bank's individual capital adequacy ratio based on FCMC policies and guidelines. The 2015 results of the calculation indicated that the minimum capital adequacy ratio that corresponds to the Bank's business model should be at least 10.9%. The same ratio is applicable as at 30 June 2016. The increase in the ratio is related to the business with non-Baltic customers of the Bank. The ratio should also be applied on the consolidated level.

The Bank has subsidiaries, which are financial institutions and need to comply with the regulatory requirements based on both the Group's level and the Bank's level as a stand-alone entity. As at 30 June 2016, the Group's and the Bank's regulatory capital complies with these FCMC's requirements.

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

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

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

	EUR 000's			
	30/06/2016 Group*	**31/12/2015 Group***	**30/06/2016 Bank**	**31/12/2015 Bank**
Common equity Tier 1 capital				
Paid up capital instruments	156,556	156,556	156,556	156,556
Retained earnings and eligible profits	55,260	55,431	44,293	44,293
Deductible other intangible assets	(2,982)	(2,506)	(2,664)	(2,213)
Other capital components, deductions and transitional adjustments, net	(5,680)	(3,915)	(3,765)	(432)
Tier 2 capital				
Eligible part of subordinated liabilities	25,339	30,633	25,339	30,633
Total own funds	**228,493**	**236,199**	**219,759**	**228,837**
Risk weighted exposure amounts for credit risk, counterparty credit risk and dilution risk				
Central governments or central banks	26,612	16,500	21,804	12,250
Regional governments or local authorities	1,174	806	348	453
Public sector entities	52	23	52	23
Multilateral Development Banks	2,510	2,578	1,759	1,833
Institutions	151,757	134,322	186,185	142,061
Corporates	748,560	730,788	696,059	684,767
Retail	129,681	111,333	52,865	43,908
Secured by mortgages on immovable property	255,329	255,935	212,890	200,881
Exposures in default	73,120	72,986	70,828	72,835
Items associated with particularly high risk	33,699	37,213	33,305	36,691
Claims on institutions and corporates with a short-term credit assessment	260	1,178	-	-
Collective investments undertakings	10,563	11,179	10,563	11,179
Equity	12,591	19,407	63,828	70,300
Other items	140,216	131,813	62,706	55,617
Total exposure amounts for position, foreign currency open position and commodities risk				
Traded debt instruments	17,998	13,881	16,898	11,099
Equity	-	249	-	-
Foreign Exchange	10,382	7,878	3,342	1,176
Commodities	-	6,975	-	6,975
Total exposure amounts for operational risk	206,687	206,687	165,649	165,649
Total exposure amounts for credit valuation adjustment	2,013	1,067	1,927	1,060
Total risk exposure amount	**1,823,204**	**1,762,798**	**1,601,008**	**1,518,757**
Total capital adequacy ratio	**12.5%**	**13.4%**	**13.7%**	**15.1%**
Common equity Tier 1 capital ratio	**11.1%**	**11.7%**	**12.1%**	**13.1%**

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

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

	30/06/2016 Group	**31/12/2015 Group**	**30/06/2016 Bank**	**31/12/2015 Bank**
Common equity Tier 1 capital, fully loaded	187,096	191,816	177,739	183,234
Tier 2 capital	25,339	30,633	25,339	30,633
Total own funds, fully loaded	**212,435**	**222,449**	**203,078**	**213,867**
Total risk exposure amount, fully loaded	**1,823,204**	**1,762,798**	**1,601,008**	**1,518,757**
Total capital adequacy ratio, fully loaded	**11.7%**	**12.6%**	**12.7%**	**14.1%**
Common equity Tier 1 capital ratio, fully loaded	**10.3%**	**10.9%**	**11.1%**	**12.1%**

NOTE 16. RELATED PARTIES

Related parties are defined as shareholders who have significant influence over the Group, members of the Supervisory Board and Management Board, key Management personnel, their close relatives and companies in which they have a controlling interest as well as the Group's subsidiaries and associated companies. For the purpose of this disclosure, the key management of the Group's companies and the Bank and their related companies are stated in one line, accordingly. All transactions with related parties were made on terms equivalent to those that prevail in arm's length transactions, except that in the case of the below described advisory services agreement with Ripplewood Advisors LLC, where such assessment was not performed.

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

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

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

	EUR 000's			
	30/06/2016 Group	**31/12/2015 Group**	**30/06/2016 Bank**	**31/12/2015 Bank**
Credit exposures to other related parties, net				
Loans and receivables from customers and balances due form credit institutions, net				
- Management	386	418	146	155
- Consolidated subsidiaries	-	-	497,734	309,461
Derivatives	-	-	2	55
Investments in subsidiaries, net	-	-	61,925	61,580
Financial commitments and guarantees outstanding	74	70	92,825	29,756
Total credit exposures to other related parties, net	**460**	**488**	**652,632**	**401,007**
Liabilities to other related parties				
Deposits from customers and balances due to credit institutions				
- Management	1,009	875	543	468
- Consolidated subsidiaries	-	-	35,176	29,631
Subordinated liabilities (EBRD)	19,007	19,014	19,007	19,014
Derivatives	-	-	22	-
Total liabilities to other related parties	**20,016**	**19,889**	**54,748**	**49,113**

As at 30 June 2016 the impairment allowance recognised on loans and receivables from consolidated subsidiaries relates to subsidiaries which are engaged in managing properties that are bought in auctions as a result of foreclosure processes undertaken by the Group. The ultimate recoverability of loans issued to these subsidiaries depends on the holding period and sales price of the properties in the portfolio.

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

	EUR 000's			
	Jan-Jun 2016 Group	**Jan-Jun 2015 Group**	**Jan-Jun 2016 Bank**	**Jan-Jun 2015 Bank**
Interest income	5	2	1,851	1,521
Interest expense	(790)	(463)	(1,338)	(610)
Gain on transactions with financial instruments, net	-	-	60	(2,349)
Dividends received from consolidated subsidiaries	-	-	-	238
Other income	7	7	1,880	987
Other expense	(2)	(1)	(112)	(8)

In the 6 month period ended 30 June 2016 the Bank's administrative expense with related parties amounted to EUR 2,7 million (2015: EUR 2,7 million). This mostly relates to rent and utility fees paid to Group's companies and Advisory Service Agreement fee. Banks fee and commission income from related parties in the 6 month period ended 30 June 2016 was EUR 0.7 million (2015: EUR 0.6 million) and commission and fee expense EUR 7 thousand (2015: EUR 7 thousand).

In May 2015, the Bank has entered into the Advisory Services Agreement with Ripplewood Advisors LLC, where Ripplewood is paid EUR 2 million per annum for the services provided to the Bank. These advisory services include business plan development, risk management, capital allocation, strategic analysis, operating efficiency, human resource management, and other services.

NOTE 17. BALANCE SHEET AMOUNTS BY GEOGRAPHICAL PROFILE

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

	Group 30/06/2016, EUR 000's						
	Latvia	**Lithuania**	**Estonia**	**Other EU countries**	**CIS countries**	**Other countries**	**Total**
Assets							
Cash and balances with central banks	77,087	19,004	6,718	-	-	405,720	508,529
Balances due from credit institutions	4,251	418	79	158,704	5,555	66,576	235,583
Securities held for trading	6,469	-	1,135	4,909	-	2,550	15,063
Derivative financial instruments	1,833	-	-	976	-	1,659	4,468
Financial assets designated at fair value through profit or loss	11,727	-	-	71,694	-	39,122	122,543
Available for sale securities	131,016	56,433	3,381	193,690	-	319,079	703,599
Loans and receivables from customers	754,618	292,886	129,735	17,201	21,160	15,047	1,230,647
Held to maturity securities	140,836	2,183	-	56,234	-	11,673	210,926
Other assets	84,734	5,684	1,967	14,778	119	966	108,248
Total assets	**1,212,571**	**376,608**	**143,015**	**518,186**	**26,834**	**862,392**	**3,139,606**
Liabilities							
Derivative financial instruments	228	-	4	1,775	40	1,714	3,761
Financial liabilities designated at fair value through profit or loss	30,886	-	-	154	4,491	-	35,531
Balances due to credit institutions and central banks	33,785	1,855	36	334	37	18	36,065
Deposits from customers	1,263,330	269,064	91,996	323,242	221,536	578,341	2,747,509
Other liabilities	16,333	3,689	589	123	135	1,298	22,167
Subordinated liabilities	35,686	-	-	19,007	-	-	54,693
Total liabilities	**1,380,248**	**274,608**	**92,625**	**344,635**	**226,239**	**581,371**	**2,899,726**
Off-balance sheet items							
Contingent liabilities	22,162	2,679	444	893	860	2,644	29,682
Financial commitments	138,375	34,937	9,052	987	1,134	1,104	185,589

For additional information on geographical distribution of securities exposures please refer to Note 8 (*Fixed and non-Fixed Income Securities*). All Group's cash and deposit with central banks balances presented as "Other countries" are with Swiss National Bank (EUR 405.7 million). Group's balances due from credit institutions presented as "Other countries" are with Swiss credit institutions (EUR 48.7 million) and United States registered credit institutions (EUR 8.4 million), among others.

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

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

	Bank 30/06/2016, EUR 000's						
	Latvia	Lithuania	Estonia	Other EU countries	CIS countries	Other countries	Total
Assets							
Cash and balances with central banks	77,087	-	6,718	-	-	-	83,805
Balances due from credit institutions	958	26	-	148,876	5,519	388,786	544,165
Derivative financial instruments	1,833	2	-	976		1,094	3,905
Available for sale securities	123,677	12,564	3,381	166,385	-	258,407	564,414
Loans and receivables from customers	807,672	33,603	125,617	13,990	20,349	11,285	1,012,516
Held to maturity securities	138,656	-	-	41,114	-	-	179,770
Other assets	47,477	40,025	1,039	14,757	47	14,055	117,400
Total assets	**1,197,360**	**86,220**	**136,755**	**386,098**	**25,915**	**673,627**	**2,505,975**
Liabilities							
Derivative financial instruments	228	3	4	1,775	40	1,733	3,783
Balances due to credit institutions and central banks	33,785	11,159	36	334	37	65,642	110,993
Deposits from customers	1,273,270	1,075	94,726	205,801	164,237	359,128	2,098,237
Other liabilities	14,030	23	287	55	31	65	14,491
Subordinated liabilities	35,686	-	-	19,007	-	-	54,693
Total liabilities	**1,356,999**	**12,260**	**95,053**	**226,972**	**164,345**	**426,568**	**2,282,197**
Off-balance sheet items							
Contingent liabilities	22,134	-	444	369	369	2,027	25,343
Financial commitments	188,112	923	43,213	262	1,134	600	234,244

For additional information on geographical distribution of securities exposures please refer to Note 8 (*Fixed and non-Fixed Income Securities*). Bank's balances due from credit institutions presented as "Other countries" are with Swiss credit institutions (EUR 371.4 million) and United States registered credit institutions (EUR 8.0 million) among others.

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

NOTE 18. BALANCE SHEET AMOUNTS BY CURRENCY

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

	Group 30/06/2016, EUR 000's					
	EUR	USD	CHF	RUB	Other	Total
Assets						
Cash and balances with central banks	91,729	3,736	405,914	202	6,948	508,529
Balances due from credit institutions	57,761	84,059	35,329	5,379	53,055	235,583
Securities held for trading	12,280	1,341	1,442	-	-	15,063
Derivative financial instruments	3,903	-	565	-	-	4,468
Financial assets designated at fair value through profit or loss	55,923	52,195	13,626	-	799	122,543
Available for sale securities	179,799	471,917	-	-	51,883	703,599
Loans and receivables from customers	1,183,707	43,185	3,583	137	35	1,230,647
Held to maturity securities	186,136	24,790	-	-	-	210,926
Other assets	95,708	11,304	748	41	447	108,248
Total assets	**1,866,946**	**692,527**	**461,207**	**5,759**	**113,167**	**3,139,606**
Liabilities						
Derivative financial instruments	3,761	-	-	-	-	3,761
Financial liabilities designated at fair value through profit or loss	30,580	4,951	-	-	-	35,531
Balances due to credit institutions and central banks	9,106	24,694		5	2,260	36,065
Deposits from customers	1,747,282	897,099	18,416	14,995	69,717	2,747,509
Other liabilities	18,596	2,076	1,238	92	165	22,167
Subordinated liabilities	54,693	-	-	-	-	54,693
Total liabilities	**1,864,018**	**928,820**	**19,654**	**15,092**	**72,142**	**2,899,726**
Equity	238,004	1,859	-	-	17	239,880
Total liabilities and equity	**2,102,022**	**930,679**	**19,654**	**15,092**	**72,159**	**3,139,606**
Net long/ (short) position for balance sheet items	(235,076)	(238,152)	441,553	(9,333)	41,008	-
Off-balance sheet claims arising from foreign exchange						
Spot exchange contracts	(1,079)	(5,911)	277	224	6,525	36
Forward foreign exchange contracts	(1,176)	1,194	-	-	-	18
Swap exchange contracts	226,698	245,287	(435,958)	9,149	(45,125)	51
Net long/ (short) positions on foreign exchange	224,443	240,570	(435,681)	9,373	(38,600)	105
Net long/ (short) total position	**(10,633)**	**2,418**	**5,872**	**40**	**2,408**	**105**

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

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

	Bank 30/06/2016, EUR 000’s					
	EUR	**USD**	**CHF**	**RUB**	**Other**	**Total**
Assets						
Cash and balances with central banks	74,094	3,255	162	202	6,092	83,805
Balances due from credit institutions	40,342	76,739	370,524	5,345	51,215	544,165
Derivative financial instruments	3,905	-	-	-	-	3,905
Available for sale securities	127,534	384,997	-	-	51,883	564,414
Loans and receivables from customers	970,819	37,824	3,583	137	153	1,012,516
Held to maturity securities	175,272	4,498	-	-	-	179,770
Other assets	92,215	10,919	13,844	-	422	117,400
Total assets	**1,484,181**	**518,232**	**388,113**	**5,684**	**109,765**	**2,505,975**
Liabilities						
Derivative financial instruments	3,783	-	-	-	-	3,783
Balances due to credit institutions and central banks	13,386	86,078	25	401	11,103	110,993
Deposits from customers	1,403,882	614,486	9,376	13,566	56,927	2,098,237
Other liabilities	12,483	1,813	5	79	111	14,491
Subordinated liabilities	54,693	-	-	-	-	54,693
Total liabilities	**1,488,227**	**702,377**	**9,406**	**14,046**	**68,141**	**2,282,197**
Equity	222,328	1,433	-	-	17	223,778
Total liabilities and equity	**1,710,555**	**703,810**	**9,406**	**14,046**	**68,158**	**2,505,975**
Net long/ (short) position for balance sheet items	(226,374)	(185,578)	378,707	(8,362)	41,607	-
Off-balance sheet claims arising from foreign exchange						
Spot exchange contracts	(2,899)	(3,980)	231	231	6,449	32
Forward foreign exchange contracts	(1,176)	1,194	-	-	-	18
Swap exchange contracts	227,560	188,311	(378,874)	8,119	(45,657)	(541)
Net long/ (short) positions on foreign exchange	*223,485*	*185,525*	*(378,643)*	*8,350*	*(39,208)*	*(491)*
Net long/ (short) total position	**(2,889)**	**(53)**	**64**	**(12)**	**2,399**	**(491)**

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

	Bank 31/12/2015, EUR 000’s					
	EUR	**USD**	**CHF**	**RUB**	**Other**	**Total**
Assets						
Cash and balances with central banks	342,669	2,267	329	161	3,534	348,960
Balances due from credit institutions	34,809	47,599	162,900	8,001	47,971	301,280
Derivative financial instruments	4,960	-	-	-	-	4,960
Available for sale securities	151,499	314,648	-	-	23,259	489,406
Loans and receivables from customers	942,084	37,585	3,460	178	118	983,425
Held to maturity securities	165,293	-	-	-	-	165,293
Other assets	90,656	10,857	13,819	-	344	115,676
Total assets	**1,731,970**	**412,956**	**180,508**	**8,340**	**75,226**	**2,409,000**
Liabilities						
Derivative financial instruments	1,897	-	-	-	-	1,897
Balances due to credit institutions and central banks	8,673	68,111	143	2,091	8,760	87,778
Deposits from customers	1,342,682	609,377	10,164	15,940	59,186	2,037,349
Other liabilities	15,124	2,708	5	128	154	18,119
Subordinated liabilities	54,715	-	-	-	-	54,715
Total liabilities	**1,423,091**	**680,196**	**10,312**	**18,159**	**68,100**	**2,199,858**
Equity	209,964	(819)	-	-	(3)	209,142
Total liabilities and equity	**1,633,055**	**679,377**	**10,312**	**18,159**	**68,097**	**2,409,000**
Net long/ (short) position for balance sheet items	98,916	(266,421)	170,196	(9,819)	7,129	-
Off-balance sheet claims arising from foreign exchange						
Spot exchange contracts	17,980	(20,707)	(366)	(472)	3,453	(111)
Forward foreign exchange contracts	(66,169)	(2)	-	-	66,676	505
Swap exchange contracts	(49,324)	287,487	(169,909)	10,345	(76,710)	1,889
Net long/ (short) positions on foreign exchange	(97,513)	266,778	(170,275)	9,873	(6,580)	2,283
Net long/ (short) total position	**1,403**	**357**	**(79)**	**54**	**549**	**2,283**

NOTE 19. BALANCE SHEET AMOUNTS BY CONTRACTUAL MATURITY

The carrying amount of the Group's assets, liabilities and memorandum items by contractual maturity structure:

Group 30/06/2016, EUR 000's

	Within 1 month	**2-3 months**	**4-6 months**	**7-12 months**	**1-5 years**	**Over 5 years and undated**	**Total**
Assets							
Cash and balances with central banks	508,529	-	-	-	-	-	508,529
Balances due from credit institutions	231,460	86	1,163	385	874	1,615	235,583
Securities held for trading	-	-	1,442	1,013	5,512	7,096	15,063
Derivative financial instruments	1,977	1,025	338	-	1,128	-	4,468
Financial assets designated at fair value through profit or loss	2,712	9,798	7,378	11,027	62,699	28,929	122,543
Available for sale securities	21,908	71,138	27,184	171,177	375,266	36,926	703,599
Loans and receivables from customers	32,590	51,362	84,943	144,258	632,396	285,098	1,230,647
Held to maturity securities	57,651	5,859	-	2,700	139,630	5,086	210,926
Other assets	6,984	433	467	1,050	483	98,831	108,248
Total assets	**863,811**	**139,701**	**122,915**	**331,610**	**1,217,988**	**463,581**	**3,139,606**
Liabilities							
Derivative financial instruments	1,632	2,126	3	-	-	-	3,761
Financial liabilities designated at fair value through profit or loss	456	545	1,590	7,823	22,442	2,675	35,531
Balances due to credit institutions and central banks	34,422	1,206	201	236	-	-	36,065
Deposits from customers	2,172,571	79,638	130,109	194,414	164,012	6,765	2,747,509
Other liabilities	20,387	265	149	1,148	210	8	22,167
Subordinated liabilities	-	1,569	-	-	53,124	-	54,693
Total liabilities	**2,229,468**	**85,349**	**132,052**	**203,621**	**239,788**	**9,448**	**2,899,726**
Equity	-	-	-	-	-	239,880	239,880
Total liabilities and equity	**2,229,468**	**85,349**	**132,052**	**203,621**	**239,788**	**249,328**	**3,139,606**
Net balance sheet position – long/ (short)	(1,365,657)	54,352	(9,137)	127,989	978,200	214,253	-
Off-balance sheet items							
Contingent liabilities	29,682	-	-	-	-	-	29,682
Financial commitments	185,589	-	-	-	-	-	185,589

Group 31/12/2015, EUR 000's

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

The carrying amount of the Bank's assets, liabilities and memorandum items by contractual maturity structure:

	Bank 30/06/2016, EUR 000's						
	Within 1 month	**2-3 months**	**4-6 months**	**7-12 months**	**1-5 years**	**Over 5 years and undated**	**Total**
Assets							
Cash and balances with central banks	83,805	-	-	-	-	-	83,805
Balances due from credit institutions	543,295	-	-	-	-	870	544,165
Derivative financial instruments	1,414	1,025	338	-	1,128	-	3,905
Available for sale securities	21,908	69,779	24,105	157,999	261,312	29,311	564,414
Loans and receivables from customers	24,965	31,118	62,451	189,209	457,606	247,167	1,012,516
Held to maturity securities	57,651	4,498	-	2,178	115,443	-	179,770
Other assets	5,259	-	-	-	-	112,141	117,400
Total assets	**738,297**	**106,420**	**86,894**	**349,386**	**835,489**	**389,489**	**2,505,975**
Liabilities							
Derivative financial instruments	1,654	2,126	3	-	-	-	3,783
Balances due to credit institutions and central banks	61,470	25,082	12,839	10,211	1,391	-	110,993
Deposits from customers	1,722,656	36,123	80,459	129,495	126,164	3,340	2,098,237
Other liabilities	14,491	-	-	-	-	-	14,491
Subordinated liabilities	-	1,569	-	-	53,124	-	**54,693**
Total liabilities	**1,800,271**	**64,900**	**93,301**	**139,706**	**180,679**	**3,340**	**2,282,197**
Equity	-	-	-	-	-	223,778	223,778
Total liabilities and equity	**1,800,271**	**64,900**	**93,301**	**139,706**	**180,679**	**227,118**	**2,505,975**
Net balance sheet position – long/ (short)	(1,061,974)	41,520	(6,407)	209,680	654,810	162,371	-
Off-balance sheet items							
Contingent liabilities	25,343	-	-	-	-	-	25,343
Financial commitments	234,244	-	-	-	-	-	234,244

	Bank 31/12/2015, EUR 000's						
	Within 1 month	**2-3 months**	**4-6 months**	**7-12 months**	**1-5 years**	**Over 5 years and undated**	**Total**
Assets							
Cash and balances with central banks	348,960	-	-	-	-	-	348,960
Balances due from credit institutions	269,193	-	7,786	-	-	24,301	301,280
Derivative financial instruments	3,898	854	208	-	-	-	4,960
Available for sale securities	23,908	43,637	30,736	77,545	280,428	33,152	489,406
Loans and receivables from customers	67,146	86,915	51,463	97,496	471,891	208,514	983,425
Held to maturity securities	31,315	-	514	31,225	97,246	4,993	165,293
Other assets	4,713	1	-	6	17	110,939	115,676
Total assets	**749,133**	**131,407**	**90,707**	**206,272**	**849,582**	**381,899**	**2,409,000**
Liabilities							
Derivative financial instruments	1,523	305	69	-	-	-	1,897
Balances due to credit institutions and central banks	76,508	2,005	4,464	3,363	1,438	-	87,778
Deposits from customers	1,706,863	49,133	37,761	118,433	121,718	3,441	2,037,349
Other liabilities	18,116	-	3	-	-	-	18,119
Subordinated liabilities	-	1,607	-	-	53,108	-	54,715
Total liabilities	**1,803,010**	**53,050**	**42,297**	**121,796**	**176,264**	**3,441**	**2,199,858**
Equity	-	-	-	-	-	209,142	209,142
Total liabilities and equity	**1,803,010**	**53,050**	**42,297**	**121,796**	**176,264**	**212,583**	**2,409,000**
Net balance sheet position – long/ (short)	(1,053,877)	78,357	48,410	84,476	673,318	169,316	-
Off-balance sheet items							
Contingent liabilities	34,242	-	-	-	-	-	34,242
Financial commitments	176,181	-	-	-	-	-	176,181

NOTE 20. CREDIT QUALITY OF FIXED INCOME SECURITIES AND DUE FROM CREDIT INSTITUTIONS BALANCES

The tables below provide details of the Group's fixed income securities portfolio quality:

	Group, EUR 000's				
	30/06/2016				
	Held for trading	Financial assets designated at fair value through profit or loss	Available for sale	Held to maturity	Total
Investment grade:					
AAA/Aaa	-	21,730	118,348	2,169	142,247
AA/Aa	-	39,292	173,391	10,407	223,090
A	5,699	28,903	326,151	150,673	511,426
BBB/Baa	3,580	12,079	68,413	11,529	95,601
BB/Ba	-	1,016	2,357	1,701	5,074
Not rated	-	-	2,607	34,447	37,054
Total net fixed income securities	**9,279**	**103,020**	**691,267**	**210,926**	**1,014,492**

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

The tables below provide details of the Bank's fixed income securities portfolio quality:

	Bank, EUR 000's					
	30/06/2016			31/12/2015		
	Available for sale	Held to maturity	Total	Available for Sale	Held to maturity	Total
Investment grade:						
AAA/Aaa	107,801	2,169	109,970	2,739	109,890	112,629
AA/Aa	123,077	4,498	127,575	-	105,779	105,779
A	260,866	138,656	399,522	128,104	186,074	314,178
BBB/Baa	56,749	-	56,749	-	59,271	59,271
BB/Ba	999	-	999	-	3,548	3,548
Not rated	2,606	34,447	37,053	34,450	4,997	39,447
Total net fixed income securities	**552,098**	**179,770**	**731,868**	**165,293**	**469,559**	**634,852**

The tables below provide details of the Group's due from credit institutions balances credit quality:

	EUR 000's			
	30/06/2016 Group	31/12/2015 Group	30/06/2016 Bank	31/12/2015 Bank
Investment grade:				
AAA/Aaa	-	-	-	-
AA/Aa	23,970	29,494	9,991	5,845
A	107,164	62,588	103,425	59,288
BBB/Baa	88,208	72,431	82,451	63,131
Other lower ratings	5,548	8,219	5,515	8,198
Not rated Baltic registered credit institutions	2,850	2,573	958	1,024
Citadele Group's banks	-	-	341,802	162,877
Other not rated credit institutions	7,843	5,840	23	917
Total balances due from credit institutions, net	**235,583**	**181,145**	**544,165**	**301,280**

NOTE 21. LOAN TO VALUE ANALYSIS OF LOAN PORTFOLIO

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

Group, EUR 000's

	30/06/2016				**31/12/2015**			
	LTV < 100%		**LTV ≥ 100% and unsecured**		**LTV < 100%**		**LTV ≥ 100% and unsecured**	
	Carrying value of assets	**Estimated fair value of collateral**	**Carrying value of assets**	**Estimated fair value of collateral**	**Carrying value of assets**	**Estimated fair value of collateral**	**Carrying value of assets**	**Estimated fair value of collateral**
Regular loans	749,397	1,585,876	139,573	68,130	735,677	1,566,223	129,360	78,082
Utilised credit lines	111,650	238,437	8,992	6,368	98,831	238,820	10,400	9,248
Finance leases	132,829	137,986	6,265	4,779	120,142	124,629	4,851	4,755
Debit balances on cards	258	1,415	46,947	5	189	1,317	46,598	2
Overdraft facilities	10,031	31,256	14,100	3,246	17,850	56,443	1,352	100
Factoring	6,848	7,690	349	-	4,482	4,884	235	2
Due from investment counterparties	-	-	3,408	-	-	-	2,378	-
Total net loans	**1,011,013**	**2,002,660**	**219,634**	**82,528**	**977,171**	**1,992,316**	**195,174**	**92,189**

Bank, EUR 000's

	30/06/2016				**31/12/2015**			
	LTV < 100%		**LTV ≥ 100% and unsecured**		**LTV < 100%**		**LTV ≥ 100% and unsecured**	
	Carrying value of assets	**Estimated fair value of collateral**	**Carrying value of assets**	**Estimated fair value of collateral**	**Carrying value of assets**	**Estimated fair value of collateral**	**Carrying value of assets**	**Estimated fair value of collateral**
Regular loans	597,458	1,201,856	94,221	45,577	596,114	1,221,321	87,215	46,262
Utilised credit lines	94,625	182,423	6,993	4,635	84,059	187,911	9,390	8,314
Finance leases	11	106	-	-	24	282	-	-
Debit balances on cards	227	1,345	42,027	1	179	1,298	41,776	2
Overdraft facilities	9,615	30,128	8,585	3,246	15,090	42,601	1,226	101
Due from investment counterparties	-	-	2,822	-	-	-	1,768	-
Loans to subsidiaries	-	-	155,932	43,583	-	-	146,584	39,265
Total net loans	**701,936**	**1,415,858**	**310,580**	**97,042**	**695,466**	**1,453,413**	**287,959**	**93,944**

For loans that are not development projects, collateral value is determined using both estimated fair value of the real estate and 50% of all assets, excluding fixed assets, under commercial pledge. For development projects future loan-to-value ratio is used to reflect the completion rate of the project at the date of the report. Mostly, loans falling into categories "regular loans" and "utilised credit lines" are secured by collateral or commercial pledges. In general, card loans are granted to clients on a basis of their cash flows' assessment and no collateral is required in most cases. Finance leases are secured by the respective property leased out.

NOTE 22. CASH AND CASH EQUIVALENTS

The table below provides a breakdown of cash and cash equivalents:

	EUR 000's			
	30/06/2016 Group	**31/12/2015 Group**	**30/06/2016 Bank**	**31/12/2015 Bank**
Cash and balances with central banks	508,529	555,078	83,805	348,960
Balances with other credit institutions*	230,714	168,457	543,664	292,973
Demand balances due to other credit institutions	(31,397)	(13,894)	(47,518)	(24,617)
Total cash and cash equivalents	**707,846**	**709,641**	**579,951**	**617,316**

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

NOTE 23. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

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

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

Cash and demand deposits with central banks

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

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

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

Loans and receivables from customers

The fair value of loans and advances to customers is calculated by discounting expected future cash flows. The discount rates consist of money market rates as at the end of year and credit margins, which are adjusted for current market conditions. If all the assumed discount rates would change by 10%, the fair value of the loan portfolio would change by EUR 11.1 million (2015: EUR 10.0 million).

Held to maturity securities

Held to maturity securities are valued using unadjusted quoted prices in active markets, where available. In other instances, either quotes of market participants are used or value of securities is determined using valuation models employing observable or non-observable market inputs.

Available for sale securities

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

As at 30 June 2016 Citadele is not anymore exposed to possible loss in value of available for sale classified closed-end fund investments' as a result of fluctuations in real estate prices (2015: if market prices for similar real estate properties would have decreased by 10%, the fair value of these closed-end fund investments' would have decreased by EUR (91) thousand).

Derivatives

Currency derivatives are valued using unadjusted current market prices. Fair value of other derivatives is determined using valuation models employing non-observable market inputs (classified as Level 3 in fair value hierarchy). One of the non-observable market input is CDS rate. If the CDS rate would change by +/-20 basis points the fair value would change by EUR 137 thousand or EUR (137) thousand respectively (2015: EUR 200/(236) thousand).

Customer deposits

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

Subordinated liabilities

The fair value of subordinated liabilities approximates the carrying amount as the borrowing rates are periodically reprised to reflect changes in market rates. If the discount rate would change by +/-50 basis points the fair value would change by EUR 0.5 million (2015: EUR 0.6 million).

Financial liabilities designated at fair value through profit or loss

The fair value of unit-linked investment contract liabilities is their notional amount which equals fair value of unit-linked insurance plan assets. The fair value of other financial liabilities designated at fair value through profit is calculated by discounting expected cash flows using current effective finance rates. If the assumed discount rates would change by 10%, the fair value of the portfolio would change by EUR 9 thousand and EUR (9) thousand respectively (2015: EUR 15 thousand and EUR (11) thousand respectively).

Fair value hierarchy

Quoted market prices (Level 1)

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

Valuation technique - observable market inputs (Level 2)

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

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

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

The following table presents fair values of Group's financial assets and liabilities as at 30 June 2016:

			Fair value hierarchy (where applicable)		
	Carrying value	Total fair value	Quoted market prices	Valuation technique - observable inputs	Valuation technique – non-market observable inputs
Held for trading securities	15,063	15,063	15,063	-	-
Financial assets designated at fair value through profit or loss	122,543	122,543	122,543	-	-
Derivatives	4,468	4,468	-	3,340	1,128
Available for sale securities	703,599	703,599	701,830	-	1,840
Financial assets not measured at fair value:					
Cash and deposits with central banks	508,529	508,529	-	-	-
Balances due from credit institutions	235,583	235,583	-	-	-
Loans and receivables from customers	1,230,647	1,224,518	-	-	1,224,518
Held to maturity securities	210,926	214,222	179,849	-	34,373
Total assets	**3,031,358**	**3,028,256**	**1,019,017**	**3,340**	**1,261,859**
Derivatives	3,761	3,761	-	3,761	-
Financial liabilities designated at fair value through profit or loss	35,531	35,531	20,011	-	15,520
Financial liabilities not measured at fair value:					
Balances due to credit institutions and central banks	36,065	36,065	-	-	-
Customer deposits	2,747,509	2,751,144	-	-	2,751,144
Subordinated liabilities	54,693	54,693	-	-	54,693
Total liabilities	**2,877,559**	**2,881,194**	**20,011**	**3,761**	**2,821,357**

The following table presents fair values of Group's financial assets and liabilities as at 31 December 2015:

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

The following table presents fair values of Bank's financial assets and liabilities as at 30 June 2016:

			Fair value hierarchy (where applicable)		
	Carrying value	Total fair value	Quoted market prices	Valuation technique - observable inputs	Valuation technique – non-market observable inputs
Derivatives	3,905	3,905	-	2,777	1,128
Available for sale securities	564,414	564,414	562,661	-	1,823
Financial assets not measured at fair value:					
Cash and deposits with central banks	83,805	83,805	-	-	-
Balances due from credit institution	544,165	544,165	-	-	-
Loans and receivables from customers	1,012,516	996,840	-	-	996,840
Held to maturity securities	179,770	182,021	147,648	-	34,373
Total assets	**2,388,575**	**2,375,150**	**710,309**	**2,777**	**1,034,164**
Derivatives	3,783	3,783	-	3,783	-
Financial liabilities not measured at fair value:					
Balances due to credit institutions and central banks	110,993	110,993	-	-	-
Customer deposits	2,098,237	2,102,106	-	-	2,102,106
Subordinated liabilities	54,693	54,693	-	-	54,693
Total liabilities	**2,267,706**	**2,271,575**	**-**	**3,783**	**2,156,799**

The following table presents fair values of Bank's financial assets and liabilities as at 31 December 2015:

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

The movement in financial assets carried at fair value categorised as Level 3:

	EUR 000's			
	01/01/2016-30/06/2016 Group	**01/01/2015-30/06/2015 Group**	**01/01/2016-30/06/2016 Bank**	**01/01/2015-30/06/2015 Bank**
As at the beginning of the period, net	**10,446**	**1,636**	**10,429**	**1,620**
Gain on derivatives	649	714	649	714
Settlement on derivatives	(372)	(372)	(372)	(372)
Fair value revaluation gains on non-fixed income securities	2,887	-	2,887	-
Release of impairment allowance	109	-	109	-
Settlement on non-fixed income securities	(12,349)	-	(12,349)	-
New exposures	1,598	-	1,598	-
As at the end of the period, net	**2,968**	**1,978**	**2,951**	**1,962**

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

NOTE 24. SUBSEQUENT EVENTS

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

KPMG Baltics SIA
Vesetas iela 7
Riga, LV-1013
Latvia

Telephone +371 67038000
Telefax +371 67038002
kpmg.com/lv

Independent Auditors' Report

To the shareholders of AS "Citadele banka"

Report on the Condensed Interim Separate and Consolidated Financial Information

We have audited the accompanying condensed interim separate financial information of AS "Citadele banka" ("the Bank"), which comprises the condensed interim separate balance sheet as at 30 June 2016, the condensed interim separate statements of income and comprehensive income, changes in equity and cash flows for the six month period ended 30 June 2016, and notes, comprising a condensed summary of significant accounting policies and other explanatory notes, as set out on pages 7 to 34. We have also audited the accompanying condensed consolidated interim financial information of AS "Citadele banka" and its subsidiaries ("the Group"), which comprises the condensed interim consolidated balance sheet as at 30 June 2016, the condensed interim consolidated statements of income and comprehensive income, changes in equity and cash flows for the six month period ended 30 June 2016, and notes, comprising a condensed summary of significant accounting policies and other explanatory notes, as set out on pages 7 to 34.

Management's Responsibility for the Condensed Interim Separate and Consolidated Financial Information

Management is responsible for the preparation and presentation of this condensed interim separate and consolidated financial information in accordance with IAS 34 *Interim Financial Reporting* as adopted by the European Union and for such internal controls as management determines are necessary to enable the preparation of this condensed interim separate and consolidated financial information that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on this condensed interim separate and consolidated financial information based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether this condensed interim separate and consolidated financial information is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the condensed interim separate and consolidated financial information. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of this condensed interim separate and consolidated financial information, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the Bank's and the Group's preparation and fair presentation of this condensed interim separate and consolidated financial information in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's and the Group's internal controls. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by the Bank and the Group management, as well as evaluating the overall presentation of the condensed interim separate and consolidated financial information.

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

Opinion

In our opinion, the condensed interim separate financial information of AS "Citadele banka" as at 30 June 2016 and for the six month period ended 30 June 2016 is prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting* as adopted by the European Union.

In our opinion, the condensed interim consolidated financial information of AS "Citadele banka" and its subsidiaries as at 30 June 2016 and for the six month period ended 30 June 2016 is prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting* as adopted by the European Union.

KPMG Baltics SIA
Licence No 55

Ondrej Fikrle
Partner pp KPMG Baltics SIA
Riga, Latvia
30 August 2016

CONTACT DETAILS

AS Citadele banka
Republikas laukums 2A, Riga,
LV-1010, Latvia

www.citadele.lv

Phone: (371) 67010 000
Facsimile: (371) 67010 001

Registration number: 40103303559

Corporate Communications

E-mail: pr@citadele.lv