AS Citadele banka

Annual report

for the year ended
31 December 2018

More opportunities

Citadele

KEY FIGURES OF THE GROUP

EUR millions	Q4 2018	Q4 2017[9]	Change[1]	Jan-Dec 2018	Jan-Dec 2017[9]	Change[1]
Net interest income	21.5	19.6	10%	82.6	75.4	10%
Net fee and commission income	8.1	9.0	(10%)	32.0	34.3	(7%)
Operating income	32.3	33.3	(3%)	128.0	130.1	(2%)
Net credit losses	0.5	(4.0)	(113%)	(6.7)	(13.6)	(51%)
Net profit	10.1	13.3	(24%)	34.8	16.0	118%
Return on average assets [2]	1.34%	1.64%	(0.30pp)	1.10%	0.48%	0.62pp
Return on average equity [3]	13.9%	20.3%	(6.4pp)	12.3%	6.1%	6.2pp
Cost to income ratio [4]	71.1%	68.8%	2.2pp	67.4%	63.7%	3.7pp
Cost of risk ratio [5]	(0.1%)	1.1%	(1.3pp)	0.5%	1.0%	(0.5pp)
Adjusted for major one-time items [6]:						
Net profit	10.1	5.6	80%	34.8	31.5	11%
Return on average assets [2]	1.34%	0.69%	0.65pp	1.10%	0.94%	0.15pp
Return on average equity [3]	13.9%	8.5%	5.4pp	12.3%	12.0%	0.3pp

EUR millions	31 Dec 2018	31 Dec 2017	Change	31 Dec 2016	Change vs. 2018
Total assets	3,052	3,312	(8%)	3,350	(9%)
Loans to public	1,396	1,331	5%	1,241	13%
Deposits and borrowings from customers	2,645	2,917	(9%)	2,994	(12%)
Shareholders' equity	297	269	10%	254	17%
Loan-to-deposit ratio[7]	53%	46%	7pp	41%	11pp
Total capital adequacy ratio (CAR)[8]	20.1%	18.4%	1.7pp	16.5%	3.6pp
Common equity Tier 1 capital ratio (CET1)[8]	16.7%	15.0%	1.7pp	13.5%	3.2pp
Full time employees	1,492	1,540	(3%)	1,603	(7%)

(1) Figures in the column "Change" represent change in the respective figure in comparison period versus the current period.
(2) Return on average assets (ROA) is calculated as annualised net profit for the relevant period divided by the average of opening and closing balances for the period.
(3) Return on average equity (ROE) is calculated as annualised net profit for the relevant period divided by the average of opening and closing total equity for the period.
(4) Cost to income ratio (CIR) is calculated as "Operating expense" divided by "Operating income".
(5) Cost of risk ratio (COR) is calculated as "Net credit losses" divided by the average of gross loans at the beginning and the end of the period.
(6) Jan-Dec 2017 is adjusted for one-time EUR 23.2 million write-off of deferred tax assets in Latvia due to change in the country's corporate income tax regime and EUR 7.7 million reversal of impairment on property and equipment. Q4 2017 is adjusted for one-time EUR 7.7 million reversal of impairment on property and equipment.
(7) Loan-to-deposit ratio is calculated as the carrying value of "Loans to public" divided by "Deposits and borrowings from customers" at the end of the relevant period.
(8) CAR and CET1 ratios calculated by applying transitional rules.
(9) In 2018 Citadele changed classification of supervisory fees and certain commission expenses. Prior period comparatives have been adjusted accordingly.

CONTENTS

Management Report	
Letter from the Management	4
Corporate Governance	8
Statement of the Management's Responsibility	12
Financial Statements:	
Income Statement	13
Statement of Comprehensive Income	14
Balance Sheet	15
Statement of Changes in Equity	16
Statement of Cash Flows	17
Notes to the Financial Statements	18
Auditors' Report	75

Rounding and Percentages

Some numerical figures included in these financial statements 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

FINANCIAL PERFORMANCE

2018 was characterized by solid performance in all core business segments of the Citadele Group (henceforth – the Group), with further implementation of new and improved daily banking services and innovative solutions for our customers. The Group's credit rating was upgraded one notch by Moody's to Ba1, reflecting Citadele's growth strategy in the Baltic's, improved capitalization and asset quality.

The Group's **net profit** in 2018 was EUR 34.8 million, which translates into 12.3% annual return on equity. Net profit increased by 11% vs adjusted figures in 2017.

The Group's **net interest income** increased by 10% compared to 2017, reaching EUR 82.6 million in 2018. The increase was primarily driven by **loan portfolio** growth of 5% and some increase in margins, as well as lower interest expense. The loan portfolio increase was the result of increased business activities in the Private Customer and Small Business segments, resulting in year-on-year net interest income increases of 16% and 6%, respectively, in these segments. The loan portfolio for Private Customer and Small Business each grew by more than 10%. The Corporate segment saw a 2% increase in net interest income, despite a 5% decrease in the loan portfolio.

The **total loan portfolio** increased by EUR 65 million during the reporting period. New lending for the year reached EUR 479 million, with the Corporate portfolio seeing a healthy pipeline going into 2019. Total deposits decreased by 9% and constituted EUR 2,645 million at year end, in-line with the Group's de-risking plan.

The Group's **net fee and commission income** in 2018 was EUR 32.0 million, which was 7% lower than in 2017. This was the result of the Group's de-risking activities that negatively affected the Wealth management segment, as well as the sale of SIA CBL Cash Logistics subsidiary in 2017. This decline was partially offset by an increase in income from the cards business during the period.

Citadele's **cost to income ratio** was 67% for 2018 versus 64% in the same period last year, reflecting the Group's continued investment in digital banking technologies and upgrading of competencies in-line with the Group's strategy.

Cost of risk improved to 0.5% in 2018 from 1.0% in 2017.

The Group's adjusted **return on assets** of 1.10% exceeded the 2017 ratio by 0.15pp.

ONGOING PRUDENT RISK AND LIQUIDITY MANAGEMENT

The Group capital adequacy ratio increased to 20.1%, compared with 18.4% in 2017. The increase in capital adequacy ratio reflects organic profit generation and the shareholders' commitment to a sound capital position with no dividends distributed. At the end of the period CET1 ratio reached new high of 16.7% versus Tier 1 requirement plus regulatory buffers of 11.99%. The Group comfortably exceeded the 14.61% required total CAR (including regulatory buffers) at the end of 2018. The liquidity position of the Group remains strong, with LCR at 259% versus the required ratio of 100%, and the loan-to-deposit ratio stood at 53% as of period end.

In 2018 Citadele has undertaken an independent external AML audit and it was confirmed that Citadele continued to implement leading practices that again demonstrated its position as a leader in AML compliance in the Baltic region. Citadele's scope regarding AML is to comply with the highest international standards.

OTHER IMPORTANT DEVELOPMENTS

Credit rating upgrade

International credit rating agency Moody's Investors Service upgraded AS Citadele banka long-term deposit rating from Ba2 to Ba1, maintaining a positive outlook in October 2018. The main reason for upgrading Citadele Bank's rating, according to Moody's, is the progress made in implementing the Baltic focused growth strategy. The rating upgrade is also based on higher capitalization, increasing profitability, declining problem loans, strengthening of the bank's governance and continued reduction of non-resident business.

Moody's positive outlook reflects the expectation of a further progress in the context of a supportive operating environment, strengthened governance, and continued increase in Baltics market shares despite increasing competition.

Lithuanian branch

In 2018 Citadele decided to transform AB Citadele bankas (Lithuania) from a subsidiary to a branch and to migrate the Lithuanian core platform to Latvia. The goals were to increase operational efficiency across the Group, leverage client offerings and service output, and operate under a unified Governance model across the Baltics. On 1 January 2019 all assets, liabilities and businesses were successfully transferred from AB Citadele bankas (via merger) to the Lithuanian branch of AS Citadele banka, which has operated seamlessly since. The Group will continue to implement its strategy to become the primary bank of choice in the Baltics, including further unifying products and processes and achieving cost efficiencies for the long-term. Lithuanian customers will now benefit from an improved mobile application with quick and easy biometric authorization, comprehensive card management functionality and access to a robust Baltic-wide online bank. Further launches and improvements will come during 2019.

Citadele Bank and Mobilly joins forces to offer clients new mobile payment solutions

In January 2019 AS Citadele banka completed its acquisition of 12.5% share capital in SIA Mobilly in a transaction that was announced in November 2018. SIA Mobilly offers innovative and convenient mobile payments for goods and services within Latvia. The intention of the equity acquisition is to establish a partnership to allow Citadele and SIA Mobilly to implement new innovations and offer clients convenient and exciting mobile payment services.

NEW OPPORTUNITIES FOR CITADELE'S CLIENTS

Biometrics and digital innovations

Throughout 2018, the Citadele group continued to develop and launch innovative digital solutions, products and services to meet customer expectations in multiple channels: improved online banking and Bank's mobile application, continued upgrades to contactless payment terminals and new touchscreen ATMs. Citadele has become the first bank in Latvia with facial recognition in mobile application for customer authentication and payment authorization. Also, Face ID and Touch ID for mobile app login, payments and card security management were introduced for fast, convenient and secure client interaction.

CBL Asset Management launched new pension plan – Millennials

Citadele Bank's subsidiary CBL Asset Management launched a new pension plan "CBL Millennials Life Cycle Plan". The plan has an investment strategy that over time dynamically adjusts to the clients' age, and comes with lower management fees. The new pension plan was specially developed for those born between 1980 and 1990.

The Bank updates microloan functionality for business customers

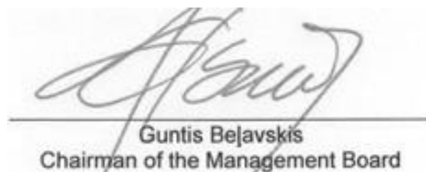
To support small business customers and to make banking easier, Citadele was the first Bank in the Baltics to introduce a new online tool to determine individual credit ratings for businesses – similar to the Bank's previously introduced individual credit rating functionality for private customers.

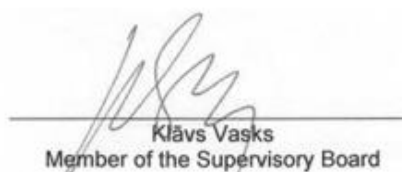
Citadele's new feature enables SME clients to focus more on their businesses by easily determining their eligibility and terms for a microloan online. The online tool enables any Latvian SME business to quickly discover its available lending amount as well as the offered interest rate, regardless of its primary bank.

More mortgage options in partnership with ALTUM

From 1 March 2018 the range of clients eligible to receive a home purchase guarantee has widened with state support guarantees being made available to young professionals, or those who have completed higher or professional secondary education and are aged 35 or less. Previously, ALTUM home purchase guarantees were available only to families with children. In the period from March 2018 to December 2018 more than one third of mortgages issued were with ALTUM guaranteed loans.

Sincerely,

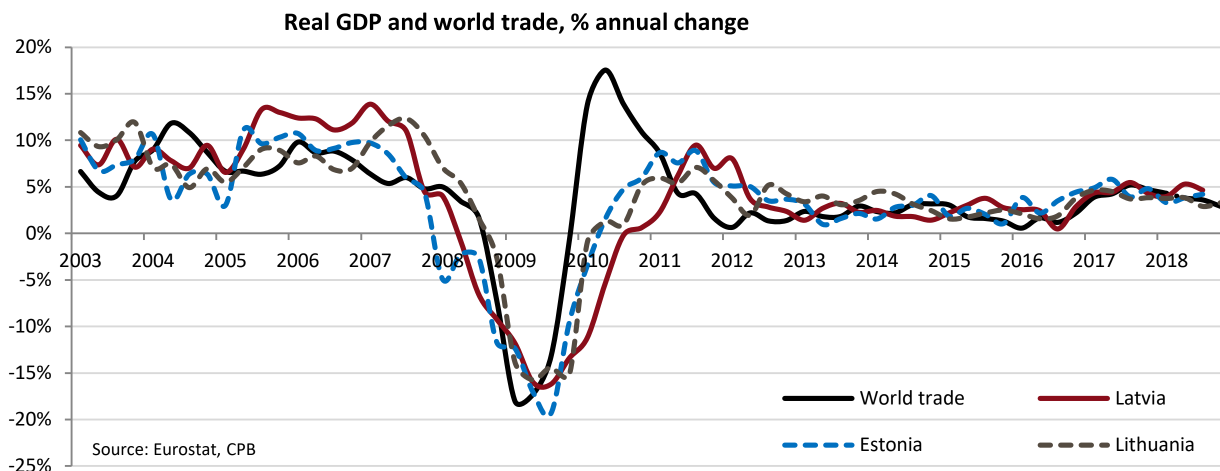




Riga,
15 March 2019

BUSINESS ENVIRONMENT

Strong growth in the Baltic region continued in 2018 despite rising trade tensions, financial market volatility and slowdown in the Euro area, as growth has become increasingly driven by domestic demand. Very strong cyclical expansion in the construction sector and buoyant domestic consumption supported by rising wages and falling unemployment helped to offset slowdown in manufacturing. According to preliminary estimates in 2018 Latvia's GDP grew by 4.8% while in Lithuania and Estonia GDP is expected to have grown by 3.5%. At the same time the external environment has become less favourable and in 2019 external demand is likely to weaken.



In 2018 the period of global synchronized growth came to an end and since the beginning of 2018 Euro area's economic growth has lost momentum while in final months of the year euro area manufacturing saw the strongest decline in in more than 5 years. In addition, rising trade tensions have contributed to a slowdown in world trade while worries about economic performance of the US and major emerging market economies have increased volatility in the financial markets. Also sentiment indicators also point to a slowing growth in Sweden, which is an important market for the Baltic region.

Overall balance of external risks seems to have tilted to the downside for 2019. Trade disputes remain unresolved, euro area slowdown is amplified by Brexit uncertainty and re-emerging doubts about the fiscal sustainability of some euro area countries, especially Italy, which at the end of 2018 again entered recession. As a result of this, the IMF has reduce global economic growth forecasts for 2019 and it is likely to affect economic performance of the Baltic region in 2019, especially since historically changes in world trade has had a strong correlation with economic trends in the Baltic region

Weaker external demand already affects manufacturing growth in the Baltics, which in 2018 slowed to 3-4% from 7-8% in 2017. This slowdown has been relatively broad-based with weaker growth in almost every sector except chemicals, especially in Estonia and Lithuania where output has been boosted by higher oil prices. In addition, output in the wood sector has boosted high wood prices and strong external demand.

At the same time export of services continued to grow rapidly in 2018, and in particular information and telecommunications (ICT) services have become important driver of growth in the Baltic region. In Latvia and Estonia, in 2018, the ICT industry grew by over 10%, while in Lithuania growth was close to 5%. Similarly, good results are also evident in other export orientated services sectors. In addition, some the negative risks we anticipated in 2018 did not materialize. The outflow of non-residents' deposits in Latvia reduced GDP growth by less than expected, while Latvian transit cargo volumes in 2018 rebounded strongly after declines in previous two years as infrastructure repairs and bottlenecks reduced capacity of Russian Baltic sea ports. These risks could re-emerge in 2019, but in general outlook for service sectors remains positive in part because service sectors so far have been mostly unaffected both by slowdown in world trade and escalating trade tensions.

Strong cyclical growth in construction in the Baltic region helped to offset weaker external demand in 2018 as construction volumes increased by more than 10% in Lithuania and Estonia, while in Latvia growth has exceeded 20%. This cyclical growth has been driven by strong inflow of previously delayed EU funds and sharp growth in public sector demand as well as broad based demand from private sector. At the same time, current growth rates exceed the potential of the industry and there are increasing signs that construction in the Baltics is beginning to overheat.

As external demand weakens, growth in the Baltics has become increasingly reliant on domestic demand as private consumption growth exceeded 4% in 2018 supported by raising wages and falling unemployment. Inflation in the Baltics remains moderate and is somewhat higher than in euro area reflecting ongoing convergence of incomes with the EU average and changes in the tax policy. This together with stable consumer confidence is likely to continue to support private consumption growth in 2019.

Domestically shortage of labour and rapidly rising wages is becoming a concern. In 2018 unemployment in Latvia fell to 7% while in Estonia it is close to 5% and Lithuania slightly above 6%. Low unemployment together with shrinking working age populations will continue to put pressure on wages, which in recent years had grown by 6-8% annually in the Baltics, significantly exceeding gains in productivity. Large income differences with Western Europe, adverse

demographics and shrinking labour force combined with low levels of private sector investment and only modest productivity growth pose significant risks to competitiveness of the Baltic region.

Rapid wage growth is also reflected in the housing market as real estate price growth in all three Baltic countries exceeded euro area average, ranging from 6% growth in Estonia to almost 10% growth in Latvia in 2018. In Estonia real estate prices have already exceeded pre-crisis peak and although this does raise concerns about possible price bubbles, in recent years real estate prices have grown more or less in line with wages and price-to-income ratios remain low by historical standards. Compared to Lithuania and Estonia, Latvia currently has the cheapest housing market in the Baltics. This is partly due to diverging credit cycles in the Baltics. While in Estonia and Lithuania overall domestic credit portfolio has been growing by up to 7% annually for more than 3 years, Latvia is only now reaching the end of deleveraging cycle as its loan portfolio is stabilizing.

After two very rapid growth years in 2017 and 2018, economic growth in the Baltic region in 2019 is likely to slow down somewhat and will be closer to its long-term potential of around 3%. Uncertainly in the global economy has increased significantly and leading economic indicators are no longer as positive as at the end of 2017. This will dampen external demand for Baltic exports. At the same time growth in the construction sector is likely to slow down as EU-funded investment spending stabilizes further reducing GDP growth rates. Economic sentiment remains stable and growth in the Baltic region is expected to remain above euro area, thus ensuring ongoing convergence with Euro area income levels.

OTHER REGULATORY DISCLOSURE REQUIREMENTS

Name	AS Citadele banka
Address	Republikas laukums 2A, Riga, LV-1010, Latvia
Web page	www.citadele.lv www.cblgroup.com
Phone	(371) 67010 000
Registration number	40103303559
Licence number	06.01.05.405/280
Licence issue date	30/06/2010
Branches	AS Citadele banka has 28 branches and client service centres in Latvia, 1 branch in Estonia and 1 branch in Lithuania as at period end. AB Citadele bankas (Lithuanian subsidiary) has 8 customer service units in Lithuania. The Lithuanian branch of AS Citadele banka was registered on 25 October 2018 and started to operate on 1 January 2019. Information about branches, client service centres and ATMs of Citadele is available in the Citadele web page's section “Branches and ATMs”.
Dividends	Refer to Note 24 (*Share Capital*) of the annual report. As at issuance of the annual report the Management proposes not to distribute 2018 profits in dividends, but to keep as retained earnings to strengthen the capital position of the Group.
Future development	Citadele aims to become the primary bank of choice for aspiring retail and small business customers across the Baltics, and will continue to relentlessly improve products and services. Citadele will continue to provide high quality financial services to clients and their businesses with an objective to foster further growth across the whole Baltic region. A complete portfolio of banking, financial and wealth management services is to be offered for both private individuals and companies. The core market of Citadele remains unchanged: Latvia, Lithuania and Estonia.

CORPORATE GOVERNANCE

AS Citadele banka ("the Bank" or "Citadele bank" or "Citadele") is the parent company of Citadele Group ("the Group"). Citadele bank is a joint stock company. 75% plus one share in Citadele bank is owned by a consortium of international investors represented by Ripplewood Advisors LLC. The European Bank for Reconstruction and Development (EBRD) owns 25% minus one share.

The Statement of Corporate Governance is published on the Bank's website www.cblgroup.com.

Audit Committee's report to the shareholders

In 2018 Audit Committee of AS Citadele banka (hereinafter – the Committee) acted in the role of audit committee as required by the Financial Instruments Market Law.

The Committee performed tasks in line with the requirements of the law:

- *Supervised the preparation of the annual report for the year ended 31 December 2018;*
- *Supervised the process of audit of the annual report for the year ended 31 December 2018;*
- *Supervised the effectiveness of internal controls, risk management and internal audit systems as applicable to the process of the preparation of financial statements;*
- *Supervised the approval of the external auditor for audit of the annual report for the year ended 31 December 2018;*
- *Supervised the compliance of the auditor of the annual report for the year ended 31 December 2018 with independence and objectivity requirements set forth in the Law of the Provision of Audit Services;*
- *Communicated to the Supervisory Board the conclusions made by the auditor of the annual report for the year ended 31 December 2018.*

In 2018 the Committee was not hindered in any way, and full access to any information required by the Committee was ensured. The Committee throughout the year kept informed the Management Board and the Supervisory Board about the conclusions and recommendations made by it.

In the course of discharging its duties as related to the preparation of the annual report for the year ended 31 December 2018 the Committee did not encounter any evidence that would suggest that these financial statements would not be true and fair.

A detailed report on the activities of the Committee in 2018 has been submitted to the Supervisory Board of the Bank.

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
Klāvs Vasks	Member of the Supervisory Board	30 June 2010
Nicholas Dominic Haag	Member of the Supervisory Board	19 December 2016
Karina Saroukhanian	Member of the Supervisory Board	19 December 2016
Sylvia Yumi Gansser Potts	Member of the Supervisory Board	29 October 2018

As part of Citadele's board reorganization, Karina Saroukhanian resigned from the Supervisory Board on 1 September 2018 and Catherine Margaret Ashton resigned from the Supervisory Board on 14 September 2018. On 28 September 2018, the Bank's extraordinary shareholders meeting re-elected the Supervisory Board, with Sylvia Yumi Gansser Potts, who was nominated by the EBRD, joining the Supervisory Board as well as Karina Saroukhanian. The new Supervisory Board commenced its duties after approval of the Financial and Capital Market Commission. The Financial and Capital Market Commission's approval was received on 29 October 2018.

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 grown companies globally, including 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.

Klāvs Vasks was Chairman of the Supervisory Board from the restructuring the bank in 2010 until April 2015. He 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.

Nicholas D. Haag is an independent non-executive director and chairman of the audit committee of TBC Bank Group PLC, the largest Georgian bank. He is an INED and chairs the audit, risk and compliance committee of Bayport Management Ltd., the holding company for a leading African and Latin American financial solutions provider. Prior to that, he was a Member of the Supervisory Board of Credit Bank of Moscow PJSC. Mr. Haag has a 30 year banking career, half at Managing Director level, with various financial institutions including Barclays, Banque Paribas, ABN AMRO and Royal Bank of Scotland, specialising in technology finance and equity capital markets. Mr. Haag holds a First Class Honours Degree from the University of Oxford.

Karina Saroukhanian is a Managing Director of Ripplewood Advisors LLC. Before joining the company, since 2008, she worked as senior banker in the Financial Institutions team of the European Bank for Reconstruction and Development. At the EBRD, she specialized in complex equity transactions, working with financial sponsors in multiple jurisdictions. Prior to joining the EBRD, Karina was an Associate Director in the M&A group at Nomura International in London and a Vice President at Sindicatum, a specialist financial advisory and asset management firm. Karina holds an MSc in Economics from the London School of Economics and a degree in mathematical economics from the Moscow State University.

Sylvia Gansser-Potts is a member of the investment and forex committees of the European Fund for Southeast Europe (EFSE). Before joining EFSE, Sylvia was a Managing Director at the European Bank for Reconstruction and Development (EBRD) with the overall responsibility for EBRD's investments and operations in Central and Southeastern Europe. Over her 25 year career at the EBRD, Sylvia run a succession of banking teams including the financial institutions operations in Central Europe, in MENA/Turkey as well as the property and tourism team. Sylvia started her career at Swiss Bank Corporation (which later merged to become UBS) in Switzerland and Japan. She holds a master's in business from the University of Paris IX Dauphine, a honour's degree in Japanese language from the University of Paris and a MBA from INSEAD.

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
Santa Purgaile	Member of the Management Board	Chief Commercial Officer Corporate
Vladislavs Mironovs	Member of the Management Board	Chief Commercial Officer Retail
Uldis Upenieks	Member of the Management Board	Chief Compliance Officer
Slavomir Mizak	Member of the Management Board	Chief Technology Officer
Johan Åkerblom	Member of the Management Board, per procura	Chief Financial Officer
Kaspars Jansons	Member of the Management Board	Chief Operations Officer

Johan Åkerblom started working as Member of the Management Board on 1 February 2018. Kaspars Jansons started working as Member of the Management Board on 22 June 2018. Former Member of the Management Board Kaspars Cikmačs resigned from the Management Board on 22 June 2018.

Guntis Beļavskis, Chairman of the Management Board, Chief Executive Officer.

Chairman of the Management Board since 1 May 2012. Before that Member of the Management Board since 30 June 2010.

Guntis Beļavskis has more than 15 years of experience in the banking sector and over twenty years of experience in business operations. In 2002, he was invited to head the sales department of Parex banka. One year later he became the head of sales and marketing, and after another year – the head of retail and SME services network. In December 2008, when the Latvian State took over Parex banka, Guntis Beļavskis was invited to work in the new Management Board of the bank, and after the successful split-up, he assumed the same post in Citadele. He acquired his bachelor degree in business management at the Riga Transport and Telecommunications Institute.

Valters Ābele, Chief Risk Officer.

Member of the Management Board since 30 June 2010.

Valters Ābele is responsible for risk analysis functions at Citadele bank and runs the Risk Department. Previously he managed the Credit Risk Department at Parex banka. In December 2008, when the Latvian State took over Parex banka, Valters Ābele was invited to work in the new board of the bank, and after the successful split-up, he assumed the same post in the Management Board of Citadele. Valters Ābele has acquired extensive experience in auditing and financial consulting at companies such as Ernst & Young and Arthur Andersen. Valters Ābele acquired his master degree in business management and international economic relations at the University of Latvia.

Santa Purgaile, Chief Commercial Officer Corporate.

Member of the Management Board since 19 September 2012.

Santa Purgaile is responsible for the development and management of the banking group's business in the Baltic States in corporate segment. Santa has more than twenty years of experience in the banking sector, including nine years at the management level in various areas of business. Prior to joining Citadele's Management Board, Santa ran SEB Bank's private banking business in Latvia and the Baltic States. She has also served as director of SEB Bank's SME Business Support and before that as director of Vidzeme region. Santa 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.

Vladislavs Mironovs, Chief Commercial Officer Retail.

Member of the Management Board since 16 December 2016.

Vladislavs Mironovs is responsible for group's business strategy implementation and business development. He joined AS Citadele banka in July 2015 as Head of Strategic projects. His former experience includes various positions in GE Money Bank. The last two years before joining Citadele, he worked as Strategic Initiatives Leader in GE Capital HQ in USA, leading the projects and assisting in developing global strategy around trade finance and multinational clients. Vladislavs Mironovs held a position of Business Development Manager in GE Capital, UK (from 2012 to 2013) and Sales and Marketing Director in GE Money Bank Latvia (from 2010 to 2012). Vladislavs Mironovs holds Executive MBA from Riga Business School.

Uldis Upenieks, Chief Compliance Officer.

Member of the Management Board since 1 August 2017.

Uldis Upenieks in Citadele Group is responsible for compliance. Uldis has over twenty years' experience in the financial sector, of which last 15 years he has worked in the banking sector. Since November 2012 Uldis was Chairman of the Board at IPAS CBL Asset Management. Before that he worked in PrivatBank – as a Board member and as head of internal audit. Prior to that Uldis was responsible for client oversight function (from 2002 to 2009), and was a vice president and the deputy director of the Risk and Compliance Sector (from 2009 to 2011) at Citadele banka. Uldis holds a master's degree in business administration and a bachelor's degree in economics from the Riga Technical University and has studied at the Riga Graduate School of Law.

Slavomir Mizak, Chief Technology Officer.

Member of the Management Board since 1 August 2017.

Slavomir Mizak is responsible for Group's IT and technology operations and development. In Citadele group he has been working since 1 June 2017. Before joining the Bank, Slavomir was a member of the Management Board and held a position of the Chief Information Officer and the Chief Operating Officer in Zuno Bank AG (Austria) since 2014. Prior to that, he held positions of the Head of Information Technology and the Head of Information Technology Development in Zuno Bank. Before that he worked as a consultant and manager in the consulting division for financial services sector in Accenture (from 2002 to 2009). Slavomir Mizak holds a master's degree in Business Administration from the University of Economics in Bratislava.

Johan Åkerblom, Chief Financial Officer.

Member of the Management Board since 1 February 2018.

Johan Akerblom is responsible for the Group's Finance and Treasury functions. Before joining the Bank, he worked for SEB group as Chief Financial Officer for its Baltic business division in 2016 and 2017 and prior to that Johan Akerblom was Chief Financial Officer and member of the Management Board of SEB AG, SEB group's German subsidiary. He has more than 10 years of banking experience and started his career as a management consultant with McKinsey & Co where he spent 4 years. Johan Åkerblom holds a master's degree in industrial management and engineering from the Lund Institution of Technology.

Kaspars Jansons, Chief Operations Officer.

Member of the Management Board since 22 June 2018.

Kaspars Jansons is responsible for administrative services and bank operations at AS "Citadele banka" (hereinafter– Citadele). Kaspars has over 20 years of work experience in the banking sector. He has led Treasury department of Citadele since the Bank's establishment in August 2010, and from October 2016 to January 2018, Kaspars Jansons worked as interim Chief Financial Officer of Citadele. Kaspars Jansons holds a master's degree in economics from the BA School of Business and Finance.

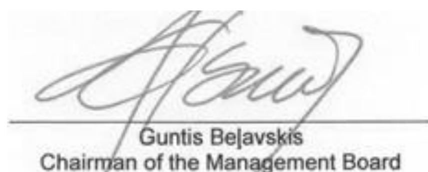
STATEMENT OF MANAGEMENT'S RESPONSIBILITY

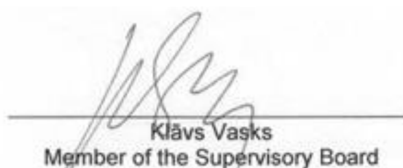
The Management of AS Citadele banka (hereinafter – the Bank) is responsible for the preparation of the financial statements of the Bank as well as for the preparation of the consolidated financial statements of the Bank and its subsidiaries (hereinafter – the Group).

The financial statements set out on pages 13 to 74 are prepared in accordance with the source documents and present fairly the financial position of the Bank and the Group as at 31 December 2018 and 2017 and the results of their operations, changes in shareholders' equity and cash flows for the year then ended. The management report set out on pages 4 to 11 presents fairly the financial results of the reporting period and future prospects of the Bank and the Group.

The financial statements are prepared on a going concern basis in accordance International Financial Reporting Standards as adopted by the European Union. 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.





Riga,
15 March 2019

INCOME STATEMENT

	Notes	2018 Group	2017 Group restated (*Note 3 ee*)	2018 Bank	2017 Bank restated (*Note 3 ee*)
		EUR 000's			
Interest income	4	97,644	93,990	74,521	72,205
Interest expense	4	(15,066)	(18,616)	(13,052)	(15,753)
Net interest income		**82,578**	**75,374**	**61,469**	**56,452**
Fee and commission income	5	57,019	56,441	42,314	40,453
Fee and commission expense	5	(25,051)	(22,117)	(21,714)	(19,299)
Net fee and commission income		**31,968**	**34,324**	**20,600**	**21,154**
Net financial income	6	10,402	16,096	8,781	13,636
Net other income	7	3,099	4,281	4,917	8,179
Operating income		**128,047**	**130,075**	**95,767**	**99,421**
Staff costs	8	(53,966)	(47,867)	(40,024)	(34,289)
Other operating expenses	9	(26,069)	(29,700)	(20,908)	(23,480)
Depreciation and amortisation	19	(6,216)	(5,267)	(3,275)	(2,692)
Operating expense		**(86,251)**	**(82,834)**	**(64,207)**	**(60,461)**
Profit before impairment		**41,796**	**47,241**	**31,560**	**38,960**
Net credit losses	10	(6,653)	(13,640)	(5,244)	(12,876)
Impairment of tangible and intangible assets	11	(343)	9,107	6,763	655
Operating profit		**34,800**	**42,708**	**33,079**	**26,739**
Income tax	12	46	(26,745)	(42)	(25,482)
Net profit		**34,846**	**15,963**	**33,037**	**1,257**
Basic earnings per share in EUR	24	0.22	0.10	0.21	0.01
Diluted earnings per share in EUR	24	0.22	0.10	0.21	0.01

In 2018 Citadele changed classification of certain expenses. Prior period comparatives have been adjusted accordingly. For details refer to *Note 3 ee.*

The notes on pages 18 to 74 are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

	EUR 000's			
	2018 Group	2017 Group	2018 Bank	2017 Bank
Net profit	**34,846**	**15,963**	**33,037**	**1,257**
Other comprehensive income items that are or may be reclassified to profit or loss:				
Fair value revaluation reserve				
Fair value revaluation reserve charged to statement of income	(587)	(236)	(179)	(267)
Change in fair value (in 2018 only debt securities)	(1,393)	750	(872)	830
Deferred income tax charged / (credited) directly to equity	108	(48)	-	(62)
Other reserves				
Foreign exchange retranslation	862	(1,767)	-	-
Other comprehensive income items that may not be reclassified to profit or loss:				
Fair value revaluation reserve				
Change in fair value of equity and similar instruments	154	-	154	-
Other comprehensive income / (loss)	**(856)**	**(1,301)**	**(897)**	**501**
Total comprehensive income	**33,990**	**14,662**	**32,140**	**1,758**

The notes on pages 18 to 74 are an integral part of these financial statements.

BALANCE SHEET

	Notes	31/12/2018 Group	31/12/2017 Group	31/12/2018 Bank	31/12/2017 Bank
		EUR 000's			
Assets					
Cash and cash balances at central banks	13	405,315	715,468	155,510	494,848
Loans to credit institutions		131,902	151,276	110,851	205,292
Debt securities	14	989,230	979,513	779,011	619,938
Loans to public	15, 16	1,395,692	1,330,595	1,168,116	1,117,190
Equity instruments	17	2,901	2,444	2,875	2,428
Other financial instruments	17	34,146	37,157	6,078	6,371
Derivatives		611	2,406	614	2,481
Investments in subsidiaries	18	-	-	71,614	64,725
Tangible assets	19	48,893	51,198	4,817	4,994
Intangible assets	19	4,868	4,166	4,651	3,877
Tax assets	12	2,929	1,558	247	-
Other assets	20	35,604	35,987	25,599	23,285
Total assets		**3,052,091**	**3,311,768**	**2,329,983**	**2,545,429**
Liabilities					
Deposits from credit institutions and central banks		7,277	23,536	39,170	78,578
Deposits and borrowings from customers	21	2,645,042	2,917,148	1,937,857	2,144,468
Debt securities issued	22	60,010	59,981	60,010	59,981
Derivatives		1,470	3,166	1,504	3,168
Provisions	10	3,196	893	2,616	334
Tax liabilities	12	810	1,693	-	832
Other liabilities	23	37,486	36,456	21,006	18,173
Total liabilities		**2,755,291**	**3,042,873**	**2,062,163**	**2,305,534**
Equity					
Share capital	24	156,556	156,556	156,556	156,556
Reserves and other capital components		3,868	5,325	(853)	1,511
Retained earnings		136,376	107,014	112,117	81,828
Total equity		**296,800**	**268,895**	**267,820**	**239,895**
Total liabilities and equity		**3,052,091**	**3,311,768**	**2,329,983**	**2,545,429**
Off-balance sheet items					
Contingent liabilities	25	22,405	29,422	17,820	25,252
Financial commitments	25	344,116	236,157	355,309	287,455

The notes on pages 18 to 74 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

Changes in the Group's equity:

	EUR 000's					
	Issued Share capital	Securities fair value revaluation reserve	Foreign currency retranslation	Other reserves	Retained earnings	Total equity
Balance as at 31/12/2016	**156,556**	**1,695**	**4,024**	**515**	**91,443**	**254,233**
Total comprehensive income for the period						
Net profit for the period	-	-	-	-	15,963	15,963
Other comprehensive income / (loss) for the period	-	466	(1,767)	-	-	(1,301)
Transactions with shareholders						
Transfer to reserves *	-	-	-	392	(392)	-
Balance as at 31/12/2017	**156,556**	**2,161**	**2,257**	**907**	**107,014**	**268,895**
Adjustment on initial application of IFRS 9, net of tax (*Note 3 a*)	-	(1,394)	-	-	(5,078)	(6,472)
Restated balance at 01/01/2018	**156,556**	**767**	**2,257**	**907**	**101,936**	**262,423**
Total comprehensive income for the period						
Net profit for the period	-	-	-	-	34,846	34,846
Share based payments to employees (*Note 8*)	-	-	-	387	-	387
Other comprehensive income / (loss) for the period	-	(1,718)	862	-	-	(856)
Transactions with shareholders						
Transfer to reserves *	-	-	-	406	(406)	-
Balance as at 31/12/2018	**156,556**	**(951)**	**3,119**	**1,700**	**136,376**	**296,800**

* Subsidiaries in certain jurisdiction have to retain part of standalone earnings as special reserves. Such reserves in the Group's financial statements are presented as other reserves.

Changes in the Bank's equity:

	EUR 000's				
	Issued share capital	Securities fair value revaluation reserve	Other reserves	Retained earnings	Total equity
Balance as at 31/12/2016	**156,556**	**1,010**	**-**	**80,571**	**238,137**
Total comprehensive income for the period					
Net profit for the period	-	-	-	1,257	1,257
Other comprehensive income / (loss) for the period	-	501	-	-	501
Balance as at 31/12/2017	**156,556**	**1,511**	**-**	**81,828**	**239,895**
Adjustment on initial application of IFRS 9, net of tax (*Note 3 a*)	-	(1,854)	-	(2,748)	(4,602)
Restated balance at 01/01/2018	**156,556**	**(343)**	**-**	**79,080**	**235,293**
Total comprehensive income for the period					
Net profit for the period	-	-	-	33,037	33,037
Share based payments to employees (*Note 8*)	-	-	387	-	387
Other comprehensive income / (loss) for the period	-	(897)	-	-	(897)
Balance as at 31/12/2018	**156,556**	**(1,240)**	**387**	**112,117**	**267,820**

The notes on pages 18 to 74 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

	Notes	2018 Group	2017 Group	2018 Bank	2017 Bank
		EUR 000's			
Operating activities					
Operating profit before tax		34,800	42,708	33,079	26,739
Interest income	4	(97,644)	(93,990)	(74,521)	(72,205)
Interest expense	4	15,066	18,616	13,052	15,753
Dividends income		(34)	-	(2,491)	(3,913)
Depreciation and amortisation		6,216	5,267	3,275	2,692
Impairment allowances and provisions	10, 11	6,996	4,533	(1,519)	12,221
Currency translation and other non-cash items		(5,736)	63,365	1,836	52,751
Cash flows from the income statement		**(40,336)**	**40,499**	**(27,289)**	**34,038**
(Increase) / decrease in loans to public		(74,594)	(103,340)	(58,022)	(120,895)
Increase / (decrease) in deposits and borrowings from customers		(290,944)	(39,593)	(225,607)	(3,052)
(Increase) / decrease in loans to credit institutions		(29,802)	(3,445)	(23,473)	185
Increase / (decrease) in deposits from credit institutions		21,680	(8,007)	(925)	(58,104)
(Increase) / decrease in other items at fair value through profit or loss		99	(9,916)	203	3,474
(Increase) / decrease in other assets		1,617	3,500	(2,925)	2,361
Increase / (decrease) in other liabilities		(1,224)	11,125	1,754	2,718
Cash flows from operating activities before interest and corporate income tax		**(413,504)**	**(109,177)**	**(336,284)**	**(139,275)**
Interest received		97,359	93,572	74,348	71,785
Interest paid		(11,449)	(16,234)	(9,344)	(13,266)
Corporate income tax paid		(259)	(683)	(42)	(29)
Cash flows from operating activities		**(327,853)**	**(32,522)**	**(271,322)**	**(80,785)**
Investing activities					
Acquisition of tangible and intangible assets		(4,982)	(4,334)	(3,884)	(3,857)
Disposal of tangible and intangible assets		38	38	21	13
Investments in debt securities and other financial instruments		(599,100)	(477,561)	(502,974)	(351,230)
Proceeds from debt securities and other financial instruments		595,892	456,015	342,214	362,579
Dividends received		34	-	2,491	3,913
Sale or investments in subsidiaries		-	1,546	24	(162)
Cash flows from investing activities		**(8,118)**	**(24,296)**	**(162,108)**	**11,256**
Financing activities					
Issuance of debt securities		-	19,941	-	19,941
Repayment of subordinated liabilities		(18,400)	(34,728)	(18,400)	(34,728)
Interest paid on debt securities and other subordinated liabilities		(4,417)	(5,056)	(4,417)	(5,056)
Cash flows from financing activities	22	**(22,817)**	**(19,843)**	**(22,817)**	**(19,843)**
Cash flows for the period		**(358,788)**	**(76,661)**	**(456,247)**	**(89,372)**
Cash and cash equivalents at the beginning of the period		**858,773**	**935,434**	**694,808**	**784,180**
Cash and cash equivalents at the end of the period	28	**499,985**	**858,773**	**238,561**	**694,808**

The notes on pages 18 to 74 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

If not mentioned otherwise, referral to the 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 of 31 December 2017 or for the year ended 31 December 2017, unless stated otherwise.

NOTE 1. AUTHORISATION OF THE FINANCIAL STATEMENTS

These financial statements have been authorised for issuance by the Management Board on 8 March 2019 and the Supervisory Board on 15 March 2019 and comprise the financial information of AS Citadele banka (hereinafter – the Bank or Citadele) and its subsidiaries (together – the Group). In accordance with the Commercial Law of the Republic of Latvia, the shareholders' have the right to make the decision on the approval of these financial statements.

NOTE 2. GENERAL INFORMATION

Citadele is a Latvian-based bank offering a variety of retail, private banking, asset management, lending, leasing and other commercial banking services. On 31 December 2018 the Bank operates branches in Latvia, Lithuania and Estonia. AS Citadele banka is the parent company of the Group, which has subsidiary banks in Lithuania and Switzerland and other subsidiaries which include financial services companies. The Group's main business focus is Baltics – its operations in Latvia, Lithuania and Estonia. Citadele was registered as a joint stock company on 30 June 2010. Citadele commenced its operations on 1 August 2010.

The Lithuanian branch was registered on 25 October 2018. In January 2019 all assets, liabilities and business were transferred from AB Citadele bankas (Lithuania) to the Lituanian branch of AS Citadele banka. From 2019 the Group continues to operate in Lithuania as the Lithuanian branch of AS Citadele banka. For more information refer to Note 34 (*Events after the Reporting Date)*.

As of 31 December 2018, the Group had 1,492 (2017: 1,540) and the Bank had 1,147 (2017: 1,173) full time equivalent active employees.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Adoption of new or revised standards and interpretations

Certain new IFRSs became effective for the Group from 1 January 2018. 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 2018 was implemented for these consolidated financial statements. Implementation impact, where relevant, is disclosed throughout these financial statements.

IFRS 9 – Financial Instruments (replaces IAS 39). When implementing IFRS 9 the Group and the Bank elected to do a full restatement for the prior periods. The difference between the previous carrying amounts and the new carrying amounts at the day of initial application of IFRS 9 was recorded in opening retained earnings. During the implementation process, the Group was working on the necessary processes, systems, models and capabilities upgrades. The Group had set up an internal IFRS 9 implementation project. The implementation team was dealing with direct accounting and presentation aspects of the new standard as well as related aspects like IT requirements, necessary procedures and instructions as well as development of relevant expected credit loss models. The project was Group wide. External competence was attracted where and when deemed necessary. Within the scope of the project, the Group reworked models, IT systems, processes and documentation which were followed by final testing and validation. As much as possible the Group leveraged on existing definitions, processes, systems, models and data used for regulatory and risk management purposes in order to implement IFRS 9 impairment requirements, although in many areas new models and revisions to the existing models were developed. The Group has invested resources to collect sufficient historical data to support forward looking impairment models.

The Group's assessed assets for 'solely payment of principal and interest (SPPI)' principle for amortised cost classification under the new standard. Re-assessment of business models in the context of the new standard is basis for classification and measurement. Procedures were developed. On initial implementation the changes in classification for the Group mostly concerned securities exposures. Also as a result of reclassification the way in which revaluation gains are recognised was impacted.

For measurement of expected credit losses, the Group has selected to use EAD x PD x LGD approach, where EAD stands for exposure at default, PD – probability of default, and LGD – loss given default. To estimate probability weighted cash flows, the Group uses single scenario expected cash flow method with overlays for alternative scenarios for macroeconomic factors. New impairment assessment models were developed for both lifetime expected credit loss calculation and for 12-months expected credit loss calculations. Periodic model validation includes reviews of input data, underlying assumptions used for expected credit loss estimation, and review of model outputs by comparing them to back-testing results. Back-testing is performed by comparing the actual historical performance of portfolio with the expected credit loss estimation results as per developed models. 30 days past due (for certain products less) is one of the main quantitative indicators used to assess the "significant increase in credit risk" (proxy for transferring exposures from stage 1 to stage 2) augmented by other additional risk factors (e.g.

internal credit rating grade, restructuring, industry or market conditions). Significant increase in credit risk in comparison to the initial credit risk is the criteria for transfer to stage 2. The 'default' is defined in line with the prudential definition of the default: exposure delayed 90 and more days, significant restructuring and other unlikeliness to pay indicators. The 'default' is the criteria for transfer to stage 3. Prior to implementation, the Bank had a parallel run of expected credit loss model since mid-2017 to assist in calibration and model fine-tuning.

The major areas impacted are impairment and provision levels due to introduction of expected credit loss concept, reclassification of debt securities, including debt securities at fair value through profit or loss, as a result of re-assessment of business models, and re-measurement of financial instruments at amortised cost due to changed classification. Impairment increase mostly relates to card products and off-balance sheet commitments. The total implementation effect led to a reduction in the shareholders equity on implementation date. Implementation of the new standard did not impact classification or measurement of financial liabilities.

IFRS 9 day-one implementation impact on carrying amount by class of financial instruments:

	EUR 000's								
	Group								
	Cash, balances at central banks and credit institutions	Debt securities			Loans to public	Equity and other financial instruments		Deriva-tives	Off balance sheet less provisions
According *to IAS 39 as at 31/12/2017:*									
Measurement category[1]	LaR	FVTPL and HFT	HTM	AFS	LaR	FVTPL and HFT	AFS	HFT	-
Carrying amount	866,744	129,468	-	850,045	1,330,595	30,785	8,816	2,406	236,157
IFRS 9 day-one implementation impact*:*									
Reclassifications	-	(129,468)	539,198	(409,730)	-	-	-	-	-
Expected credit loses	(13)	-	(288)	-	(1,319)	-	-	-	(4,118)
Changes in measurement	-	-	(1,164)	-	471	-	-	-	-
According to IFRS 9 as at 01/01/2018:									
Measurement category[2]	AmC	FVTPL	AmC	FVTOCI	AmC	FVTPL	FVTOCI	FVTPL	-
Carrying amount	866,731	-	537,746	440,315	1,329,747	30,785	8,816	2,406	232,039

1) IAS 39 measurement category abbreviations: LaR – loans and receivables, FVTPL – at fair value through profit or loss, HTM – held to maturity, AFS – available for sale, HFT – held for trading.
2) IFRS 9 measurement category abbreviations: AmC – at amortised cost, FVTPL – at fair value through profit or loss, FVTOCI – at fair value through other comprehensive income.

	EUR 000's						
	Bank						
	Cash, balances at central banks and credit institutions	Debt securities		Loans to public, equity and other financial instruments		Deriva-tives	Off balance sheet less provisions
According *to IAS 39 as at 31/12/2017:*							
Measurement category[1]	LaR	HTM	AFS	LaR	AFS	HFT	-
Carrying amount	700,140	-	619,938	1,117,190	8,799	2,481	287,455
IFRS 9 day-one implementation impact*:*							
Reclassifications	-	421,013	(421,013)	-	-	-	-
Expected credit loses	(1)	(231)	-	(636)	-	-	(3,687)
Changes in measurement	-	(517)	-	471	-	-	-
According to IFRS 9 as at 01/01/2018:							
Measurement category[2]	AmC	AmC	FVTOCI	AmC	FVTOCI	FVTPL	-
Carrying amount	700,139	420,265	198,925	1,117,025	8,799	2,481	283,768

The Group and the Bank for loan commitments and financial guarantee contracts recognises expected loan loss allowance as a provision.

Reconciliation of IFRS 9 day-one implementation impact on allowances with changes in carrying value of assets on 1 January 2018

	EUR 000's	
	Group	Bank
Day-one impact on carrying value of assets due to implementation of expected credit loss models (*see the tables above*)	**5,738**	**4,555**
Less day-one changes in allowance which do not affect carrying value of assets:		
IAS 39 impairment for non-fixed income securities	*(1,387)*	*(1,387)*
Allowance for debt securities at fair value through other comprehensive income	*132*	*51*
Day-one impact on allowances for credit losses and provisions (*Note 10*)	**4,483**	**3,219**

On day-one EUR -1,387 thousand securities fair value revaluation reserve in other comprehensive income was recognised; under previous standard this amount was previously charged to the income statement as an impairment loss. This day-one reclassification did not affect carrying value of the assets.

Reconciliation of IFRS 9 day-one implementation impact on retained earnings on 1 January 2018

	EUR 000's	
	Group	Bank
Day-one impact on allowances for credit losses and provisions (*Note 10*)	4,483	3,219
Day-one asset re-measurement and restatement of securities fair value revaluation reserve	595	(471)
Day-one impact on retained earnings	**5,078**	**2,748**

Debt securities that were reclassified on day-one and are still held by the Group and the Bank:

	EUR 000's			
	31/12/2018 Group		31/12/2018 Bank	
	Net carrying value	Fair value	Net carrying value	Fair value
For debt securities which on day-one were reclassified and are still held:				
from AFS to AmC	350,283	351,401	259,622	258,221
from FVTPL to FVTOCI	57,664	57,664	-	-
Total as at 31/12/2018	**407,947**	**409,065**	**259,622**	**258,221**

The Group when implementing IFRS 9 reclassified financial assets out of fair value through profit or loss category. Additional net fair value loss that would have been reclassified out of revaluation reserve in other comprehensive income into the income statement for the current year would have been EUR 58 thousand; none for the Bank. Additional net fair value gain that would have been recognised in the income statement for the current period on the securities reclassified out of available to sale category to measured at amortised cost category for the Group is EUR 1.1 million and for the Bank is EUR -1.4 million.

IFRS 15 – Revenue from contracts with customers. The new standard establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. The Group initially applied IFRS 15 on 1 January 2018 retrospectively in accordance with IAS 8 without any practical expedients. The timing or amount of the Group's fee and commission income from contracts with customers was not impacted by the adoption of IFRS 15.

Certain new standards, amendments to standards and interpretations have been published that become endorsed for the annual accounting periods beginning after 1 January 2018 or are not yet effective in the EU and have not been applied in preparing these consolidated financial statements. The Group does not plan to adopt any of these standards early. Those which may have significant potential effect to the Group are set out below:

IFRS 16 – Leases (replaces IAS 17, IFRIC 4, SIC-15, SIC-27). Effective for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted if the entity also applies IFRS 15. The new standard establishes principles for the recognition, measurement, presentation and disclosure of leases in a way that is different to the currently applied accounting treatment. For qualifying lease assets, upon lease commencement, a lessee has to recognise a right-of-use asset and a lease liability. The right-of-use asset is initially measured at the amount of the lease liability plus any initial direct costs. Subsequently the right-of-use asset is measured using a cost model, unless specific other conditions persists. A right-of-use asset is measured at cost less any accumulated depreciation and impairment. The lease liability is initially measured as a discounted value of payments agreed over the lease term. A discount rate which discounts future payments to estimated present value is applied. For lessors classification of lease as an operating lease or a finance lease remains unchanged; therefore, the Group as a lessor expects no direct impact from the new standard if it was early implemented as at the period end.

For the Group as a lessee the major class of current operating lease contracts which would qualify for right-of-use asset are rent agreements for branch network and certain other premises used for the Group's operating needs. Most of the contracts may be early terminated by the Group or lessor; some other contracts may be extended at discretion of the Group beyond their current term. The Group owns its headquarters building, which is leased by the Bank (among other tenants) from its subsidiary. As both parties are under common control the lease term may be extended or decreased at Management's choice. Most of the contracts may be early terminated by the Group, but this is mostly disregarded in the estimate as currently there is no such intention. Early termination clauses by lessor are similarly disregarded even though these are beyond the control of the Group; the reasoning is that no material part of these is expected to be early terminated by lessors as these are contracted at arm's length transactions. In estimating impact of IFRS 16 the Management has made a judgement that the Bank has committed to lease the headquarters building and other leases with early termination clause for a period equal to the planning horizon of the Group which is three years after the balance sheet date. The amount of right-of-use asset and corresponding lease liability which would be recognised if the new standard was early adopted as at the period end would be c.a. EUR 10.6 million for the Bank and EUR 3.6 million for the Group. Most of the qualifying lease contracts may be early terminated, but this is mostly disregarded in the estimate as currently there is no such intention.

IFRS 17 - Insurance Contracts. Effective for annual reporting periods beginning on or after 1 January 2021 with earlier application permitted as long as IFRS 9 and IFRS 15 are also applied. The upcoming standard combines current measurement of the future cash flows with the recognition of profit over the period that services are provided under the contract. Groups of insurance contracts have to be measured at a risk-adjusted present value of the future cash flows adjusted for adjusted for unearned profits or losses. Profit from a group of insurance contracts is recognised over the period the insurance cover is provided, and as the risk is released; loss from a group of contracts

is recognised immediately. The standard requires presenting insurance service results separately from insurance finance income or expenses and requires to make an accounting policy choice of whether to recognise all insurance finance income or expenses in profit or loss or to recognise some of that income or expenses in other comprehensive income. The Group is in the process of evaluating the potential effect of the new standard.

Those new standards, amendments to standards and interpretations which are not expected to have a significant potential effect to the Group are set out below:

Amendments to IFRS 4 – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts. Effective for annual periods beginning on or after 1 January 2021; to be applied prospectively. The amendments address concerns arising from implementing IFRS 9 before implementing the replacement standard that the IASB is developing for IFRS 4. The amendments introduce two optional solutions. One solution is a temporary exemption from IFRS 9, effectively deferring its application for some insurers. The other is an overlay approach to presentation to alleviate the volatility that may arise when applying IFRS 9 before the forthcoming insurance contracts standard.

Annual Improvements to IFRS
Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)
Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)
IFRIC 23 Uncertainty over Income Tax Treatments
Amendments to References to Conceptual Framework in IFRS Standards

The Group is in the process of evaluating the potential effect if any of other changes from these new standards and interpretations.

b) Basis of preparation

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union and relevant Financial and Capital Markets Commission's (FCMC) regulations on a going concern basis. The financial statements are prepared under the historical cost convention, except for assets measured at fair value through other comprehensive income, financial assets and financial liabilities measured at fair value through profit or loss and all derivative contracts, which have been measured at fair value.

Having reassessed the main risks, the Management considers it appropriate to adopt going concern basis of accounting in preparing these financial statements; there are no material uncertainties with regard to applying going concern basis of accounting. The Group's financial and capital position, business activities, its risk management objectives and policies and the major risks to which the Group is exposed to are disclosed in the Risk Management section of these financial statements. Liquidity risk management is particularly important in respect to the going concern convention, as a failure to have a sufficient funding to meet payment obligations due may result in an extraordinary borrowing at excessive cost, regulatory requirement breach, delays in day-to-day settlements activities or cause the Group to no longer be a going concern; for more details refer to Liquidity risk management section. Regulatory compliance, especially capital adequacy requirements, is also significant to the going concern of the Group. The Group conducts and plans the scale of its business in accordance with the available capital and in line with other regulatory requirements. For capital adequacy calculation as at period end, more information on the current and known forthcoming capital adequacy requirements refer to Capital management section. The Group has implemented a comprehensive liquidity risk management and capital planning framework besides policies and procedures for other risk.

The preparation of financial statements in conformity with IFRS as adopted by the EU requires 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 the Management's best knowledge of current events and actions, actual results ultimately may differ from those estimates. For more details refer to paragraph *ff)*.

c) 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, its Latvian subsidiaries, and the Group's presentation currency, is the official currency of the Republic of Latvia, Euro ("EUR"). The functional currency of majority of the Group's foreign subsidiaries is also Euro. The accompanying financial statements are presented in thousands of Euros (EUR 000's).

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 18 (*Investments in Subsidiaries*).

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, liabilities, 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.

e) Income and expense recognition

Income and revenue are recognised only, if the Group is likely to receive economic benefits associated with the transaction. 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. The Group presents the fee income from financial guarantees as part of fee and commission income. For loan commitments which are not expected to result in draw-down, the reservation fee is credited to the income statement on a straight-line basis over the commitment period. For a contract with a customer containing a financial instrument, the part that relates to financial instrument is measured and separated first and then to the residual part recognised appropriately as revenue from contracts with customers.

Revenue from contracts with customers, including account servicing fees, asset management fees, custody fees, and sales commissions are credited to the statement of income as the related services are performed and control over a service is transferred to a customer. Revenue from customers is recognised as fee and commission income or other income. Revenue may be recognised at a point in time or over the time. Over time revenue recognition is proportional to progress towards satisfying a performance obligation by transferring control of promised services to a customer. Revenue which does not qualify for recognition over time is recognised at a point in time when the service is rendered or product is sold. The Group has no material receivables and contract liabilities from contracts with customers as non-refundable up-front fees are not charged to customers upon commencement of contracts with customers.

The nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies for the major categories of commission income:

Cards, *payments and transactions* – ongoing fees for accounts servicing, cards and product packages are charged to the customer's on a monthly basis according to the price list; revenue is recognised over time as the services are provided. Transaction-based fees for payments, foreign currency transactions and similar are charged to the customer's when the transaction takes place and revenue is recognised at the point in time when the transaction takes place.

Asset management, custody and securities – fees are calculated based on a fixed percentage of the value of assets managed or held in custody and are deducted from the customer's account on a monthly basis. Upon commencement of the service an insignificant non-refundable initial fee may be charged as a compensation for client's screening, agreement and other services provided. Revenue from management and custody services is recognised over time as the services are provided.

Fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received. Penalty income is recognised on cash-received basis as often there is significant uncertainty about collectability.

f) Foreign currency translation

Transactions denominated in foreign currencies are recorded in Euros at the 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 non-monetary financial assets at fair value through other comprehensive income 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 functional currency at the official rate of exchange prevailing at the reporting date. 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.

g) Staff costs and related contributions

The Group recognises employee financial benefits when an employee has rendered services in exchange for these financial benefits.

The Group's personnel expenses relate mostly to short term benefits and related tax expense. The Group pays social security contributions to state pension insurance and to state-funded pension scheme in accordance with the relevant regulations. In most countries where the Group operates, a part of the social insurance contributions is used to fund

the state defined contribution pension system. The state-funded pension scheme is a defined contribution plan under which the Group 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 the state-funded pension scheme is not able to settle their liabilities to employees. The social security contributions are accrued in the period in which the associated services are rendered by the employees of the Group.

Citadele has a multi-year long-term incentive plan for its employees. Under the approved long-term incentive plan share options are granted. Settlement is in shares of Citadele. Each option grants eligibility to one ordinary share of Citadele and has an exercise price of null euros. Vesting dates are predetermined. For each participant individual performance conditions aligned with business plan and strategic objectives of Citadele apply. The Remuneration and Nomination Committee of the Supervisory Board is responsible for aligning, setting, and amending individual performance conditions. Granted options may be forfeited to the extent any of the performance conditions are not satisfied.

Expense for share-based remuneration is measured at fair value at the grant date. Share-based remuneration may be in a form of Citadele shares or conditional share options. The grant date is the date at which the entity and the participating employee agree to a share-based payment arrangement and an internal approval is obtained. The fair value is the estimated share price reduced by the present value of dividends that participants will not receive and value of other restricting terms of the compensation agreed. Expense for share-based remuneration is re-measured only if the compensation arrangement is modified so that the fair value after modification has increased compared to the fair value before modification. Such increase is recognised as compensation expense at the re-measurement date.

The expense is recognised on a straight line basis over the period of the remuneration program as intention is to receive services from employees over the whole period. For share options granted a corresponding increase in equity is recognised as other reserves. Estimates of actual or expected forfeitures are re-estimated at each reporting date and if necessary previously recognised other reserves are reversed to income statement. After deferral period, when vesting conditions are met and conditional share option exercised, previously recognised other reserves are transferred to issued share capital and share premium accounts.

h) Customer loyalty programmes

To reward and promote customers to actively use Group's products, the Group has implemented several customer loyalty programs. Loyalty point and similar incentives represent discounts that a customer can choose to use in the future to acquire additional goods or services. A portion of the transaction price is allocated to the material performance objective not yet fulfilled. All benefits awarded to customers are fully accrued at the moment the benefits are awarded. The amount allocated is based on the stand-alone price of the loyalty incentive. Revenue and related costs in the income statement are recognised when the entity has satisfied its performance obligations relating to the loyalty incentive or when the incentive expire or are cancelled.

i) Corporate income tax

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. Certain Group's companies pay income tax on profit distribution (e.g. dividends). Correspondingly, for these Group's companies, income tax on profit distribution is recognised as expense only 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 are reversed or the tax loss carry forwards are utilised. Deferred tax balance is measured at a tax rate which is applicable for undistributed profits until decision of profits distribution is made. Therefore, for jurisdictions where income tax is payable on profit distribution (e.g. dividends) any deferred tax liabilities or benefits are recognised at tax rate applicable to undistributed profits. 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 reporting 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 current circumstances.

j) Financial instruments classification and measurement

The Group recognises a financial asset on its balance sheet when, and only when, the Group becomes a party to the contract. Financial assets are classified as either subsequently measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss. The basis for classification is both business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. At acquisition the applicable classification is evaluated based on the guidelines established by the Group. For financial asset classification to a particular category, the Group at inception determines that the asset meets the relevant business model and contractual cash flow criteria. The business model is observable through the activities of the Group. It refers to how the Group typically manages its financial assets in order to generate cash flows; thus, the assessment is not performed on the basis of scenarios that the Group does not reasonably expect to occur. In a stress case, if cash flows are realised in a way that is different from the Group's expectations embedded in the business model, it does not give rise to a prior period error nor does it change the classification of the remaining financial assets held in that business model. However, for future acquisitions past cash flows are considered and may give rise to change in the business model.

At initial recognition, the financial assets or financial liabilities are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable incremental transaction costs. 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 de-recognition of an asset, on the day that it is transferred by the Group.

Financial assets and liabilities measured at amortised cost

For a financial asset to be measured at amortised cost it should both be held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and the contractual terms of the financial asset should give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at amortised cost are carried at amortised cost using the effective interest rate method, less any allowance for impairment. The impairment allowance for financial assets that are not-credit impaired (stage 1 and stage 2 classified) is measured as the present value of all cash shortfalls which is the difference between the cash flows due to the Group in accordance with contract and the cash flows that the Group expects to receive discounted at the effective interest rate of a financial asset. The impairment allowance for financial assets that are credit impaired at the reporting date (stage 3 classified) is measured as the difference between the gross carrying amount and the present value of estimated future cash flows discounted at the effective interest rate of the financial asset. For the purchased or originated credit-impaired financial assets the credit-adjusted effective interest rate is applied from initial recognition.

A gain or loss on a financial asset that is measured at amortised cost is recognised in profit or loss when the financial asset is derecognised, reclassified, through the amortisation process or in order to recognise impairment gains or losses. Financial assets at amortised cost are recognised on drawdown. From the date of signing a contractual agreement till drawdown, they are accounted for as off-balance sheet commitments.

Modification or renegotiation of contractual cash flows of a financial asset that does not result in de-recognition of that financial asset, requires the Group to recalculate the gross carrying amount of the financial asset and recognise a modification gain or loss in profit or loss. The gross carrying amount is recalculated as the present value of the renegotiated or modified contractual cash flows through the expected life of the asset that are discounted at the financial asset's original effective interest rate or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets. When estimating the expected cash flows, all contractual terms and payments are considered, except for the expected credit losses, unless the financial asset is a purchased or originated credit-impaired financial asset. Costs or fees incurred adjust the carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

When the financial asset or part of it cannot be recovered, it or the respective part is written-off and charged against impairment for credit losses. The Group makes the decision regarding any write-off of financial assets. Recoveries of previously written-off assets or parts of assets are credited to the statement of income.

The Group classifies all financial liabilities as subsequently measured at amortised cost using the effective interest rate method, except for derivatives and certain deposit components of the insurance plan liabilities which are measured at fair value through profit or loss. A gain or loss on a financial liability that is measured at amortised cost is recognised in profit or loss when the financial liability is derecognised and through the amortisation process.

Financial assets measured at fair value through other comprehensive income

For a financial asset to be measured at fair value through other comprehensive income it should both be held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and the contractual terms of the financial asset should give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The Group's financial assets measured at fair value through other comprehensive income 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.

Financial assets measured at fair value through other comprehensive income are subsequently re-measured at fair value based on available market prices. A revaluation gain or loss on a financial asset measured at fair value through other comprehensive income is recognised in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses, until the financial asset is derecognised or reclassified. 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 and is recognised in profit or loss; on derecognising the cumulative fair value revaluation gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss.

For non-equity financial instruments measured at fair value through other comprehensive income, the loss allowance is recognised in other comprehensive income and does not reduce the carrying amount in the balance sheet. Impairment gains or losses are recognised in profit or loss.

For equity instruments that are neither held for trading nor acquired in a business combination, the Group at initial recognition, has to make an irrevocable election to present subsequent changes in the fair value of each instrument in other comprehensive income or profit or loss. This election is made on an instrument-by-instrument basis. Amounts presented in other comprehensive income subsequently are not transferred to profit or loss, but cumulative gain or loss on disposal is transferred directly to retained earnings. Dividends on equity instruments classified at fair value through other comprehensive income are recognised in the statement of income. Such equity instruments are not tested for impairment, but carried at fair value.

Financial assets and liabilities measured at fair value through profit or loss

A financial asset is measured at fair value through profit or loss unless it is measured at amortised cost or at fair value through other comprehensive income. For equity instruments that would otherwise be measured at fair value through profit or loss an irrevocable election at initial recognition on instrument-by-instrument basis is made to present subsequent changes in fair value in other comprehensive income. Also a financial asset or liability, at initial recognition, may be irrevocably designated as measured at fair value through profit or loss if doing so eliminates or significantly reduces "accounting mismatch" that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases, or when a group of financial liabilities or a group of financial assets and financial liabilities are managed and its performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the management.

Excluding interest on interest rate swaps, interest on financial assets measured at fair value through profit or loss is included in net interest income. Revaluation and trading gains or losses arising from changes in fair value of financial assets or financial liabilities that are measured at fair value through profit or loss, as well as interest on interest rate swaps, are recognised directly in the statement of income as net financial income. Such financial assets and liabilities are subsequently re-measured at fair value based on available market prices or quotes of brokers.

Included in this category are (a) unit-linked investment contract liabilities and respective investments and (b) certain life insurance contract liabilities, which are managed and evaluated on a fair value basis, in accordance with a documented risk management or investment strategy. According to unit-linked investment contract terms, the credit risk associated with the investments made by the insurance underwriter is fully attributable to the counterparty entering into the insurance agreement and not the underwriter. As such, by designating both assets acquired and liabilities undertaken at fair value through profit or loss, a potential accounting mismatch is avoided.

Financial assets and liabilities which are held for trading are measured at fair value through profit or loss. Financial assets and liabilities are held for trading if they are either acquired in a business model which is characterised by generation of a profit from short-term fluctuations in price or dealer's margin, or a pattern of short-term profit taking exists.

Derivative Financial Instruments

In the ordinary course of business, the Group engages as a party to contracts for forward foreign exchange rate, currency and sometimes interest rate swap instruments and other derivative financial instruments. All derivatives are classified as measured at fair value through profit or loss.

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 as derivative assets and liabilities.

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.

k) 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 re-pledge 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.

l) De-recognition 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 contractual rights to receive cash flows from the financial 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 de-recognition 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 de-recognition 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.

Debt securities issued and other borrowed funds

The Group recognises financial liabilities on its balance on drawdown.

After an initial measurement, being a fair value minus directly attributable transaction costs, in the case of a financial liability not at fair value through profit or loss, 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 borrowing using the effective interest rate.

m) Fair values of financial assets and liabilities

Fair value is the price that would be received from the sale of 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 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. Furthermore, changes and movements in market conditions may affect accuracy of the fair value calculations so that the actual outcome of a transaction 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 results of the Group.

n) 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 over time period in-line with the lease term to produce a constant return on the net investments outstanding in respect of the finance leases. Finance lease receivables are presented as loans to public.

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 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. 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 tangible assets.

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 over the lease term and included into administrative expenses.

o) 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, an individual 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. When the terms of a financial asset are renegotiated or modified a de-recognition assessment is made. When modifications result in de-recognition of the existing financial asset, than the estimated fair value of the asset is treated as cash inflow from the existing financial asset and a new contract is recognised at fair value plus any eligible transaction costs. When modification results in de-recognition, a new loan is recognised and allocated to Stage 1, if not credit-impaired at that time. When modification or renegotiation of contractual cash flows of a financial asset does not result in de-recognition of financial asset, the Group recalculate the gross carrying amount of the financial asset and recognise a modification gain or loss in profit or loss. For discounting expected future cash flows the financial asset's original effective interest rate or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets is applied.

p) Impairment of loans to public and provisions for loan commitments, guarantees and letters of credit

The economic conditions of the markets the Group operates in may have an impact on the borrowers' ability to repay their debts. The Management of the Group considers both specific exposures and portfolio-level risks in determining the balance of impairment allowance for expected credit losses. The expected credit loss assessment is forward-looking and is based on unbiased and probability-weighted information about past events, current conditions and forecasts of future economic conditions. Impairment allowance for expected credit losses is recognised even if no credit loss event has happened. A loan or portfolio of loans to public is impaired and impairment losses are incurred if, and only if, there is objective evidence that the estimated present value of future cash flows is less than the current carrying value of the loan or portfolio of loans to public, and it can be reliably estimated.

Loss allowances for expected credit losses on loan commitments and financial guarantee contracts are recognised as provisions. The provisioning principles for expected losses arising from off-balance sheet financial commitments and contingent liabilities are consistent with the principles and methods applied for on-balance sheet exposures. Additional considerations are applied to adjustments for expected conversion and future use patterns of the committed limits as well as the Group's performance in timely identification and termination of limits for deteriorating exposures.

Expected credit losses are recognised based on the stage in which the exposure is allocated at the reporting date. 12-month expected credit losses are recognised for Stage 1 exposures, where credit risk has not increased since initial recognition. Lifetime expected credit losses are recognised for Stage 2 exposures whose credit risk has increased significantly since initial recognition and for Stage 3 exposures which are credit impaired. Days past due is one of the main quantitative indicators used to assess the 'significant increase in credit risk' (proxy for transferring exposures from Stage 1 to Stage 2) augmented by other additional risk factors (e.g. internal credit rating grade, restructuring, industry or market conditions). Significant increase in credit risk in comparison to the initial credit risk is the criteria for transfer to Stage 2. The 'default' is defined in line with the prudential definition of the default: exposure delayed for certain amount of days or more, significant restructuring and other unlikeliness to pay indicators. The 'default' is the criteria for a transfer to Stage 3. Exposure is no longer considered to have significantly increased credit risk (transfer from Stage 2 to Stage 1) or default (transfer from Stage 3 to Stage 2) when specific time period has passed (in some instances up to 2 years) since all risk increase or default factors are no longer observed. Significant modifications and restructurings are also within risk factors for which an extended monitoring period applies. The length of the monitoring period is proportionate to the significance of the risk factor observed and restructuring measures undertaken. The models are calibrated for transfer of exposures to lower stage to happen when a significant reduction in the risk of non-performance has been observed beforehand.

The Group first assesses whether objective evidence of impairment exists individually for loans to public that are individually significant, and individually or collectively for loans 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 with similar credit risk characteristics and collectively assesses them for impairment. As soon as information is available that specifically identifies losses on individually impaired loans included in a group of loans with similar credit risk characteristics, 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 collective measurement of expected credit losses, the Group has selected to use EAD x PD x LGD approach, where EAD stands for exposure at default, PD – probability of default, and LGD – loss given default. To estimate probability weighted cash flows, the Group uses single scenario expected cash flow method with overlays for alternative scenarios for macroeconomic factors. The major macroeconomic factors considered are real estate price, average salary, inflation rate and unemployment rate. PDs and LGDs are derived from historic performance of the loans to public. 'Point in time' probabilities (probability of default in the current economic conditions, as opposed to economic cycle-neutral 'through the cycle' probabilities of default as often used for regulatory purposes) are used for PDs. Correspondingly, estimated PDs are expected to change through the economic cycle. For measurement of expected credit loses financial instruments are grouped on the basis of shared credit risk characteristics. The grouping considers distinct characteristics in industry, product type, collateral type and geographical location of the borrower.

A loan is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a loan is credit-impaired includes observable data about the following events:

- significant financial difficulty of the borrower;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- granting to the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- the borrower entering bankruptcy or other financial reorganisation becomes highly probable;
- the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses;
- a combination of several other events that cause a loan to become credit-impaired.

For a loan that is credit-impaired at the reporting date, but that is not a purchased or originated credit-impaired financial asset, the expected credit losses are measured as the difference between the loan's gross carrying amount and the present value of estimated future cash flows discounted at the loan's original effective interest rate. Any adjustment is recognised as an impairment gain or loss. The assessment of whether lifetime expected credit losses should be recognised is based on significant increases in the likelihood (Stage 2) or risk of a default (Stage 3) occurring since initial recognition instead of on evidence of a financial asset being credit-impaired at the reporting date or an actual default occurring. In most cases, there will be a significant increase in credit risk before a financial asset becomes credit-impaired or an actual default occurs (Stage 3), thus default (Stage 3) and credit-impaired loan classification will be closely aligned and will indicate non-performance of the borrower or significance of forbearance measures undertaken, but classification will not necessarily equal in all cases.

For loans to public, 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, 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 contractual payment of interest or principal due, but the Group believes that impairment is not appropriate on the basis of the level of collateral available 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.

For purchased or originated credit-impaired financial assets, expected credit losses are discounted using the credit-adjusted effective interest rate determined at initial recognition. For purchased or originated credit-impaired financial assets only the cumulative changes in lifetime expected credit losses since initial recognition are recognised as a loss allowance. Favourable changes in lifetime expected credit losses are recognised as an impairment gain, even if the lifetime expected credit losses are less than the amount of expected credit losses that were included in the estimated cash flows on initial recognition.

Fully impaired loans to public, recovery of which may become economically unviable, may be 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 determined. When a loan or receivable is written-off, the claim against the borrower normally is not forgiven. Subsequent recoveries of amounts previously written-off are reported in the statement of income as recovered written-off assets within net credit losses on financial instruments.

q) Impairment of debt securities and loans to credit institutions and central banks

Similarly as for loans to public, the Group estimates expected credit losses to reflect changes in credit risk since initial recognition of debt securities, loans to credit institutions and central banks exposures and commitments to extend credit. Impairment provisioning requirements apply to financial assets at amortised cost, but do not apply to financial assets measured at fair value through profit or loss. For financial assets measured at fair value through other comprehensive income, the loss allowance is recognised in other comprehensive income and does not reduce the carrying amount in the balance sheet.

Impairment allowances are recognised based on forward looking information, even if no credit loss event has happened. The assessment considers broad range of information, but as most of these types of exposures are rated, it relies heavily on external credit ratings and rating agencies' reported default rates derived by calculating multi-period rating transition matrices. If unavailable for evaluation purposes, external credit ratings may be substituted by internally calculated credit quality levels. Credit risk triggers (event of insolvency, any delay of payments, restructuring of debt) and individual credit risk analysis of the issuer are also considered. The Group deems investment grade rated exposures as low credit risk, thus these are assumed no to have experienced a significant increase in credit risk. For non-investment grade exposures decrease in external credit rating by more than 3 notches since acquisition is deemed significant increase in credit risk. Expected credit losses are recognised based on the stage in which the exposure is allocated at the reporting date. 12-month expected credit losses are recognised for Stage 1 exposures, where credit risk since initial recognition has not increased significantly. Lifetime expected credit losses are recognised for Stage 2 exposures whose credit risk has increased significantly since initial recognition and Stage 3 exposures which are credit impaired. Stage 3 exposures, if any were identified, would additionally be subjected to comprehensive evaluation, including comparison to market valuations for similar exposures, analysis of market depth of the respective security, past trading performance and all other available information.

r) Tangible assets

Property and equipment initially is measured at acquisition cost or creation cost. After initial measurement property and equipment is carried at cost less any accumulated depreciation and any accumulated impairment losses. Property and equipment is periodically reviewed for impairment according to principles described in the paragraph *w) Impairment of non-financial assets*. If the recoverable value of an asset is lower than its carrying amount, the 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	14% - 20%
Other	14% - 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.

s) 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 separately acquired intangible assets doesn't include future payments of variable fees which are dependent on achievement of key performance indicators. Variable fees are capitalised into the cost of intangible asset when relevant key performance indicators are achieved and fees become payable and amortised over the estimated remaining useful life on a straight-line basis.

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. Annual amortisation rates applied on a straight-line basis to software and other intangible assets range from 10% to 33%. All intangible assets, except for goodwill, are with definite lives.

t) 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 costs 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 realisable 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.

u) Non-current 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-current 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 of tangible and intangible assets'. 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.

v) 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

w) Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (e.g. 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 cost generating units (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) 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 shown within deposits and borrowings from customers. 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.

y) Off-balance sheet financial commitments and contingent liabilities

In the ordinary course of business, the Group extends off-balance sheet financial commitments and contingent liabilities comprising commitments to issue loans to public, commitments for unutilised credit lines and credit card limits, as well as financial guarantees and commercial letters of credit.

Off-balance sheet commitments are recognised when the Group commits the limit to the client. Financial guarantees and letters of credit are recognised as contingent off-balance sheet liabilities when the Group is exposed to risk under the contract. Off-balance sheet items are recognised on-balance sheet on drawdown of commitment or for

guarantees and letters of credit, when these in rare cases become payable by the Group. Commitments generally have fixed expiration dates, or other termination clauses; in some cases, the Group may terminate these unilaterally. Since commitments may expire without being drawn down, the total committed amounts do not necessarily represent certain future cash outflows.

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 the paragraph *z)*.

z) 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.

Loss allowance for expected credit losses on loan commitments and financial guarantee contracts is recognised as provisions. For details on methodology of calculation, refer to section *p)* of the Note 3 (*Impairment of loans to public and provisions for loan commitments, guarantees and letters of credit*). In addition to considerations applicable to on-balance exposures, for expected credit loss assessment of off-balance sheet commitments a conversion and expected future use patterns, the Group's reaction time in identifying deteriorating exposures and a realistic past performance on timely termination of these limits is considered.

aa) Asset management

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 management are presented in financial statements only for disclosure purposes. Commission for asset management is recognised on accrual basis and generally is dependent on the volume of assets managed.

bb) 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 balances with central banks and other credit institutions with an insignificant risk of changes in value, less demand deposits due to credit institutions and central banks.

cc) Offsetting of assets and liabilities

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.

dd) Events after the reporting date

Post-period-end events that provide additional information about the Group's position at the reporting date (adjusting events) are reflected in the financial statements. Post-period-end events that are not adjusting events are disclosed in the notes if material.

ee) Changes in classification

In 2018 Citadele reviewed classification of annual and quarterly supervisory fees payable to Financial and Capital Market Commission, European Central Bank, Single Resolution Board and similar. These supervisory fees are directly dependent on the size of the banking business (mostly the amount of assets held); these fees are not dependant on administrative efficiency of the Group which is the main characteristic of administrative expense. As these supervisory fees relate to the Group's core business and not to the administration overheads the expenditure now is presented as fee and commission expense. Similarly expenditure for ATMs and POS terminals have been reclassified to fee and commission expense. Prior period comparatives have been adjusted accordingly.

Adjustments to comparatives due to changes in presentation

	2017 EUR 000's					
	Group			Bank		
	Restated	**Adjust-ment**	**Initial**	**Restated**	**Adjust-ment**	**Initial**
Fee and commission expense	(22,117)	(2,403)	(19,714)	(19,299)	(1,396)	(17,903)
Other operating expenses	(29,700)	2,403	(32,103)	(23,480)	1,396	(24,876)

ff) Use of estimates and judgements 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 judgements 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 losses for assets, and determination of the control of investees for consolidation purposes.

Impairment of loans to public

The Group regularly reviews its loans to public for assessment of impairment. The estimation of impairment losses is inherently uncertain and dependent upon many factors. Two distinct approaches are applied for expected credit loss estimation – individual evaluation, mostly applied to large exposures, and collectively estimated expected credit losses for homogeneous groups of mostly smaller exposures.

On an on-going basis expected credit losses are identified promptly as a result of large loan exposures being individually monitored. For these loan exposures expected credit 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 expected credit loses considering matters such as future economic conditions and the resulting trading performance of the borrower and the value of collateral. As a result, the individually assessed expected credit losses can be subject to variation as time progresses and the circumstances change or new information becomes available. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between expected credit loss estimates and actual credit loss experience.

Changes in net present value of estimated future cash flows by +/-5% for loans to public for which expected credit losses are individually assessed would result in EUR +/-0.3 million change in impairment allowance for the Bank (2017: EUR +/-0.3 million) and EUR +/-0.4 million for the Group (2017: EUR +/-0.3 million). Change in estimated value of collateral by +/-5% for loans to public for which expected credit losses are individually assessed would result in EUR +/-1.2 million change in impairment allowance for the Bank (2017: EUR +/-2.3 million) and EUR +/-1.4 million for the Group (2017: EUR +/-2.6 million).

For majority of the loans to public the Group collectively estimates impairment allowance to cover expected losses inherent in the loan portfolio. The collective impairment assessment is based on observable data derived from historic and applied to current loans to clients with similar credit risk characteristics. For this assessment loans to clients are segmented into homogeneous groups based on product type (mortgage, consumer loan etc.) and customer type (private individual, legal entity, public entity etc.). 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 major parameters of the collectively estimates expected credit loss calculation methodology are PD, LGD, EAD and staging outcome. The model also incorporates forward-looking macroeconomic information to arrive to point in time instead of over the cycle expected credit loss estimates. The future credit quality of the loan portfolio for which the expected credit losses are estimated collective is subject to uncertainties that could cause actual credit losses to differ from expected credit 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 all applied LGD rates by 500 basis points would result in change in collectively estimated impairment allowance and provisions by EUR +2.7/-3.0 million for the Bank and EUR +4.2/-4.5 million for the Group (2017: EUR +2.5/-2.7 million for the Bank and EUR +3.6/-3.9 million for the Group). Changes in the PD rates for not overdue category by 100 basis points would result in change in collectively estimated impairment allowance by EUR +2.8/-2.6 million for the Bank and EUR +3.6/-3.3 million for the Group (2017: EUR +/-2.8 million for the Bank and EUR +/-3.1 million for the Group) and provisions for off balance sheet commitments and guarantees by EUR +0.5/-0.4 million for the Bank and EUR +0.5/-0.5 million for the Group.

Impairment of securities not at fair value through profit or loss

The Group regularly conducts an impairment assessment for securities not at fair value through profit or loss. A number of principles are defined for classifying any exposure within impairment stages. Besides assessment based on credit rating issued by a qualifying external credit assessment institution, which is the major criterion, and other conventional impairment indicators (i.e. missed payment), the Group for Stage 3 exposures of securities assesses other factors such as prevailing credit spreads (estimation of spread of the respective security vs. spreads on securities rated Caa1 and below) and liquidity of the instrument (i.e. frequency of available quotes, traded volumes). For expected credit loss estimation qualifying external credit assessment institution historic LGD and PD rates are applied consistent to the assigned credit rating of the respective exposure.

The future credit quality of the securities is subject to uncertainties that could cause actual credit losses to differ from expected credit 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. A downgraded by one rating category (e.g. from Aaa to Aa1 in the Moody's scale) in credit rating issued by a qualifying external credit assessment institution for all securities not at fair value through profit or loss would result in increase in estimated impairment allowance by EUR 0.2 million for the Bank. For additional information on fair value assessment of fixed and non-fixed income securities refer to Note 29 (*Fair Values of Financial Assets and Liabilities*).

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 refer to Note 18 (*Investments in Subsidiaries*).

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 18 (*Investments in Subsidiaries*). For investments in securities which are not consolidated refer to Note 17 (*Equity Instruments and Other Financial Instruments*). In the ordinary course of business IPAS 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 funds should not be consolidated.

NOTE 4. INTEREST INCOME AND EXPENSE

	EUR 000's			
	2018 Group	**2017 Group**	**2018 Bank**	**2017 Bank**
Interest income calculated using the effective interest method:				
financial assets at amortised cost:				
loans to public	76,983	72,892	67,155	63,873
debt securities	3,738	-	2,912	-
cash balances at and lending to central banks and credit institutions	1,426	985	1,142	895
debt securities at fair value through other comprehensive income	6,703	-	3,312	-
debt securities available for sale	-	9,907	-	7,437
debt securities at fair value through profit or loss	-	1,581	-	-
debt securities held for trading	-	202	-	-
Interest income on finance leases (loans to public)	8,794	8,423	-	-
Total interest income	**97,644**	**93,990**	**74,521**	**72,205**
Interest expense on:				
financial liabilities at amortised cost:				
deposits and borrowing from public	(8,186)	(9,943)	(6,155)	(7,282)
debt securities issued	(3,635)	(2,644)	(3,635)	(2,644)
deposits from credit institutions and central banks	(2,249)	(4,340)	(2,458)	(4,372)
financial liabilities at fair value through profit or loss				
deposits and borrowing from public	(184)	(233)	-	-
other interest expense	(812)	(1,456)	(804)	(1,455)
Total interest expense	**(15,066)**	**(18,616)**	**(13,052)**	**(15,753)**
Net interest income	**82,578**	**75,374**	**61,469**	**56,452**

Deposits from credit institutions and central banks in 2018 include interest expense on subordinated borrowing in the amount of EUR 0.16 million (2017: EUR 1.57 million). Interest expense on deposits from credit institutions and central banks decreased substantially as part of subordinated borrowing was repaid at the beginning of 2017; the reminder was repaid at the beginning of 2018. On a contrary, a new tranche of debt securities (subordinated) were issued, thus increasing interest expense on debt securities issued.

Effective interest rate on some high quality liquid assets is negative, in particular certain central bank, central government and credit institution exposures. 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.

Other interest expense includes Financial Stability Fee and similar expense. The objective of the financial stability fee is to strengthen the whole financial system in order, if necessary, to finance government's measures which would decrease the negative impact of credit institutions having entered into financial difficulties on the other participants of the financial market, as well as to partially compensate past state involvement to stabilise the financial sector from which the banking sector as a whole gained a direct or indirect benefit. As such fees act as an instrument from which depositors in certain cases would benefit and, since the amount of fee is directly linked to the amount of liabilities, it is presented as interest expense.

	EUR 000's			
	2018 Group	2017 Group	2018 Bank	2017 Bank
Interest income recognised on credit impaired assets	8,719	4,321	8,467	4,071

The increase in the interest income recognised on credit impaired assets is driven by change in definition of credit impaired assets as a result of implementation of IFRS 9. When implementing IFRS 9 the Group has elected to broaden the definition of credit impaired financial assets to be aligned with stage 3 asset definition which among other include non-overdue, non-restructured assets under monitoring period. Previously only specifically impaired financial assets were considered credit impaired.

NOTE 5. FEE AND COMMISSION INCOME AND EXPENSE

	EUR 000's			
	2018 Group	2017 Group restated (*Note 3 ee*)	2018 Bank	2017 Bank restated (*Note 3 ee*)
Fee and commission income:				
cards	28,114	25,540	25,360	23,252
payments and transactions	17,971	16,371	12,861	11,732
asset management and custody	7,451	9,302	1,602	1,531
securities	723	829	547	598
other fees	1,655	2,933	1,068	2,158
Total fee and commission income from contracts with customers	**55,914**	**54,975**	**41,438**	**39,271**
Guarantees, letters of credit and loans	1,105	1,466	876	1,182
Total fee and commission income	**57,019**	**56,441**	**42,314**	**40,453**
Fee and commission expense on:				
cards	(19,395)	(17,441)	(17,185)	(15,247)
payments and transactions	(1,575)	(1,467)	(1,305)	(1,269)
supervisory fees	(1,411)	(911)	(1,239)	(754)
asset management and custody	(929)	(944)	(705)	(621)
other	(1,741)	(1,354)	(1,280)	(1,408)
Total fee and commission expense	**(25,051)**	**(22,117)**	**(21,714)**	**(19,299)**
Net fee and commission income	**31,968**	**34,324**	**20,600**	**21,154**

Annual and quarterly supervisory fees payable to Financial and Capital Market Commission, European Central Bank, Single Resolution Board and similar are directly dependent on the size of the banking business (mostly the amount of assets held) and thus are presented as other fee and commission expense.

NOTE 6. NET FINANCIAL INCOME

	EUR 000's			
	2018 Group	2017 Group	2018 Bank	2017 Bank
Foreign exchange trading and related derivatives	10,057	15,990	8,624	13,369
Disposal of assets at fair value through other comprehensive income	587	-	179	-
Modifications in cash flows which do not result in de-recognition	(22)	-	(22)	-
Disposal of assets available for sale	-	236	-	267
Assets and liabilities at fair value through profit or loss	(220)	(130)	-	-
Total net financial income	**10,402**	**16,096**	**8,781**	**13,636**

In 2018 net modification gain or loss recognised for loans to public for which the contractual cash flows have been modified during the reporting period while they had a loss allowance measured at an amount equal to lifetime expected credit losses (Stage 2 and Stage 3 classified) is EUR 33 thousand. The net carrying amount of loans to public that are Stage 3 classified as at 31 December 2018 that have been modified since initial recognition is EUR 12.7 million.

NOTE 7. NET OTHER INCOME

	EUR 000's			
	2018 Group	2017 Group	2018 Bank	2017 Bank
Dividend income	34	-	2,491	3,913
Net insurance result	486	182	-	-
Other income	2,579	4,099	2,426	4,266
Total net other income	**3,099**	**4,281**	**4,917**	**8,179**

Other income includes operating lease income, net result from disposal of repossessed collaterals and other miscellaneous items which may not be considered interest or fee and commission income.

NOTE 8. STAFF COSTS

Personnel costs include remuneration for work to the personnel, related social security contributions, bonuses and costs of other benefits. Other personnel expense includes health insurance, training, education and similar expenditure.

Part of the remuneration for the work is deferred up to the period of one year and subsequent pay-outs may be conditional. As at 31 December 2018 the Group and the Bank has a compulsory deferred remuneration commitment (including related social security and solidarity tax contributions) to its employees in the amount of EUR 706 thousand and EUR 464 thousand which will become payable in 2019 if certain conditions are met (2017: EUR 502 thousand and EUR 307 thousand, respectively).

In 2018 Citadele commenced a long-term incentive plan for its management. On 31 May 2018 under the approved long-term incentive plan 1,690 thousands of share options valued at EUR 2.9 millions were granted. Each option grants eligibility to one Citadele's ordinary share and has an exercise price of null euros. Vesting date for 507 thousands of the granted options expires in 36 months in 2021, for 592 thousands of the granted options in 48 months in 2022, and for 592 thousands of the granted options in 60 months in 2023. For each participant individual performance conditions aligned with Citadele's business plan and strategic objectives apply. The Remuneration and Nomination Committee of the Supervisory Board is responsible for aligning, setting, and amending performance conditions for each participant. Granted options may be forfeited to the extent any of the performance conditions are not satisfied. The expense is recognised as the service is rendered.

	EUR 000's			
	2018 Group	2017 Group	2018 Bank	2017 Bank
Remuneration:				
- management	3,977	2,883	2,229	1,142
- other personnel	38,734	34,744	29,226	25,464
Total remuneration for work	**42,711**	**37,627**	**31,455**	**26,606**
Social security and solidarity tax contributions:				
- management	799	528	530	261
- other personnel	9,541	8,468	7,200	6,314
Total social security and solidarity tax contributions	**10,340**	**8,996**	**7,730**	**6,575**
Other personnel expense	**915**	**1,244**	**839**	**1,108**
Total personnel expense	**53,966**	**47,867**	**40,024**	**34,289**
Number of full time equivalent employees at the period end	1,492	1,540	1,147	1,173

NOTE 9. OTHER OPERATING EXPENSES

	EUR 000's			
	2018 Group	2017 Group restated (*Note 3 ee*)	2018 Bank	2017 Bank restated (*Note 3 ee*)
Information technologies and communications	5,902	5,299	3,955	3,616
Consulting and other services	5,437	7,347	4,349	6,207
Rent, premises and real estate	4,689	4,505	5,664	5,430
Advertising and marketing	3,196	4,438	2,656	3,496
Non-refundable value added tax	3,137	3,562	2,412	2,603
Other	3,708	4,549	1,872	2,128
Total other expenses	**26,069**	**29,700**	**20,908**	**23,480**

Audit and other fees paid to the independent auditor company which has audited these financial statements are presented within other operating expenses. Tax services provided related to transfer pricing, other advisory services related to IFRS 9 gap identification, remuneration policies and similar.

Audit and other fees paid to the Group's independent audit company

	EUR 000's			
	2018 Group	2017 Group	2018 Bank	2017 Bank
Annual and interim audit fees	234	378	90	151
Other audit and similar fees	109	112	10	9
Tax advisory fees	6	3	6	2
Other advisory, training and similar fees	37	61	25	27

NOTE 10. NET CREDIT LOSSES

Total net impairment allowance charged to the income statement

	EUR 000's			
	2018 Group	2017 Group	2018 Bank	2017 Bank
Loans to credit institutions	(58)	-	(61)	-
Debt securities	116	-	81	-
Loans to public	(12,933)	(16,122)	(10,182)	(15,015)
Guarantees and letters of credit	129	(111)	125	(111)
Loan commitments	484	-	169	-
Recovered written-off assets	5,609	2,593	4,624	2,250
Total net losses on financial instruments	**(6,653)**	**(13,640)**	**(5,244)**	**(12,876)**

During the ordinary course of business the recoverability of some loans deteriorates while for others it improves. Fully impaired assets, recovery of which may become economically unviable or impossible, may be written-off. When a loan is fully or partially written-off, the claim against the borrower normally is not forgiven. Full and partial loan write-offs directly decrease specifically assessed accumulated impairment allowance. 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. The amounts written-off during the period represent the contractual amount less penalties (the Group has a policy to recognise penalties on cash basis) recognised for these contracts; the amount is still subject to enforcement activity.

Classification of impairment stages

Stage 1 – Financial instruments without significant increase in credit risk since initial recognition
Stage 2 – Financial instruments with significant increase in credit risk since initial recognition but not credit-impaired
Stage 3 – Credit-impaired financial instruments

Movements in the Group's allowances for credit losses and provisions

	EUR 000's						
	Opening balance as at 01/01/2018	Origination and acquisition	Derecognition and repayments	Change in credit risk, net	Write-offs	Other adjustments	Closing balance as at 31/12/2018
Allowances for credit losses and provisions for:							
Stage 1							
Loans to credit institutions	13	244	(184)	-	-	(12)	61
Debt securities	392	199	(216)	(7)	-	(16)	352
Loans to public	11,634	8,456	(6,069)	(1,551)	(29)	(47)	12,394
Loan commitments, guarantees and letters of credit	3,765	4,907	(6,020)	(553)	-	2	2,101
Total stage 1 credit losses and provisions	**15,804**	**13,806**	**(12,489)**	**(2,111)**	**(29)**	**(73)**	**14,908**
Stage 2							
Debt securities	28	-	(18)	-	-	-	10
Loans to public	10,137	3,584	(6,328)	83	(57)	(4)	7,415
Loan commitments, guarantees and letters of credit	231	411	(649)	418	-	-	411
Total stage 2 credit losses and provisions	**10,396**	**3,995**	**(6,995)**	**501**	**(57)**	**(4)**	**7,836**
Stage 3							
Loans to public	58,030	11,211	(5,463)	9,806	(26,759)	160	46,985
Loan commitments, guarantees and letters of credit	122	29	(179)	89	-	188	249
Total stage 3 credit losses and provisions	**58,152**	**11,240**	**(5,642)**	**9,895**	**(26,759)**	**348**	**47,234**
Total allowances for credit losses and provisions	**84,352**	**29,041**	**(25,126)**	**8,285**	**(26,845)**	**271**	**69,978**
Including for debt securities classified at fair value through other comprehensive income	*132*						*145*

Movements in the Bank's allowances for credit losses and provisions

	EUR 000's						
	Opening balance as at 01/01/2018	Origination and acquisition	Derecog-nition and repayments	Change in credit risk, net	Write-offs	Other adjust-ments	Closing balance as at 31/12/2018
Allowances for credit losses and provisions for:							
Stage 1							
Loans to credit institutions	1	244	(181)	-	-	(3)	61
Debt securities	254	139	(146)	-	-	(2)	245
Loans to public	9,316	7,478	(5,985)	(1,175)	-	-	9,634
Loan commitments, guarantees and letters of credit	3,452	4,806	(5,879)	(393)	-	(1)	1,985
Total stage 1 credit losses and provisions	**13,023**	**12,667**	**(12,191)**	**(1,568)**	**-**	**(6)**	**11,925**
Stage 2							
Debt securities	28	-	(18)	-	-	-	10
Loans to public	8,549	3,338	(6,186)	737	(3)	(2)	6,433
Loan commitments, guarantees and letters of credit	179	405	(604)	406	-	-	386
Total stage 2 credit losses and provisions	**8,756**	**3,743**	**(6,808)**	**1,143**	**(3)**	**(2)**	**6,829**
Stage 3							
Loans to public	52,012	12,034	(4,978)	6,005	(26,640)	75	38,508
Loan commitments, guarantees and letters of credit	56	28	(82)	90	-	154	246
Total stage 3 credit losses and provisions	**52,068**	**12,062**	**(5,060)**	**6,095**	**(26,640)**	**229**	**38,754**
Total allowances for credit losses and provisions	**73,847**	**28,472**	**(24,059)**	**5,670**	**(26,643)**	**221**	**57,508**
Including for debt securities classified at fair value through other comprehensive income	*51*						*68*

Changes in the allowances for credit losses for the year ended 31 December 2017

	EUR 000's					
	2017 Group			2017 Bank		
	Loans to public	Available for sale securities	Loans to credit institutions	Loans to public	Available for sale securities	Loans to credit institutions
Total impairment allowance at the beginning of the period:	**82,529**	**1,640**	**981**	**70,672**	**1,640**	**981**
- specifically assessed impairment	56,670	1,640	981	48,743	1,640	981
- collectively assessed impairment	25,859	-	-	21,929	-	-
Allowance charged to the statement of income, net:	**16,122**	**-**	**-**	**15,015**	**-**	**-**
- specifically assessed impairment	15,304	-	-	14,436	-	-
- collectively assessed impairment	818	-	-	579	-	-
Change of allowance due to write-offs	**(19,614)**	**-**	**(981)**	**(15,892)**	**-**	**(981)**
Effect of changes in currency exchange rates:	**(555)**	**(253)**	**-**	**(554)**	**(253)**	**-**
- specifically assessed impairment	(553)	-	-	(553)	-	-
- collectively assessed impairment	(2)	(253)	-	(1)	(253)	-
Total impairment allowance at the end of the period	**78,482**	**1,387**	**-**	**69,241**	**1,387**	**-**
- specifically assessed impairment	51,807	1,387	-	46,734	1,387	-
- collectively assessed impairment	26,675	-	-	22,507	-	-

IFRS 9 day-one implementation impact on 1 January 2018 on allowances for credit losses and provisions from application of ECL models

	EUR 000's					
	Group			Bank		
	According to IAS 39	Day-one impact	According to IFRS 9	According to IAS 39	Day-one impact	According to IFRS 9
Loans to credit institutions	-	13	13	-	1	1
Debt securities	-	420	420	-	282	282
Non-fixed income securities	1,387	(1,387)	-	1,387	(1,387)	-
Loans to public	78,482	1,319	79,801	69,241	636	69,877
Loan commitments, guarantees and letters of credit	-	4,118	4,118	-	3,687	3,687
Total allowances for credit losses and provisions (*Note 3 a*)	**79,869**	**4,483**	**84,352**	**70,628**	**3,219**	**73,847**

NOTE 11. IMPAIRMENT OF TANGIBLE, INTANGIBLE AND OTHER ASSETS

Changes in impairment allowances for tangible, intangible and other assets

	EUR 000's			
	2018 Group	2017 Group	2018 Bank	2017 Bank
Impairment allowance at the beginning of the period	**3,409**	**13,502**	**50,306**	**51,504**
Allowance charged to the statement of income, net	343	(9,107)	(6,763)	(655)
Change of allowance due to write-offs and foreign exchange retranslation	(988)	(986)	(1,415)	(543)
Impairment allowance at the end of the period	**2,764**	**3,409**	**42,128**	**50,306**

Decrease in the Group's impairment allowance for tangible and intangible assets in 2017 mostly is explained by reduction in impairment for the Citadele's headquarters building. Decrease in required yields and persistent positive tendencies in the rental office segment was the main factor in increased re-estimated fair value, based on which a reversal of impairment took place. Most of the Bank's impairment allowance as at period end and allowance change during the year relates to investments in subsidiaries; for details refer to Note 18 (*Investments in Subsidiaries*).

NOTE 12. TAXATION

Corporate income tax expense

	EUR 000's			
	2018 Group	2017 Group	2018 Bank	2017 Bank
Current corporate income tax	830	2,031	42	859
Deferred income tax	(876)	24,714	-	24,623
Total corporate income tax expense	**(46)**	**26,745**	**42**	**25,482**

In 2017 Latvian tax legislation was amended. The amendments to corporate income tax (CIT) regime became effective on 1 January 2018. Before 2018 CIT in Latvia was payable for financial year taxable profits and the taxable profits could be partially offset by tax loss carried forward from previous tax periods. Under the new tax regime CIT of 20% is deferred to when the profit is distributed, not when it is earned, and is calculated as 0.2/0.8 from net distributed dividend. Also some expenses and certain loans to related parties are treated like dividend for tax purposes (e.g. non-business expenses and representative expenses that exceed specific threshold, excess interest expenses). The deferred tax is calculated at tax rate which applies to undistributed earnings which in Latvia is 0%.

The CIT regime change entailed some transitional provisions. (1) The new CIT tax does not apply to dividend distribution from retained earnings generated under the previous tax regime (EUR 81.8 million for the Bank), and there is no expiry date for this distribution right; (2) 15% of unutilised tax losses generated under the previous tax regime can be credited against up to 50% of tax on dividend (expires on 31.12.2022).

The change in the tax regulation in Latvia has positively affected the Group's effective tax rate in 2018 versus 2017. Undistributed profits are treated favourably under the new Latvian tax regime. In the reporting period there was no tax payable on almost all income of the Bank. In 2017 one-off EUR 23.2 expense as a result of write-off of the previously recognised deferred tax assets was incurred. Deferred tax assets and tax expenses in the other jurisdictions where the Group operates remain unaffected by the changes in the Latvian tax regime.

Reconciliation of the pre-tax profit to the corporate income tax expense

	EUR 000's			
	2018 Group	**2017 Group**	**2018 Bank**	**2017 Bank**
Profit before corporate income tax	34,800	42,708	33,079	26,739
Corporate income tax (at 20% for 2018 and at 15% for 2017)	**6,960**	**6,406**	**6,616**	**4,011**
Undistributed earnings taxable on distribution	(5,527)	-	(6,574)	-
Effect of tax rates in foreign jurisdictions	(31)	39	-	-
Non-taxable income	(316)	(2,277)	-	(1,703)
Non-deductible expense	76	465	-	228
Write-off of deferred tax assets due to change in legislation	-	23,246	-	23,246
Other tax differences, net (incl. changes in unrecognised deferred tax asset)	(1,208)	(1,134)	-	(300)
Total effective corporate income tax	**(46)**	**26,745**	**42**	**25,482**

Income tax assets and liabilities

	EUR 000's			
	31/12/2018 Group	**31/12/2017 Group**	**31/12/2018 Bank**	**31/12/2017 Bank**
Deferred income tax assets	2,429	1,514	-	-
Current income tax assets	500	44	247	-
Tax assets	**2,929**	**1,558**	**247**	**-**
Deferred income tax liabilities	(42)	(111)	-	-
Current income tax liabilities	(768)	(1,582)	-	(832)
Tax liabilities	**(810)**	**(1,693)**	**-**	**(832)**

Change in net deferred corporate income tax asset / (liability)

	EUR 000's			
	2018 Group	**2017 Group**	**2018 Bank**	**2017 Bank**
As at the beginning of the period	1,403	26,165	-	24,685
Charge to statement of income	876	(24,714)	-	(24,623)
Charge to statement of comprehensive income	108	(48)	-	(62)
Net deferred income tax asset at the period end	**2,387**	**1,403**	**-**	**-**

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's level. The recognisable amount assessment is based on reasonably certain 3 year forecast of the respective subsidiary's ability to utilised tax losses. Most of the recognised deferred tax asset represents unutilised tax loss carry forward in Lithuania.

NOTE 13. CASH AND LENDING TO CENTRAL BANKS

	EUR 000's			
	31/12/2018 Group	**31/12/2017 Group**	**31/12/2018 Bank**	**31/12/2017 Bank**
Cash	45,399	53,385	41,697	48,198
Balances with the Bank of Latvia	86,507	419,609	86,507	419,609
Balances with other central banks	273,409	242,474	27,306	27,041
Total cash and balances with central banks	**405,315**	**715,468**	**155,510**	**494,848**

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 2018 and 2017 amounts due from central banks were not overdue.

NOTE 14. DEBT SECURITIES

Debt securities of the Group by profile of issuer and classification

	EUR 000's			
	31/12/2018			
	General government	Credit institutions	Corporate and other bonds	Total
At fair value through other comprehensive income	154,098	111,872	134,770	400,740
At amortised cost	334,028	118,402	136,060	588,490
Total debt securities	**488,126**	**230,274**	**270,830**	**989,230**

	EUR 000's			
	31/12/2017			
	General government	Credit institutions	Corporate and other bonds	Total
Held for trading	4,324	-	3,638	7,962
At fair value through profit or loss	22,587	43,905	55,014	121,506
Available for sale	452,083	183,549	214,413	850,045
Total debt securities	**478,994**	**227,454**	**273,065**	**979,513**

Debt securities of the Bank by profile of issuer and classification

	EUR 000's			
	31/12/2018			
	General government	Credit institutions	Corporate and other bonds	Total
At fair value through other comprehensive income	135,108	61,776	50,142	247,026
At amortised cost	319,559	107,628	104,798	531,985
Total debt securities	**454,667**	**169,404**	**154,940**	**779,011**

	EUR 000's			
	31/12/2017			
	General government	Credit institutions	Corporate and other bonds	Total
Available for sale	321,487	124,304	174,147	619,938
Total debt securities	**321,487**	**124,304**	**174,147**	**619,938**

Debt securities of the Group by country of issuer

	EUR 000's					
	31/12/2018			31/12/2017		
	Government bonds	Other securities	Total	Government bonds	Other securities	Total
Latvia	251,772	6,776	258,548	265,055	1,792	266,847
Lithuania	151,868	3,928	155,796	144,879	520	145,399
United States	10,425	81,788	92,213	12,566	78,238	90,804
Netherlands	12,892	81,948	94,840	-	84,275	84,275
Canada	5,112	37,408	42,520	2,227	34,472	36,699
Germany	12,714	23,201	35,915	7,233	26,034	33,267
United Kingdom	2,623	26,473	29,096	-	32,675	32,675
Multilateral development banks	-	42,243	42,243	-	43,604	43,604
Other countries*	40,720	197,339	238,059	45,623	200,320	245,943
Total debt securities	**488,126**	**501,104**	**989,230**	**477,583**	**501,930**	**979,513**

Debt securities of the Bank by country of issuer

	EUR 000's					
	31/12/2018			31/12/2017		
	Government bonds	Other securities	Total	Government bonds	Other securities	Total
Latvia	247,176	5,797	252,973	249,477	1,297	250,774
United States	8,672	37,980	46,652	8,385	41,692	50,077
Netherlands	9,130	58,885	68,015	-	49,027	49,027
Canada	2,149	27,673	29,822	2,227	16,152	18,379
Lithuania	150,929	2,874	153,803	39,512	-	39,512
Multilateral development banks	-	31,267	31,267	-	24,901	24,901
Other countries*	36,611	159,868	196,479	21,886	165,382	187,268
Total debt securities	**454,667**	**324,344**	**779,011**	**321,487**	**298,451**	**619,938**

* Largest Group's and Bank's exposure to a single country within this group as at the end of the reporting period is EUR 26,121 thousand and EUR 24,470 thousand respectively. For information on debt securities of the Group and the Bank by credit rating grade refer to the credit risk section of the Note 33 (*Risk Management*).

All fixed income securities as at 31 December 2018 and 31 December 2017 are listed. 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.

NOTE 15. LOANS TO PUBLIC

Loans of the Group by products

	EUR 000's					
	31/12/2018			31/12/2017		
	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	1,064,608	82,604	1,147,212	1,045,291	77,516	1,122,807
Credit lines and overdraft facilities	130,252	141,731	271,983	141,280	54,144	195,424
Debit balances on cards	70,914	112,863	183,777	57,960	91,810	149,770
Finance leases	180,254	-	180,254	154,999	-	154,999
Factoring	8,206	6,490	14,696	5,514	12,687	18,201
Due from investment counterparties	8,252	-	8,252	4,033	-	4,033
Total gross loans to public	**1,462,486**	**343,688**	**1,806,174**	**1,409,077**	**236,157**	**1,645,234**
Impairment allowance and provisions	(66,794)	(2,551)	(69,345)	(78,482)	-	(78,482)
Total net loans to public	**1,395,692**	**341,137**	**1,736,829**	**1,330,595**	**236,157**	**1,566,752**

Off-balance sheet credit exposure comprises various committed financing facilities to the borrowers.

Loans of the Bank by products

	EUR 000's					
	31/12/2018			31/12/2017		
	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	877,490	71,869	949,359	861,930	65,085	927,015
Credit lines and overdraft facilities	270,470	179,535	450,005	267,661	140,889	408,550
Debit balances on cards	66,659	103,905	170,564	53,351	81,481	134,832
Due from investment counterparties	8,072	-	8,072	3,489	-	3,489
Total gross loans to public	**1,222,691**	**355,309**	**1,578,000**	**1,186,431**	**287,455**	**1,473,886**
Impairment allowance and provisions	(54,575)	(2,408)	(56,983)	(69,241)	-	(69,241)
Total net loans to public	**1,168,116**	**352,901**	**1,521,017**	**1,117,190**	**287,455**	**1,404,645**

Loans by customer profile

	EUR 000's			
	31/12/2018 Group	31/12/2017 Group	31/12/2018 Bank	31/12/2017 Bank
Financial and non-financial corporations	818,699	832,884	731,536	759,262
Households	643,036	574,646	491,155	427,160
General government	751	1,547	-	9
Total gross loans to public	**1,462,486**	**1,409,077**	**1,222,691**	**1,186,431**
Impairment allowance	(66,794)	(78,482)	(54,575)	(69,241)
Total net loans to public	**1,395,692**	**1,330,595**	**1,168,116**	**1,117,190**

Gross loans other than to households by industry profile of the borrower

	EUR 000's			
	31/12/2018 Group	31/12/2017 Group	31/12/2018 Bank	31/12/2017 Bank
Real estate purchase and management	211,631	185,450	211,295	197,627
Transport and communications	137,788	126,646	66,661	73,432
Manufacturing	123,346	147,145	64,754	97,816
Trade	109,612	118,016	54,904	66,782
Agriculture and forestry	77,799	86,607	55,458	66,154
Construction	40,912	40,524	21,073	21,780
Financial intermediation	32,321	21,079	206,274	169,557
Electricity, gas and water supply	27,148	30,393	18,606	27,290
Hotels, restaurants	22,475	21,379	16,763	16,210
Other industries	36,418	57,192	15,748	22,623
Total gross loans to corporations and general government	**819,450**	**834,431**	**731,536**	**759,271**

As at 31 December 2018 and 31 December 2017, the Group and the Bank were in compliance with FCMC requirements on credit exposures with single group of connected parties.

Loans by overdue days and impairment stage

	Group, 31/12/2018 EUR 000's				
	Gross amount			Impairment allowance and provisions	Net carrying amount
	Stage 1	Stage 2	Stage 3		
Loans to public					
Not past due	1,087,871	194,983	74,788	(31,568)	1,326,074
Past due <= 30 days	33,523	7,312	5,722	(3,151)	43,406
Past due > 30 days ≤ 90 days	-	5,497	3,934	(2,625)	6,806
Past due > 90 days	-	-	48,856	(29,450)	19,406
Total loans to public	**1,121,394**	**207,792**	**133,300**	**(66,794)**	**1,395,692**
Guarantees and letters of credit	21,901	-	504	(211)	22,194
Financial commitments	320,222	23,185	281	(2,551)	341,137
Total credit exposure to public	**1,463,517**	**230,977**	**134,085**	**(69,556)**	**1,759,023**

	Bank, 31/12/2018 EUR 000's				
	Gross amount			Impairment allowance and provisions	Net carrying amount
	Stage 1	Stage 2	Stage 3		
Loans to public					
Not past due	940,103	166,872	54,488	(24,759)	1,136,704
Past due <= 30 days	7,268	5,572	2,713	(1,897)	13,656
Past due > 30 days ≤ 90 days	-	2,724	994	(1,592)	2,126
Past due > 90 days	-	-	41,957	(26,327)	15,630
Total loans to public	**947,371**	**175,168**	**100,152**	**(54,575)**	**1,168,116**
Guarantees and letters of credit	17,342	-	478	(208)	17,612
Financial commitments	333,473	21,588	248	(2,408)	352,901
Total credit exposure to public	**1,298,186**	**196,756**	**100,878**	**(57,191)**	**1,538,629**

	31/12/2017 EUR 000's					
	Group			Bank		
	Gross loans	Impairment allowance	Net carrying amount	Gross loans	Impairment allowance	Net carrying amount
Not past due – not impaired	1,256,756	-	1,256,756	1,062,156	-	1,062,156
Not past due – impaired	48,372	(18,948)	29,424	47,139	(16,916)	30,223
Total not past due loans	**1,305,128**	**(18,948)**	**1,286,180**	**1,109,295**	**(16,916)**	**1,092,379**
Past due loans - not impaired						
Delayed days:						
=< 29	26,151	-	26,151	12,401	-	12,401
30-59	7,825	-	7,825	3,488	-	3,488
60-89	1,953	-	1,953	1,298	-	1,298
90 and more	9,327	-	9,327	5,935	-	5,935
Total past due loans - not impaired	**45,256**	**-**	**45,256**	**23,122**	**-**	**23,122**
Past due loans – impaired						
Delayed days:						
=< 89	14,992	(7,152)	7,840	13,563	(6,412)	7,151
90 and more	43,701	(25,707)	17,994	40,451	(23,406)	17,045
Total past due loans – impaired	**58,693**	**(32,859)**	**25,834**	**54,014**	**(29,818)**	**24,196**
Total loans to public	**1,409,077**	**(51,807)**	**1,357,270**	**1,186,431**	**(46,734)**	**1,139,697**
Collective impairment allowance		(26,675)	(26,675)		(22,507)	(22,507)
Total net loans to public			**1,330,595**			**1,117,190**

All Group's loan portfolio exposures, which are not specifically impaired, are collectively evaluated for impairment, including those which are past due.

Stage 3 loans to public ratio and reconciliation to the legacy NPL ratio

	EUR 000's			
	31/12/2018 Group	31/12/2017 Group	31/12/2018 Bank	31/12/2017 Bank
Legacy non-performing loans ratio	**5.6%**	**8.3%**	**5.3%**	**9.0%**
Reconciling items to the legacy NPL ratio				
Effect of material covenant breaches (non-restructured)	*1.2%*		*0.7%*	
Significantly restructured loans, longer monitoring period and other factors	*2.3%*		*2.2%*	
Stage 3 loans to public ratio	**9.1%**		**8.2%**	

Stage 3 loans to public ratio is calculated as stage 3 loans to public divided by total gross loans to public as at the end of the relevant period. All loans overdue by more than 90 days are classified as stage 3. Non-overdue loans and loans overdue less than 90 days which have been restructured, an impairment loses have been identified based on individual assessment or financial condition of the borrower has deteriorated significantly are classified as stage 3. Part of the loans classified as stage 3 do not have any current default indicators, but are under monitoring period for a specific period before being reclassified out of stage 3. Loans under recovery are also classified as stage 3.

The outdated legacy 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.

NOTE 16. LEASES

Finance leases by type of assets financed

	EUR 000's			
	31/12/2018 Group	31/12/2017 Group	31/12/2018 Bank	31/12/2017 Bank
Transport vehicles	142,723	124,560	-	-
Manufacturing equipment	21,535	18,461	-	-
Real estate	3,216	3,788	-	-
Industrial, office and other equipment	12,780	8,190	-	-
Total present value of finance lease payments, excluding impairment	**180,254**	**154,999**	**-**	**-**
Impairment allowance	(4,063)	(4,015)	-	-
Net present value of finance lease payments	**176,191**	**150,984**	**-**	**-**

Reconciliation of the gross investment in the finance leases and the present value of minimum lease payments receivable

	EUR 000's			
	31/12/2018 Group	31/12/2017 Group	31/12/2018 Bank	31/12/2017 Bank
Gross investment in finance leases receivable:				
within 1 year	41,029	63,954	-	-
later than 1 year and no later than in 5 years	157,399	101,881	-	-
later than in 5 years	1,087	1,344	-	-
Total gross investment in finance leases	**199,515**	**167,179**	**-**	**-**
Unearned finance income receivable:				
within 1 year	(3,667)	5,865	-	-
later than 1 year and no later than in 5 years	(15,432)	5,956	-	-
later than in 5 years	(162)	359	-	-
Total	**(19,261)**	**12,180**	**-**	**-**
Present value of minimum lease payments receivable:				
within 1 year	37,362	58,089	-	-
later than 1 year and no later than in 5 years	141,967	95,925	-	-
later than in 5 years	925	985	-	-
Total	**180,254**	**154,999**	**-**	**-**

NOTE 17. EQUITY INSTRUMENTS AND OTHER FINANCIAL INSTRUMENTS

Shares and other non-fixed income securities of the Group by issuers profile and classification

	EUR 000's							
	31/12/2018				31/12/2017			
	Foreign equities	Latvian equities	Mutual investment funds	Total	Foreign equities	Latvian equities	Mutual investment funds	Total
Held for trading	-	-	-	-	-	-	5,812	5,812
Financial assets at fair value through profit or loss	-	-	28,068	28,068	-	-	24,973	24,973
Financial assets at fair value through other comprehensive income	2,777	124	6,078	8,979	-	-	-	-
Available for sale	-	-	-	-	2,320	124	6,372	8,816
Total non-fixed income securities, net	**2,777**	**124**	**34,146**	**37,047**	**2,320**	**124**	**37,157**	**39,601**

All exposures in mutual investment funds which are classified as financial assets designated at fair value through profit or loss are related to life insurance business, most of these with 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 2018 EUR 21,517 thousand (2017: EUR 24,973 thousand) of financial assets designated at fair value through profit or loss relate to unit-linked insurance plan.

Shares and other non-fixed income securities of the Bank by issuers profile and classification

	EUR 000's							
	31/12/2018				31/12/2017			
	Foreign equities	Latvian equities	Mutual investment funds	Total	Foreign equities	Latvian equities	Mutual investment funds	Total
Financial assets at fair value through other comprehensive income	2,751	124	6,078	8,953	-	-	-	-
Available for sale	-	-	-	-	2,304	124	6,371	8,799
Total non-fixed income securities, net	**2,751**	**124**	**6,078**	**8,953**	**2,304**	**124**	**6,371**	**8,799**

As at 31 December 2018 the Bank and Group has investments in mutual investment funds with carrying amount of EUR 6.1 million (2017: EUR 6.4 million) and EUR 20.1 million (2017: EUR 20.9 million) which are managed by IPAS CBL Asset Management or its subsidiaries. EUR 11.9 million (2017: EUR 12.7 million) of these Group's investments relate to unit-linked contracts where the risk associated with the investments made is fully attributable to the counterparty entering the insurance agreement and not the underwriter. These exposures have been acquired only with investment intentions.

NOTE 18. INVESTMENTS IN SUBSIDIARIES

Changes in investments in subsidiaries of the Bank

	EUR 000's	
	2018	**2017**
Balance at the beginning of the period, net	**64,725**	**61,884**
Acquisition of subsidiary	-	2,149
Sale or disposal of subsidiary	(39)	(441)
Impairment, net	6,928	1,133
Balance at the end of the period, net	**71,614**	**64,725**

The Lithuanian branch of AS Citadele banka was registered on 25 October 2018 with an intention to transform AB Citadele bankas (Lithuania) from subsidiary to branch. The decision was taken to ensure increased operational efficiency across the Group and allow Citadele to maximize its client offerings and service output across the Baltics. In 2019 all assets, liabilities and business were transferred from AB Citadele bankas (Lithuania) to the Lituanian branch of AS Citadele banka. In 2019 the Group continues to operate in Lithuania as the Lithuanian branch of AS Citadele banka.

With an objective to further simply Group's structure and enable efficiencies on 14 November 2018 several subsidiaries of the Bank were merged – SIA Hortus JU, SIA Hortus NI, SIA Hortus TC, SIA Hortus BR, and SIA Hortus Commercial were merged into SIA Hortus Residential. On 5 June 2018 a wholly owned subsidiary SIA Citadele Express Kredīts was liquidated. SIA Citadele Express Kredīts had no ongoing operations.

Impairment release of EUR 7.3 million relates to investment in the subsidiary AB Citadele bankas (Lithuania). The release is substantiated with the estimated value increasing restructuring efficiencies: lower capital use, optimised cost base and revenue growth from better Baltic-wide product offering. Other changes in impairment relate to reassessment of valuations of investments in SIA Citadeles moduļi and SIA Citadele Līzings un Faktorings which contribute EUR 0.3 million net increase in impairment.

As at 31 December 2018 total Bank's gross investment in subsidiaries is EUR 112,516 thousand (2017: EUR 113,388 thousand).

Direct and indirect investments of the Bank which are consolidated for accounting purposes

Company	Country of registration	Business profile	31/12/2018 Share capital EUR 000's	31/12/2018 The Group's share (%)	31/12/2018 % of total voting rights	31/12/2018 Owned by the Bank	31/12/2017 Share capital EUR 000's	31/12/2017 The Group's share (%)	31/12/2017 % of total voting rights	Carrying value EUR 000's 31/12/2018	Carrying value EUR 000's 31/12/2017
AB Citadele bankas	Lithuania	Banking	43,112	100	100	Directly	43,112	100	100	43,837	36,563
AP Anlage & Privatbank AG	Switzerland	Banking	8,874	100	100	Directly	8,546	100	100	13,805	13,805
SIA Citadele Līzings un Faktorings	Latvia	Leasing	19,351	100	100	Directly	19,351	100	100	4,325	4,061
OU Citadele Leasing & Factoring	Estonia	Leasing	500	100	100	Directly	500	100	100	445	445
UAB Citadele faktoringas ir lizingas	Lithuania	Leasing	434	100	100	Directly	434	100	100	2,149	2,149
IPAS CBL Asset Management	Latvia	Finance	5,905	100	100	Directly	5,905	100	100	5,906	5,906
AS CBL Atklātais Pensiju Fonds	Latvia	Pension fund	640	100	100	Directly	640	100	100	646	646
AAS CBL Life	Latvia	Life insurance	4,269	100	100	Indirectly	4,269	100	100	-	-
Calenia Investments Limited	Cyprus	Misc.*	2	100	100	Directly	2	100	100	-	-
OOO Mizush Asset Management Ukraina	Ukraine	Finance	835	100	100	Indirectly	643	100	100	-	-
SIA Citadele Express Kredīts **	Latvia	Leasing	-	-	-	-	45	100	100	-	38
SIA Citadeles moduļi	Latvia	Real estate rent and management	19,372	100	100	Directly	19,372	100	100	-	-
SIA RPG Interjers	Latvia	Misc.*	1,355	100	100	Indirectly	1,355	100	100	501	1,112
SIA Hortus Commercial **	Latvia	Misc.*	-	-	-	-	3	100	100	-	-
SIA Hortus Land	Latvia	Misc.*	3	100	100	Directly	3	100	100	-	-
SIA Hortus TC **	Latvia	Misc.*	-	-	-	-	428	100	100	-	-
SIA Hortus Residential	Latvia	Misc.*	1,042	100	100	Directly	203	100	100	-	-
SIA Hortus JU **	Latvia	Misc.*	-	-	-	-	3	100	100	-	-
SIA Hortus RE	Latvia	Misc.*	3	100	100	Directly	3	100	100	-	-
SIA Hortus BR **	Latvia	Misc.*	-	-	-	-	403	100	100	-	-
SIA Hortus NI **	Latvia	Misc.*	-	-	-	-	3	100	100	-	-
Total investments in subsidiaries										**71,614**	**64,725**

* Misc. – the companies are providing various support services. ** Group's entity disposed, liquidated or merged in the year ended 31 December 2018

Carrying value of investment in subsidiary SIA Citadeles moduļi 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 bankas (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 of 14.0% (2017: 14.0%), minimum target capital adequacy ratio and future profitability of the operations of the entity. Changing applied discount rate by +/-100 basis points, adjusting minimum target capital adequacy ratio by +/-100 basis points or fluctuation in forecasted profitability by +/-10% would not result in any accounting gain or loss as at 31 December 2018 (2017: EUR +2.9/-2.4 million, EUR +/-3.6 million, and EUR +/-3.8 million respectively).

Carrying value of investment in SIA Citadele Līzings un Faktorings (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 of 12.0% (2017: 12.0%), minimum target capital adequacy ratio and future profitability of the operations of the entity.

NOTE 19. TANGIBLE AND INTANGIBLE ASSETS

	EUR 000's			
	31/12/2018 Group	31/12/2017 Group	31/12/2018 Bank	31/12/2017 Bank
Land and buildings	44,232	46,397	881	876
IT and other equipment	3,694	3,961	3,237	3,599
Leasehold improvements	598	419	549	341
Transport vehicles	292	419	134	176
Prepayments for property and equipment	77	2	16	2
Total tangible assets	**48,893**	**51,198**	**4,817**	**4,994**
Software	4,242	2,508	4,039	2,314
Other intangible assets	177	122	164	99
Prepayments for intangible assets	449	1,536	448	1,464
Total intangible assets	**4,868**	**4,166**	**4,651**	**3,877**
Total tangible and intangible assets	**53,761**	**55,364**	**9,468**	**8,871**

Changes in tangible and intangible assets of the Group

	EUR 000's						
	Leasehold improvements	Land and buildings	Transport vehicles	IT and other equipment	Software	Other intangible assets	Total excluding prepayments
Historical cost							
As at 31 December 2016	**1,042**	**71,171**	**1,092**	**29,484**	**18,389**	**1,304**	**122,482**
Additions	1	77	66	1,836	927	46	2,953
Disposals	(383)	(449)	(246)	(2,488)	(150)	(9)	(3,725)
As at 31 December 2017	**660**	**70,799**	**912**	**28,832**	**19,166**	**1,341**	**121,710**
Additions	339	640	24	1,430	3,473	88	5,994
Disposals	-	(248)	(88)	(5,070)	(780)	(7)	(6,193)
As at 31 December 2018	**999**	**71,191**	**848**	**25,192**	**21,859**	**1,422**	**121,511**
Accumulated depreciation							
As at 31 December 2016	**455**	**21,943**	**442**	**25,269**	**15,257**	**976**	**64,342**
Charge for the year	152	2,200	186	1,460	1,242	27	5,267
Impairment release/(charge)	-	351	-	(2)	(5)	-	344
Reversal due to disposals	(366)	(92)	(180)	(2,372)	(40)	(9)	(3,059)
As at 31 December 2017	**241**	**24,402**	**448**	**24,355**	**16,454**	**994**	**66,894**
Charge for the year	160	2,561	141	1,590	1,732	32	6,216
Reversal due to disposals	-	(4)	(78)	(5,029)	(768)	(2)	(5,881)
As at 31 December 2018	**401**	**26,959**	**511**	**20,916**	**17,418**	**1,024**	**67,229**
Impairment allowance							
As at 31 December 2016	**-**	**(10,302)**	**(45)**	**(401)**	**(328)**	**(199)**	**(11,275)**
Net reversal and write-offs	-	10,302	-	(115)	124	(26)	10,285
As at 31 December 2017	**-**	**-**	**(45)**	**(516)**	**(204)**	**(225)**	**(990)**
Net reversal and write-offs	-	-	-	(66)	5	4	(57)
As at 31 December 2018	**-**	**-**	**(45)**	**(582)**	**(199)**	**(221)**	**(1,047)**
As at 31 December 2016	**587**	**38,926**	**605**	**3,814**	**2,804**	**129**	**46,865**
As at 31 December 2017	**419**	**46,397**	**419**	**3,961**	**2,508**	**122**	**53,826**
As at 31 December 2018	**598**	**44,232**	**292**	**3,694**	**4,242**	**177**	**53,235**

Impairment assessment of the Group's land and buildings is based on the value-in-use discounted cash flows model. The valuation is supported by both an external valuation and an internal model. Internally the value is determined as discounted expected future cash flow generated by the property adjusted for capital expenditure. Key assumptions are discount rate of 9.0% (2017: 9.0%), long term growth rate of 2.0% (2017: 2.0%) 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 -5.4 million and EUR +7.2 million respectively (2017: EUR -5.2 million and EUR +6.9 million). If net cash flows adjusted for capital expenses would change by +/-10% the carrying value of the property would change by EUR +/-4.5 million (2017: EUR +/-4.4 million). In 2017 land and buildings of the Group were re-evaluated and EUR 7.6 million impairment reversed; significant contributors to the increase in valuation were decreased market yields and increased rental income.

The Bank and the Group has recognised an externally generated intangible asset of EUR 1.6 million which relates to development services received from an unrelated party. The recognised cost of the intangible asset does not include probable future payments of variable fees in the amount of EUR 2.3 million which are dependent on achievement of key performance indicators in the future. Variable fees within intangible asset cost are recognised when relevant key performance indicators are achieved and fees become payable. Variable fees may or may not be payable being conditional on performance or discretional.

Changes in tangible and intangible assets of the Bank

	EUR 000's						
	Leasehold improvements	Land and buildings	Transport vehicles	IT and other equipment	Software	Other intangible assets	Total excluding prepayments
Historical cost							
As at 31 December 2016	**915**	**1,239**	**527**	**20,730**	**16,669**	**182**	**40,262**
Additions	-	-	67	1,549	868	21	2,505
Disposals	(382)	-	(100)	(2,273)	(7)	(9)	(2,771)
As at 31 December 2017	**533**	**1,239**	**494**	**20,006**	**17,530**	**194**	**39,996**
Additions	338	30	25	1,097	3,310	86	4,886
Disposals	-	-	(64)	(4,633)	(225)	-	(4,922)
As at 31 December 2018	**871**	**1,269**	**455**	**16,470**	**20,615**	**280**	**39,960**
Accumulated depreciation							
As at 31 December 2016	**435**	**338**	**338**	**17,346**	**13,977**	**88**	**32,522**
Charge for the year	123	25	78	1,333	1,117	16	2,692
Impairment release/(charge)	-	-	-	-	124	-	124
Reversal due to disposals	(366)	-	(98)	(2,272)	(2)	(9)	(2,747)
As at 31 December 2017	**192**	**363**	**318**	**16,407**	**15,216**	**95**	**32,591**
Charge for the year	130	25	67	1,447	1,585	21	3,275
Reversal due to disposals	-	-	(64)	(4,621)	(225)	-	(4,910)
As at 31 December 2018	**322**	**388**	**321**	**13,233**	**16,576**	**116**	**30,956**
Impairment allowance							
As at 31 December 2016	**-**	**-**	**-**	**-**	**(124)**	**-**	**(124)**
Net reversal and write-offs	-	-	-	-	**124**	-	124
As at 31 December 2017	**-**	**-**	**-**	**-**	**-**	**-**	**-**
As at 31 December 2018	**-**	**-**	**-**	**-**	**-**	**-**	**-**
As at 31 December 2016	**480**	**901**	**189**	**3,384**	**2,568**	**94**	**7,616**
As at 31 December 2017	**341**	**876**	**176**	**3,599**	**2,314**	**99**	**7,405**
As at 31 December 2018	**549**	**881**	**134**	**3,237**	**4,039**	**164**	**9,004**

NOTE 20. OTHER ASSETS

	EUR 000's			
	31/12/2018 Group	31/12/2017 Group	31/12/2018 Bank	31/12/2017 Bank
Money in transit	9,789	7,257	8,803	6,052
Inventories (repossessed assets)	9,203	7,213	3,357	15
Deposits with card payment system companies	7,379	11,691	7,379	11,691
Prepayments	2,887	3,674	1,865	2,131
Other assets	8,063	8,572	5,421	5,039
Total gross other assets	**37,321**	**38,407**	**26,825**	**24,928**
Impairment allowance	(1,717)	(2,420)	(1,226)	(1,643)
Total net other assets	**35,604**	**35,987**	**25,599**	**23,285**

As at 31 December 2018, carrying amount of unimpaired delayed other assets was EUR nil (2017: EUR nil). As at 31 December 2018, gross carrying amount of the impaired other assets (most are fully impaired with net carrying amount of zero), which mostly relate to debt collection expenditure, was EUR 1,717 thousand (2017: EUR 2,420 thousand) for the Group and EUR 1,226 thousand (2017: EUR 1,643 thousand) for the Bank.

From time to time the Group repossesses from its customers certain assets serving as collateral, when the customers cannot otherwise meet their payment obligations and other loan work-out measures have been unsuccessful. Collateral obtained is classified as inventories and are held for sale in near future. Total net carrying value of the collateral obtained during the reporting period and still held at the end of the reporting period is EUR 3.4 million. Other repossessed collaterals held at the end of the reporting period are from earlier periods.

NOTE 21. DEPOSITS AND BORROWINGS FROM CUSTOMERS

Deposits and borrowings by profile of the customer

	EUR 000's			
	31/12/2018 Group	31/12/2017 Group	31/12/2018 Bank	31/12/2017 Bank
Households	1,517,055	1,341,341	1,145,694	969,446
Non-financial corporations	967,640	1,323,070	666,398	935,683
Financial corporations	110,436	126,036	104,122	137,360
General government	43,750	45,571	18,428	23,599
Other	6,161	81,130	3,215	78,380
Total deposits from customers	**2,645,042**	**2,917,148**	**1,937,857**	**2,144,468**

Deposits and borrowings from customers by contractual maturity

	EUR 000's			
	31/12/2018 Group	31/12/2017 Group	31/12/2018 Bank	31/12/2017 Bank
Demand deposits	2,017,551	2,163,339	1,562,750	1,675,090
Term deposits:				
due within 1 month	62,979	165,505	34,738	100,046
due within 2-3 months	91,098	145,840	43,832	94,283
due within 4-6 months	89,446	100,099	45,396	55,314
due within 7-12 months	169,517	182,113	98,925	109,944
due within 2-5 years	145,619	144,202	88,734	101,194
due in more than 5 years	68,832	16,050	63,482	8,597
Total term deposits	627,491	753,809	375,107	469,378
Total deposits from customers	**2,645,042**	**2,917,148**	**1,937,857**	**2,144,468**

Deposits and borrowings from customers by categories

	EUR 000's			
	31/12/2018 Group	31/12/2017 Group	31/12/2018 Bank	31/12/2017 Bank
At amortised cost	2,611,050	2,879,998	1,937,857	2,144,468
At fair value through profit or loss	33,992	37,150	-	-
Total deposits from customers	**2,645,042**	**2,917,148**	**1,937,857**	**2,144,468**

All of the Group deposits from customers classified at fair value through profit or loss relate to the Group's life insurance business. It is the deposit component of the insurance plans.

Movement in the financial liabilities designed at fair value through profit or loss of the Group:

	EUR 000's			
	2018 Unit-linked	2018 Other	2017 Unit-linked	2017 Other
Balance as at the beginning of the period	**25,046**	**12,104**	**23,064**	**16,614**
Premiums received	2,777	3,845	4,908	4,205
Commissions and risk charges	(320)	(299)	(370)	(235)
Paid to policyholders	(4,878)	(3,443)	(3,131)	(8,545)
Trading	(1,269)	-	1,492	-
Other	3	168	8	76
Currency revaluation result	255	3	(925)	(11)
Balance as at the end of the period	**21,614**	**12,378**	**25,046**	**12,104**

All unit-linked insurance plan liabilities are covered by financial assets designated at fair value through profit or loss. 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.

In the year ended 31 December 2018 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 14 thousand in the statement of income (2017: EUR 166 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 not significant and, therefore, not further disclosed in detail in these financial statements.

NOTE 22. DEBT SECURITIES ISSUED

Publicly listed unsecured subordinated bond liabilities

ISIN code of the issued bond	Currency	Interest rate	Maturity date	Principal (EUR 000's)	Amortised cost (EUR 000's) 31/12/2018	Amortised cost (EUR 000's) 31/12/2017
LV0000880011	EUR	5.50%	24/11/2027	20,000	20,058	20,057
LV0000802221	EUR	6.25%	06/12/2026	40,000	39,952	39,924
					60,010	**59,981**

On 17 November 2017, Citadele completed EUR 20 million 10 year Tier 2 capital qualifying subordinated bonds issuance. These bonds were issued to further strengthen the Group's overall capital position, to facilitate the execution of the Bank's growth strategy across the Baltics and to repay the subordinated debt owed to the EBRD.

Profile of the bondholders as at the last coupon payment date

ISIN code of the issued bond	Last coupon payment date	Number of bondholders	Legal and professional investors			Private individuals		
			Number	EUR 000`s	%	Number	EUR 000`s	%
LV0000880011	24/11/2018	32	12	17,300	87%	20	2,700	14%
LV0000802221	06/12/2018	189	93	32,540	81%	96	7,460	19%

NOTE 23. OTHER LIABILITIES

	EUR 000's			
	31/12/2018 Group	31/12/2017 Group	31/12/2018 Bank	31/12/2017 Bank
Accrued expense	16,415	14,682	12,171	11,047
Insurance reserves	8,213	3,770	-	-
Suspense liabilities and money in transit	2,877	4,953	2,508	3,273
Deferred income	311	384	-	-
Other liabilities	9,670	12,667	6,327	3,853
Total other liabilities	**37,486**	**36,456**	**21,006**	**18,173**

Suspense liabilities comprise funds received by the Group and the Bank, but not yet transferred to ultimate beneficiaries due to unclear or incomplete details of the supporting documentation. Insurance liabilities mostly comprise estimated present value of future cash outflows from defined benefit annuity pension products sold to customers by AAS CBL Life. The annuity products are subject to terms, conditions and limitations. Estimated cash outflows are conditional to life longevity assumptions and defined benefit payment structure which in most cases comprises risk mitigating larger defined payments in the near future and substantially smaller defined payments further in the future. Expected undiscounted defined benefits payable in the next five years from the report date are EUR 6.8 million, in the years six to ten EUR 0.8 million and after that EUR 0.7 million.

NOTE 24. SHARE CAPITAL

As at 31 December 2018, the Bank's registered and paid-in share capital was EUR 156,555,796 (2017: EUR 156,555,796). The Bank has one class ordinary shares. All ordinary shares as at 31 December 2018 and 31 December 2017 were issued and fully paid and the Bank did not possess any of its own shares. No dividends were proposed and paid during the year ended 31 December 2018 and 31 December 2017. Each ordinary share carries one vote, a share in profits and is eligible for dividends.

Shareholders of the Bank

	31/12/2018		31/12/2017	
	Paid-in share capital (EUR)	Total shares with voting rights	Paid-in share capital (EUR)	Total shares with voting rights
European Bank for Reconstruction and Development	39,138,948	39,138,948	39,138,948	39,138,948
RA Citadele Holdings LLC[1]	35,082,302	35,082,302	35,082,302	35,082,302
Delan S.à.r.l.[2]	15,597,160	15,597,160	15,597,160	15,597,160
EMS LB LLC[3]	13,864,142	13,864,142	13,864,142	13,864,142
NNS Luxembourg Investments S.à.r.l.[4]	13,864,142	13,864,142	13,864,142	13,864,142
Amolino Holdings Inc.[5]	13,863,987	13,863,987	13,863,987	13,863,987
Shuco LLC[6]	10,998,979	10,998,979	10,998,979	10,998,979
Other shareholders	14,146,136	14,146,136	14,146,136	14,146,136
Total	**156,555,796**	**156,555,796**	**156,555,796**	**156,555,796**

[1] RA Citadele Holdings LLC (United States) is a wholly owned subsidiary of Ripplewood Advisors LLC and is beneficially owned by Mr Timothy Collins
[2] Delan S.à.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.à.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

All shares other than these owned by European Bank for Reconstruction and Development and RA Citadele Holdings LLC are owned by an international consortium of twelve investors.

Earnings per share

Basic earnings per share are calculated by dividing the net profit that is attributable to the ordinary shareholders by the weighted average number of the ordinary shares outstanding during the period. Diluted earnings per share are determined by adjusting the net profit that is attributable to the ordinary shareholders and the weighted-average number of the ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

	2018 Group	2017 Group	2018 Bank	2017 Bank
Profit for the year, EUR 000's	34,846	15,963	33,037	1,257
Weighted average number of the ordinary shares outstanding during the period in thousands	156,556	156,556	156,556	156,556
Basic earnings per share in EUR	**0.22**	**0.10**	**0.21**	**0.01**
Weighted average number of the ordinary shares (basic) outstanding during the period in thousands	156,556	156,556	156,556	156,556
Effect of share options in issue in thousands	85	-	85	-
Weighted average number of the ordinary shares (diluted) outstanding during the period in thousands	**156,641**	**156,556**	**156,641**	**156,556**
Profit for the year, EUR 000's	34,846	15,963	33,037	1,257
Weighted average number of the ordinary shares (diluted) outstanding during the period in thousands	156,641	156,556	156,641	156,556
Diluted earnings per share in EUR	**0.22**	**0.10**	**0.21**	**0.01**

The long-term incentive plan for management where 1,690 thousands of share options are granted over a five year period ending in 2023 has diluting effect on the earnings per share. Performance-based employee share options are treated as contingently issuable shares because their issue is contingent upon satisfying specific conditions in addition to the passage of time. Therefore, only the part for which the services under the approved long-term incentive plan have been received are treated as outstanding and included in the calculation of diluted earnings per share. For more information on the long-term incentive plan refer to Note 8 (*Staff Costs*).

NOTE 25. OFF-BALANCE SHEET ITEMS

Off-balance sheet items comprise contingent liabilities, financial commitments, notional amounts payable or receivable from transactions with foreign exchange contracts and other derivative financial instruments.

Contingent liabilities and financial commitments outstanding

	EUR 000's			
	31/12/2018 Group	**31/12/2017 Group**	**31/12/2018 Bank**	**31/12/2017 Bank**
Contingent liabilities:				
Outstanding guarantees	21,970	27,808	17,385	23,638
Outstanding letters of credit	435	1,614	435	1,614
Total contingent liabilities	**22,405**	**29,422**	**17,820**	**25,252**
Provisions for contingent liabilities	(211)	(234)	(208)	(234)
Maximum credit risk exposure for contingent liabilities	**22,194**	**29,188**	**17,612**	**25,018**
Financial commitments:				
Unutilised credit lines and overdraft facilities	141,731	54,144	179,535	140,889
Card commitments	112,863	91,810	103,905	81,481
Loans granted, not fully drawn down	82,604	77,516	71,869	65,085
Factoring commitments	6,490	12,687	-	-
Other commitments	428	-	-	-
Total financial commitments	**344,116**	**236,157**	**355,309**	**287,455**
Provisions for financial commitments	(2,551)	-	(2,408)	-
Maximum credit risk exposure for financial commitments	**341,565**	**236,157**	**352,901**	**287,455**

Lending commitments are a time limited and binding promise that a specified amount of loan or credit line will be made available to the specific borrower at a certain conditions. For part of the committed lending promises clients have to perform certain obligations before the balance committed becomes available to them. Some lending commitments and undrawn credit facilities may be cancelled unconditionally by the Group at any time without notice, or in accordance with lending terms and conditions may effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness.

Notional amounts and fair values of derivatives of the Group

	Notional amount EUR 000's		Fair value EUR 000's			
	31/12/2018	**31/12/2017**	**31/12/2018**		**31/12/2017**	
			Assets	**Liabilities**	**Assets**	**Liabilities**
Foreign exchange contracts:						
Swaps	184,680	768,617	611	(1,470)	2,406	(3,166)
Forwards	-	222	-	-	-	-
Total foreign exchange contracts	**184,680**	**768,839**	**611**	**(1,470)**	**2,406**	**(3,166)**
Derivatives	**184,680**	**768,839**	**611**	**(1,470)**	**2,406**	**(3,166)**

Notional amounts and fair values of derivatives of the Bank

	Notional amount EUR 000's		Fair value EUR 000's			
	31/12/2018	**31/12/2017**	**31/12/2018**		**31/12/2017**	
			Assets	**Liabilities**	**Assets**	**Liabilities**
Foreign exchange contracts:						
Swaps	207,483	799,506	614	(1,504)	2,481	(3,168)
Forwards	-	222	-	-	-	-
Total foreign exchange contracts	**207,483**	**799,728**	**614**	**(1,504)**	**2,481**	**(3,168)**
Derivatives	**207,483**	**799,728**	**614**	**(1,504)**	**2,481**	**(3,168)**

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 a private individual or a company, the Group's entities assess the counterparty's ability to meet the contractual provisions. As at 31 December 2018, more than 24% (2017: 32%) of the fair value of derivative assets on foreign exchange contracts is attributable to credit and finance institutions. As at 31 December 2018, none (2017: nil) of the payments receivable arising out of derivative transactions were past due.

NOTE 26. FUNDS UNDER TRUST MANAGEMENT

Fair value of funds managed on behalf of customers by investment type

	EUR 000's			
	31/12/2018 Group	31/12/2017 Group	31/12/2018 Bank	31/12/2017 Bank
Fixed income securities:				
Corporate bonds	98,321	68,968	-	-
Government bonds	66,831	138,574	-	-
Credit institution bonds	18,345	17,442	-	-
Other financial institution bonds	13,970	18,006	-	-
Total investments in fixed income securities	**197,467**	**242,990**	**-**	**-**
Other investments:				
Investment funds	336,017	341,766	-	-
Compensations for distribution on behalf of deposit guarantee fund	74,236	6,239	74,236	6,239
Deposits with credit institutions	43,714	43,427	997	-
Shares	26,593	27,634	-	-
Real estate	4,219	4,310	-	-
Loans	801	2,014	801	2,013
Other	103,006	77,059	-	-
Total other investments	**588,586**	**502,449**	**76,034**	**8,252**
Total assets under trust management agreements	**786,053**	**745,439**	**76,034**	**8,252**

Customer profile on whose behalf the funds are managed

	EUR 000's			
	31/12/2018 Group	31/12/2017 Group	31/12/2018 Bank	31/12/2017 Bank
Pension Plans	453,748	431,934	-	-
Insurance companies, investment and pension funds	118,926	119,294	-	-
Other companies and government	122,238	130,006	76,034	8,252
Private individuals	91,141	64,205	-	-
Total liabilities under trust management agreements	**786,053**	**745,439**	**76,034**	**8,252**

NOTE 27. FINANCIAL ASSETS PLEDGED

	EUR 000's			
	31/12/2018 Group	31/12/2017 Group	31/12/2018 Bank	31/12/2017 Bank
Loans to credit institutions	2,353	15,556	1,588	14,327
Debt securities	1,976	1,672	-	-
Loans to customers	1,120	2,363	940	1,818
Other assets	7,366	11,784	7,366	11,784
Total financial assets pledged	**12,815**	**31,375**	**9,894**	**27,929**
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 28. CASH AND CASH EQUIVALENTS

	EUR 000's			
	31/12/2018 Group	31/12/2017 Group	31/12/2018 Bank	31/12/2017 Bank
Cash and cash balances with central banks	405,315	715,468	155,510	494,848
Loans on demand to credit institutions	95,890	145,045	87,105	205,011
Demand deposits from central banks and credit institutions	(1,220)	(1,740)	(4,054)	(5,051)
Total cash and cash equivalents	**499,985**	**858,773**	**238,561**	**694,808**

NOTE 29. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the price that would be received for an asset sold 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 no active markets. Accordingly, fair value for these has been estimated using appropriate valuation techniques. The methods used to determine the fair value of balance sheet items are as follows:

Cash and balances at central banks

The fair value of cash and balances with central banks is their carrying amount as these balances may be withdrawn without notice.

Loans to credit institutions and deposits from 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.

The fair value of unlisted subordinated borrowing from EBRD as at 31 December 2017 is estimated as its carrying amount as an early repayment in February 2018 took place.

Loans to public

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 the reporting period and credit margins, which are adjusted for current market conditions. If all the Bank's assumed discount rates would change by 10%, the fair value of the loan portfolio would change by EUR 14.2 million (2017: EUR 13.3 million).

Debt securities

Debt securities classified as at fair value through profit or loss and at fair value through other comprehensive income are accounted at unadjusted quoted prices in active markets which is their fair value. Debt securities classified at amortised cost are not accounted at fair value; the disclosed fair value for these is their unadjusted quoted prices in active markets.

Equity instruments and other financial instruments at fair value

Investments in mutual investment funds (presented as other financial instruments at fair value) are valued using unadjusted quoted prices in active markets. Equity instruments 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.

Derivatives

Derivatives are valued using techniques based on observable market data.

Deposits and borrowings from customers

Deposits and borrowing from customers includes part which is carried at amortised cost and part which is carried at fair value. The entire portfolio of deposits and borrowing from customers which are carried at fair value are deposit part of the life insurance contracts.

The fair value of deposits and borrowings from customers 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 the period-end. If all the assumed discount rates would change by 10%, the fair value of the non-subordinated non-life insurance deposit portfolio would change by EUR 0.13 million (2017: EUR 0.16 million).

The fair value of unit-linked investment contract liabilities is their carrying amount which equals fair value of unit-linked insurance plan assets. The fair value of other life insurance deposits carried at fair value through profit or loss is calculated by discounting expected cash flows using current effective deposit rates. If the assumed discount rates would increase by 10%, the fair value of the portfolio would decrease by EUR 19 thousand (2017: EUR 20 thousand).

Debt securities issued

The fair value of publically listed unsecured subordinated bonds is estimated based on the quoted prices.

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.

Fair values of financial assets and liabilities of the Group on 31 December 2018

	Carrying value	Total fair value	Fair value hierarchy (where applicable)		
			Quoted market prices	Valuation technique - observable inputs	Valuation technique – non-market observable inputs
Debt securities	400,739	400,739	400,739	-	-
Equity instruments	2,901	2,901	-	-	2,901
Other financial instruments	34,146	34,146	34,146	-	-
Derivatives	611	611	-	611	-
Financial assets not measured at fair value:					
Cash and balances at central banks	405,315	405,315	-	-	-
Loans to credit institutions	131,902	131,902	-	-	-
Debt securities	588,491	587,697	587,697	-	-
Loans to public	1,395,692	1,394,055	-	-	1,394,055
Total assets	**2,959,797**	**2,957,366**	**1,022,582**	**611**	**1,396,956**
Derivatives	1,470	1,470	-	1,470	-
Deposits and borrowings from customers	33,992	33,992	21,614	-	12,378
Financial liabilities not measured at fair value:					
Deposits from credit institutions and central banks	7,277	7,277	-	-	-
Deposits and borrowings from customers	2,611,050	2,612,243	-	-	2,612,243
Debt securities issued	60,010	60,383	-	60,383	-
Total liabilities	**2,713,799**	**2,715,365**	**21,614**	**61,853**	**2624621**

Fair values of financial assets and liabilities of the Group on 31 December 2017

	Carrying value	Total fair value	Fair value hierarchy (where applicable)		
			Quoted market prices	Valuation technique - observable inputs	Valuation technique – non-market observable inputs
Debt securities	979,513	979,513	979,513	-	-
Equity instruments	2,444	2,444	-	-	2,444
Other financial instruments	37,157	37,157	37,157	-	-
Derivatives	2,406	2,406	-	2,406	-
Financial assets not measured at fair value:					
Cash and balances at central banks	715,468	715,468	-	-	-
Loans to credit institutions	151,276	151,276	-	-	-
Loans to public	1,330,595	1,331,527	-	-	1,331,527
Total assets	**3,218,859**	**3,219,791**	**1,016,670**	**2,406**	**1,333,971**
Derivatives	3,166	3,166	-	3,166	-
Deposits and borrowings from customers	37,150	37,150	25,046	-	12,104
Financial liabilities not measured at fair value:					
Deposits from credit institutions and central banks	23,536	23,536	-	19,019	-
Deposits and borrowings from customers	2,879,998	2,881,561	-	-	2,881,561
Debt securities issued	59,981	63,200	-	63,200	-
Total liabilities	**3,003,831**	**3,008,613**	**25,046**	**85,385**	**2,893,665**

Fair values of financial assets and liabilities of the Bank on 31 December 2018

			Fair value hierarchy (where applicable)		
	Carrying value	Total fair value	Quoted market prices	Valuation technique - observable inputs	Valuation technique – non-market observable inputs
Debt securities	247,025	247,025	247,025	-	-
Equity instruments	2,875	2,875	-	-	2,875
Other financial instruments	6,078	6,078	6,078	-	-
Derivatives	614	614	-	614	-
Financial assets not measured at fair value:					
Cash and balances at central banks	155,510	155,510	-	-	-
Loans to credit institutions	110,851	110,851	-	-	-
Debt securities	531,986	531,042	531,042	-	-
Loans to public	1,168,116	1,162,831	-	-	1,162,831
Total assets	**2,223,055**	**2,216,826**	**784,145**	**614**	**1,165,706**
Derivatives	1,504	1,504	-	1,504	-
Financial liabilities not measured at fair value:					
Deposits from credit institutions and central banks	39,170	39,170	-	-	-
Deposits and borrowings from customers	1,937,857	1,939,218	-	-	1,939,218
Debt securities issued	60,010	60,383	-	60,383	-
Total liabilities	**2,038,541**	**2,040,275**	**-**	**61,887**	**1,939,218**

Fair values of financial assets and liabilities of the Bank on 31 December 2017

			Fair value hierarchy (where applicable)		
	Carrying value	Total fair value	Quoted market prices	Valuation technique - observable inputs	Valuation technique – non-market observable inputs
Debt securities	619,938	619,938	619,938	-	-
Equity instruments	2,428	2,428	-	-	2,428
Other financial instruments	6,371	6,371	6,371	-	-
Derivatives	2,481	2,481	-	2,481	-
Financial assets not measured at fair value:					
Cash and balances at central banks	494,848	494,848	-	-	-
Loans to credit institutions	205,292	205,292	-	-	-
Loans to public	1,117,190	1,108,949	-	-	1,108,949
Total assets	**2,448,548**	**2,440,307**	**626,309**	**2,481**	**1,111,377**
Derivatives	3,168	3,168	-	3,168	-
Financial liabilities not measured at fair value:					
Deposits from credit institutions and central banks	78,578	78,578	-	19,019	-
Deposits and borrowings from customers	2,144,468	2,146,350	-	-	2,146,350
Debt securities issued	59,981	63,200	-	63,200	-
Total liabilities	**2,286,195**	**2,291,296**	**-**	**85,387**	**2,146,350**

Changes in fair value of securities at fair value through other comprehensive income categorised as Level 3

	EUR 000's			
	2018 Group	**2017 Group**	**2018 Bank**	**2017 Bank**
As at the beginning of the period, net	**2,444**	**1,964**	**2,428**	**1,947**
Other comprehensive income				
Revaluation gain in other comprehensive income	*457*	*480*	*447*	*481*
As at the end of the period, net	**2,901**	**2,444**	**2,875**	**2,428**

Fair value for equity instruments which fair value is calculated based on non-market observable inputs is categorised as Level 3 as these financial instruments are not listed on an exchange and there are insufficient recent observable transactions on the market. In 2017 these instruments were classified as available for sale.

NOTE 30. SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is the person or the group that allocates resources to and assesses the performance of the operating segments of the Group. The Management Board of the Bank is the chief operating decision maker.

Internal reporting of operating segments is continually evolving in line with strategic priorities, changing business objectives and developments in markets in which the Group operates. Recently the Management of the Group revised operating segments; including different allocation of the Groups operations among segments. These updates are thoroughly implemented in this segment disclosure; comparatives for prior period have been redone by applying the up to date principles, thus these reflect the current segment measurement approach and are comparable.

Main business segments of the Group are:

Private customers

Private individuals serviced in Latvia, Lithuania and Estonia. Operations of the segment include full banking and advisory services provided through branches, internet bank and mobile banking application.

Small business

Small and medium-sized companies in Latvia, Lithuania and Estonia serviced through branches, internet bank and mobile banking application.

Corporates

Large customers serviced in Latvia, Lithuania and Estonia. Yearly turnover of the customer is above EUR 7 million or total risk exposure with Citadele Group is above EUR 2 million or the customer needs complex financing solutions.

Wealth management

Private banking, advisory, investment and wealth management services provided to high net-worth individuals and their companies. This segment comprises operations of AP Anlage & Privatbank AG.

Wholesale & Financial institutions

Treasury and other related functions.

Other

Business support functions including results of the subsidiaries of the Group operating in non-financial sector.

Segments of the Group

	As at 31/12/2018 and for the year then ended EUR 000's						
	Reportable segments						
	Private customers	Small business	Corporates	Wealth manage-ment	Wholesale & Financial institutions	Other	Total
Income Statement							
Interest income	37,371	13,342	32,171	5,747	8,878	135	97,644
Interest expense	(3,805)	(715)	(1,785)	(2,552)	(6,200)	(9)	(15,066)
Net interest income	**33,566**	**12,627**	**30,386**	**3,195**	**2,678**	**126**	**82,578**
Fee and commission income	13,572	7,202	12,091	22,651	278	1,225	57,019
Fee and commission expense	(9,065)	(3,019)	(8,239)	(2,933)	(564)	(1,231)	(25,051)
Net fee and commission income	**4,507**	**4,183**	**3,852**	**19,718**	**(286)**	**(6)**	**31,968**
Net financial income	798	601	1,279	4,665	3,135	(76)	10,402
Net other income	144	305	(74)	598	45	2,081	3,099
Operating income	**39,015**	**17,716**	**35,443**	**28,176**	**5,572**	**2,125**	**128,047**
Assets							
Cash and cash balances at central banks	-	-	-	29,849	375,466	-	405,315
Loans to credit institutions	-	-	-	40,056	91,846	-	131,902
Debt securities	-	-	-	210,219	779,011	-	989,230
Loans to public	553,252	206,189	585,615	43,095	7,541	-	1,395,692
Equity instruments	-	-	-	-	2,901	-	2,901
Other financial instruments	-	-	-	28,068	6,078	-	34,146
Derivatives	2	-	3	466	140	-	611
Total segmented assets	**553,254**	**206,189**	**585,618**	**351,753**	**1,262,983**	**-**	**2,959,797**
Liabilities							
Deposits from credit institutions and central banks	-	-	-	1	7,276	-	7,277
Deposits and borrowings from customers	921,646	186,363	587,208	937,161	292	12,372	2,645,042
Debt securities issued	-	-	-	-	60,010	-	60,010
Derivatives	1	-	1	345	1,123	-	1,470
Total segmented liabilities	**921,647**	**186,363**	**587,209**	**937,507**	**68,701**	**12,372**	**2,713,799**

	As at 31/12/2017 and for the year then ended EUR 000's						
	Reportable segments						
	Private customers	Small business	Corporates	Wealth manage-ment	Wholesale & Financial institutions	Other	Total
Income Statement							
Interest income	33,647	12,743	32,185	5,229	10,129	57	93,990
Interest expense	(4,694)	(832)	(2,365)	(3,705)	(7,003)	(17)	(18,616)
Net interest income	**28,953**	**11,911**	**29,820**	**1,524**	**3,126**	**40**	**75,374**
Fee and commission income	13,480	5,798	11,116	24,829	261	957	56,441
Fee and commission expense	(8,440)	(2,283)	(6,445)	(3,105)	(570)	(1,274)	(22,117)
Net fee and commission income	**5,040**	**3,515**	**4,671**	**21,724**	**(309)**	**(317)**	**34,324**
Net financial income	760	456	1,114	6,307	7,576	(117)	16,096
Net other income	143	496	(206)	369	21	3,458	4,281
Operating income	**34,896**	**16,378**	**35,399**	**29,924**	**10,414**	**3,064**	**130,075**
Assets							
Cash and cash balances at central banks	-	-	-	138,746	576,722	-	715,468
Loans to credit institutions	-	-	-	46,088	105,188	-	151,276
Debt securities	-	-	-	164,249	815,264	-	979,513
Loans to public	484,669	185,834	616,368	42,089	1,635	-	1,330,595
Equity instruments	-	-	-	-	2,444	-	2,444
Other financial instruments	-	-	-	30,785	6,372	-	37,157
Derivatives	14	-	1	1,654	737	-	2,406
Total segmented assets	**484,683**	**185,834**	**616,369**	**423,611**	**1,508,362**	**-**	**3,218,859**
Liabilities							
Deposits from credit institutions and central banks	-	-	-	28	23,508	-	23,536
Deposits and borrowings from customers	818,549	151,409	515,074	1,385,538	4,100	42,478	2,917,148
Debt securities issued	-	-	-	-	59,981	-	59,981
Derivatives	7	-	122	1,295	1,742	-	3,166
Total segmented liabilities	**818,556**	**151,409**	**515,196**	**1,386,861**	**89,331**	**42,478**	**3,003,831**

NOTE 31. LITIGATIONS AND CLAIMS

In the ordinary course of business, the Bank and the 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 2018 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, 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 and the Bank and their related companies are stated in one line. All transactions with related parties were made on terms equivalent to those that prevail in arm's length transactions. Outstanding balances and terms of the Group's and the Bank's transactions in this note are shown with related parties which were related parties at that time.

Assets and liabilities from transactions with related parties

	EUR 000's			
	31/12/2018 Group	31/12/2017 Group	31/12/2018 Bank	31/12/2017 Bank
Credit exposures to related parties, net				
Loans to public and credit institutions				
- Management	125	92	56	44
- Consolidated subsidiaries	-	-	244,351	303,829
Investments in subsidiaries	-	-	71,614	64,725
Derivatives with subsidiaries	-	-	6	75
Other assets	-	-	169	312
Financial commitments and guarantees outstanding	308	128	47,060	100,744
Credit exposures to related parties, net	**433**	**220**	**363,256**	**469,729**
Liabilities to related parties				
Deposits and borrowings from customers and credit institutions				
- Management	794	960	419	543
- Consolidated subsidiaries	-	-	43,703	17,228
- Subordinated liabilities to the shareholder (EBRD)	-	19,019	-	19,019
Derivatives with subsidiaries	-	-	34	2
Other liabilities and provisions for expected credit losses	-	104	230	178
Liabilities to related parties	**794**	**20,083**	**44,386**	**36,970**

As at 31 December 2018 no assets with consolidated subsidiaries were credit impaired. The recognised expected credit losses on non-credit impaired loans from consolidated subsidiaries as at 31 December 2018 was EUR 625 thousand.

In the year ended 31 December 2018 EUR 379 thousand of impairment loss on credit impaired loans from consolidated subsidiaries (2017: release of EUR 49 thousand) and a release of EUR 107 thousand of expected credit losses on non-credit impaired loans from consolidated subsidiaries was recognised. The ultimate recoverability of the loans issued to these subsidiaries depends on the holding period and sales price of the properties in the portfolio. For information on investments in subsidiaries refer to Note 18 (*Investments in Subsidiaries*).

Operating income from transactions with related parties

	EUR 000's			
	2018 Group	**2017 Group**	**2018 Bank**	**2017 Bank**
Interest income				
- Management	6	4	4	3
- Consolidated subsidiaries	-	-	4,746	3,893
Interest expense				
- Management	(1)	(2)	-	-
- Subordinated liabilities to the shareholder (EBRD)	(161)	(1,548)	(161)	(1,548)
- Consolidated subsidiaries	-	-	(634)	(341)
Fee and commission income	6	4	443	1,652
Fee and commission expense	(3)	(3)	(109)	(583)
Net financial income	-	-	(593)	1,173
Dividends received from consolidated subsidiaries	-	-	2,457	3,913
All other income	-	-	1,992	2,108

For information on management's remuneration refer to Note 8 (*Staff Costs*). During the reporting period the Group's and the Bank's other administrative expense with related parties amounted to EUR 2.1 million and EUR 5.5 million, respectively (2017: EUR 2.3 million and EUR 5.7 million). This mostly relates to rent and utility fees paid to the Group's companies and Advisory Services Agreement fee. The Bank has entered into the Advisory Services Agreement with Ripplewood Advisors LLC, where Ripplewood is paid EUR 2.0 million per annum for the services provided to the Bank. These advisory services include business plan development, strategic analysis, capital allocation, risk advisory, operating efficiency, human resource management, and other services.

NOTE 33. RISK MANAGEMENT

Risk management polices

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

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

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

The main risks to which the Group is exposed are: credit risk, market risk, interest rate risk, liquidity risk, currency risk and operational risk. For each of these risks the Group has approved risk management policies and other internal regulations defining key risk management principles and processes, functions and responsibilities of units, risk concentration limits, as well as control and reporting system. The Group's risk management policies for each of the above mentioned risks are briefly summarised below.

Credit risk

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

Credit risk management is based on an adequate assessment of a credit risk and a proper decision-making in relation to such risk. In cases when significant risk is to be undertaken, the credit risk analysis is performed by independent units of the Risk Sector. The credit risk analysis consists of an assessment of customer's creditworthiness and collateral quality and liquidity. The analysis of a legal entity's creditworthiness includes an assessment of the industry in which it operates, as well as an analysis of its credit history and current and forecasted financial situation. The assessment of a private individual's creditworthiness consists of the analysis of

its credit history, income and debt-to-income ratio analysis, as well as an analysis of applicable social and demographic factors. In cases of material risks, lending decisions are taken by the Credit Committee and approved by the Bank's Management Board.

In relation to the acquisition of corporate bonds, the Group always analyses the business profile and financial performance of the issuer, taking into consideration the credit ratings assigned to it by international rating agencies, as well as market-based indicators. Sovereign bonds are assessed similarly, but with an emphasis on different fundamental factors, including the country's economic strength, institutional strength, financial strength of the government, political risks and other relevant factors.

After a loan is issued or a fixed income security is acquired, the customer's financial position and the issuers' risk indicators, such as credit rating changes, are monitored on a regular basis in order to timely identify potential credit quality deterioration. The loan monitoring process covers monitoring of financial results, financial position and cash flows of the borrower, loan repayment discipline and assessment of collateral quality.

The Group reviews its loan portfolio and securities portfolio on a regular basis to assess its structure, quality and concentration levels, as well as to evaluate portfolio trends and to control credit risk level. The Group takes measures for limiting credit risk concentration by diversifying the portfolio and setting credit risk concentration limits. To limit its credit risk, the Group has set the following concentration limits: individual counterparty and issuer limits, maximum exposure limit linked to a particular risk class of counterparty/issuer, limit for internally risk weighted exposures in a particular country/sector combination, limit for groups of mutually related customers, limit for large risk exposures, limit for transactions with the Group's related parties, industry limit, limit by customer type, loan product type, collateral type, intra-group transactions. Control of compliance with credit risk concentration limits, credit risk identification, monitoring and reporting is the responsibility of the Risk Sector.

In addition to the credit risk, which is inherent in the Group's loan portfolio and fixed income securities portfolio, the Group is also exposed to credit risk as a result of its banking relationships with multiple credit institutions which it maintains in order to process customer transactions in a prompt and efficient manner. The Group manages its exposure to commercial banks and brokerage companies by monitoring on a regular basis the credit ratings of such institutions, conducting due diligence of their credit profiles and monitoring the individual exposure limits applicable to counterparties set by the Financial Market and Counterparty Risk Committee (FMCRC). The Group's exposures to derivative counterparties arise from its activities in managing liquidity and credit risks through short term derivatives that do not expose it to material counterparty risk.

Loans by overdue days and product

	Group, 31/12/2018 EUR 000's						
	Regular loans	**Credit lines and overdrafts**	**Finance leases**	**Debit balances on cards**	**Factoring**	**Due from investment counter-parties**	**Total**
Not past due	999,061	122,929	159,158	64,180	4,062	8,252	1,357,642
Past due <= 30 days	20,564	654	18,760	2,446	4,133	-	46,557
Past due > 30 days ≤ 90 days	5,705	483	2,022	1,221	-	-	9,431
Past due > 90 days	39,278	6,186	314	3,067	11	-	48,856
Total loans to public, gross	**1,064,608**	**130,252**	**180,254**	**70,914**	**8,206**	**8,252**	**1,462,486**
Impairment allowance and provisions	(48,870)	(7,049)	(4,063)	(6,390)	(305)	(117)	(66,794)
Total loans to public, net	**1,015,738**	**123,203**	**176,191**	**64,524**	**7,901**	**8,135**	**1,395,692**

	Group, 31/12/2017 EUR 000's						
	Regular loans	**Credit lines and overdrafts**	**Finance leases**	**Debit balances on cards**	**Factoring**	**Due from investment counter-parties**	**Total**
Not delayed - not impaired	926,250	129,416	141,015	51,890	4,261	3,924	1,256,756
Not delayed - impaired	42,327	2,198	3,738	-	-	109	48,372
Total not delayed loans	**968,577**	**131,614**	**144,753**	**51,890**	**4,261**	**4,033**	**1,305,128**
Past due loans - not impaired							
Past due <= 29 days	16,493	110	6,641	1,691	1,216	-	26,151
Past due > 30 days ≤ 90 days	5,776	746	2,352	868	36	-	9,778
Past due > 90 days	6,987	2,168	172	-	-	-	9,327
Total past due loans - not impaired	**29,256**	**3,024**	**9,165**	**2,559**	**1,252**	**-**	**45,256**
Total past due loans - impaired	**47,458**	**6,642**	**1,081**	**3,511**	**1**	**-**	**58,693**
Total loans to public, gross	**1,045,291**	**141,280**	**154,999**	**57,960**	**5,514**	**4,033**	**1,409,077**
Impairment allowance	(60,490)	(7,542)	(4,015)	(6,224)	(94)	(117)	(78,482)
Total loans to public, net	**984,801**	**133,738**	**150,984**	**51,736**	**5,420**	**3,916**	**1,330,595**

	Bank, 31/12/2018 EUR 000's				
	Regular loans	Credit lines and overdrafts	Debit balances on cards	Due from investment counter-parties	Total
Not past due	827,564	264,918	60,909	8,072	1,161,463
Past due <= 30 days	13,423	367	1,763	-	15,553
Past due > 30 days ≤ 90 days	2,339	292	1,087	-	3,718
Past due > 90 days	34,164	4,893	2,900	-	41,957
Total loans to public, gross	**877,490**	**270,470**	**66,659**	**8,072**	**1,222,691**
Impairment allowance	(42,898)	(5,433)	(6,127)	(117)	(54,575)
Total loans to public, net	**834,592**	**265,037**	**60,532**	**7,955**	**1,168,116**

	Bank, 31/12/2017 EUR 000's				
	Regular loans	Credit lines and overdrafts	Debit balances on cards	Due from investment counter-parties	Total
Not delayed - not impaired	759,641	251,010	48,125	3,380	1,062,156
Not delayed - impaired	38,622	8,408	-	109	47,139
Total not delayed loans	**798,263**	**259,418**	**48,125**	**3,489**	**1,109,295**
Past due loans - not impaired					
Past due <= 29 days	11,225	78	1,098	-	12,401
Past due > 30 days ≤ 90 days	3,596	405	785		4,786
Past due > 90 days	4,471	1,464	-	-	5,935
Total past due loans - not impaired	**19,292**	**1,947**	**1,883**	**-**	**23,122**
Total past due loans - impaired	**44,375**	**6,296**	**3,343**	-	**54,014**
Total loans to public, gross	**861,930**	**267,661**	**53,351**	**3,489**	**1,186,431**
Impairment allowance	(56,026)	(7,057)	(6,041)	(117)	(69,241)
Total loans to public, net	**805,904**	**260,604**	**47,310**	**3,372**	**1,117,190**

Loan to value of loans to public

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							
	31/12/2018				31/12/2017			
	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	813,379	1,781,952	202,359	87,031	785,329	1,697,265	199,472	107,697
Credit lines and overdraft facilities	79,688	218,458	43,515	24,689	84,893	226,822	48,845	23,042
Finance leases	173,208	222,882	2,983	2,895	147,859	150,155	3,125	3,012
Debit balances on cards	165	286	64,359	11,821	222	1,062	51,514	1
Factoring	1,413	1,929	6,488	-	4,024	4,473	1,396	-
Other loans	-	-	8,135	-	529	950	3,387	-
Total net loans to public	**1,067,853**	**2,225,507**	**327,839**	**126,436**	**1,022,856**	**2,080,727**	**307,739**	**133,752**
Including Stage 3 classified exposures	65,018	160,152	21,297	16,193	n/a	n/a	n/a	n/a

	Bank, EUR 000's							
	31/12/2018				31/12/2017			
	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	640,997	1,313,900	150,881	68,611	604,122	1,230,868	157,203	91,734
Credit lines and overdraft facilities	47,826	107,159	35,087	22,651	63,092	145,280	39,998	21,786
Debit balances on cards	161	278	60,371	11,821	216	1,044	47,094	1
Other loans	-	-	7,955	-	529	950	2,843	-
Loans to subsidiaries	-	-	224,838	45,008	-	-	202,093	43,511
Total net loans to public	**688,984**	**1,421,337**	**479,132**	**148,091**	**667,959**	**1,378,142**	**449,231**	**157,032**
Including Stage 3 classified exposures	49,797	112,827	11,847	7,947	n/a	n/a	n/a	n/a

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. 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. Similarly consumer lending products, which are presented as regular loans, are unsecured and granted based on client's credit assessment. Finance leases are secured by the respective property leased out as are factoring balances, which in certain cases are insured instead. Insurance coverage is not considered collateral for purposes of this disclosure.

Debt securities of the Group by credit rating grade

	EUR 000's						
	31/12/2018			31/12/2017			
	At fair value through other comprehensive income	At amortised cost	Total	Held for trading	At fair value through profit or loss	Available for sale	Total
Investment grade:							
AAA/Aaa	75,606	68,214	143,820	-	28,519	104,972	133,491
AA/Aa	99,532	82,792	182,324	-	40,652	144,776	185,428
A	175,617	377,917	553,534	4,399	36,982	537,487	578,868
BBB/Baa	49,738	57,712	107,450	3,563	15,353	60,494	79,410
Other lower ratings	247	1,855	2,102	-	-	2,316	2,316
Total debt securities	**400,740**	**588,490**	**989,230**	**7,962**	**121,506**	**850,045**	**979,513**

Debt securities of the Bank by credit rating grade

	EUR 000's				
	31/12/2018			31/12/2017	
	At fair value through other comprehensive income	At amortised cost	Total	Available for sale	Total
Investment grade:					
AAA/Aaa	50,979	58,159	109,138	85,042	85,042
AA/Aa	51,884	70,603	122,487	94,675	94,675
A	134,989	358,678	493,667	396,120	396,120
BBB/Baa	9,174	42,691	51,865	42,265	42,265
Other lower ratings	-	1,854	1,854	1,836	1,836
Total debt securities	**247,026**	**531,985**	**779,011**	**619,938**	**619,938**

Loans to credit institutions by credit rating grade

	EUR 000's			
	31/12/2018 Group	31/12/2017 Group	31/12/2018 Bank	31/12/2017 Bank
Investment grade:				
AA/Aa	28,980	37,122	6,254	6,591
A	93,799	77,635	82,117	67,666
BBB/Baa	2,289	9,961	2,264	9,569
Other lower ratings	423	16,421	423	16,220
Not rated Baltic registered credit institutions	3,013	5,966	210	1,779
Citadele Group's banks	-	-	19,523	103,462
Other not rated credit institutions	3,398	4,171	60	5
Total loans to credit institutions, net	**131,902**	**151,276**	**110,851**	**205,292**

The above balances represent the maximum credit risk exposure to the Group and the Bank respectively. As at 31 December 2018 and 31 December 2017, none of the loans to credit institutions was past due.

Assets, liabilities and off-balance sheet items by geographical profile

	Group as at 31/12/2018, EUR 000's					
	Latvia	Lithuania	Estonia	Other EU countries	Other countries	Total
Assets						
Cash and cash balances at central banks	126,568	219,955	28,942	-	29,850	405,315
Loans to credit institutions	2,584	429	-	13,429	115,460	131,902
Debt securities	258,548	155,796	11,862	290,799	272,225	989,230
Loans to public	831,355	382,866	148,039	8,985	24,447	1,395,692
Equity instruments	124	-	-	130	2,647	2,901
Other financial instruments	20,095	-	-	13,770	281	34,146
Derivatives	428	-	-	116	67	611
Other assets	76,063	6,112	2,422	6,656	1,041	92,294
Total assets	**1,315,765**	**765,158**	**191,265**	**333,885**	**446,018**	**3,052,091**
Liabilities						
Deposits from credit institutions and central banks	6,381	512	-	93	291	7,277
Deposits and borrowings from customers	1,570,226	429,839	107,289	163,981	373,707	2,645,042
Debt securities issued	60,010	-	-	-	-	60,010
Derivatives	315	-	-	1,086	69	1,470
Other liabilities	34,383	4,422	763	9	1,915	41,492
Total liabilities	**1,671,315**	**434,773**	**108,052**	**165,169**	**375,982**	**2,755,291**
Off-balance sheet items						
Contingent liabilities	14,481	3,685	1,948	336	1,955	22,405
Financial commitments	306,853	29,705	6,375	160	1,023	344,116

For additional information on geographical distribution of securities exposures please refer to Note 14 (*Debt* Securities). EUR 29.8 million of Group's cash and deposit with central banks balances presented as "Other countries" is with Swiss National Bank (2017: EUR 138.7 million). From Group's balances due from credit institutions presented as "Other countries" EUR 37.1 million are with Swiss credit institutions (2017: EUR 42.9 million) and EUR 23.6 million with United States registered credit institutions (2017: EUR 9.2 million). Investments in mutual funds are not analysed by their ultimate issuer and are classified as other financial instruments.

	Group as at 31/12/2017, EUR 000's					
	Latvia	Lithuania	Estonia	Other EU countries	Other countries	Total
Assets						
Cash and cash balances at central banks	466,716	81,873	28,133	-	138,746	715,468
Loans to credit institutions	4,985	952	29	44,617	100,693	151,276
Debt securities	266,972	145,399	8,989	269,939	288,214	979,513
Loans to public	808,620	352,056	133,018	12,900	24,001	1,330,595
Equity instruments	124	-	-	152	2,168	2,444
Other financial instruments	20,926	-	-	15,929	302	37,157
Derivatives	626	-	-	1,671	109	2,406
Other assets	71,898	5,764	2,777	11,815	655	92,909
Total assets	**1,640,867**	**586,044**	**172,946**	**357,023**	**554,888**	**3,311,768**
Liabilities						
Deposits from credit institutions and central banks	3,034	1,450	-	19,018	34	23,536
Deposits and borrowings from customers	1,415,473	365,989	85,305	319,044	731,337	2,917,148
Debt securities issued	59,981	-	-	-	-	59,981
Derivatives	677	-	-	2,043	446	3,166
Other liabilities	25,486	10,742	715	86	2,013	39,042
Total liabilities	**1,504,651**	**378,181**	**86,020**	**340,191**	**733,830**	**3,042,873**
Off-balance sheet items						
Contingent liabilities	20,966	3,647	367	917	3,525	29,422
Financial commitments	182,963	38,985	11,842	161	2,206	236,157

	Bank as at 31/12/2018, EUR 000's					
	Latvia	Lithuania	Estonia	Other EU countries	Other countries	Total
Assets						
Cash and cash balances at central banks	126,568	-	28,942	-	-	155,510
Loans to credit institutions	152	58	-	11,187	99,454	110,851
Debt securities	252,973	153,802	10,385	181,191	180,660	779,011
Loans to public	872,629	118,762	144,504	8,286	23,935	1,168,116
Equity instruments	124	-	-	103	2,648	2,875
Other financial instruments	6,078	-	-	-	-	6,078
Derivatives	428	4	-	116	66	614
Other assets	37,394	45,988	2,325	6,656	14,565	106,928
Total assets	**1,296,346**	**318,614**	**186,156**	**207,539**	**321,328**	**2,329,983**
Liabilities						
Deposits from credit institutions and central banks	6,381	2,162	-	93	30,534	39,170
Deposits and borrowings from customers	1,544,700	18,164	107,424	71,200	196,369	1,937,857
Debt securities issued	60,010	-	-	-	-	60,010
Derivatives	315	34	-	1,086	69	1,504
Other liabilities	22,864	22	508	9	219	23,622
Total liabilities	**1,634,270**	**20,382**	**107,932**	**72,388**	**227,191**	**2,062,163**
Off-balance sheet items						
Contingent liabilities	14,460	-	1,948	1,412	-	17,820
Financial commitments	322,067	20,261	12,227	160	594	355,309

For additional information on geographical distribution of securities exposures please refer to Note 14 (*Debt* Securities). From Bank's balances due from credit institutions presented as "Other countries" EUR 21.1 million are with Swiss credit institutions (2017: EUR 104.1 million) and EUR 23.6 million with United States registered credit institutions (2017: EUR 8.8 million).

	Bank as at 31/12/2017, EUR 000's					
	Latvia	Lithuania	Estonia	Other EU countries	Other countries	Total
Assets						
Cash and cash balances at central banks	466,715	-	28,133	-	-	494,848
Loans to credit institutions	1,765	106	-	42,265	161,156	205,292
Debt securities	250,774	39,512	7,869	140,445	181,338	619,938
Loans to public	856,082	97,274	130,775	10,724	22,335	1,117,190
Equity instruments	125	-	-	135	2,168	2,428
Other financial instruments	6,371	-	-	-	-	6,371
Derivatives	625	36	-	1,671	149	2,481
Other assets	30,190	38,713	2,303	11,810	13,865	96,881
Total assets	**1,612,647**	**175,641**	**169,080**	**207,050**	**381,011**	**2,545,429**
Liabilities						
Deposits from credit institutions and central banks	3,034	24,172	-	19,018	32,354	78,578
Deposits and borrowings from customers	1,392,257	5,010	86,640	178,901	481,660	2,144,468
Debt securities issued	59,981	-	-	-	-	59,981
Derivatives	677	-	-	2,043	448	3,168
Other liabilities	18,776	23	380	84	76	19,339
Total liabilities	**1,474,725**	**29,205**	**87,020**	**200,046**	**514,538**	**2,305,534**
Off-balance sheet items						
Contingent liabilities	20,945	966	367	125	2,849	25,252
Financial commitments	217,503	36,853	31,148	160	1,791	287,455

Market risk

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

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

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

Interest rate risk

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

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

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

The following table represents the impact of a parallel change in yield curve by 100 basis points on the Group's and the Bank's profit before tax (over 12-month period) and revaluation reserve in equity arising from securities accounted at fair value. Scenarios incorporate zero floor interest rate if such a condition exists in the loan agreement. Customer deposit rates are assumed to be constrained by a zero lower bound. Group's figures are estimated from entities that bear significant interest rate risk: AS Citadele banka, Ab Citadele (bankas), AP Anlage & Privatbank AG.

	EUR 000's			
Scenario: +100 basis points	**31/12/2018 Group**	**31/12/2017 Group**	**31/12/2018 Bank**	**31/12/2017 Bank**
Total for all currencies				
Profit / (loss) before taxation	13,380	16,187	9,663	13,311
Securities fair value revaluation reserve	(5,573)	(13,900)	(4,000)	(8,968)
EUR only				
Profit / (loss) before taxation	11,997	12,385	9,011	10,777
Securities fair value revaluation reserve	(3,724)	(7,557)	(2,462)	(3,921)
USD only				
Profit / (loss) before taxation	725	2,577	362	1,988
Securities fair value revaluation reserve	(1,823)	(6,134)	(1,526)	(4,987)
Scenario: -100 basis points				
Total for all currencies				
Profit / (loss) before taxation	(6,079)	(8,839)	(4,309)	(7,185)
Securities fair value revaluation reserve	5,746	14,285	4,173	9,353
EUR only				
Profit / (loss) before taxation	(4,633)	(5,375)	(3,336)	(4,995)
Securities fair value revaluation reserve	3,859	7,693	2,597	4,057
USD only				
Profit / (loss) before taxation	(956)	(2,308)	(585)	(1,709)
Securities fair value revaluation reserve	1,861	6,380	1,563	5,233

Currency risk

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

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

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

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

In the event of exchange rates for the following currencies in which the Group and the Bank has net 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					
	31/12/2018			**31/12/2017**		
Scenario:	**USD**	**CHF**	**Other currencies**	**USD**	**CHF**	**Other currencies**
2% adverse change	14	159	32	69	98	53
5% adverse change	36	396	80	174	246	133

	Bank EUR 000's					
	31/12/2018			31/12/2017		
Scenario:	USD	CHF	Other currencies	USD	CHF	Other currencies
2% adverse change	8	1	26	36	1	8
5% adverse change	20	3	64	90	1	20

Assets, liabilities and off-balance sheet items by currency profile

	Group as at 31/12/2018, EUR 000's					
	EUR	USD	CHF	GBP	Other	Total
Assets						
Cash and cash balances at central banks	369,673	2,614	30,044	948	2,036	405,315
Loans to credit institutions	18,636	40,387	7,256	1,644	63,979	131,902
Debt securities	623,024	338,645	11,891	5,623	10,047	989,230
Loans to public	1,372,144	22,258	-	1,056	234	1,395,692
Equity instruments	254	2,647	-	-	-	2,901
Other financial instruments	27,754	6,100	-	291	1	34,146
Derivatives	561	9	-	21	20	611
Other assets	85,373	5,700	258	157	806	92,294
Total assets	**2,497,419**	**418,360**	**49,449**	**9,740**	**77,123**	**3,052,091**
Liabilities						
Deposits from credit institutions and central banks	1,404	160	-	-	5,713	7,277
Deposits and borrowings from customers	2,147,988	426,948	9,757	21,730	38,619	2,645,042
Debt securities issued	60,010	-	-	-	-	60,010
Derivatives	1,406	42	-	10	12	1,470
Other liabilities	37,625	1,796	1,668	243	160	41,492
Total liabilities	**2,248,433**	**428,946**	**11,425**	**21,983**	**44,504**	**2,755,291**
Equity	298,419	(112)	-	(7)	(1,500)	296,800
Total liabilities and equity	**2,546,852**	**428,834**	**11,425**	**21,976**	**43,004**	**3,052,091**
Net long/ (short) position for balance sheet items	(49,433)	(10,474)	38,024	(12,236)	34,119	-
Net long/ (short) positions on off-balance sheet foreign exchange contracts	*38,402*	*11,187*	*(30,099)*	*12,566*	*(32,845)*	*(789)*
Net long/ (short) total position	**(11,031)**	**713**	**7,925**	**330**	**1,274**	**(789)**

	Group as at 31/12/2017, EUR 000's					
	EUR	USD	CHF	RUB	Other	Total
Assets						
Cash and cash balances at central banks	570,546	2,718	138,926	121	3,157	715,468
Loans to credit institutions	16,399	56,024	6,161	15,245	57,447	151,276
Debt securities	529,591	434,353	4,160	-	11,409	979,513
Loans to public	1,305,656	24,634	-	163	142	1,330,595
Equity instruments	276	2,168	-	-	-	2,444
Other financial instruments	28,106	6,644	-	-	2,407	37,157
Derivatives	2,406	-	-	-	-	2,406
Other assets	81,211	10,761	510	54	373	92,909
Total assets	**2,534,191**	**537,302**	**149,757**	**15,583**	**74,935**	**3,311,768**
Liabilities						
Deposits from credit institutions and central banks	22,208	1,328	-	-	-	23,536
Deposits and borrowings from customers	2,073,913	746,236	12,087	22,879	62,033	2,917,148
Debt securities issued	59,981	-	-	-	-	59,981
Derivatives	3,166	-	-	-	-	3,166
Other liabilities	34,472	2,463	1,764	224	119	39,042
Total liabilities	**2,193,740**	**750,027**	**13,851**	**23,103**	**62,152**	**3,042,873**
Equity	268,545	(83)	424	-	9	268,895
Total liabilities and equity	**2,462,285**	**749,944**	**14,275**	**23,103**	**62,161**	**3,311,768**
Net long/ (short) position for balance sheet items	71,906	(212,642)	135,482	(7,520)	12,774	-
Net long/ (short) positions on off-balance sheet foreign exchange contracts	*(76,043)*	*209,171*	*(130,571)*	*7,445*	*(10,519)*	*(517)*
Net long/ (short) total position	**(4,137)**	**(3,471)**	**4,911**	**(75)**	**2,255**	**(517)**

	Bank as at 31/12/2018, EUR 000's					
	EUR	USD	CHF	GBP	Other	Total
Assets						
Cash and cash balances at central banks	150,853	2,271	182	394	1,810	155,510
Loans to credit institutions	2,256	25,723	19,744	1,482	61,646	110,851
Debt securities	515,803	249,698	-	3,463	10,047	779,011
Loans to public	1,145,596	21,230	-	1,056	234	1,168,116
Equity instruments	228	2,647	-	-	-	2,875
Other financial instruments	5,989	89	-	-	-	6,078
Derivatives	564	9	-	21	20	614
Other assets	86,510	5,653	13,806	157	802	106,928
Total assets	**1,907,799**	**307,320**	**33,732**	**6,573**	**74,559**	**2,329,983**
Liabilities						
Deposits from credit institutions and central banks	4,305	25,996	320	708	7,841	39,170
Deposits and borrowings from customers	1,614,624	270,000	2,445	18,158	32,630	1,937,857
Debt securities issued	60,010	-	-	-	-	60,010
Derivatives	1,440	42	-	10	12	1,504
Other liabilities	21,673	1,580	5	235	129	23,622
Total liabilities	**1,702,052**	**297,618**	**2,770**	**19,111**	**40,612**	**2,062,163**
Equity	269,523	(200)	-	(4)	(1,499)	267,820
Total liabilities and equity	**1,971,575**	**297,418**	**2,770**	**19,107**	**39,113**	**2,329,983**
Net long/ (short) position for balance sheet items	**(63,776)**	**9,902**	**30,962**	**(12,534)**	**35,446**	**-**
Net long/ (short) positions on off-balance sheet foreign exchange contracts	*61,214*	*(9,512)*	*(30,898)*	*12,557*	*(34,181)*	*(820)*
Net long/ (short) total position	**(2,562)**	**390**	**64**	**23**	**1,265**	**(820)**

	Bank as at 31/12/2017, EUR 000's					
	EUR	USD	CHF	RUB	Other	Total
Assets						
Cash and cash balances at central banks	490,347	2,437	149	121	1,794	494,848
Loans to credit institutions	3,845	27,491	103,527	15,232	55,197	205,292
Debt securities	344,870	265,066	-	-	10,002	619,938
Loans to public	1,094,918	21,967	-	163	142	1,117,190
Equity instruments	260	2,168	-	-	-	2,428
Other financial instruments	6,275	96	-	-	-	6,371
Derivatives	2,481	-	-	-	-	2,481
Other assets	72,023	10,690	13,812	3	353	96,881
Total assets	**2,015,019**	**329,915**	**117,488**	**15,519**	**67,488**	**2,545,429**
Liabilities						
Deposits from credit institutions and central banks	25,471	47,084	377	454	5,192	78,578
Deposits and borrowings from customers	1,598,717	474,777	3,745	15,651	51,578	2,144,468
Debt securities issued	59,981	-	-	-	-	59,981
Derivatives	3,168	-	-	-	-	3,168
Other liabilities	16,755	2,259	5	213	107	19,339
Total liabilities	**1,704,092**	**524,120**	**4,127**	**16,318**	**56,877**	**2,305,534**
Equity	240,017	(131)	-	-	9	239,895
Total liabilities and equity	**1,944,109**	**523,989**	**4,127**	**16,318**	**56,886**	**2,545,429**
Net long/ (short) position for balance sheet items	**70,910**	**(194,074)**	**113,361**	**(799)**	**10,602**	**-**
Net long/ (short) positions on off-balance sheet foreign exchange contracts	*(69,132)*	*192,270*	*(113,385)*	*675*	*(10,877)*	*(449)*
Net long/ (short) total position	**1,778**	**(1,804)**	**(24)**	**(124)**	**(275)**	**(449)**

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.

Liquidity risk

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

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

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

One of the crucial tools used to evaluate liquidity risk is scenario analysis. Several scenarios of different severity and duration are employed by the Group with risk tolerances defined for the outcomes of those scenarios. Furthermore, the Group has developed a system of liquidity risk limits and early warning indicators and systematically prepares cash flow forecasts which incorporate assumptions about the most likely flow of funds over the period of one year. For general assessment of existing gaps between contractual maturities of assets and liabilities without any assumptions on customer behaviour, the Group regularly analyses liquidity term structure and sets corresponding risk tolerances.

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

Regulation (EC) No 575/2013 introduced the concept of liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) as measurements of the Bank's and the Group's liquidity position. Since 1 October 2016 LCR is calculated according to Commission Delegated Regulation (EU) 2015/61. LCR minimum requirement were phased-in over a transition period. The minimum required levels were 70% for 2016, 80% for 2017 and 100% since 2018. The Bank and the Group is compliant with LCR requirements. European Union's regulations on NSFR are not yet finalised.

	EUR 000's			
	31/12/2018 Group	31/12/2017 Group	31/12/2018 Bank	31/12/2017 Bank
Liquidity buffer	1,051,389	1,375,657	698,529	912,392
Net liquidity outflow	405,419	432,924	308,495	262,578
Liquidity coverage ratio	**259%**	**318%**	**226%**	**347%**

Assets, liabilities and off-balance sheet items by contractual maturity

	Group as at 31/12/2018, 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 cash balances at central banks	405,315	-	-	-	-	-	405,315
Loans to credit institutions	102,701	29,201	-	-	-	-	131,902
Debt securities	8,652	103,727	50,462	111,339	632,494	82,556	989,230
Loans to public	43,409	59,935	89,795	199,766	632,502	370,285	1,395,692
Equity instruments	-	-	-	-	-	2,901	2,901
Other financial instruments	-	-	-	-	-	34,146	34,146
Derivatives	472	139	-	-	-	-	611
Other assets	23,590	414	106	493	172	67,519	92,294
Total assets	**584,139**	**193,416**	**140,363**	**311,598**	**1,265,168**	**557,407**	**3,052,091**
Liabilities							
Deposits from credit institutions and central banks	6,876	401	-	-	-	-	7,277
Deposits and borrowings from customers	2,080,549	91,128	89,454	169,407	145,647	68,857	2,645,042
Debt securities issued	-	-	-	-	-	60,010	60,010
Derivatives	973	497	-	-	-	-	1,470
Other liabilities	14,533	1,068	628	508	525	24,230	41,492
Total liabilities	**2,102,931**	**93,094**	**90,082**	**169,915**	**146,172**	**153,097**	**2,755,291**
Equity	-	-	-	-	-	296,800	296,800
Total liabilities and equity	**2,102,931**	**93,094**	**90,082**	**169,915**	**146,172**	**449,897**	**3,052,091**
Net balance sheet position – long/ (short)	(1,518,792)	100,322	50,281	141,683	1,118,996	107,510	-
Off-balance sheet items							
Contingent liabilities	22,405	-	-	-	-	-	22,405
Financial commitments	344,116	-	-	-	-	-	344,116

Liabilities and commitments are allocated to the earliest period in which the Group may be contractually required to settle the liabilities or the customer may draw down undrawn loan commitments. Issued financial guarantee contracts are allocated to the earliest period in which the guarantee could be called. Assets are allocated to the earliest period in which the Group may contractually require to settle receivables.

Financial liabilities by contractual undiscounted cash flows

	Group as at 31/12/2018, EUR 000's						
	Within 1 month	2-3 months	4-6 months	7-12 months	Over 1 year	Total	Carrying amount
Financial liabilities designated at fair value through profit or loss	551	834	3,200	4,558	24,849	33,992	33,992
Financial liabilities measured at amortised cost*	2,087,017	90,976	87,875	167,327	281,620	2,714,815	2,678,337
Off-balance sheet items							
Contingent liabilities	22,405	-	-	-	-	-	22,405
Financial commitments	344,116	-	-	-	-	-	344,116

** Includes Deposits from credit institutions and central banks, part of Deposits and borrowings from customers, Debt securities issued. Undiscounted contractual cash flows for other liabilities equal their carrying value.*

Assets, liabilities and off-balance sheet items by contractual maturity

	Group as at 31/12/2017, 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 cash balances at central banks	715,468	-	-	-	-	-	715,468
Loans to credit institutions	145,300	4,602	-	534	-	840	151,276
Debt securities	51,855	53,407	92,909	112,807	620,197	48,338	979,513
Loans to public	63,949	62,853	96,429	155,950	636,240	315,174	1,330,595
Equity instruments	-	-	-	-	-	2,444	2,444
Other financial instruments	-	-	-	-	-	37,157	37,157
Derivatives	2,276	130	-	-	-	-	2,406
Other assets	12,982	205	495	2,102	427	76,698	92,909
Total assets	**991,830**	**121,197**	**189,833**	**271,393**	**1,256,864**	**480,651**	**3,311,768**
Liabilities							
Deposits from credit institutions and central banks	4,001	19,435	100	-	-	-	23,536
Deposits and borrowings from customers	2,328,844	145,840	100,099	182,113	144,202	16,050	2,917,148
Debt securities issued	-	-	294	-	-	59,687	59,981
Derivatives	2,524	642	-	-	-	-	3,166
Other liabilities	29,865	1,849	608	1,113	3,196	2,411	39,042
Total liabilities	**2,365,234**	**167,766**	**101,101**	**183,226**	**147,398**	**78,148**	**3,042,873**
Equity	-	-	-	-	-	268,895	268,895
Total liabilities and equity	**2,365,234**	**167,766**	**101,101**	**183,226**	**147,398**	**347,043**	**3,311,768**
Net balance sheet position – long/ (short)	(1,373,404)	(46,569)	88,732	88,167	1,109,466	133,608	-
Off-balance sheet items							
Contingent liabilities	29,422	-	-	-	-	-	29,422
Financial commitments	236,157	-	-	-	-	-	236,157

On 8 February 2018, AS Citadele banka made an early repayment of the EUR 18.4 million subordinated liabilities outstanding and the accrued interest to the EBRD. This was made possible by previously issued subordinated bonds in the amount of EUR 20 million. The aim of the subordinated bond issuance, among others, was early repayment of the outstanding amount of subordinated debt to EBRD. The remaining proceeds from the issuance are planned to be used to strengthen the overall capital of AS Citadele banka and to facilitate the execution of the Bank's growth strategy across the Baltics. Subordinated liabilities to EBRD are shown as per terms effective as at 31 December 2017 i.e. taking into consideration at that time agreed early repayment of EBRD subordinated liabilities (due within 2-3 months).

Financial liabilities by contractual undiscounted cash flows

	Group as at 31/12/2017, EUR 000's						
	Within 1 month	2-3 months	4-6 months	7-12 months	Over 1 year	Total	Carrying amount
Financial liabilities designated at fair value through profit or loss	418	631	3,268	4,574	28,259	37,150	37,150
Financial liabilities measured at amortised cost*	2,332,430	164,888	98,926	179,996	229,662	3,005,902	2,963,515
Off-balance sheet items							
Contingent liabilities	29,422	-	-	-	-	-	29,422
Financial commitments	236,157	-	-	-	-	-	236,157

** Includes Deposits from credit institutions and central banks, part of Deposits and borrowings from customers, Debt securities issued. Undiscounted contractual cash flows for other liabilities equal their carrying value.*

Assets, liabilities and off-balance sheet items by contractual maturity

	Bank as at 31/12/2018, 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 cash balances at central banks	155,510	-	-	-	-	-	155,510
Loans to credit institutions	89,076	21,775	-	-	-	-	110,851
Debt securities	2,133	91,650	37,576	81,850	518,236	47,566	779,011
Loans to public	31,482	212,476	58,884	136,774	389,144	339,356	1,168,116
Equity instruments	-	-	-	-	-	2,875	2,875
Other financial instruments	-	-	-	-	-	6,078	6,078
Derivatives	475	139	-	-	-	-	614
Other assets	19,186	3	11	4	2	87,722	106,928
Total assets	**297,862**	**326,043**	**96,471**	**218,628**	**907,382**	**483,597**	**2,329,983**
Liabilities							
Deposits from credit institutions and central banks	16,470	13,125	3,493	5,177	905	-	39,170
Deposits and borrowings from customers	1,597,487	43,832	45,396	98,925	88,734	63,483	1,937,857
Debt securities issued	-	-	-	-	-	60,010	60,010
Derivatives	1,007	497	-	-	-	-	1,504
Other liabilities	7,781	-	-	-	-	15,841	23,622
Total liabilities	**1,622,745**	**57,454**	**48,889**	**104,102**	**89,639**	**139,334**	**2,062,163**
Equity	-	-	-	-	-	267,820	267,820
Total liabilities and equity	**1,622,745**	**57,454**	**48,889**	**104,102**	**89,639**	**407,154**	**2,329,983**
Net balance sheet position – long/ (short)	(1,324,883)	268,589	47,582	114,526	817,743	76,443	-
Off-balance sheet items							
Contingent liabilities	17,820	-	-	-	-	-	17,820
Financial commitments	355,309	-	-	-	-	-	355,309

Financial liabilities by contractual undiscounted cash flows

	Bank as at 31/12/2018, EUR 000's						
	Within 1 month	**2-3 months**	**4-6 months**	**7-12 months**	**Over 1 year**	**Total**	**Carrying amount**
Financial liabilities measured at amortised cost*	1,613,997	57,060	50,290	106,230	240,245	2,067,822	2,037,037
Off-balance sheet items							
Contingent liabilities	17,820	-	-	-	-	-	17,820
Financial commitments	355,309	-	-	-	-	-	355,309

** Includes Deposits from credit institutions and central banks, Deposits and borrowings from customers, Debt securities issued. Undiscounted contractual cash flows for other liabilities equal their carrying value.*

Assets, liabilities and off-balance sheet items by contractual maturity

	Bank as at 31/12/2017, 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 cash balances at central banks	494,848	-	-	-	-	-	494,848
Loans to credit institutions	205,292	-	-	-	-	-	205,292
Debt securities	43,453	35,302	58,902	77,528	385,436	19,317	619,938
Loans to public	41,657	127,210	65,495	172,138	423,456	287,234	1,117,190
Equity instruments	-	-	-	-	-	2,428	2,428
Other financial instruments	-	-	-	-	-	6,371	6,371
Derivatives	2,351	130	-	-	-	-	2,481
Other assets	9,380	-	-	-	-	87,501	96,881
Total assets	**796,981**	**162,642**	**124,397**	**249,666**	**808,892**	**402,851**	**2,545,429**
Liabilities							
Deposits from credit institutions and central banks	31,677	35,701	7,466	2,514	1,220	-	78,578
Deposits and borrowings from customers	1,775,136	94,283	55,314	109,944	101,194	8,597	2,144,468
Debt securities issued	-	-	294	-	-	59,687	59,981
Derivatives	2,526	642	-	-	-	-	3,168
Other liabilities	17,899	832	-	-	-	608	19,339
Total liabilities	**1,827,238**	**131,458**	**63,074**	**112,458**	**102,414**	**68,892**	**2,305,534**
Equity	-	-	-	-	-	239,895	239,895
Total liabilities and equity	**1,827,238**	**131,458**	**63,074**	**112,458**	**102,414**	**308,787**	**2,545,429**
Net balance sheet position – long/ (short)	(1,030,257)	31,184	61,323	137,208	706,478	94,064	-
Off-balance sheet items							
Contingent liabilities	25,252	-	-	-	-	-	25,252
Financial commitments	287,455	-	-	-	-	-	287,455

Financial liabilities by contractual undiscounted cash flows

	Bank as at 31/12/2017, EUR 000's						
	Within 1 month	**2-3 months**	**4-6 months**	**7-12 months**	**Over 1 year**	**Total**	**Carrying amount**
Financial liabilities measured at amortised cost*	1,806,825	130,189	64,699	114,591	203,504	2,319,808	2,283,027
Off-balance sheet items							
Contingent liabilities	25,252	-	-	-	-	-	25,252
Financial commitments	287,455	-	-	-	-	-	287,455

** Includes Deposits from credit institutions and central banks, Deposits and borrowings from customers, Debt securities issued. Undiscounted contractual cash flows for other liabilities equal their carrying value.*

Derivative liabilities settled on a net basis and contractual undiscounted cash flows arising from derivatives settled on a gross basis

	Group, 31/12/2018 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	(711)	(249)	-	-	-	-	(960)
Derivatives settled on a gross basis							
Foreign exchange derivatives:							
outflow	(25,571)	(38,377)	-	-	-	-	(63,948)
inflow	25,797	38,319	-	-	-	-	64,116

	Group, 31/12/2017 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	(296)	(513)	-	-	-	-	(809)
Derivatives settled on a gross basis							
Foreign exchange derivatives:							
outflow	17,232	-	-	-	-	-	17,232
inflow	(17,147)	-	-	-	-	-	(17,147)

	Bank, 31/12/2018 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	(711)	(249)	-	-	-	-	(960)
Derivatives settled on a gross basis							
Foreign exchange derivatives:							
outflow	(48,396)	(38,377)	-	-	-	-	(86,773)
inflow	48,591	38,319	-	-	-	-	86,910

	Bank, 31/12/2017 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	(193)	(513)	-	-	-	-	(706)
Derivatives settled on a gross basis							
Foreign exchange derivatives:							
outflow	(16,084)	-	-	-	-	-	(16,084)
inflow	16,136	-	-	-	-	-	16,136

Comparison of contractual undiscounted cash flows and carrying amount of derivatives

	EUR 000's			
	2018 Group	2017 Group	2018 Bank	2017 Bank
Contractual undiscounted cash flows of derivatives	(792)	(724)	(823)	(654)
Carrying value of derivatives	(859)	(760)	(890)	(687)

Anti-money laundering policy

The Group has adopted ML/TF Risk Management Strategy, Policy on the Prevention of Laundering of Proceeds Derived from Criminal Activity and Financing of Terrorism and Sanctions Compliance Policy to have an effective and comprehensive anti-money laundering (AML) and combating terrorist financing (CTF) internal control system and to ensure compliance with sanctions imposed by international organizations and the Republic of Latvia. The Group regularly reviews its AML/CTF and sanctions compliance policies and procedures with an aim to strengthen them and to update in line with changes in external requirements and international best practice. Internal control system of AML/CTF and Sanctions compliance of the Group is regularly reviewed by independent external and internal experts to ensure that the Group complies with applicable AML, CTF and Sanctions compliance requirements. The experts where appropriate provide recommendations on how to strengthen and improve AML/CTF and Sanctions compliance internal control systems. The recommendations are diligently evaluated and implemented.

The Group performs ML/TF and Sanctions Risk Assessment on a regular basis to evaluate ML/TF and Sanctions compliance risk of the Group. The assessment among others includes identification and assessment of the inherent ML/TF and Sanctions compliance risk and effectiveness assessment of the existing AML/CTF and Sanctions compliance controls.

The Group has dedicated Group's Chief Compliance Officer (Member of the Management Board responsible for compliance), Money Laundering Reporting Officer, Sanctions Officer and a special team with a duty of overseeing the Group policies, procedures and processes implemented to preventing money laundering, terrorist financing and sanctions violations.

Know Your Customer, including customer due diligence, customer enhanced due diligence practices, on-going customer transactions monitoring, effective international and national sanctions screening is the priority of the Group. A sound risk culture across the Group and risk aware employees, besides implemented industry's best practice processes and systems, is the backbone of ML/TF risk management. Each employee of the Group has a good knowledge of clients and their business partners and has a full understanding of the substance of transactions, thus is able to timely detect unusual and suspicious customer activity. Under the Sanctions compliance policy, it is strictly forbidden to knowingly and intentionally participate in activities whose purpose or effect is to evade the restrictions imposed by the sanctions, thus preventing the Group from been used to circumvent the sanctions. The Group enforces sanctions established by the United Nations Security Council, the European Union against specific countries and persons, the Cabinet of Ministers of the Republic of Latvia and the Office of Foreign Assets Control (OFAC) of the US Department of the Treasury. The Group complies with OFAC sanctions in USD and all other currencies.

The Group has established AML/CTF and Sanctions compliance training program for all its employees. The training program consists of three parts: initial, regular and extraordinary employee training and is tailored to the necessary knowledge level of each function. For employees directly responsible for AML, CTF and Sanctions compliance, special advanced trainings, workshops and conferences are arranged to enhance their knowledge and skills necessary for their tasks. The Group supports and requires international certification in the AML, CTF and sanctions compliance fields for at least the leading specialists involved in the ML/TF risk management function (e.g. CAMS or ICA-certification).

Capital management

Capital adequacy ratios in these financial statements are calculated in accordance with the CRD IV package which transposes – via a regulation (EU) 575/2013 and a directive 2013/36/EU – the current 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 credit risks, market risks and other specific risks arising predominantly from asset and off-balance sheet exposures of the Group. 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 require 4.5% minimum common equity tier 1 capital ratio and 6.0% minimum tier 1 capital ratio. The FCMC has also issued a regulation which introduces "total SREP capital requirement" (TSCR). TSCR requires capital to cover risks in addition to these covered by the regulation (EU) 575/2013. TSCR is established in a supervisory review and evaluation process (SREP) carried out by the national supervisory authority. The national supervisory authority determines TSCR on a risk-by-risk basis, using supervisory judgement, the outcome of supervisory benchmarking, ICAAP calculations, and other relevant inputs. As at 31 December 2018 based on the FCMC's assessment an additional 2.50% capital requirement for the Group and an additional 2.20% capital requirement for the Bank is determined to cover pillar 2 risks. This additional pillar 2 capital requirement is applicable till re-assessed requirement is announced by the FCMC. The indicative re-assessed future TSCR requirement for the Bank and the Group is 2.90%, but may be changed at discretion of the regulator and is not effective as at 31 December 2018. The Bank and the Group is required to cover 56% of the additional pillar 2 capital requirements with common equity tier 1 capital, 75% with tier 1 capital and 100% with total capital.

The capital adequacy rules also establish an additional 2.5% capital conservation buffer, limiting dividend pay-out and certain other Tier 1 equity instrument buy-back. Besides this, countercyclical buffer norms apply as well based on the risk exposure geographical distribution. The FCMC has identified the Bank as "other systemically important institution" (O-SII). The Bank's and the Group's O-SII capital buffer requirement set by the FCMC is 1.5% and was introduced in two steps – 0.75% capital buffer requirement become effective as at 30 June 2017 with the full buffer requirements becoming effective on 30 June 2018. The O-SII buffer requirement has to be met by common equity Tier 1 capital.

The Bank has subsidiaries, which are financial institutions, and needs to comply with the regulatory requirements both at the Bank's standalone level and at the Group's consolidated level. As at 31 December 2018, both the Bank and the Group have sufficient capital to comply with the FCMC's capital adequacy requirements.

Regulatory capital requirements of the Group on 31 December 2018

	Common equity Tier 1 capital ratio	Tier 1 capital ratio	Total capital adequacy ratio
Common equity Tier 1 ratio	4.50%	4.50%	4.50%
Additional Tier 1 ratio	-	1.50%	1.50%
Additional total capital ratio	-	-	2.00%
Individual TSCR, as determined by the FCMC *	1.40%	1.88%	2.50%
Capital buffer requirements:			
Capital conservation buffer	2.50%	2.50%	2.50%
O-SII capital buffer	1.50%	1.50%	1.50%
Countercyclical capital buffer	0.11%	0.11%	0.11%
Capital requirement	**10.01%**	**11.99%**	**14.61%**

* The Bank's TSCR, as determined by the FCMC is 2.20% from which 1.23% is required to be covered with common equity Tier 1 capital (56% from total TSCR), 1.65% with Tier 1 capital (75% from total TSCR) and 2.20% with total capital (100% from total TSCR). Countercyclical capital buffer of the Bank is 0.14%. Other capital requirements and buffers for the Bank are the same as for the Group.

Capital adequacy ratio

	EUR 000's			
	31/12/2018 Group	31/12/2017 Group	31/12/2018 Bank	31/12/2017 Bank
Common equity Tier 1 capital				
Paid up capital instruments	156,556	156,556	156,556	156,556
Retained earnings and eligible profits	136,210	106,429	112,117	81,827
Deductible other intangible assets	(4,819)	(4,139)	(4,651)	(3,877)
Other capital components, deductions and transitional adjustments, net	6,747	2,670	3,264	296
Tier 2 capital				
Eligible part of subordinated liabilities	60,000	60,000	60,000	60,000
Total own funds	**354,694**	**321,516**	**327,286**	**294,802**
Risk weighted exposure amounts for credit risk, counterparty credit risk and dilution risk	1,507,401	1,496,213	1,326,277	1,283,761
Total exposure amounts for position, foreign currency open position and commodities risk	10,483	7,887	850	3,858
Total exposure amounts for operational risk	245,354	236,078	189,900	184,054
Total exposure amounts for credit valuation adjustment	399	1,138	399	1,138
Total risk exposure amount	**1,763,637**	**1,741,316**	**1,517,426**	**1,472,811**
Total capital adequacy ratio	**20.1%**	**18.4%**	**21.6%**	**20.0%**
Common equity Tier 1 capital ratio	**16.7%**	**15.0%**	**17.6%**	**15.9%**

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 the FCMC regulations (Basel III framework, Pillar I as implemented by EU and FCMC) comprises several transitional adjustments as implemented by the EU and the 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 for several years in the future. For 2018 and later periods additional transitional provisions apply. The regulation (EU) 2017/2395 for Capital adequacy calculation purposes permits specific proportion of IFRS 9 implementation impact to be amortised in five years period. The Group's and the Bank's long term regulatory capital position is planned and managed in line with these and other expected upcoming regulatory requirements.

Fully loaded capital adequacy ratio (i.e. excluding transitional adjustments)

	EUR 000's			
	31/12/2018 Group	31/12/2017 Group	31/12/2018 Bank	31/12/2017 Bank
Common equity Tier 1 capital, fully loaded	288,832	261,671	262,911	235,383
Tier 2 capital	60,000	60,000	60,000	60,000
Total own funds, fully loaded	**348,832**	**321,671**	**322,911**	**295,383**
Total risk exposure amount, fully loaded	**1,758,524**	**1,741,316**	**1,513,993**	**1,472,811**
Total capital adequacy ratio, fully loaded	**19.8%**	**18.5%**	**21.3%**	**20.1%**
Common equity Tier 1 capital ratio, fully loaded	**16.4%**	**15.0%**	**17.4%**	**16.0%**

Leverage ratio – fully loaded and transitional

Leverage ratio is calculated as Tier 1 capital versus the total exposure measure with the minimum requirement of 3%. No buffer requirements for O-SII banks are expected under the current regulatory framework. The exposure measure includes both non risk based on-balance sheet and off-balance sheet items calculated in accordance with the CRR. The leverage ratio and the risk-based capital adequacy ratio requirements are complementary, with the leverage ratio defining a minimum capital to total exposure requirement and the risk-based capital adequacy ratios limiting bank risk-taking.

	EUR 000's	
	31/12/2018 Group	31/12/2018 Bank
Leverage Ratio – fully phased-in definition of Tier 1 capital	9.3%	10.9%
Leverage Ratio - transitional definition of Tier 1 capital	9.5%	11.0%

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. The RTS provide for resolution authorities to allow institutions a transitional period to reach the applicable MREL requirements. The MREL requirement for each institution is comprised of a number of elements, including the required loss absorbing capacity of the institution (which, as a minimum, equals 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 include 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.

The Single Resolution Board (SRB) determined the consolidated MREL for Citadele Group at the level of 14.26% of total liabilities and own funds (TLOF). The ratio was calculated based on the Group's financial position as at 31 December 2017. The MREL target has to be reached by 14 April 2022 after a transition period of 4 years. The existing target may be updated by the SRB in the future.

Operational risk

The Group has adopted the Basel Committee on Banking Supervision's definition of operational risk: the probability of incurring losses due to failure or partial failure of internal processes to comply with the requirements of the laws and binding external regulations, as well as the requirements of internal regulations, due to the acts of the Group's employees and operation of systems, irregularities in internal processes, as well as due to the acts of third parties or other external conditions.

Further operational risk is divided into the following categories: personnel risk, process risk, IT and system risk, external risk.

Operational risk is managed using an integrated and comprehensive framework of policies, methodologies, procedures and regulations for identification, analysis, mitigation, control, and reporting of operational risk. The Group's operational risk management processes are integral to all business activities and are applicable to all employees and members of the Group. The Group's aim is to ensure that each of its employees knows not just how to perform a specific transaction, but also understands the key areas where risk can arise and the processes and steps required to prevent or otherwise mitigate such risk.

The goal of the Group's operational risk management framework is to maintain the lowest possible level of risk while ensuring that any remaining risk is economically justified in light of the need to sustain the Group's performance and profit in the long term. Whether a risk is economically justified depends on an assessment of the potential losses it could cause, the probability of its occurrence, the ability to implement mitigating measures and the cost of such measures, as well as the level of risk that would remain if such mitigating measures were to be put in place.

The Group aims to avoid operational risks with a potential impact which exceeds 10% of its net annual revenue and has a higher probability of occurrence than once per ten years, or risks with unquantifiable impact which are unmanageable, irrespective of the

financial gains this could bring. Each accepted risk must be economically justified and, in cases where the assessment of operational risk in monetary terms is possible, the costs of the control measures required must be commensurate with the eventual loss that could be prevented by the existence of the control system.

The Group applies following approaches for operational risk management:

- Assessing operational risk in development projects: new and updated services and products are introduced only after a thorough risk assessment has been carried out;
- Conducting regular operational risk-control self-assessment: the Group identifies and assesses potential operational risk events, assesses control systems which are in place, and analyses the necessary risk reduction measures;
- Determining operational risk indicators: the Group uses statistical, financial, and other indicators which represent the levels of operational risk in its various activities;
- Measuring, analysing, monitoring, reporting and escalating operational risk: the Group registers and analyses operational risk events, including their severity, causes and other important information in an operational risk loss and incident database;
- Conducting scenario analysis and stress-testing;
- Performing business continuity planning: the Group performs regular business impact analysis and has implemented a Disaster Recovery Plan;
- Assigning responsibilities: the operational risk management system includes assignment of responsibilities to certain individuals; and
- Documenting decisions: the Group maintains records in relation to the process undertaken to reach a particular decision or to prevent or mitigate a particular risk.

Operational risk management in the Group is carried out in accordance with Operational Risk Management Policy.

NOTE 34. EVENTS AFTER THE REPORTING DATE

Lithuanian branch

The Lithuanian branch of AS Citadele banka was registered on 25 October 2018 with an intention to transform AB Citadele bankas (Lithuania) from a subsidiary to a branch. The decision was taken to ensure increased operational efficiency across the Group and allow Citadele to maximize its client offerings and service output across the Baltics. In 2019 all assets, liabilities and business were transferred from AB Citadele bankas (Lithuania) to the Lithuanian branch of AS Citadele banka. In 2019 the Group continues to operate in Lithuania as the Lithuanian branch of AS Citadele banka.

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 Audit of the Separate and Consolidated Financial Statements

Our Opinion on the Separate and Consolidated Financial Statements

We have audited the separate financial statements of AS "Citadele banka" ("the Bank") and the consolidated financial statements of the Bank and its subsidiaries ("the Group"), set out on pages 13 to 74 of the accompanying separate and consolidated Annual Report, which comprise:

- the separate and consolidated balance sheet as at 31 December 2018,
- the separate and consolidated income statement for the year then ended,
- the separate and consolidated statement of comprehensive income for the year then ended,
- the separate and consolidated statement of changes in equity for the year then ended,
- the separate and consolidated statement of cash flows for the year then ended, and
- the notes to the separate and consolidated financial statements, which include a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying separate and consolidated financial statements give a true and fair view of the unconsolidated and consolidated financial position of the Bank and the Group, respectively, as at 31 December 2018, and of their unconsolidated and consolidated financial performance and their unconsolidated and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Basis for Opinion

In accordance with the 'Law on Audit Services' of the Republic of Latvia, we conducted our audit in accordance with International Standards on Auditing adopted in the Republic of Latvia (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibility for the Audit of the Separate and Consolidated Financial Statements* section of our report.

We are independent of the Bank and the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the independence requirements included in the 'Law on Audit Services' of the Republic of Latvia that are relevant to our audit of the separate and consolidated financial statements in the Republic of Latvia. We have also fulfilled our other professional ethics responsibilities and objectivity requirements in accordance with the IESBA Code and the 'Law on Audit Services' of the Republic of Latvia.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KPMG Baltics SIA, a Latvian limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate and consolidated financial statements of the current period. These matters were addressed in the context of our audit of the separate and consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matters described below to be the key audit matters to be communicated in our report.

Impairment of loans and provisions for off-balance sheet items (consolidated and separate financial statements)

Key audit matter

The gross amount of loans in the consolidated financial statements as at 31 December 2018: EUR 1 462.5 million; total allowances for impairment loss as at 31 December 2018: EUR 66.8 million; impairment losses on loans recognised in 2018: EUR 12.9 million; the gross amount of off-balance sheet items as at 31 December 2018: EUR 344.1 million; total provisions as at 31 December 2018: EUR 2.8 million; provision reversal on these items recognised in 2018: EUR 0.6 million;

The gross amount of loans in the separate financial statements at 31 December 2018: EUR 1 222.7 million; total impairment loss allowances as at 31 December 2018: EUR 54.6 million; impairment losses on loans recognised in 2018: EUR 10.2 million. The gross amount of off-balance sheet items as at 31 December 2018: EUR 355.3 million; total provisions as at 31 December 2018: EUR 2.6 million; provision reversal on these items recognised in 2018: EUR 0.3 million.

We refer to the financial statements: Note 3 (a),(j), , (p), (z) and (ff) (accounting policy), Notes 10, 15, 25 and 33 (financial disclosures).

Impairment allowances represent the Management Board's best estimate of the expected credit losses within the loans and advances at the reporting date. We focused on this area as the determination of impairment allowances requires a significant amount of judgment from the Management Board over both the timing of recognition and the amounts of any such impairment.

Our response

Our audit procedures included, among others:

With respect of the IFRS 9 transition effects:

- understanding the overall transition process activities and controls, including the process and controls over determining the impact of the new standard as well as the underlying process activities that generated the related disclosures;
- obtaining the relevant forward-looking information and macroeconomic forecasts used in the ECL assessment. Independently assessing the information by inspecting publicly available information and through discussions with the Management Board and credit risk personnel;
- assessing whether the definition of default and the staging criteria were consistently applied and in line with the requirements of IFRS 9;
- performing an analysis of IFRS 9-based impairment allowances as at the standard's initial application date and comparing them to those calculated in accordance with IAS 39, and assessing their reasonableness based on inquiries of the Management Board and credit risk personnel.

With respect of the IFRS 9 in general:

- inspecting the Bank's and the Group's new ECL impairment provisioning methodology and assessing its compliance with the relevant requirements of the new standard. As part of the above, we challenged the Management

Additionally, as at 1 January 2018, the Group and the Bank applied the new financial instruments standard, IFRS 9 *Financial Instruments*, whose impairment requirements are based on the expected credit loss (ECL) model rather than the incurred loss model, as previously used.

As required by IFRS 9, the Group calculates impairment allowances and provisions for off-balance sheet items based on expected credit losses. ECLs determined by modelling techniques and estimated mainly based on historical pattern of losses and changes in loan risk characteristics based on qualitative and quantitative indicators such as the probability of default and loss given default.

Individual impairment allowances recognized by the Bank and other entities within the Group mostly relate to large, individually monitored, corporate exposures, where the Group is assessing ECLs on an individual basis. The assessment is therefore based on the knowledge about each individual borrower and often on estimation of the fair value of the related collateral.

Accordingly, the most significant areas of estimation uncertainty and judgements associated with recognition of impairment allowances for loans and provisions for off-balance sheet items are:

— Assumptions used in the expected credit loss models to assess the credit risk related to the exposure and the expected future cash flows of the customer.

— Timely identification of exposures with significant increase in credit risk and credit impaired exposures.

— Valuation of collateral and assumptions of future cash flows on individually assessed credit-impaired exposures.

Board on whether the level of the methodology's sophistication is appropriate based on an assessment of the entity-level and portfolio-level factors;

— testing of controls over the approval, recording and monitoring of loans, including, but not limited to, those over loan risk monitoring, identification of loss events, and the calculation of the impairment allowances;

— testing of application and general IT controls related to automated processes for expected credit losses calculations.

For loans assessed on an individual basis:

— Selecting a sample of individual exposures, with focus on those with the greatest potential impact on the financial statements due to their magnitude and risk characteristics, as well as lower value items which we independently assessed as high-risk.

— For stage 1 and stage 2 exposures within the sample selected, critically assessing the existence of any evidence of credit-impairment as at 31 December 2018, by reference to the underlying documentation and through discussion with management and taking into consideration business operations of the respective customers as well as market conditions and historical repayment pattern.

— For those exposures in our sample, classified as stage 1 and stage 2 and identified by us as credit-impaired, independently estimating future cash flows, and including parameters such as discount rates, collateral values and realization period, while for stage 3 exposures in our sample, challenging key assumptions applied in the Bank's and the Group's estimates of future cash flows. We sought Management Board's and credit risk personnel's explanations for any material discrepancies identified as a result of the above procedures.

For loans where impairment allowances and off-balance sheet provisions are based on modelled expected credit losses:

- testing the underlying impairment models, assessed as significant, including model approval and validation processes;
- obtaining the relevant forward looking information and macroeconomic forecasts used in the Bank's and the Group's ECL assessment. Independently assessing the information by means of corroborating inquiries of the Management Board and through inspection of publicly available information;
- challenging LGD and PD parameters, by performing back-testing of historical default and by reference to historical realized losses on defaults;
- for a sample of exposures, assessing the appropriateness of the staging;
- for a sample of exposures tested collectively, assessing the application of the measurement models applied and checking that the impairment rates applied complied with those provided for in such models;

In order to assess loss allowances in totality:

- critically assessing the reasonableness of the ECL allowances, including both the share of the gross non-performing exposure in total gross exposure and the non-performing loans provision coverage;
- evaluating the accuracy and completeness of the financial statement disclosures relating to the adoption of the new standard.

Impairment of investments in subsidiaries (separate financial statements)

Key audit matter	*Our response*
The gross amount of investments in subsidiaries in the separate financial statements as at 31 December 2018: EUR 112.5 million; impairment loss reversal recognised in 2018: EUR 6.9 million; total impairment loss as at 31 December 2018: EUR 40.9 million.	Our procedures included, among others: — assessing the mathematical accuracy of the models used; — evaluating the reasonableness of management's judgments as to the existence of impairment indicators, and consequently, the requirement to perform related impairment

We refer to the financial statements: Note 3 (w) and (ff) (accounting policy), Note 11 and 18 (financial disclosures).

At the end of each reporting period, management assesses whether there is any indication that investments in subsidiaries may be impaired, such as, among other things, significant current losses, negative equity or below-budget performance. For such investments, the Bank estimates their recoverable amounts by identifying the higher of value-in-use or fair value less cost to sell, using internal models based on distributable dividend growth model and discounted cash flow models.

The determination of the recoverable amounts of investments in subsidiaries is a process that requires management to make subjective judgements, including those in respect of future operating cash flows, growth rates and discount rates, and is therefore associated with significant estimation uncertainty. The above uncertainty was particularly high in respect of the Bank's subsidiary in Lithuania, due to a significant change in underlying circumstances since last year.

Due to the circumstances described above, we assessed the impairment of investments in subsidiaries to be a key audit matter.

tests. This included, but was not limited to, discussing the subsidiaries' performance with the Bank's finance function officers, and assessing their strategies and historical profitability against past forecasts;

- for investments with identified impairment indicators, with the involvement of KPMG valuation specialists, assessing the Bank's assumptions and estimates, applied to determine the investments' recoverable amounts. Our assessment covered, among other things:
  - evaluating the appropriateness of the impairment models used for the assets in question against the requirements of the relevant financial reporting standards;
  - challenging the reasonableness of the assumptions applied, such as, primarily, growth rates and discount rates;
  - performing extensive inquires with the Management Board and obtaining supporting documentation for the relevant other key inputs in the impairment models.
  - evaluating the historic reliability of the Bank's forecasts by comparing actual performance against previous forecasts;
- Also, assisted by our own valuation specialists, performing an independent sensitivity analysis of impairment tests' results to changes in key assumptions, such as, primarily, growth and discount rates;
- considering the adequacy of the Bank's disclosures related to the assumptions and significant judgements used at estimating recoverable amounts of investments in subsidiaries.

Reporting on Other Information

The Bank's and the Group's management is responsible for the other information. The other information comprises:

- Key figures as set out on page 2 of the accompanying Annual Report ("Annual Report"),
- the Management Report, as set out on pages 4 to 11 of the Annual Report,
- the Statement of the Management's Responsibility, as set out on page 12 of the Annual Report,
- the Statement of Corporate Governance, as set out in a separate statement prepared by management available on Bank's website www.citadele.lv,
- Sustainability Report, as set out in a separate statement prepared by management, available on Bank's website www.citadele.lv

Our opinion on the separate and consolidated financial statements does not cover the other information, and we do not express any form of assurance conclusion thereon, except as described in the *Other Reporting Responsibilities in Accordance with the Legislation of the Republic of Latvia Related to Other Information* section of our report.

In connection with our audit of the separate and consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate and consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed and in light of the knowledge and understanding of the Bank, the Group and their environment obtained in the course of our audit, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Other Reporting Responsibilities in Accordance with the Legislation of the Republic of Latvia Related to Other Information

In addition, in accordance with the 'Law on Audit Services' of the Republic of Latvia with respect to the Management Report, our responsibility is to consider whether the Management Report is prepared in accordance with the requirements of the Financial and Capital Market Commission of the Republic of Latvia – regulation No. 46 'Regulations on the Preparation of Annual Reports and Annual Consolidated Accounts for Banks, Investment Brokerage Firms and Investment Management Companies' ("Regulation No. 46").

Based solely on the work required to be undertaken in the course of our audit of the separate and consolidated financial statements, in our opinion:

- the information given in the Management Report for the financial year for which the separate and consolidated financial statements are prepared is consistent with the separate and consolidated financial statements; and
- the Management Report has been prepared in accordance with the requirements of Regulation No. 46.

In accordance with the 'Law on Audit Services' of the Republic of Latvia with respect to the Statement of Corporate Governance, our responsibility is to consider whether the Statement

of Corporate Governance includes the information required in section 56.2, third paragraph of the 'Financial Instruments Market Law' of the Republic of Latvia and if it includes the information stipulated in section 56.[2] third paragraph, clause 1 of the 'Financial Instruments Market Law' of the Republic of Latvia.

In our opinion, the Statement of Corporate Governance includes the information required in section 56.[2], third paragraph, clause 1, of the 'Financial Instruments Market Law' of the Republic of Latvia.

Furthermore, in accordance with the 'Law on Audit Services' of the Republic of Latvia with respect to the Sustainability Report, our responsibility is to report whether the Bank and Group have prepared the Sustainability Report and whether the Sustainability Report is included in the Management Report, prepared as a separate element of the Annual Report or included in the consolidated non-financial statement of the Group.

We report that the Bank's and Group's Sustainability Report has been prepared and is available on the Bank's website, www.citadele.lv.

Responsibilities of Management and Those Charged with Governance for the Separate and Consolidated Financial Statements

Management is responsible for the preparation of the separate and consolidated financial statements that give a true and fair view in accordance with IFRSs as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of separate and consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate and consolidated financial statements, management is responsible for assessing the Bank's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank and the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's and the Group's financial reporting process.

Auditors' Responsibility for the Audit of the Separate and Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate and consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate and consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

— Identify and assess the risks of material misstatement of the separate and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting

from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

— Obtain an understanding of internal control relevant to the audit 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 control.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

— Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the separate and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank and the Group to cease to continue as a going concern.

— Evaluate the overall presentation, structure and content of the separate and consolidated financial statements, including the disclosures, and whether the separate and consolidated financial statements represent the underlying transactions and events in a manner that achieves a fair presentation.

— Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and objectivity, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate and consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Other Reporting Responsibilities and Confirmations Required by the Legislation of the Republic of Latvia and the European Union when Providing Audit Services to Public Interest Entities

We were appointed by the annual shareholders' meeting on 21 September 2018 to audit the separate and consolidated financial statements of AS "Citadele banka" for the year ended 31 December 2018. Our total uninterrupted period of engagement is 6 years, covering the periods ending 31 December 2013 to 31 December 2018.

We confirm that:

— our audit opinion is consistent with the additional report presented to the Audit Committee of the Bank and Group;

— as referred to in the paragraph 37.6 of the 'Law on Audit Services' of the Republic of Latvia, we have not provided to the Bank and the Group the prohibited non-audit services (NASs) referred to of EU Regulation (EU) No 537/2014. We also remained independent of the audited entity (the Bank) and the Group in conducting the audit.

For the period to which our statutory audit relates, we have not provided any services to the Bank and its controlled entities in addition to the audit, which have not been disclosed in the Management Report or in the separate and consolidated financial statements of the Bank and the Group.

KPMG Baltics SIA
Licence No. 55

Ondrej Fikrle
Partner pp KPMG Baltics SIA
Riga, Latvia
15 March 2019

Inga Lipšāne
Latvian Certified Auditor
Certificate No. 112