SC "Citadele banka"

# Public Financial Information

3rd Quarter 2014

Citadele

Information disclosed in the report is prepared in accordance with the Financial and Capital Market Commission's regulations No. 145 „Regulations on Preparation of Public Quarterly Reports of Credit Institutions”.

# Management Report

## Financial results show stable growth

The group completed the first nine months of the year with a profit of 22.8 million euro, a 56% increase in comparison with the first nine months of 2013, when the profit of the Group was 14.6 million euro.

Citadele Group has managed to increase net interest income by 11% (the bank – by 12%) and net commission and fee income by 3% (the bank – by 4%), in comparison with the same period in 2013.

Since the beginning of the year loan portfolio of the Group has increased by 3%, reaching 1.09 billion euros, and deposit portfolio has increased by 2% up to 2.28 billion euro (the bank - 1.79 billion euro).

The loan-to-deposit ratio remained conservatively low – 48% for the Group (53% for the bank).

At the end of 3rd quarter of 2014 the total assets of Citadele Group reached 2.6 billion euro (the bank - 2.09 billion euro), out of which 1.4 billion euro are highly liquid assets, consisting of cash balances with banks and securities.

## Latvian government takes a decision regarding attraction of international and reputable investors to the bank

On 16 September 2014 Latvia's Cabinet of Ministers voted to sell the state's shares in Citadele Bank, owned by the state through the SJSC Privatisation Agency, to an international investment group with experience in the banking sector. It is represented by the founder of the US-based “Ripplewood Holding LLC” (Ripplewood) investment firm, Timothy Collins. Also the second shareholder of Citadele bank – European Bank for Reconstruction and Development (EBRD) – positively assesses the investor selected by the government.

On 5 November the JSC Privatisation Agency has signed an agreement for the sale of 75% of the shares of the bank to the group of international investors, represented by US investment company Ripplewood Advisors LLC together with 12 reputable investors. Out of these Ripplewood will own 22.4% of the shares and the co-investors will have a 52.6% stake in the bank. EBRD plans to retain its current 25% share in the bank also in the future.

The deal is expected to be closed at the 1st quarter of 2015 following approvals by the Financial and Capital Market Commission as well as Lithuanian and the Swiss Banking Supervisors. According to the terms of the deal, the investors and the EBRD have committed to increase the capital of the bank by 10 million euro.

The bank believes that the new owners will create more opportunities for the improvement and development of operations thereof. Attraction of the private capital will strengthen the balance sheet of Citadele and help to develop the credit portfolio in Latvia and the Baltic States. It is important not only for the bank to enhance its profitability, but also to strengthen the Latvian economy, expanding the access to funding for private individuals, small and medium-sized enterprises as well as big organisations.

The bank and investors have a common development vision: to develop Citadele as the leading financial institutions in Latvia by delivering unrivalled service quality and product offerings to customers. Our duty is to maximise all newly acquired opportunities and we look forward to successful cooperation with Ripplewood, new investors and EBRD, to create value for all stakeholders: customers, employees, shareholders and whole Latvian economy.

## Customers are more often paying with payment cards

The bank has observed that the customers tend to use payment cards for their daily purchases more frequently rather than pay in cash.

The number of payment card purchases increased by 32% in the nine months period.

Citadele Bank is the exclusive cooperation partner of American Express® in Latvia and Lithuania who is entitled to issue American Express payment cards. Number of American Express payment cards in Latvia has increased by 23% in comparison with 2013.

## Employees Account for the Group's Success

It was great teamwork that delivered the aforementioned growth in Citadele's performance. Management would like to express its gratitude to the employees for their high level of professionalism and contribution in achievement of Citadele's goals.

We will continue developing Citadele in order to ensure that it becomes the most valuable local financial group in the Baltic States and the attraction of a private investor will let us to create new and greater growth prospects and opportunities in the future.

*The report has been approved by the Management Board of the Bank on 26 November 2014.*

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## Balance Sheets as at 30 September 2014 and 31 December 2013

*EUR 000’s*

| | 30.09.2014. *Unaudited* Group | 31.12.2013. *Audited** Group | 30.09.2014. *Unaudited* Bank | 31.12.2013. *Audited** Bank |
|---|---|---|---|---|
| Cash and demand deposits with central banks | 379,662 | 361,485 | 297,924 | 312,525 |
| Demand deposits with credit institutions | 109,321 | 133,680 | 64,468 | 104,740 |
| Financial assets held for trading | 31,715 | 31,466 | 5,259 | 3,665 |
| Financial assets designated at fair value through profit and loss | 94,909 | 62,336 | - | - |
| Available-for-sale financial assets | 466,350 | 401,738 | 373,206 | 331,930 |
| *Loans and receivables to customers:* | | | | |
| Loans to credit institutions | 69,947 | 137,501 | 54,918 | 114,488 |
| Loans to companies and private individuals | 1,089,720 | 1,055,922 | 955,795 | 924,914 |
| Held-to-maturity investments | 248,539 | 244,423 | 217,013 | 224,462 |
| Change in the fair value of the portfolio hedged against interest rate risk | | - | | - |
| Prepayments and accrued income | 3,211 | 2,440 | 1,894 | 1,876 |
| Property and equipment | 42,419 | 42,826 | 3,722 | 3,402 |
| Investment property | 496 | 748 | - | - |
| Intangible assets | 1,966 | 1,845 | 1,424 | 1,350 |
| Investments in subsidiaries | - | - | 61,600 | 62,841 |
| Income tax assets | 29,990 | 32,875 | 28,492 | 31,700 |
| Other assets | 32,419 | 32,237 | 19,978 | 23,335 |
| **Total assets** | **2,600,664** | **2,541,522** | **2,085,693** | **2,141,228** |
| | | | | |
| Due to central banks | 5 | 5 | 5 | 5 |
| Demand liabilities to credit institutions | 11,677 | 8,506 | 28,243 | 20,748 |
| Financial liabilities held for trading | 1,402 | 4,062 | 3,783 | 4,599 |
| Financial liabilities designated at fair value through profit and loss | 21,669 | 16,626 | - | - |
| *Financial liabilities measured at amortised cost:* | | | | |
| Loans from credit institutions | 2,291 | 17,244 | 14,918 | 34,533 |
| Deposits from customers | 2,282,861 | 2,246,912 | 1,787,193 | 1,851,348 |
| Subordinated liabilities | 72,253 | 73,575 | 72,253 | 73,575 |
| Other financial liabilities | 10,115 | 8,315 | - | - |
| Amounts payable under repurchase agreements | - | - | - | - |
| Change in the fair value of the portfolio hedged against interest rate risk | - | - | - | - |
| Accrued expenses and deferred income | 12,659 | 12,193 | 9,211 | 8,804 |
| Provisions | 705 | - | 247 | - |
| Income tax liabilities | 246 | - | - | - |
| Other liabilities | 16,939 | 10,636 | 5,664 | 4,020 |
| **Total liabilities** | **2,432,822** | **2,398,074** | **1,921,517** | **1,997,632** |
| Shareholders’ equity | 167,842 | 143,448 | 164,176 | 143,596 |
| **Total liabilities and shareholders’ equity** | **2,600,664** | **2,541,522** | **2,085,693** | **2,141,228** |
| | | | | |
| **Memorandum items** | | | | |
| Contingent liabilities | 42,002 | 101,909 | 37,697 | 96,566 |
| Financial commitments | 189,197 | 186,737 | 221,097 | 192,561 |

* Auditor: SIA “KPMG Baltics”. On 1 January 2014 the Republic of Latvia adopted Euro as the national currency. From 1 January 2014 the Bank’s and the Group's presentation currency is Euro (“EUR”). The comparative amounts presented in these financial statements are converted from Lats to Euros at the official exchange rate of 0.702804 LVL/EUR.

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## Income Statement
## for the 9 month period ended 30 September 2014 and 2013

*EUR 000's*

| | 01.01.2014.-30.09.2014. *Unaudited* Group | 01.01.2013.-30.09.2013. *Unaudited* Group | 01.01.2014.-30.09.2014. *Unaudited* Bank | 01.01.2013.-30.09.2013. *Unaudited* Bank |
|---|---|---|---|---|
| Interest income | 58,866 | 55,761 | 49,147 | 46,818 |
| Interest expense | (13,660) | (14,907) | (11,552) | (13,211) |
| Dividends received | - | - | 1,690 | 3,755 |
| Commission and fee income | 35,253 | 32,932 | 26,900 | 25,072 |
| Commission and fee expense | (10,427) | (8,886) | (8,783) | (7,703) |
| Net gain/ (loss) on financial assets and financial liabilities measured at amortised cost | (91) | - | - | - |
| Net gain/ (loss) on available for sale financial assets and financial liabilities | 2,549 | 4,283 | 962 | 2,140 |
| Net gain/ (loss) on held for trading financial assets and financial liabilities | 190 | (711) | 5 | 4 |
| Net gain/ (loss) on financial assets or financial liabilities designated at fair value though profit and loss | (212) | (626) | - | - |
| Fair value change in the hedge accounting | - | - | - | - |
| Gain/ (loss) from foreign exchange trading and revaluation of open positions | 8,640 | 10,627 | 7,021 | 8,509 |
| **Net financial profit** | **81,108** | **78,473** | **65,390** | **65,384** |
| Net gain/ (loss) on disposal of property, plant and equipment, investment property and intangible assets | (29) | 286 | - | - |
| Other income | 1,810 | 2,056 | 1,067 | 314 |
| Other expense | (1,060) | (594) | (637) | (401) |
| Administrative expense | (45,958) | (44,756) | (34,289) | (32,332) |
| Amortisation and depreciation charge | (4,055) | (4,428) | (983) | (1,060) |
| Impairment charge and reversals, net | (5,393) | (14,136) | (7,841) | (14,054) |
| **Profit before taxation** | **26,423** | **16,901** | **22,707** | **17,851** |
| Corporate income tax | (3,597) | (2,314) | (3,363) | (2,420) |
| **Profit for the reporting period** | **22,826** | **14,587** | **19,344** | **15,431** |

Statements of Comprehensive Income:

*EUR 000's*

| | 01.01.2014.-30.09.2014. *Unaudited* Group | 01.01.2013.-30.09.2013. *Unaudited* Group | 01.01.2014.-30.09.2014. *Unaudited* Bank | 01.01.2013.-30.09.2013. *Unaudited* Bank |
|---|---|---|---|---|
| Net change in fair value revaluation reserve of securities and other reserves | 1,568 | (5,277) | 1,236 | (2,695) |
| **Other comprehensive income for the period** | **1,568** | **(5,277)** | **1,236** | **(2,695)** |
| **Total comprehensive income for the period** | **24,394** | **9,310** | **20,580** | **12,736** |

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## Performance Ratios of the Group and the Bank

| | 01.01.2014.-30.09.2014. Group | 01.01.2013.-30.09.2013. Group | 01.01.2014.-30.09.2014. Bank | 01.01.2013.-30.09.2013. Bank |
|---|---|---|---|---|
| Return on equity (ROE) (%)* | 19.55% | 13.93% | 16.76% | 14.99% |
| Return on assets (ROA) (%)* | 1.18% | 0.84% | 1.22% | 1.06% |

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

## Ratings Assigned by Rating Agencies

| | Long-term rating | Short-term rating | Financial strength rating | Rating’s outlook | Rating revision date |
|---|---|---|---|---|---|
| Moody's Investors Service | B2 | Not Prime | E+ | Negative | 29.05.2014 |
| Moody's Investors Service | B2 | Not Prime | E+ | Stable | 23.08.2013 |
| Moody's Investors Service | B2 | Not Prime | E+ | Negative | 16.12.2011 |
| Moody's Investors Service | Ba3 | Not Prime | E+ | Under Review | 06.10.2011 |
| Moody's Investors Service | Ba3 | Not Prime | E+ | Stable | 06.10.2010 |

Detailed information about ratings can be found on the web site of the rating agency: www.moodys.com

## Investments in Securities by Issuer’s Country

| | Group | | | |
|---|---|---|---|---|
| | 30.09.2014. *Unaudited* | | 31.12.2013. *Audited* | |
| | Government bonds | Other securities | Government bonds | Other securities |
| Latvia | 269,247 | 37,707 | 290,350 | 37,714 |
| Lithuania | 99,515 | - | 74,015 | - |
| Finland | 12,843 | 11,525 | 17,735 | 8,002 |
| Netherlands | 9,904 | 36,875 | 10,447 | 28,697 |
| United States | 3,975 | 60,727 | - | 32,023 |
| Canada | 3,182 | 23,820 | 3,745 | 19,834 |
| Australia | 723 | 23,393 | - | 17,854 |
| Germany | - | 21,738 | 1,150 | 24,866 |
| Singapore | - | 21,719 | 7,319 | 4,031 |
| Norway | - | 19,128 | - | 13,999 |
| Other countries** | 33,784 | 146,390 | 29,756 | 114,470 |
| **Total securities, net** | **433,173** | **403,022** | **434,517** | **301,490** |

| | Bank | | | |
|---|---|---|---|---|
| | 30.09.2014. *Unaudited* | | 31.12.2013. *Audited* | |
| | Government bonds | Other securities | Government bonds | Other securities |
| Latvia | 259,889 | 36,666 | 288,417 | 36,734 |
| Finland | 10,241 | 11,525 | 15,695 | 8,002 |
| Netherlands | 9,904 | 19,288 | 10,447 | 17,092 |
| United States | 3,975 | 31,931 | - | 17,440 |
| Canada | 3,182 | 19,089 | 3,745 | 17,349 |
| Australia | 723 | 18,698 | - | 15,106 |
| Singapore | - | 21,719 | 7,319 | 4,031 |
| Norway | - | 16,379 | - | 11,097 |
| Other countries** | 29,952 | 97,059 | 25,143 | 78,775 |
| **Total securities, net** | **317,866** | **272,354** | **350,766** | **205,626** |

** Each country’s issuers’ total exposure is less than 10% from the eligible capital used for capital adequacy calculation purposes. Investments in managed funds are included in line "Other countries".

As at the period end the Bank and the Group has not recognized any impairment allowance for held-to-maturity investments (2013: nil). Market value of the total Bank’s and Group’s held-to-maturity securities as at 30 September 2014 is EUR 221,773 thousand (2013: EUR 229,353 thousand) and EUR 253,988 thousand (2013: EUR 249,724 thousand), respectively. During the reporting period the Bank and the Group has recognized net provisions of EUR 255 thousand for available for sale securities (2013: recognized provisions of EUR 182 thousand); total recognized impairment allowance for available for sale securities as at the period end is EUR 7,215 thousand (2013: EUR 8,256 thousand).

## Bank’s Business Strategy and Objectives

Information about Citadele’s strategy is available in “Business Strategy” section of the Bank’s web page, about Bank’s objectives – in “Vision, mission, values” section.

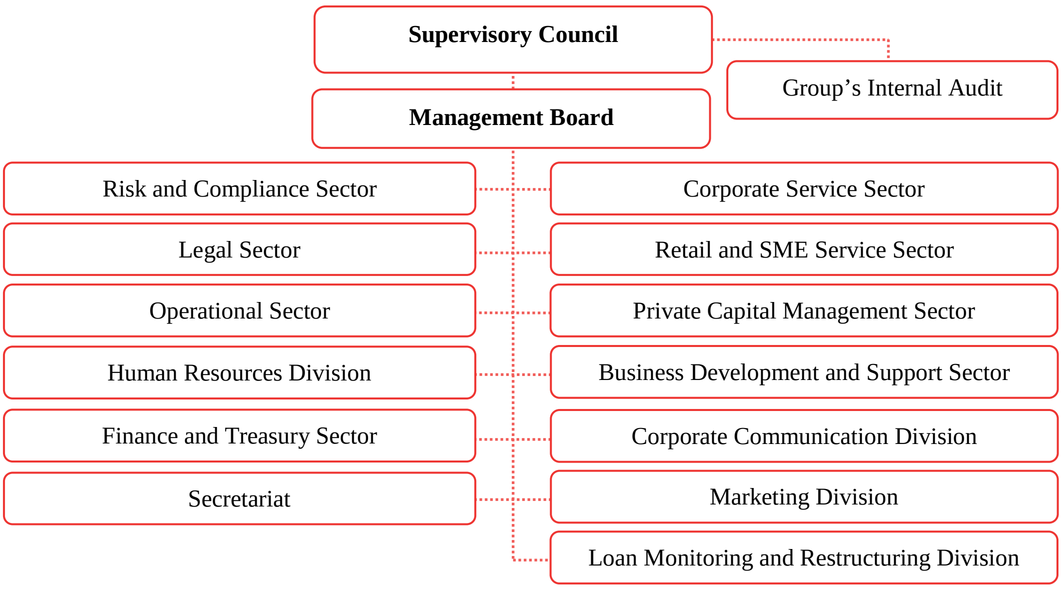
## Issued Share Capital as at 30 September 2014

| Shareholders | Nominal value (EUR) | Number of shares | Paid-in share capital (EUR) | Voting rights | Paid-in share capital (%) |
|---|---|---|---|---|---|
| VAS “Privatizācijas Aģentūra" | 1 | 109,916,846 | 109,916,846 | 109,916,846 | 75% minus 1 share |
| EBRD | 1 | 36,638,950 | 36,638,950 | 36,638,950 | 25% plus 1 share |
| **Total** | | **146,555,796** | **146,555,796** | **146,555,796** | **100%** |

Due to Euro adoption, on 8 April 2014 amendments to the statutes of AS Citadele Banka were registered, changing nominal value of one share from LVL 1 to EUR 1. The total number of shares and voting rights increased to 146,555,796 (2013: 103,000,000). Shareholder structure did not change.

## Information about Citadele Bank’s Organizational Structure

As at 30 September 2014 the Bank was operating a total of 20 branches (including 1 foreign branches), 18 mid-size client service centres (including 1 foreign) and 2 representative offices. Information about Citadele's branches and client service centres is available on the Bank's web page's section “Klientu apkalpošanas centri un filiāles”, about ATM – in section “Bankomāti”.



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## Consolidation Group

| No. | Name of company | Registration number | Registration address | Country of domicile | Company type* | % of total paid-in share capital | % of total voting rights | Basis for inclusion in the group** |
|---|---|---|---|---|---|---|---|---|
| 1 | AS “Citadele banka" | LV-40103303559 | Latvia, Riga LV-1010, Republikas laukums 2A | LV | BNK | 100 | 100 | MAS |
| 2 | IPAS “Citadele Asset Management" | LV-40003577500 | Latvia, Riga LV-1010, Republikas laukums 2A | LV | IPS | 100 | 100 | MS |
| 3 | AB “Citadele” | LT-112021619 | Lithuania, Vilnius LT-03107, K. Kalinausko 13 | LT | BNK | 100 | 100 | MS |
| 4 | SIA “Citadele Express Kredīts" | LV-40003238125 | Latvia, Riga LV-1010, Republikas laukums 2A | LV | CFI | 100 | 100 | MS |
| 5 | AS “Citadele atklātais pensiju fonds" | LV-40003397312 | Latvia, Riga LV-1010, Republikas laukums 2A | LV | PFO | 100 | 100 | MS |
| 6 | AAS “Citadele Life" | LV-40003786859 | Latvia, Riga LV-1010, Republikas laukums 2A | LV | APS | 100 | 100 | MMS |
| 7 | OU “Citadele Leasing & Factoring" | EE-10925733 | Estonia, Tallinn 10119, Roosikrantsi 2 | EE | LIZ | 100 | 100 | MS |
| 8 | OOO “Citadele Asset Management Ukraina” | UA-32984601 | Ukraine, Kiev 03150, Gorkovo 172 | UA | IBS | 100 | 100 | MMS |
| 9 | SIA “E & P Baltic Properties" | LV-40003754637 | Latvia, Riga LV-1010, Republikas laukums 2A | LV | IPS | 50 | 50 | MMS |
| 10 | UAB “Citadele faktoringas ir lizingas" | LT-126233315 | Lithuania, Vilnius LT03107, K.Kalinausko 13 | LT | LIZ | 100 | 100 | MMS |
| 11 | UAB “Citadele investiciju valdymas" | LT-111829843 | Lithuania, Vilnius LT01109, Gyneju 16 | LT | IBS | 100 | 100 | MMS |
| 12 | “AP Anlage & Privatbank” AG | CH-130.0.007.738-0 | Switzerland, Limmatquai 4, CH-8001, Zurich | CH | BNK | 100 | 100 | MS |
| 13 | Calenia Investments Limited | CY-HE156501 | Cyprus, Nicosia 1075, 58 Arch. Makarios III Avenue, Iris Tower, 6th floor, office 602 | CY | PLS | 100 | 100 | MS |
| 14 | SIA “Citadele līzings un faktorings" | LV-50003760921 | Latvia, Riga LV-1010, Republikas laukums 2A | LV | LIZ | 100 | 100 | MS |
| 15 | SIA “Rīgas pirmā garāža" | LV-40003397543 | Latvia, Riga LV-1010, Republikas laukums 2A | LV | PLS | 100 | 100 | MS |
| 16 | SIA “RPG interjers" | LV-40103157899 | Latvia, Riga LV-1010, Republikas laukums 2A | LV | PLS | 100 | 100 | MMS |
| 17 | SIA “PR Speciālie projekti" | LV-40103195231 | Latvia, Riga LV-1010, Republikas laukums 2A | LV | PLS | 100 | 100 | MMS |
| 18 | SIA “Hortus Commercial" | LV-40103460641 | Latvia, Riga LV-1010, Republikas laukums 2A | LV | PLS | 100 | 100 | MS |
| 19 | SIA “Hortus Land" | LV-40103460961 | Latvia, Riga LV-1010, Republikas laukums 2A | LV | PLS | 100 | 100 | MS |
| 20 | SIA “Hortus TC" | LV-50103460681 | Latvia, Riga LV-1010, Republikas laukums 2A | LV | PLS | 100 | 100 | MS |
| 21 | SIA “Hortus Residental" | LV-40103460622 | Latvia, Riga LV-1010, Republikas laukums 2A | LV | PLS | 100 | 100 | MS |
| 22 | SIA “Hortus LH” | LV-40103721581 | Latvia, Riga LV-1010, Republikas laukums 2A | LV | PLS | 100 | 100 | MS |
| 23 | SIA “Hortus MD” | LV-40103724840 | Latvia, Riga LV-1010, Republikas laukums 2A | LV | PLS | 100 | 100 | MS |
| 24 | SIA “Hortus JU” | LV-40103724855 | Latvia, Riga LV-1010, Republikas laukums 2A | LV | PLS | 100 | 100 | MS |
| 25 | SIA “Hortus RE” | LV-40103752416 | Latvia, Riga LV-1010, Republikas laukums 2A | LV | PLS | 100 | 100 | MS |

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| No. | Name of company | Registration number | Registration address | Country of domicile | Company type* | % of total paid-in share capital | % of total voting rights | Basis for inclusion in the group** |
|---|---|---|---|---|---|---|---|---|
| 26 | SIA “Hortus BR” | LV-50103752441 | Latvia, Riga LV-1010, Republikas laukums 2A | LV | PLS | 100 | 100 | MS |
| 27 | SIA “Hortus NI” | LV-40103752435 | Latvia, Riga LV-1010, Republikas laukums 2A | LV | PLS | 100 | 100 | MS |

*BNK – bank, IBS – investment brokerage company, IPS – investment management company, PFO – pension fund, CFI – other financial institution, LIZ – leasing company, PLS – company providing various support services, APS – insurance company. ** MS – subsidiary company, MMS – subsidiary of the subsidiary company, MAS – parent company.

## Management of the Bank as at 30 September 2014

***Supervisory Council of the Bank***

| Name | Position |
|---|---|
| Klāvs Vasks | Chairman of the Supervisory Council |
| Geoffrey Richard Dunn | Deputy chairman of the Supervisory Council |
| Laurence Philip Adams | Member of the Supervisory Council |
| Baiba Anda Rubesa | Member of the Supervisory Council |
| Aldis Greitāns | Member of the Supervisory Council |

***Management Board of the Bank***

| Name | Position |
|---|---|
| Guntis Beļavskis | Chairman of the Management Board, p.p. |
| Valters Ābele | Member of the Management Board, p.p. |
| Kaspars Cikmačs | Member of the Management Board |
| Santa Purgaile | Member of the Management Board |
| Aldis Paegle | Member of the Management Board |

On 1 January 2014 Aldis Paegle was appointed to the Management Board as Chief Financial Officer. On 1 November 2014 Member of the Supervisory Council Laurence Philip Adams has resigned.

## Liquidity Ratio Calculation as at 30 September 2014

*EUR 000’s*

| | | **30.09.2014.** ***Unaudited*** **Bank** |
|---|---|---|
| **1** | **Liquid assets (1.1.+1.2.+1.3.+1.4.)** | **890,444** |
| 1.1 | Cash | 50,184 |
| 1.2 | Due from Bank of Latvia | 246,834 |
| 1.3 | Due from with solvent credit institutions | 116,688 |
| 1.4 | Liquid securities | 476,738 |
| **2** | **Liabilities (with remaining maturity up to 30 days) (2.1.+2.2.+2.3.+2.4.+2.5.+2.6.)** | **1,638,635** |
| 2.1 | Due to credit institutions | 32,737 |
| 2.2 | Deposits | 1,363,623 |
| 2.3 | Issued debt securities | - |
| 2.4 | Cash in transit | 32,390 |
| 2.5 | Other current liabilities | 17,954 |
| 2.6 | Off balance sheet liabilities | 191,931 |
| **3** | **Liquidity ratio (1.:2.) (%)** | **54%** |
| **4** | **Minimum liquidity ratio** | **30%** |

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

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## Capital Adequacy Reports as at 30 September 2014

*EUR 000’s*

| | | 30.09.2014. *Unaudited* Group | 30.09.2014. *Unaudited* Bank |
|---|---|---|---|
| **1** | **Own funds** | **171,095** | **175,522** |
| 1.1 | Tier 1 capital | 136,850 | 141,277 |
| *1.1.1* | *Common equity Tier 1 capital* | *136,850* | *141,277* |
| *1.1.2* | *Additional Tier 1 capital* | - | - |
| 1.2 | Tier 2 capital | 34,245 | 34,245 |
| **2** | **Total risk exposure amount (2.1.+2.2.+2.3.+2.4.+2.5.+2.6.+2.7.)** | **1,678,460** | **1,465,506** |
| 2.1 | Risk weighted exposure amounts for credit, counterparty credit and dilution risks and free deliveries | 1,472,708 | 1,316,032 |
| 2.2 | Total risk exposure amount for settlement/delivery | - | - |
| 2.3 | Total risk exposure amount for position, foreign exchange and commodities risks | 26,038 | 6,838 |
| 2.4 | Total risk exposure amount for operational risk | 179,347 | 142,269 |
| 2.5 | Total risk exposure amount for credit valuation adjustment | 367 | 367 |
| 2.6 | Total risk exposure amount related to large exposures in the trading book | - | - |
| 2.7 | Other risk exposure amounts | - | - |
| **3** | **Capital adequacy ratios** | | |
| 3.1 | Common equity Tier 1 capital ratio (1.1.1./2.*100) | 8.2% | 9.6% |
| 3.2 | Surplus (+)/ deficit (-) of Common equity Tier 1 capital (1.1.1.-2.*4.5%) | 61,319 | 75,330 |
| 3.3 | Tier 1 capital ratio (1.1./2.*100) | 8.2% | 9.6% |
| 3.4 | Surplus (+)/ Deficit (-) of Tier 1 capital (1.1.-2.*6%) | 36,142 | 53,347 |
| 3.5 | Total capital ratio (1./2*100) | 10.2% | 12.0% |
| 3.6 | Surplus (+)/ Deficit (-) of total capital (1.-2.*8%) | 36,818 | 58,282 |
| **4** | **Combined buffer requirements (4.1.+4.2.+4.3.+4.4.+4.5.)** | **2.5%** | **2.5%** |
| 4.1 | Capital conservation buffer (%) | 2.5% | 2.5% |
| 4.2 | Institution specific countercyclical buffer (%) | - | - |
| 4.3 | Systemic risk buffer (%) | - | - |
| 4.4 | Systemically important institution buffer (%) | - | - |
| 4.5 | Other systemically important institution buffer (%) | - | - |
| **5** | **Capital adequacy ratios, including adjustments** | | |
| 5.1 | Impairment or asset value adjustments for capital adequacy ratio purposes | - | - |
| 5.2 | Common equity tier 1 capital ratio including line 5.1 adjustments | 8.2% | 9.6% |
| 5.3 | Tie 1 capital ratio including line 5.1 adjustments | 8.2% | 9.6% |
| 5.4 | Total capital ratio including line 5.1 adjustments | 10.2% | 12.0% |

*Capital adequacy ratios in these financial statements are calculated in accordance with the CRD IV package which transposes – via a regulation (575/2013) and a directive (2013/36/EU) – the new global standards on bank capital (the Basel III agreement) into EU law.*

Financial and Capital Markets Commission on 23 October 2014 issued a permit to include 2014 first half year interim profits in common equity Tier 1 capital. Bank’s and Group’s total capital ratio including first half year profits as at 30 September 2014 is 13.0% and 11.0%, respectively; common equity Tier 1 capital ratio – 10.6% and 9.0%.

## Risk Management

Risk management principles are set out in Group’s Risk Management Policy. The Group adheres to the following key risk management principles:

- The Group aims to ensure low risk exposure, diversified asset portfolio, limited risks in financial markets and low level of operational risk;
- The Group aims to ensure an acceptable risk level in all operations. Risks are always assessed in relation to the expected return. Risk exposures that are not acceptable for the Group are avoided, limited or hedged;
- The Group does not assume high or uncontrollable risks irrespective of the return they provide. Risks should be diversified and those risks that are quantifiable should be limited or hedged;
- The Group pursues prudent risk management policy, that is aligned with the Group’ business and ensures effective total risk mitigation;
- Risk management is based on awareness of each and every Group’s employee about and responsibility for the nature of transactions he/she carries out and related risks;
- Risk limit system and strict controls are essential risk management elements. Control of risk level and compliance with limits is ensured by structured risk limit systems for all material risks.

Risk management is an essential element of the Group’s management process. Risk management within the Group is controlled by independent unit – Risk and Compliance Sector.

The Group is exposed to the following main risks: credit risk, market risk, interest rate risk, liquidity risk, currency risk and operational risk. The Group has approved risk management policies for each of these risks, which are briefly summarised below. More detailed information about risk management is available in “Risk management” note of AS “Citadele Banka” annual report, which is published in the Bank’s web page’s section “Annual reports”.

### *Credit Risk*

Credit risk is the risk that the Group will incur a loss from debtor’s non-performance or default. The Group is exposed to credit risk in its lending, investing and trading activities, as well as in respect to the guarantees issued to third parties and other off-balance sheet commitments to third parties.

Credit risk management is based on adequate risk assessment and decision-making. For material risks, risk analysis is conducted by independent unit of Risk and Compliance Sector. The analysis of credit risk comprises evaluation of customer’s creditworthiness and collateral and its liquidity. The analysis of creditworthiness of a legal entity includes the analysis of industry, the company, its credit history and its current and forecasted financial position. The analysis of creditworthiness of an individual includes the analysis of the customer’s credit history, income and debt-to-income ratio analysis, as well as the analysis of social and demographic factors. In the event of material risks, lending decision is made by the Credit Committee, and further reviewed by the Bank’s Management Board.

After the loan is issued, customer’s financial position is monitored on a regular basis in order to timely identify potential credit losses.

To limit its credit risk, the Group has set the following concentration limits: individual counterparty limit, limit for group of mutually related customers, limit for large risk exposures, limit for the Group’s related parties, an industry limit, limit by customer type, loan product, and collateral type.

The Group reviews its loan portfolio on a regular basis to assess its quality and concentrations, as well as to evaluate the portfolio trends.

Credit risk identification, monitoring and reporting is the responsibility of Risk and Compliance Sector.

### *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 GIC are approved by the Bank’s Management Board. Market risk is managed by the Group’s business units and subsidiaries which can accept market risk in line with the set limits and investment restrictions of the respective portfolio. Market risk is measured, monitored and risk levels are reported by Risk and Compliance Sector.

The Group manages market risk by developing investment guidelines for every significant portfolio, as well as by setting individual limits to issuers and financial instruments, ensuring that maximum limit volumes are closely linked to the results of risk assessment. The Group puts a large emphasis on concentration risk applying a framework, where limits are set based on risk weighted exposures for every country and sector combination. To assess position risk the Group uses sensitivity analysis and scenario analysis, which identifies and quantifies negative impact of adverse events on portfolio of the Group taking into consideration regional, sector and credit rating profile.

## *Interest Rate Risk*

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

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

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

## *Liquidity Risk*

Liquidity risk is the risk that the Group will be unable to meet its legal payment obligations. The purpose of liquidity risk management is to ensure the availability of liquid assets sufficient to meet potential obligations.

The Group manages its liquidity risk in accordance with the Group's Liquidity Risk Management Policy. Liquidity risk is assessed and decisions are made by ALCO. The decisions of ALCO are approved by the Bank's Management Board. ALCO sets the acceptable liquidity risk level, the Group's internal limit system and defines instruments for the management of liquidity risk, as well as monitors the compliance with the set limits. Daily liquidity management, as well as control is ensured by the Treasury Sector. Liquidity risk management and reporting in the Group is coordinated by the Risk and Compliance Sector.

The Bank evaluates liquidity risk by using scenario analysis. For this purpose several scenarios of Bank's operations under a variety of conditions are developed: gentle crisis (base case scenario), bank's crisis, general market crisis and a combined scenario. The Bank evaluates its liquidity position for each of the scenarios for a variety of periods (ranging from 1 week to 3 months). System of liquidity risk limits and early warning indicators has been implemented in the Bank. The Bank also estimates costs it could suffer under conditions of prolonged liquidity crisis. In addition to scenarios analysis, the Bank also prepares yearly cash flows, which incorporate assumptions about the most likely flows of funds. For general assessment of asset and liability gaps the Bank regularly prepares and analyses liquidity term structure.

In the reporting period the Bank was in compliance with liquidity ratio requirements and met mandatory reserve requirements in the Bank of Latvia.

## *Currency Risk*

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

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

Day-to-day currency risk management is the responsibility of Treasury Sector, while risk monitoring and reporting is the responsibility of Risk and Compliance Sector. The Group has set a limit for open currency positions in each currency at 10% of its equity, and the limit for the total open currency position at 20% of its equity. The limits are in compliance with the requirements of Latvian legislation. In assessing its currency risk the Group also makes use of several widely applied methodologies: value at risk, expected shortfall and scenario analysis.

## *Operational Risk*

The Group defines operational risk as the risk of losses resulting from processes that are deficient or non-compliant with requirements of external and internal regulations, losses resulting from actions of employees and system malfunctioning, as well as losses resulting from actions of third parties or from other external conditions, including legal risk (risk of penalty fees, sanctions applied by external institutions, losses resulting from litigation and other similar events), but excluding strategic risk and reputation risk. The Group further divides operational risk into the following categories: personnel risk, process risk, IT and systems risk, external risk.

The Group does not accept operational risks with potential impact exceeding 10% of the Group’s net annual revenues and with probability of occurrence at least once per ten years or risks with unquantifiable impact which are unmanageable, irrespective of the financial gains this could bring (i.e., the Group does not perform business activities incurring such operational risks).

The Group applies following approaches for operational risk management:

- Self-assessment of operational risk – the business-owners of the products and processes perform identification and evaluation of potential operational risk events, assessment of the existing control systems and the analysis of the required risk mitigation measures using self-assessment questionnaires and brainstorming sessions with the experts of the respective process;
- Defining operational risk indicators – use of statistical, financial and other indicators that reflect the level of various operational risk types and its changes within the Group;
- Operational risk measurement by recording and analysing operational risk events, the extent of the respective damage incurred, causes and other related information (data base of operational risk losses and incidents);
- Business continuity planning;
- Risk assessment within development projects.