AS Citadele banka

Public Financial Information

4th Quarter 2018

Prepared in accordance with the Financial and Capital Market Commission’s regulation No. 145 "Regulation on Preparation of Public Quarterly Reports of Credit institutions"

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Key Figures of the Group

EUR millions	Q4 2018	Q4 2017[10]	Change[1]	Jan-Dec 2018	Jan-Dec 2017[10]	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
Total assets	3,052	3,312	(8%)	3,350	(1%)
Loans to public[7]	1,396	1,331	5%	1,241	7%
Deposits and borrowings from customers[7]	2,645	2,917	(9%)	2,994	(3%)
Shareholders' equity	297	269	10%	254	6%
Loan-to-deposit ratio[8]	53%	46%	7pp	41%	4pp
Total capital adequacy ratio (CAR)[9]	20.1%	18.4%	1.7pp	16.5%	1.9pp
Common equity Tier 1 capital ratio (CET1)[9]	16.7%	15.0%	1.7pp	13.5%	1.5pp
Full time employees	1,492	1,540	(3%)	1,603	(4%)

(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) In the Key Figures section, “Loans to public” and “Deposits and borrowings from customers” are defined consistently with audited annual and interim financial information prepared in accordance with IFRS and excludes bank balances, but includes items with clients classified both at fair value and at amortised cost. Therefore, these may not be directly compared to “financial assets at amortised cost” and “financial liabilities measured at amortised cost” reported herein.
(8) 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.
(9) CAR and CET1 ratios calculated by applying transitional rules and including profit for the year, inclusion of which is subject to Citadele taking a formal decision confirming the final profit for the year which is expected after completion of the audit of the annual report.
(10) In 2018 Citadele changed classification of supervisory fees and certain commission expenses. Prior period comparatives have been adjusted accordingly.

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 shareholder's 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.

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.

Citadale'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,

Guntis Beļavskis

Chairman of the Management Board

Income Statement

	EUR th.	Jan-Dec 2018 *Unaudited* Group	Jan-Dec 2017 *Audited*[1)] Group	Jan-Dec 2018 *Unaudited* Bank	Jan-Dec 2017 *Audited*[(1)] Bank
1.	Interest income	97,644	93,990	74,521	72,205
2.	Interest expense	(15,066)	(18,616)	(13,052)	(15,753)
3.	Dividend income	34	35	2,491	3,948
4.	Commission and fee income	57,019	56,441	42,314	40,453
5.	Commission and fee expense	(25,051)	(22,117)	(21,714)	(19,299)
6.	Gain or loss on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	565	236	157	267
7.	Gain or loss on financial assets and liabilities measured at fair value through profit or loss, net	(220)	(130)	-	-
8.	Fair value change in the hedge accounting	-	-	-	-
9.	Gain or loss from foreign exchange trading and revaluation of open positions	10,057	15,990	8,624	13,369
10.	Gain or loss on derecognition of non financial assets, net	-	-	-	-
11.	Other income	3,065	4,246	2,426	4,231
	Operating income	**128,047**	**130,075**	**95,767**	**99,421**
12.	Other expense	(869)	(752)	(316)	(111)
13.	Administrative expense	(79,167)	(76,815)	(60,616)	(57,658)
14.	Amortisation and depreciation charge	(6,215)	(5,267)	(3,275)	(2,692)
	Operating expense	**(86,251)**	**(82,834)**	**(64,207)**	**(60,461)**
15.	Gain or loss on modifications in financial asset contractual cash flows	-	-	-	-
16.	Provisions, net	613	(111)	294	(111)
17.	Impairment charge and reversals, net	(7,609)	(4,422)	1,225	(12,110)
18.	Negative goodwill recognised in profit or loss	-	-	-	-
19.	Share of the profit or loss of investments in subsidiaries, joint ventures and associates accounted for using the equity method	-	-	-	-
20.	Profit or loss from non-current assets and disposal groups classified as held for sale	-	-	-	-
21.	**Profit before taxation**	**34,800**	**42,708**	**33,079**	**26,739**
22.	Corporate income tax	46	(26,745)	(42)	(25,482)
23.	**Net profit / loss for the period**	**34,846**	**15,963**	**33,037**	**1,257**
28.	**Other comprehensive income for the period**	**(856)**	**(1,301)**	**(897)**	**501**

1) In 2018 Citadele changed classification of supervisory fees and certain commission expenses. Prior period comparatives have been adjusted accordingly. EUR 2,403 thousand for the Group and EUR 1,396 thousand for the Bank were reclassified from administrative expense to fee and commission expense.

Balance Sheet

	EUR th.	31/12/2018 *Unaudited* Group	31/12/2017 *Audited* Group	31/12/2018 *Unaudited* Bank	31/12/2017 *Audited* Bank
1.	Cash and demand balances with central banks	405,315	715,468	155,510	494,848
2.	Demand deposits due from credit institutions	97,724	138,311	88,989	204,216
3.	Financial assets designated at fair value through profit or loss	28,679	162,659	614	2,481
4.	Financial assets at fair value through other comprehensive income	409,718	858,861	255,978	628,738
5.	Financial assets at amortised cost	2,018,361	1,343,560	1,721,965	1,118,266
6.	Derivatives – hedge accounting	-	-	-	-
7.	Change in the fair value of the portfolio hedged against interest rate risk	-	-	-	-
8.	Investments in subsidiaries, joint ventures and associates	-	-	71,614	64,725
9.	Tangible assets	48,893	51,198	4,817	4,994
10.	Intangible assets	4,868	4,166	4,651	3,877
11.	Tax assets	2,929	1,558	247	-
12.	Other assets	35,604	35,987	25,598	23,284
13.	Non-current assets and disposal groups classified as held for sale	-	-	-	-
14.	**Total assets (1.+....+13.)**	**3,052,091**	**3,311,768**	**2,329,983**	**2,545,429**
15.	Due to central banks	22	16	10	6
16.	Demand liabilities to credit institutions	1,199	1,724	4,673	5,045
17.	Financial liabilities designated at fair value through profit or loss	35,462	40,316	1,504	3,168
18.	Financial liabilities measured at amortised cost	2,677,117	2,961,775	2,032,355	2,277,976
19.	Derivatives – hedge accounting	-	-	-	-
20.	Change in the fair value of the portfolio hedged against interest rate risk	-	-	-	-
21.	Provisions	3,196	893	2,616	334
22.	Tax liabilities	810	1,693	-	832
23.	Other liabilities	37,485	36,456	21,005	18,173
24.	Liabilities included in disposal groups classified as held for sale	-	-	-	-
25.	**Total liabilities (15.+...+24.)**	**2,755,291**	**3,042,873**	**2,062,163**	**2,305,534**
26.	Shareholders' equity	296,800	268,895	267,820	239,895
27.	**Total liabilities and shareholders' equity (25.+26.)**	**3,052,091**	**3,311,768**	**2,329,983**	**2,545,429**
28.	**Memorandum items**				
29.	Contingent liabilities	22,405	29,422	17,820	25,252
30.	Financial commitments	344,116	236,157	355,309	287,455

On 1 January 2018 the Group adopted IFRS 9. As a result classification of financial assets and liabilities and calculation methodology of impairment allowances changed. For additional information on IFRS 9 implementation impact and related changes in the Group's accounting policy refer to the interim financial information in the section "Financial reports" of the web page of Citadele.

For audited financial reports, please refer to the section "Financial reports" of the web page of Citadele. Auditor: SIA "KPMG Baltics".

Key Ratios

	Jan-Dec 2018 Group	Jan-Dec 2017 Group	Jan-Dec 2018 Bank	Jan-Dec 2017 Bank
Return on equity (ROE) (%)*	12.32%	6.10%	13.01%	0.53%
Return on assets (ROA) (%)*	1.10%	0.48%	1.36%	0.05%

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

Investments in Securities by Issuer's Country

	Group			
	31/12/2018		31/12/2017	
EUR th.	Government bonds	Other securities	Government bonds	Other securities
Latvia	251,772	6,900	265,055	1,916
Lithuania	151,868	3,928	144,879	520
United States	10,425	84,435	12,566	80,406
Netherlands	12,892	81,948	-	84,275
Canada	5,112	37,408	2,227	34,472
Germany	12,714	23,201	7,233	26,034
United Kingdom	2,623	26,473	-	32,675
Multilateral development banks	-	42,243	-	43,604
Other countries**	40,720	231,615	45,623	237,629
Total securities, net	**488,126**	**538,151**	**477,583**	**541,531**

	Bank			
	31/12/2018		31/12/2017	
EUR th.	Government bonds	Other securities	Government bonds	Other securities
Latvia	247,176	5,921	249,477	1,421
Lithuania	150,929	2,874	39,512	-
Netherlands	9,130	58,885	-	49,027
United States	8,672	40,627	8,385	43,860
Canada	2,149	27,673	2,227	16,152
Multilateral development banks	-	31,267	-	24,901
Other countries**	36,611	166,050	21,886	171,889
Total securities, net	**454,667**	**333,297**	**321,487**	**307,250**

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

Impairment Allowances by Stages

	31/12/2018					
	Group			Bank		
EUR th.	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Impairment allowances for:						
Financial assets at fair value through other comprehensive income	145	-	-	68	-	-
Financial assets at amortised cost	12,662	7,425	46,985	9,872	6,443	38,508
Memorandum items	2,101	411	249	1,985	386	246
Total impairment allowances for financial instruments	**14,908**	**7,836**	**47,234**	**11,925**	**6,829**	**38,754**

Shareholders on 31 December 2018

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

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

Liquidity Coverage Ratio

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

Liquidity coverage ratio (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.

Capital Adequacy Report, including profit for the year

	EUR th.	31/12/2018 Group	31/12/2018 Bank
1.A	**Own funds, including profit for the year**	**354,694**	**327,286**
1.1.A	Tier 1 capital, including profit for the year	294,694	267,286
2.A	**Total risk exposure amount**	**1,763,637**	**1,517,426**
3.1.A	Common equity Tier 1 capital ratio, including profit for the year	16.7%	17.6%
3.3.A	Tier 1 capital ratio, including profit for the year	16.7%	17.6%
3.5.A	Total capital ratio, including profit for the year	20.1%	21.6%

CAR and CET1 ratios calculated by applying transitional rules and including profit for the year, inclusion of which is subject to Citadele taking a formal decision confirming the final profit for the year which is expected after completion of the audit of the annual report.

Capital Adequacy Report, IFRS 9 Transitional Provisions Not Applied

	EUR th.	31/12/2018 Group	31/12/2018 Bank
1.A	**Own funds, IFRS 9 transitional provisions not applied**	**313,939**	**289,874**
1.1.A	Tier 1 capital, IFRS 9 transitional provisions not applied	253,939	229,874
1.1.1.A	*Common equity Tier 1 capital, IFRS 9 transitional provisions not applied*	*253,939*	*229,874*
2.A	**Total risk exposure amount, IFRS 9 transitional provisions not applied**	**1,758,524**	**1,513,993**
3.1.A	Common equity Tier 1 capital ratio, IFRS 9 transitional provisions not applied	14.4%	15.2%
3.3.A	Tier 1 capital ratio, IFRS 9 transitional provisions not applied	14.4%	15.2%
3.5.A	Total capital ratio, IFRS 9 transitional provisions not applied	17.9%	19.1%

Capital Adequacy Report

	EUR th.	**31/12/2018 *Unaudited* Group**	**31/12/2017 *Audited* Group**	**31/12/2018 *Unaudited* Bank**	**31/12/2017 *Audited* Bank**
1	**Own funds (1.1.+1.2.)**	**319,801**	**320,768**	**294,249**	**294,802**
1.1	Tier 1 capital (1.1.1.+1.1.2.)	259,801	260,768	234,249	234,802
1.1.1	*Common equity Tier 1 capital*	*259,801*	*260,768*	*234,249*	*234,802*
1.1.2	*Additional Tier 1 capital*	-	-	-	-
1.2	Tier 2 capital	60,000	60,000	60,000	60,000
2	**Total risk exposure amount (2.1.+2.2.+2.3.+2.4.+2.5.+2.6.+2.7.)**	**1,763,637**	**1,741,316**	**1,517,426**	**1,472,811**
2.1	Risk weighted exposure amounts for credit, counterparty credit and dilution risks and free deliveries	1,507,400	1,496,213	1,326,277	1,283,761
2.2	Total risk exposure amount for settlement/delivery	-	-	-	-
2.3	Total risk exposure amount for position, foreign exchange and commodities risks	10,484	7,887	850	3,858
2.4	Total risk exposure amount for operational risk	245,354	236,078	189,900	184,054
2.5	Total risk exposure amount for credit valuation adjustment	399	1,138	399	1,138
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)	**14.7%**	**15.0%**	**15.4%**	**15.9%**
3.2	Surplus (+)/ deficit (-) of Common equity Tier 1 capital (1.1.1.-2.*4.5%)	180,437	182,409	165,965	168,526
3.3	Tier 1 capital ratio (1.1./2.*100)	**14.7%**	**15.0%**	**15.4%**	**15.9%**
3.4	Surplus (+)/ Deficit (-) of Tier 1 capital (1.1.-2.*6%)	153,983	156,289	143,204	146,434
3.5	Total capital ratio (1./2.*100)	**18.1%**	**18.4%**	**19.4%**	**20.0%**
3.6	Surplus (+)/ Deficit (-) of total capital (1.-2.*8%)	178,710	181,463	172,855	176,977
4	**Combined buffer requirements (4.1.+4.2.+4.3.+4.4.+4.5.)**	4.0%	3.25%	4.0%	3.25%
4.1	Capital conservation buffer	2.5%	2.5%	2.5%	2.5%
4.2	Conservation buffer for macroprudential or systemic risk at member state's level	-	-	-	-
4.3	Institution specific countercyclical buffer	0.1%	0.0%	0.1%	0.0%
4.4	Systemic risk buffer	-	-	-	-
4.5	Other systemically important institution buffer	1.5%	0.75%	1.5%	0.75%
5	**Capital adequacy ratios, including adjustments**				
5.1	Impairment or asset value adjustments for capital adequacy ratio purposes	-	-	-	-
5.2	Common equity tier 1 capital ratio including line 5.1 adjustments	14.7%	15.0%	15.4%	15.9%
5.3	Tier 1 capital ratio including line 5.1 adjustments	14.7%	15.0%	15.4%	15.9%
5.4	Total capital ratio including line 5.1 adjustments	18.1%	18.4%	19.4%	20.0%

Capital adequacy ratios in these financial statements are calculated in accordance with the Basel III regulation as implemented via EU regulation 575/2013, directive 2013/36/EU and relevant FCMC regulations. On 31 December 2017 the Bank's and the Group's Tier 1 capital includes audited profits for 2017. Profits for 2018 will be eligible for Tier 1 capital inclusion after completion of audit for 2018.

Consolidation Group on 31 December 2018

No.	Name of company	Registration number	Registration address	Country of domicile	Company type*	% of total paid-in share capital	% of total voting rights	Basis for inclusion in the group**
1	AS Citadele banka	40103303559	Latvia, Riga LV-1010, Republikas laukums 2A	LV	BNK	100	100	MAS
2	AB Citadele bankas	112021619	Lithuania, Vilnius LT-03107, K.Kalinausko 13	LT	BNK	100	100	MS
3	AP Anlage & Privatbank AG	130.0.007.738-0	Switzerland, Limmatquai 4, CH-8001, Zurich	CH	BNK	100	100	MS
4	SIA Citadele līzings un faktorings	50003760921	Latvia, Riga LV-1010, Republikas laukums 2A	LV	LIZ	100	100	MS
5	OU Citadele Leasing & Factoring	10925733	Estonia, Tallinn 10152, Narva mnt. 63/1	EE	LIZ	100	100	MS
6	UAB Citadele faktoringas ir lizingas	126233315	Lithuania, Vilnius LT-03107, K.Kalinausko 13	LT	LIZ	100	100	MS
7	IPAS CBL Asset Management	40003577500	Latvia, Riga LV-1010, Republikas laukums 2A	LV	IPS	100	100	MS
8	AS CBL atklātais pensiju fonds	40003397312	Latvia, Riga LV-1010, Republikas laukums 2A	LV	PFO	100	100	MS
9	AAS CBL Life	40003786859	Latvia, Riga LV-1010, Republikas laukums 2A	LV	APS	100	100	MMS
10	Calenia Investments Limited	HE156501	Cyprus, Nicosia 1075, 58 Arch. MakariosIII Avenue, Iris Tower, 6th floor, office 602	CY	PLS	100	100	MS
11	OOO Mizush Asset Management Ukraine	32984601	Ukraine, Kiev 03150, Gorkovo 172	UA	IBS	100	100	MMS
12	SIA Citadeles moduļi	40003397543	Latvia, Riga LV-1010, Republikas laukums 2A	LV	PLS	100	100	MS
13	SIA RPG interjers	40103157899	Latvia, Riga LV-1010, Republikas laukums 2A	LV	PLS	100	100	MMS
14	SIA Hortus Land	40103460961	Latvia, Riga LV-1010, Republikas laukums 2A	LV	PLS	100	100	MS
15	SIA Hortus Residental	40103460622	Latvia, Riga LV-1010, Republikas laukums 2A	LV	PLS	100	100	MS
16	SIA Hortus RE	40103752416	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.

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.

Management of the Bank on 31 December 2018

Supervisory Board of the Bank

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

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.

Management Board of the Bank

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

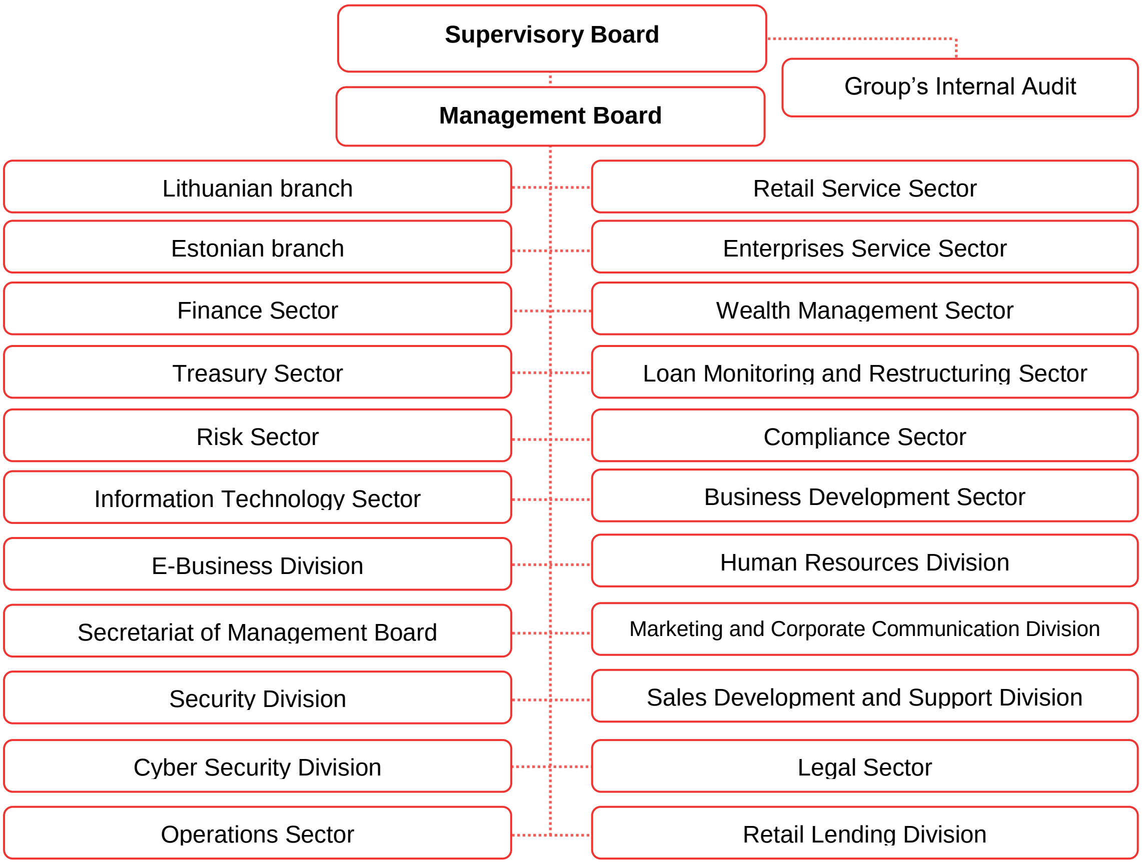
Johan Åkerblom started working as Member of the Management Board on 1 February 2018. Kaspars Jansons started working as Member of the Management Board on 22 June 2018. Former Member of the Management Board Kaspars Cikmačs resigned from the Management Board on 22 June 2018.

Business Strategy and Objectives

Information about strategy and objectives of Citadele is available in "Values and strategy" section of the Bank's web page.

Bank's Organizational Structure

On 31 December 2018 the Bank was operating branches in Latvia, Lithuania and Estonia. The Lithuanian branch was registered on 25 October 2018. Information about branches, client service centres and ATMs of Citadele is available in the Citadele web page's section "Branches and ATMs".



Ratings

Rating agency	Rating type	Rating	Rating's outlook	Rating's date
Moody's Investors Service	Long term deposit	Ba1, Not on Watch	Positive	02/10/2018
Moody's Investors Service	Long term counterparty risk rating	Baa3, Not on Watch	-	02/10/2018
Moody's Investors Service	Short term deposit	NP, Not on Watch	-	02.10.2018
Moody's Investors Service	Short term counterparty risk rating	P-3, Not on Watch	-	02/10/2018

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

Risk Management

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

- The Group aims to ensure that it maintains low overall risk exposure, diversified asset portfolio, limited risks in financial markets and low levels of operational risk;
- The Group aims to ensure an acceptable risk level in all operations. Risks are always assessed in relation to their expected return. Risk exposures that are not acceptable are avoided, limited or hedged;
- The Group does not assume high or uncontrollable risks irrespective of the return they provide, and assumes risks only in economic fields and geographical regions in relation to which it believes it has sufficient knowledge and expertise;
- The Group's risk management is based on each of the Group's employees understanding the responsibility for the transactions carried out by them, and being fully aware 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 at the Group is to facilitate the achievement of the Group's goals, successful development, long-term financial stability, to protect the Group from unidentified or unknown risks and maintain economically justified level of risk in line with the risk appetite. Risk management within the Group is controlled by an independent unit – the Risk Sector.

The main risks to which the Group is exposed are: credit risk, market risk, interest rate risk, liquidity risk, currency risk and operational risk. For each of these risks the Group has approved risk management policies and other internal regulations defining key risk management principles and processes, functions and responsibilities of units, risk concentration limits, as well as control and reporting system. The Group's risk management policies for each of the above mentioned risks are briefly summarised below. More detailed information about risk management is available in "Risk management" note of AS Citadele banka annual report, which is published in the Citadele web page's section "Financial reports".

Credit Risk

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

Credit risk management is based on an adequate assessment of a credit risk and a proper decision-making in relation to such risk. In cases when significant risk is to be undertaken, the credit risk analysis is performed. 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 made 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.

Market Risk

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

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

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

Interest Rate Risk

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

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

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

Liquidity Risk

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

The Group manages its liquidity risk in accordance with Liquidity Risk Management Policy. The management and reporting of liquidity risk is coordinated by the Treasury Sector, and the risk is assessed and decisions are made 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. The Group is compliant with LCR requirements. European Union's regulations on NSFR are not yet finalised.

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.

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 to 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.