Important Notice

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

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

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

INTENDED ADDRESSEES - THIS BASE PROSPECTUS AND ANY OFFER OF THE SECURITIES PURSUANT TO IT ARE ONLY ADDRESSED TO AND DIRECTED AT, AND MAY ONLY BE DISTRIBUTED TO OR ACTED ON BY, (i) PERSONS IN LATVIA AND LITHUANIA; AND (ii) PERSONS LOCATED IN MEMBER STATES OF THE EUROPEAN ECONOMIC AREA (THE "**EEA**") (OTHER THAN IN LATVIA AND LITHUANIA) WHO ARE QUALIFIED INVESTORS WITHIN THE MEANING OF ARTICLE 2(1)(E) OF THE PROSPECTUS DIRECTIVE (DIRECTIVE NO. 2003/71/EC AND AMENDMENTS THERETO, INCLUDING DIRECTIVE NO. 2010/73/EU, TO THE EXTENT IMPLEMENTED IN THE RELEVANT MEMBER STATE, AND REGULATION NO. 2017/1129) ("**QUALIFIED INVESTORS**").

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Base Prospectus dated 2 November 2017

AS "Citadele banka"

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

€ 25,000,000
Second Unsecured Subordinated Bonds Programme

Under this € 25,000,000 (twenty five million euro) Second Unsecured Subordinated Bonds Programme (the "**Programme**") described in this base prospectus (the "**Base Prospectus**"), AS "Citadele banka", a limited company/joint stock company incorporated in, and operating under the laws of, the Republic of Latvia, and registered with the Commercial Register of Latvia under the registration number: 40103303559, legal address: Republikas laukums 2A, Riga, LV-1010, Latvia, telephone: +371 67010000, fax: +371 67010001, e-mail: info@citadele.lv, website: www.citadele.lv ("**Citadele**"), subject to compliance with all relevant laws and regulations, may issue and offer publicly in Latvia and Lithuania from time to time in one or several series (the "**Series**") non-convertible unsecured and unguaranteed subordinated bonds denominated in EUR, having maturity from 7 to 10 years and with fixed interest rate (the "**Bonds**"). The maximum aggregate nominal amount of all Bonds outstanding issued under the Programme shall not at any time exceed € 25,000,000.

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

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

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

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

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

The Bonds shall be issued in the bearer dematerialised form and registered with Nasdaq CSD SE, registration number: 40003242879, legal address: Vaļņu 1, Riga, LV-1050, Latvia (the "**Nasdaq CSD**") in book-entry form with the securities settlement system governed by Latvian law (the "**Latvian SSS**"). Investors may hold Bonds through Nasdaq CSD participants participating in Latvian SSS. See the section entitled "*General Terms and Conditions of the Bonds*" for more information.

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

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

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

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

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1. Important Information About This Base Prospectus

1.1. General

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

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

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

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

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

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

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

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

1.2. Responsibility Statement

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

Riga, November 2, 2017

Management Board of AS "Citadele banka":

________________ Guntis Beļavskis

(Chairman of the Management Board, Chief Executive Officer)

________________ Slavomir Mizak

(Member of the Management Board, Chief Technology Officer)

________________ Santa Purgaile

(Member of the Management Board, Chief Commercial Officer Corporate)

________________ Valters Ābele

(Member of the Management Board, Chief Risk Officer)

________________ Kaspars Cikmačs

(Member of the Management Board, Chief Operating Officer)

________________ Vladislavs Mironovs

(Member of the Management Board, Chief Commercial Officer Retail)

________________ Uldis Upenieks

(Member of the Management Board, Chief Compliance Officer)

1.3. Advisors

Legal Adviser to Citadele:

EVERSHEDS
SUTHERLAND

Law Office Eversheds Sutherland Bitāns
20a Lāčplēša Street, 6th floor,
Riga, LV-1011, Latvia
www.eversheds-sutherland.lv

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

1.4. Documents on Display

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

- this Base Prospectus; and
- the Final Terms, when issued; and
- Citadele's Articles of Association; and
- Citadele's audited consolidated financial statements as at and for the year ended in 31 December 2015 (prepared according to IFRS); and
- Citadele's audited consolidated financial statements as at and for the year ended in 31 December 2016 (prepared according to IFRS); and
- Citadele's audited consolidated interim financial statements as of and for the six-month period ended 30 June 2017; and
- Certain other additional documents and information related to this Base Prospectus, if any.

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

2. Notice to Investors and Restrictions on Distribution

General

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

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

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

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

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

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

European Economic Area

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

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

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

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

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

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

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

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

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

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

United States

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

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

3. Presentation of Financial and Other Information

Presentation of Financial Information

The consolidated financial information of Citadele Group and the financial information of Citadele set forth herein has, unless otherwise indicated, been derived from Citadele's audited consolidated financial statements as at and for the year ended 31 December 2015 (the „**2015 Audited Consolidated Financial Statements**"), Citadele's audited consolidated financial statements as at and for the year ended 31 December 2016 (the „**2016 Audited Consolidated Financial Statements**") and Citadele's audited consolidated interim financial statements as at and for the six months ended 30 June 2017 (the „**2017 Audited Consolidated Interim Financial Statements**", (all prepared according to International Financial Reporting Standards ("**IFRS**"), as adopted by the European Union (the "**EU**")) as set forth in the Schedules to this Base Prospectus. References in this Base Prospectus to financial information for the years 2016 or 2015 refer to financial information as at or for the years ended 31 December 2016 and 2015, respectively, and references to financial information for the first half of 2017 refer to financial information as at or for the six months ended 30 June 2017.

References to "Citadele Group" and "Citadele"

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

Additional Definitions

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

Rounding and Percentages

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

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

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

2015 Audited Consolidated Financial Statements, 2016 Audited Consolidated Financial Statements and 2017 Audited Consolidated Interim Financial Statements attached to this Base Prospectus contain auditor's reports. See the section entitled "*Financial and Trend Information —Independent Auditors*" for more information on auditors.

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

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

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

Websites

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

Currency Presentation and Exchange Rate Information

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

2015 Audited Consolidated Financial Statements, 2016 Audited Consolidated Financial Statements and 2017 Audited Consolidated Interim Financial Statements are presented in Euro, which has been Citadele's functional and presentation currency since.

Forward-Looking Statements

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

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

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

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

- the overall economic and business conditions in Latvia, Lithuania, Estonia, Switzerland and the Eurozone and the surrounding regions;
- inflation, interest rate and exchange rate fluctuations in Latvia, Lithuania, Estonia, Switzerland and the Eurozone;

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

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

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

4. Summary

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

Section A - Introduction and Warnings

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

Section B - Issuer

B.1	Legal and commercial name	Akciju sabiedrība “Citadele banka” (“**Citadele**”). In this summary, references to “Citadele Group” mean Citadele and its subsidiaries, being entities in which Citadele directly or indirectly holds not less than 50% of the shares.
B.2	Legal form/country of incorporation/ domicile	Citadele is a limited company/joint stock company (in Latvian – *akciju sabiedrība* or *AS*) incorporated in, and operating under the laws of, the Republic of Latvia, including the Commercial Law of the Republic of Latvia of 2000, as amended (the “**Latvian Commercial Law**”) and registered with the Commercial Register of Latvia under the registration number: 40103303559 (date of registration: 30 June, 2010) and its legal address is Republikas laukums 2A, Riga, LV-1010, Latvia, telephone: +371 67010000, fax: +371 67010001, e-mail: info@citadele.lv, website: www.citadele.lv.
B.4b	Known trends	At the date of this Base Prospectus there is no information on any known trends, uncertainties, demands, commitments or events that are reasonably likely to have a material effect on the Citadele’s or the Citadele Group’s prospects and the industries in which Citadele or the Citadele Group operates in the current financial year.
B.5	Group	As at the date of this Base Prospectus, Citadele held direct or indirect interests of not less than 50% or more of the shares in 21 companies, which together comprised the other members of Citadele Group. Citadele is the parent company of Citadele Group.
B.9	Profit forecast and assessment	Not applicable; the Base Prospectus does not include a profit forecast or estimate.

B.10	Qualifications in audit report	There are no qualifications in the audit reports on the 2015 Audited Consolidated Financial Statements, 2016 Audited Consolidated Financial Statements and 2017 Audited Consolidated Interim Financial Statements audited by KPMG Baltics SIA.
B.12	Selected historical key financial information, changes in prospects and financial position	The information provided in the table below corresponds to that presented in 2016 Audited Consolidated Financial Statements and 2017 Audited Consolidated Interim Financial Statements. There are also several alternative performance measures included commonly used in market. These provide comparable holistic view of the Group, highlight key value drivers and aggregate financial information in possibly more relevant measures.

	Citadele Group				Citadele banka			
EUR millions	**H1 2017**	**2016**	**H1 2016**	**2015**	**H1 2017**	**2016**	**H1 2016**	**2015**
Net interest income	36.2	66.2	31.1	60.5	27.1	50.1	23.6	48.1
Net commission and fee income	19.3	40.1	18.3	35.5	12.1	27.1	13.1	25.3
Operating income (1)	64.5	134.3	70.6	112.7	47.6	107.1	55.9	86.5
Impairment charge and reversals, net	(6.4)	(10.1)	(5.1)	(6.2)	(6.7)	(10.2)	(5.6)	(6.2)
Net profit	15.0	40.7	25.4	26.1	10.3	36.3	20.6	19.5
Return on average assets (ROA) (2)	0.90%	1.29%	1.66%	0.90%	0.79%	1.44%	1.68%	0.82%
Return on average equity (ROE) (3)	11.5%	17.2%	22.1%	13.2%	8.4%	16.2%	19.0%	10.2%
Cost to income ratio (CIR) (4)	64.5%	60.4%	55.8%	68.5%	62.4%	55.3%	52.5%	67.1%
Cost of risk ratio (COR) (5)	1.1%	0.9%	1.0%	0.8%	1.2%	0.9%	1.2%	0.7%
Capital adequacy ratio (CAR)	16.7%	16.5%	12.5%	13.4%	19.6%	19.0%	13.7%	15.1%
Adjusted for major one-time items (7)								
Net profit		31.1	14.0			21.6	9.3	
ROA(2)		0.99%	0.92%			0.86%	0.75%	
ROE(3)		13.3%	12.2%			9.9%	8.6%	
Adjusted for IPO costs (8)								
Net profit				31.1				24.5
ROA(2)				1.07%				1.03%
ROE(3)				15.5%				12.7%

	Citadele Group				Citadele banka			
EUR millions	**H1 2017**	**2016**	**H1 2016**	**2015**	**H1 2017**	**2016**	**H1 2016**	**2015**
Total assets	3,291	3,350	3,140	2,960	2,550	2,630	2,506	2,409

Loans to customers	1,323	1,241	1,231	1,172	1,071	1,009	1,013	983
Deposits from customers	2,874	2,919	2,748	2,570	2,141	2,149	2,098	2,037
Shareholders’ equity	270	254	240	220	249	238	224	209
Loan-to-deposit ratio (6)	46%	42%	45%	46%	50%	47%	48%	48%

(1) Operating income consists of the following income statement items: net interest income, net commission and fee income, net gain on transactions with financial instruments and other income.

(2) Return on average assets (ROA) is calculated as annualised net profit for the relevant period divided by the average of total assets at the beginning and the end of the period. ROA is a measure of the profitability of the assets.

(3) Return on average equity (ROE) is calculated as annualised net profit for the relevant period divided by the average of total equity at the beginning and the end of the period. ROE is a measure of profitability of the equity.

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

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

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

(7) One-time income recognised in the statement of income of 2016 in amount of EUR 11.3 million due to sale of Citadele’s share in Visa Europe to Visa Inc, EUR 5.1 million income on dividends from subsidiaries (Bank only) and EUR -1.8 million loss on sale of a single AFS (former HTM) security exposure before maturity

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

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FCMC identified Citadele as an “other systemically important institution” (O-SII) at the end of 2015. There are six such institutions and the buffer requirements range from 1.5% to 2.0%. Citadele’s O-SII capital buffer requirement is 1.5%, where 0.75% became effective as of 30 June 2017 and another 0.75% will be added as of 30 June 2018. The O-SII buffer requirement has to be ensured by Tier 1 capital. If the full O-SII buffer requirement was effective as at 30 June 2017, the Citadele’s and Citadele Group’s Tier 1 ratio would have to be at least 10.42%, to meet all the requirements: (1) Common equity tier 1 ratio of 4.5%, (2) additional tier 1 ratio of 1.5%, (3) capital conservation buffer of 2.5%, (4) countercyclical buffer of 0.02%, (5) individual capital buffer of 0.4%, as determined by the FCMC and (6) O-SII capital buffer of 1.5%. As at 30 June 2017, both, Citadele and Citadele Group have sufficient Tier 1 capital to comply with the full O-SII buffer requirements. FCMC will inform Citadele on the new individual capital buffer at the end of 2017 after completing supervisory review and evaluation process. Citadele expects to be fully compliant with updated requirements. There has been no material adverse change in the prospects of Citadele or the Citadele Group since June 30, 2017.

There have been no significant changes in the financial or trading position of Citadele or the Citadele Group since 30 June 2017.

B.13	Recent events relevant to the evaluation of the solvency	In so far as Citadele is aware, there have not been any recent events particular to Citadele or Citadele Group which would be to a material extent relevant for assessing solvency of Citadele or Citadele Group.
B.14	Dependency on Group companies	Citadele is the parent company of Citadele Group and it is not dependent on any other companies within the Citadele group.

B.15 Principal activities

Citadele Group provides a wide range of banking services for a broad spectrum of customers. The three core areas of business activity undertaken by Citadele Group in Latvia are retail and SME, corporate and private capital management. Citadele Group also has operations in relation to asset management, leasing, life insurance, and pension fund management.

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

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

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

B.16 Controlling shareholders

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

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

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

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

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

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

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

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

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

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

(7) Calculated by reference to voting interests in Citadele

B.17 Credit ratings

As at the date of this Base Prospectus, the credit rating assigned to Citadele's long term deposits by Moody's is Ba2 (with outlook positive).

Each Tranche may, on or after the relevant issue, be assigned a rating specified in the relevant Final Terms by any rating agency which may be appointed from time to time by the Citadele in relation to any issuance of the Bonds or for the remaining duration of the Programme, to the extent that any of them at the relevant time provides ratings in respect of any Tranche. Whether or not each credit rating applied for in relation to relevant Tranche will be issued by a credit rating agency established in the European

	Union and registered under the CRA Regulation will be disclosed in the Final Terms. If rated, such ratings will not necessarily be the same as the rating assigned to Citadele. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Credit ratings are not a guarantee of Citadele Group's future performance. ***Issue specific summary:*** The Bonds to be issued [are not/have been/are expected to be] rated [by:[●]]

Section C - Securities

C.1	Type and the class of the securities and security identification number	The Bonds are freely transferable non-convertible unsecured and unguaranteed subordinated bonds denominated in EUR, having maturity from 7 to 10 years and with fixed interest rate, which contain unsecured, unguaranteed and subordinated payment obligations of Citadele towards the holders of the Bonds (the "**Bondholders**"). Under no circumstances shall the Bonds be convertible into ordinary shares of Citadele or other equity instruments of Citadele, except as ordered by the competent authorities in accordance with the requirements of law which, from time to time, may be applicable to Citadele and the Bonds. The nominal value (face value) of each Bond shall be specified in the Final Terms but it shall be at least EUR 10,000. The Bonds are dematerialized debt securities in bearer form and registered with the securities settlement system governed by Latvian law (the "**Latvian SSS**") of Nasdaq CSD SE, registration number: 40003242879, legal address: Vaļņu 1, Riga, LV-1050, Latvia (the "**Nasdaq CSD**") in the book-entry form. The maximum aggregate nominal amount of all Bonds outstanding issued under the € 25,000,000 Second Unsecured Subordinated Bonds Programme (the "**Programme**") shall not at any time exceed € 25,000,000. The Bonds will be issued in one or several series (the "**Series**"). Each Series may comprise one or more tranches of Bonds (each a "**Tranche**"). The Final Terms must include a corresponding indication, if the respective Series will consist of only one Tranche. The Bonds of each Series will all be subject to identical terms, except specific terms and conditions specified in the applicable Final Terms may be different in respect of different Tranches. In order to identify each Series and Tranches, the Final Terms shall stipulate a serial number of a respective Series and a serial number of a respective Tranche. ***Issue specific summary:*** Series Number: [●] Tranche Number: [●] Before commencement of the offering of the Tranche, Nasdaq CSD, upon request of Citadele, will assign to the respective Tranche an ISIN (International Security Identification Number) code. Where a further Tranche is issued which is intended to form a single Series with an existing Tranche at a point after the Issue Date of the existing Tranche, the Bonds of such further Tranche shall be assigned its own ISIN code, which is different from the ISIN codes assigned to the Tranches under the same Series . The ISIN code of respective Tranche will be specified in the Final Terms. ***Issue specific summary:***

		ISIN Code: [●]
C.2	Currency	The currency of the Bonds is euro (€).
C.5	Restrictions on transferability	The Bonds are freely transferrable securities and disposable without any restrictions. However, transfer of the Bonds is subject to selling and transfer restrictions under the relevant laws in certain jurisdictions applicable to the transferor or transferee. The Bonds cannot be offered, sold, resold, transferred or delivered in such countries or jurisdictions or otherwise in such circumstances in which such offer, sale, re-sale or transfer would be unlawful or require measures other than those required under Latvian laws to be taken by Citadele, including, if applicable, the United States of America.
C.8	Rights attached to the Bonds; ranking and limitations to rights	**Rights Attached to the Bonds** The only rights of the Bondholders arising from the Bonds are the right to the redemption of the Bonds on the Maturity Date (as defined below) and the right to receive interest, subject to the limitations of these rights as described in these General Terms and Conditions of the Bonds. The Bondholders are not entitled to a delay interest or any penalty fees in case of delay in making any payments due under the Bonds by Citadele. The rights arising from the Bonds can be exercised by the Bondholders in accordance with the General Terms and Conditions of the Bonds, the applicable Final Terms and the applicable rules of Latvian law. There will be no „Change of Control" obligations binding Citadele in respect of the Bonds and the Bonds will not have the benefit of and investors in Bonds will not have protection of a „Change of Control". Consequently change of control over Citadele by any means will not confer any rights whatsoever to the Bondholders. There will be no „Negative Pledge" or „Cross-Default" obligations binding Citadele in respect of the Bonds and the Bonds will not have the benefit of and investors in Bonds will not have protection of „Negative Pledge" or „Cross-Default". No Bondholder may exercise, claim or plead any right of set-off, compensation or retention in respect of any amount owed to it by Citadele arising under, or in connection with, the Bonds and each Bondholder shall, by virtue of its holding of any Bonds, be deemed to have waived all such rights of set-off, compensation or retention. By its acquisition of the Bonds, each Bondholder and beneficial owner agrees to be bound by these provisions relating to waiver of set-off. All payments made by Citadele in connection with Bonds are calculated and paid without set-off or counter-claims. There will be no restrictions on Citadele's ability to conduct its operations as it deems fit, at its sole discretion. The Bonds do not contain any provisions designed to protect the Bondholders from a reduction in the creditworthiness of Citadele. **Ranking and Subordination** The Bonds constitute direct, unsecured and unguaranteed obligations of Citadele ranking *pari passu* without any preference among themselves. The Bonds are subordinated to all unsubordinated claims against Citadele at all times (for the purposes of clarity, the Bonds are not subordinated to claims that are subordinated to the Bonds or have the same ranking as the Bonds) and Citadele's obligations under the Bonds constitute subordinated liabilities within the meaning of the Latvian Credit Institutions Law. The net proceeds from the Bonds will be used by Citadele for the purposes specified below and as its subordinated capital and thus the Bonds will be recognized as Tier 2 instruments within the meaning of CRR or any other

		applicable rules. The subordination of the Bonds means that in the event of liquidation or insolvency of Citadele, all the claims arising from the Bonds shall become collectible and shall be satisfied only after full satisfaction of all unsubordinated recognised claims against Citadele but before satisfaction of the claims of Citadele's shareholders in their capacity as Citadele's shareholders in accordance with the applicable law. Therefore, upon liquidation or insolvency of Citadele, the Bondholders will not be entitled to any payments due under the Bonds until full and due satisfaction of all the unsubordinated claims against Citadele, except the claims of Citadele's shareholders in their capacity as Citadele's shareholders. By subscribing to the Bonds, all investors unconditionally and irrecoverably agree to such subordination of claims arising from the Bonds. As long as there are no liquidation or insolvency proceedings initiated against Citadele, all claims arising from the Bonds shall be satisfied by Citadele in accordance with the General Terms and Conditions of the Bonds, the applicable Final Terms and the applicable law. Please be advised that no funds may be left to satisfy the claims of the Bondholders after all or part of unsubordinated claims have been satisfied. Accordingly, any and all restrictions applicable to the subordinated liabilities of a credit institution and Tier 2 instruments as may be provided in the Latvian Credit Institutions Law, CRR and any other applicable rules will be applicable to the Bonds and Citadele's obligations arising out of the Bonds, including the following restrictions stated in the Latvian Credit Institutions Law (in particular, Section 59.^{6}): • In case a credit institution in accordance with the laws and regulations regarding aid for commercial activity receives such an aid, from the moment of granting of such aid until the end of provision of such aid, the credit institution in question is prohibited from carrying out the subordinate liabilities, including prohibited from repaying a loan, as well as from calculating, accumulating or paying out interest and other remuneration for such loan; and • if the FCMC has determined deposit restrictions for a credit institution, from the day of determination of such restrictions until the day of their revocation, the credit institution in question is prohibited from carrying out the subordinate liabilities, including prohibited from repaying a loan, as well as from calculating, accumulating or paying out interest and other remuneration for such loan. The Bonds rank *pari passu* with other existing and future unsecured and unguaranteed subordinated obligations of Citadele. **Bondholders' Meetings** Save as otherwise provided in respect to the amendments to technical procedures and aspects relating to the Bonds below, if Citadele intends to amend the General Terms and Conditions of the Bonds (as defined below) or the Final Terms of the Tranches of the relevant Series, Citadele shall convene a meeting of the Bondholders or the Bondholders of the relevant Series (as applicable) (the "**Bondholders' Meeting**") to decide on amendments of the General Terms and Conditions of the Bonds, the Final Terms of the Tranches of the relevant Series or other matters that may significantly affect the interests of the Bondholders. Citadele shall have a right at its sole discretion to amend the technical procedures and aspects relating to the Bonds in respect of payments or other similar matters without the consent of the Bondholders or the Bondholders' Meeting, if such amendments are necessitated by the changes in applicable rules of Latvian law or otherwise, if such amendments are not prejudicial to the interests of the Bondholders.
C.9	Interest, maturity date, yield and representative of the	**Interest rate** The Bonds shall carry interest at a fixed annual interest rate (the "**Annual Interest Rate**") which shall be specified in the Final Terms. The Annual Interest Rate shall be the

holders of the Bonds	same for each and every year until the Maturity Date (as defined below) or the Early Redemption Date (as defined below), as the case may be. Citadele has a right at its sole discretion to amend the Annual Interest Rate once or several times until the end of the applicable Offer Period (as defined below) and announce the updated Annual Interest Rate (the "**Updated Annual Interest Rate**"). If during the Offer Period (as defined below) Citadele amends the Annual Interest Rate, the final Annual Interest Rate will be reflected in the Final Terms which will be published after allotment of the Bonds to the investors. The interest on the Bonds will be paid semi-annually on the dates specified in the Final Terms ("**Interest Payment Dates**") and will be calculated on the aggregate outstanding principal amount of the Bonds of the respective Series from the Issue Date (as defined below) until the Maturity Date (as defined below) or the Early Redemption Date (as defined below), which ever occurs first. If the Offer Period (as defined below) is extended by Citadele, the final Interest Payment Dates will be rescheduled by Citadele proportionally to the length of extension of the Offer Period and specified in the Final Terms which will be published after allotment of the Bonds to the investors. Interest shall accrue for each interest period from and including the first day of the interest period to (but excluding) the last day of the interest period on the principal amount of the Bonds of the respective Series outstanding from time to time. The first interest period commences on the Issue Date (as defined below) and ends on the first closest Interest Payment Date (the "**First Interest Period**"). Each consecutive interest period begins on the previous Interest Payment Date and ends on the following Interest Payment Date. The last interest period ends on the Maturity Date (as defined below) or the Early Redemption Date (as defined below), whichever occurs first. Interest in respect of the Bonds will be calculated on the basis of the actual number of days elapsed in the relevant interest period divided by 365 (or, in the case of a leap year, 366), i.e. a day count convention Act/Act (ICMA) will be used. When interest is required to be calculated in respect of a period of less than a half year other than in respect of the First Interest Period, it shall be calculated on the basis of (a) the actual number of days in the period from and including the date from which interest begins to accrue (the ''**Accrual Date**'') to but excluding the date on which it falls due divided by (b) the actual number of days from and including the Accrual Date to but excluding the next following Interest Payment Date. ***Issue specific summary:*** Annual Interest Rate: [●] ***Issue specific summary:*** Interest Payment Dates: [●] each year **Yield to Maturity** An expected yield to maturity for the Bonds (the "**Yield to Maturity**") being offered, based on the final Issue Price and the final Annual Interest Rate, will be specified in the Final Terms which will be published after allotment of the Bonds to the investors. The Yield to Maturity is the percentage rate of return paid if the Bond is held to its Maturity Date, assuming that interest paid over the life of the Bond is reinvested at the same rate. **Maturity and Redemption** Each Series may have a maturity between 7 (seven) and 10 (ten) years. The Bonds shall be repaid in full at their nominal value on the maturity date which will be specified in the Final Terms (the "**Maturity Date**") or on the Early Redemption Date (as defined below). If the Offer Period (as defined below) is extended by Citadele, the final Maturity Date will be rescheduled by Citadele proportionally to the length of extension of the Offer Period and specified in the Final Terms which will be published after allotment of the Bonds to the investors.

		Issue specific summary: Maturity Date: [●] Citadele has a right to redeem the Bonds for their nominal value prematurely prior to the Maturity Date as follows: • at any time after the lapse of 5 years period as from the Issue Date (as defined below) by notifying the Bondholders at least 30 (thirty) days in advance, provided that the competent authority (such as FCMC or the EBA, if they are in the competence thereof) has granted its consent for such early redemption of the Bonds, if required by applicable law and other relevant legal requirements (such as the conditions of Article 78(1) of the CRR, if applicable at the moment of early redemption of the Bonds) have been met; and • prematurely before the lapse of the 5 year period as from the Issue Date (as defined below), provided that the competent authority (such as FCMC or the EBA, if they are in the competence thereof) has granted its consent for such early redemption of the Bonds, if required by applicable law and other relevant legal requirements (such as the conditions of Article 78(4) of CRR, if applicable at the moment of early redemption of the Bonds) have been met; and • prematurely before or after the lapse of the 5 year period as from the Issue Date (as defined below), if applicable laws and rules permit such redemption, provided that all the relevant legal requirements have been met. The decision on granting the consent may involve certain amount of discretion by the competent authority and the early redemption may be therefore beyond the control of Citadele. If Citadele decides to exercise the right to redeem the Bonds prematurely prior to the Maturity Date as stated above, subject to receiving the necessary consents, Citadele shall specify the date on which the Bonds will be redeemed (the "**Early Redemption Date**"). Early Redemption Date will be announced through a press release and by a notice published in English and Latvian in the Official System for Central Storage of Regulated Information ORICGS (www.oricgs.lv), on the Citadele's website (www.citadele.lv or www.cblgroup.com) and, after the Bonds are admitted to the regulated market, also on the news service of the Nasdaq Riga website or otherwise as prescribed by the applicable rules of Latvian law. The Bondholders are not entitled to claim premature redemption of the Bonds before the Maturity Date under any circumstances. By purchasing the Bonds any investor unconditionally and irrevocably relinquishes the right to demand premature redemption of any Bonds, if such a right exists under applicable law. **Representative of debt security holders** Within the Programme, the rights of the Bondholders to establish and/or authorize an organization/person to represent the interests of all or a part of the Bondholders are not contemplated, but, on the other hand, these rights are not restricted. The Bondholders themselves should cover all costs/fees of such representative(s).
C.10	Impact of derivative component in the interest payment	Not applicable.
C.11	Admission to trading on regulated market	Application will be made to the Nasdaq Riga AS, registration number: 40003167049, legal address: Vaļņu 1, Riga, LV-1050, Latvia (**"Nasdaq Riga"**) for admitting each Tranche to listing and trading on the official bond list (Baltic Bond List) of Nasdaq Riga according to the requirements of Nasdaq Riga not later than within 3 (three) months

		after the Issue Date of the respective Tranche. Trading of the respective Tranche on the Baltic Bond List of the Nasdaq Riga Stock Exchange is expected to commence within 1 (one) month after the above-mentioned application has been made. All dealings in the Bonds of the respective Tranche prior to the commencement of unconditional dealings on the Baltic Bond List of the Nasdaq Riga Stock Exchange may be in the form of private over-the-counter transactions and will be at the sole risk of the parties concerned. Nasdaq Riga Stock Exchange is a regulated market for the purposes of the Markets in Financial Instruments Directive 2004/39/EC as amended.

Section D - Risks

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

over collateral held outside of the EU;

- Citadele Group’s securities portfolio is concentrated in Latvian and Lithuanian government bonds and its value may decrease;
- Citadele Group is reliant on its network of branch offices in key locations;
- Citadele Group is subject to operational risks, including in particular those arising from fraud or misconduct of its employees or customers;
- Citadele Group or its customers may face restrictions on their business as a result of international sanctions on Russian persons and entities or regional geopolitical pressures;
- Citadele Group faces risks in relation to its international deposit book;
- Citadele Group may be forced to rebrand itself or certain of its subsidiaries in certain markets, which may limit its ability to compete in those markets;
- Citadele Group faces risks associated with the fact that it no longer has American Express exclusivity in Latvia and Lithuania as a result of regulatory changes;
- Citadele Group is exposed to correspondent account risk;
- Citadele and the Baltic States may not be able to maintain their credit ratings;
- Citadele Group’s operations expose it to foreign exchange risk;
- Citadele Group faces risks associated with its pension fund operations;
- Citadele Group faces risks associated with its life insurance operations;
- Citadele Group may not be able to successfully maintain or upgrade its information technology systems and security;
- Citadele Group’s ongoing success depends on its senior management team and its ability to recruit and retain key personnel;
- Citadele Group may be subject to litigation, administrative proceedings or other proceedings;
- Catastrophic or unforeseen events such as acts of war, acts of terrorism, pandemic diseases or other geopolitical events may have a material adverse effect on Citadele Group;
- Citadele Group’s insurance policies may not cover particular future losses;
- Citadele may be subject to bail-in under the BRRD and other applicable rules;
- The legal and judicial systems in some of the markets in which Citadele Group operates have less experience in certain areas of law than those of western European countries;
- Citadele Group faces risks associated with taxation and changes in taxation legislation;
- Citadele Group is subject to periodic tax audits by the Latvian tax authorities;
- Citadele Group faces risks associated with compliance with Common Reporting Standard;
- Investors may not be able to enforce foreign court judgments against Citadele Group;
- Citadele Group faces risks associated with its operations’ compliance with a wide range of laws and regulations;
- Citadele Group’s measures to comply with anti-money laundering, anti-bribery and sanctions regulations may not be effective in all material respects;
- Citadele Group is dependent on obtaining banking licences and satisfying other

		regulatory requirements in Latvia and the other jurisdictions where it operates; - Citadele Group may be impacted by Latvian and/or European banking reform initiatives; - Citadele Group may be unsuccessful in adequately implementing or satisfying the requirements of changing prudential regulation; - Citadele may fail to meet minimum requirement for own funds and eligible liabilities (MREL) under BRRD; - Citadele Group may be impacted by changes in accounting methodologies; and - Citadele Group faces risks as a result of regulatory investigations.
D.3	Key risks specific to the securities	There are a number of key risks relating to an investment in the Bonds: - The Bonds may not be a suitable investment for all investors; - Credit risk and adverse change in the financial condition or prospects of Citadele; - Citadele's obligations under the Bonds are unsecured and unguaranteed; - Citadele's obligations under the Bonds are subordinated obligations; - The Bonds are subject to bail-in risk; - There has been no prior trading market for the Bonds; - Citadele may be unable to list the Bonds on the Nasdaq Riga, the Bonds may be delisted from the Nasdaq Riga or trading in the Bonds may be suspended; - An active and liquid market for the Bonds may not develop; - Listing may not occur concurrently with or immediately after the settlement and investors may be unable to publicly trade the Bonds until listing of the Bonds on the Nasdaq Riga; - Citadele has little experience in complying with the requirements for publicly listed companies; - Investors in Bonds will depend on the account-based system of Nasdaq CSD and functionality of T2S (TARGET2-Securities) securities settlement platform; - Fixed interest rate and inflation may adversely affect the value of the Bonds; - Exchange rate fluctuations and interest rates may adversely affect the value of the Bonds; - Adverse change in the credit rating of Citadele and/or credit rating of the Bonds may adversely affect the trading price of the Bonds; - No assurance on change of laws or practices; - The Bonds do not carry any beneficial interest in the equity or voting rights; - No limitation on issuing additional debt by Citadele and no negative pledge obligations; - The Bonds do not contain covenants governing Citadele's operations and do not limit its ability to merge, effect asset sales or otherwise effect significant transactions that may have a material adverse effect on the Bonds and the Bondholders; - Legal investment considerations may restrict certain investments in Bonds; - The transferability of the Bonds may be restricted;

	- The Bonds may be redeemed prematurely on the initiative of Citadele; - The Offer may be cancelled; - Amendments to the Bonds may be made and these amendments will legally bind all Bondholders; and - Bondholders may be required to comply with requests for information.

Section E - Offer

E.2b	Reasons for offer and use of proceeds	Citadele expects to receive net proceeds of up to EUR 24.5 million from this Offer. The net proceeds from the Offer (as defined below) are to be used by Citadele for its general corporate purposes and to strengthen further the regulatory capital structure of Citadele, including use as Citadele's subordinated capital in accordance with the requirements of the CRR and any other applicable rules for Tier 2 capital and repaying the outstanding amount under the subordinated loan currently held by the EBRD under the EBRD Subordinated Debt. Following the Offer, Citadele intends to hold discussions with the EBRD in connection with the early repayment of the EBRD Subordinated Debt. Citadele anticipates a period of up to two months from receipt of the proceeds of the Offer and the requisite permissions being granted to enable the early repayment of the EBRD Subordinated Debt. Citadele Group expects (on the basis of facts and data available as at the date of the Base Prospectus) the net proceeds from the Offer and the repayment of the EBRD Subordinated Debt to result in its total capital adequacy ratio, calculated on a Basel III fully loaded basis, to increase by up to 49 basis points, and to reach up to 17.3% (the calculation also assumes that EUR 15 million of audited profit for the first half of 2017 is included in the eligible equity). The actual changes to total capital adequacy ratio arising from the repayment of the EBRD Subordinated Debt may differ from the amounts and percentages that are provided above, which have been prepared on the basis of facts and data available as at the date of this Base Prospectus. The repayment of the EBRD Subordinated Debt and the consequential change to Citadele's capital adequacy position is subject to the prior approval of the FCMC. If in respect of any particular Series, there is another particular identified use of proceeds, this will be stated in the relevant Final Terms applicable to the particular Series.
E.3	Terms and conditions of the offer	The Bonds are being offered to the public in Latvia and Lithuania in accordance with the requirements of the Financial Instrument Market Law of the Republic of Latvia (the "**Latvian Financial Instrument Market Law**") and Commission Regulation (EC) No 809/2004 of 29 April 2004, as amended, implementing the Directive 2003/71/EC (the "**Prospectus Regulation**"). **Issue Date** The Issue Date will be specified in the Final Terms of the respective Tranche. If the Offer Period (as defined below) is extended by Citadele, the final Issue Date will be rescheduled by Citadele proportionally to the length of extension of the Offer Period and specified in the Final Terms which will be published after allotment of the Bonds to the investors. ***Issue specific summary:*** Issue Date: [●] **Issue Price** The Bonds may be issued at their nominal value or at a discount or a premium to their

		nominal value (the “**Issue Price**”). The Issue Price shall be specified in the Final Terms. Citadele has a right at its sole discretion to amend the Issue Price once or several times until the end of the applicable Offer Period (as defined below) and announce the updated Issue Price (the “**Updated Issue Price**”). ***Issue specific summary:*** Issue Price: [●] **Aggregate principal amount** The aggregate principal amount of each Tranche shall be initially specified in the Final Terms. Citadele has a right to increase or decrease the aggregate principal amount of the Tranche as initially set out in the Final Terms, provided that the maximum aggregate nominal amount of all Bonds outstanding issued under the Programme shall not at any time exceed € 25,000,000. ***Issue specific summary:*** Aggregate principal amount: [EUR [●]] **Nominal value of the Bond** The nominal value (face value) of each Bond shall be specified in the Final Terms but it shall be at least EUR 10,000. ***Issue specific summary:*** Nominal value of the Bond: EUR [●] **Minimum Investment Amount** The Bonds will be offered for subscription for the following minimum investment amount (the “**Minimum Investment Amount**”): at least 10 (ten) Bonds for any and all investors. **Offer Period** The Offer Period for each Tranche will be specified in the relevant Final Terms. Until the end of the applicable Offer Period, Citadele may extend the Offer Period at its sole discretion once or several times. The minimum length of any such extension should be at least 2 Business Days. ***Issue specific summary:*** Offer Period: [●] **Covenants** None **Depository** The Bonds will be book-entered within the securities settlement system governed by Latvian law of Nasdaq CSD SE. . **Applicable Law** Latvian Law. **Guaranteed Allocations** Citadele has a general discretion to reject any Purchase Orders, in whole or in part, for any reason at its sole discretion, and no person is guaranteed to receive any number of Bonds.
E.4	Material interests in the offer	In so far as Citadele is aware, no person involved in the Offer has an interest material to the Offer, nor any conflicting interests.

E.7	Estimated expenses charged to investors	No expenses or taxes will be charged to the investors by Citadele in respect to the issue of the Bonds. However, the investors may be obliged to cover expenses which are related to the opening of securities accounts with the credit institutions or investment brokerage firms, as well as commissions which are charged by the credit institutions or investment brokerage firms in relation to the execution of the investor's purchase or selling orders of the Bonds, the holding of the Bonds or any other operations in relation to the Bonds. Citadele shall have no obligation whatsoever to compensate the Bondholders for any such expenses.

5. Risk Factors

5.1. Introduction

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

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

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

5.2. Risks Relating to Citadele Group's Business

Citadele Group may not successfully implement its business strategy

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

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

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

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

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

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

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

Citadele Group's business and performance are affected by European and global economic conditions and future economic prospects, particularly in Latvia and the other Baltic States in which Citadele Group's revenue is predominantly generated. Weak macroeconomic conditions, recessions, the implementation of austerity measures, along with global financial market turmoil and volatility, such as experienced in the 2008-2009 financial crisis, have in the past affected and may continue to affect Citadele Group's business, financial performance and the activity level and behaviour of Citadele Group's customers as well as the banking sectors in Latvia and the other Baltic States generally. External economic factors have in the past affected and may continue to affect Citadele Group in the future. These include high unemployment levels, reduced consumer and government spending levels, government monetary and fiscal policies, inflation rates, credit spreads, currency exchange rates, market indices, investor sentiment and confidence in the financial markets, reduced consumer confidence, the level and volatility of equity prices, commodity prices and interest rates, real estate prices and changes in customer behaviour. All of these factors are impacted by changes in financial markets and developments in the European and global economies, including in Latvia and the other regions where Citadele Group operates, such as Russia and other CIS countries. Furthermore, other factors or events may affect the Latvian, European and global economic conditions, such as heightened geopolitical tensions, war, acts of terrorism, natural disasters or other similar events outside Citadele Group's control.

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

Following the adoption of the Euro by Estonia, Latvia and Lithuania on 1 January 2011, 2014 and 2015, respectively, the Baltic States are currently all members of the Eurozone and are thus affected by economic and macroeconomic developments in the Eurozone. In particular, the UK's "Brexit" vote in June 2016 to leave the European Union has created significant uncertainty regarding the future of the EU-UK relationship. However, direct trade links between the Baltics and UK are limited as only slightly more than 5% of Latvian exports go to UK, and this share is even lower for Estonia and Lithuania, with trade mostly dominated by wood and wood products. Furthermore, less than 1% of Citadele's gross loan book represent clients who have significant end-market exposures to the UK, and Citadele has no open FX exposures to the British Pound.

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

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

Citadele Group faces significant competition from both foreign and domestic banks in Latvia and the other Baltic States. According to data published by the Association of Commercial Banks of Latvia (the "**ACBL**"), as at 30 June 2017, there were 16 banks and 6 branches of foreign banks operating in Latvia. The seven largest commercial banks in Latvia in terms of total assets (Swedbank AS, AS ABLV Bank, AS Rietumu Banka ("**Rietumu Banka**"), AS SEB banka ("**SEB**"), Nordea Bank AB Latvia branch, Citadele and AS DNB banka from greatest to least amount of assets) held a 83.9% combined share of total assets, a 88.9% combined share of total loans and a 83.3% combined share of total deposits as at 30 June 2017. The Latvian market is dominated by large Scandinavian banks, such as Swedbank AS, AS SEB banka, Nordea Bank AB Latvia branch and AS DNB banka, which have traditionally provided a wide range of consumer and corporate banking services in all three Baltic States, and which grew quickly before the global financial crisis in 2008 and 2009. Each of these banks has retail and corporate operations in Latvia which compete with those of Citadele Group, and due to their broader customer and funding bases are often able to offer more attractive pricing or other terms to their customers than Citadele Group. On 1 October 2017 Nordea and DNB combined their operations in the Baltic States creating a new bank – Luminor Bank AS. Based market share of Nordea Bank AB Latvia branch and AS DNB banka new bank is expected to become one of the largest banks on the market, but no financial statements have been released by the new bank as of October 2017. In addition to the large Scandinavian banks, Citadele Group also faces competition to a lesser extent from Latvian domestic banks, such as Rietumu Banka and ABLV Bank, which had respective market shares of 11.6% and 13.0% of the Latvian banking sector based on total assets as at 30 June 2017 according to the ACBL; whilst Citadele Group believes that the focus of these banks is predominantly on serving customers outside of Latvia, any change in the focus of their operations towards the domestic Latvian banking market may result in increased levels of competition for Citadele Group.

In the Lithuanian and Estonian banking sectors, in addition to the large Scandinavian banks which dominate these markets, Citadele Group faces competition from other banks operating in these areas, particularly from the local banks Šiaulių bankas in Lithuania and LHV Pank in Estonia. LHV Pank also has a limited presence in the Lithuanian market through its affiliates. As at 30 June 2017, Šiaulių bankas had a 7.2% market share in Lithuania, and LHV Pank had a 4.6% market share in Estonia, based on total assets.

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

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

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

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

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

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

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

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

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

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

Citadele Group may be unable to attract and retain customer deposits at the same volume or cost that it currently enjoys. The interest rates that Citadele Group offers on customer deposits are not only affected by current market interest rates, but are also dependent on Citadele Group's short-term and long-term liquidity targets, as well as its market position and the level of competition in the markets where it operates In addition, recent low interest rates on customer deposits in the Eurozone have led to an increase in Citadele Group's demand deposits and a corresponding decrease in its fixed-term deposits, which has heightened the potential volatility of Citadele Group's customer deposit base. If money market interest rates set by central banks reach significantly negative levels, Citadele Group may be forced to pass this cost on to its customers. This may result in customers withdrawing funds which may have an adverse effect on Citadele Group's funding position.

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

Citadele Group may be unable to meet its minimum capital requirements

Citadele Group has previously submitted a report to the FCMC following its internal capital adequacy assessment process ("**ICAAP**") detailing Citadele Group's plan on how it will continuously meet the minimum capital adequacy requirements, including its Pillar 2 add-on and combined buffer requirement, on a Basel III transitional basis over the forecasted period from 2017 to 2019. The content of this plan has been reviewed by the FCMC and will be the key input to the Supervisory Review and Evaluation Process (SREP) decision expected by the end of 2017. ICAAP forecasts are based on a number of assumptions, including Citadele Group's projected revenue growth and the anticipated expansion of its asset base in line with its business strategy. However, whilst these assumptions, including profit forecast for the future periods, have been prepared as accurately as possible based upon information available at the time they are formed, these assumptions may prove to be inaccurate or incorrect due to factors outside of Citadele Group's control or expectation, which in turn may affect Citadele Group's ability to meet its minimum capital requirements or other prudential requirements under law or regulation. In case regulations related to capital requirements are amended by the FCMC at any point of time in the future, the Citadele Group may need to revise its business strategy, capital plan or both in order to ensure compliance with the aforementioned regulations. Any such revisions may have adverse implications on financial performance of Citadele Group. In order to meet its projected capital adequacy requirements, Citadele Group has assumed that its net profits available for distribution will be included as part of its Common Equity Tier 1 capital. By their very nature, profits may be volatile and unpredictable, and there is no guarantee that Citadele Group will be able to achieve the net profits that it anticipates in the future. The investment of capital in projects aimed at growth may affect Citadele Group's overall capital position and may in turn affect its ability to meet the capital requirements imposed by the FCMC. See also "*—Citadele Group may be unsuccessful in adequately implementing or satisfying the requirements of changing prudential regulation"* and "*—Citadele Group may not successfully implement its business strategy*", above. Any failure by Citadele Group to meet its minimum regulatory capital requirements may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows.

On 31 October 2016, Citadele sold certain bonds from its securities portfolio that were accounted for as Held to Maturity (HTM) with a nominal value of 34 million EUR. This sale triggered a restriction for Citadele Group (except certain Citadele Group subsidiaries on a stand-alone basis) from using HTM accounting for the securities portfolio for a period of 2 years from the date of the sale, or until IFRS 9 accounting standards are introduced. As a result, all remaining holdings within Citadele's securities portfolio shall be re-classified to under Available for Sale (AFS) accounting. This change in accounting treatment for the securities portfolio may increase Citadele's interest rate risk and market risk, as well as related charges for the purposes of capital adequacy calculation and ICAAP.

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

Citadele Group has sought to develop its brand and reputation in Latvia and the other Baltic States on the basis of high levels of customer service and longstanding relationships with key customers. Citadele believes that the strength of its brand is a key factor in allowing it to acquire and retain customers. Citadele Group's ongoing commercial success has relied on a positive public perception of its brand in Latvia in order to grow its customer deposit base, as well as the growing recognition of its brand and products in Lithuania and Estonia. Any event that has a detrimental impact upon the public perception of Citadele's brand, including, for example, any overly forceful debt collection techniques employed by debt collection companies to whom Citadele Group has sold certain of its non-performing loans, may, despite Citadele Group's best efforts to limit such impact, lead to significant damage to Citadele Group's business and reputation and may dissuade current and potential future customers from using Citadele Group's products or services, which may in turn have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows and may limit or prevent Citadele Group from successfully implementing its business strategy.

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

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

In the financial periods under review in this Base Prospectus, Citadele Group has generally experienced declining market interest rates, and market interest rates remain low in most of the countries where Citadele Group operates, particularly in the Eurozone. Changes in market interest rates are influenced by a number of factors outside of Citadele Group's control, including the fiscal and monetary policies of governments and central banks, such as the ECB, and international political and economic conditions. Changes in market interest rates may change in ways that Citadele Group is unable to foresee, predict or adequately manage, and changes in market interest rates may have a disproportionate or different effect on Citadele Group relative to its competitors. Market interest rates, particularly in the Eurozone, and the trend in the change of such rates have a material impact on Citadele Group's interest income from its loan and securities portfolios. As at 30 June 2017, vast majority of Citadele Group's loan portfolio consists of floating rate loans, whilst majority of Citadele Group's securities portfolio consists of fixed rate instruments. Changes in market interest rates also have a material impact on Citadele Group's interest expense, particularly with respect to the interest rates it pays on its customer deposit base. Because Citadele Group derives the majority of its total income from net interest income, changes in market interest rates may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows.

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

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

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

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

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

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

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

At the initial lending stage as well as during the life of a loan, Citadele Group's credit risk evaluation and collateral valuation models and processes may not accurately reflect the underlying risk of specific borrowers or the underlying value of their collateral, and the quality of Citadele Group's loan portfolio may deteriorate for reasons that are beyond its knowledge or control. Further, as at 30 June 2017, 15% of Citadele's loan portfolio was comprised of so-called "legacy loans", which Citadele received as part of the restructuring of Parex. Some of Citadele Group's legacy loans were issued on the basis of underwriting standards that were less stringent than those currently in effect at Citadele Group at the date of this Base Prospectus. In addition, the size of certain legacy loans may have increased since 2010 due to additional lending by Citadele Group following the acquisition of the legacy loan portfolio, although this additional lending has generally been made in accordance with Citadele Group's current underwriting standards. Citadele Group has experienced higher rates of impairment on its legacy loans than on its non-legacy loans, and its remaining legacy loan portfolio may continue to experience higher delinquency and impairment rates than its non-legacy loan portfolio. Any failure by Citadele Group to accurately assess the credit quality of its loan portfolio or the value or enforceability of its associated collateral may have a material adverse effect on Citadele's business, prospects, financial condition, results of operations or cash flows.

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

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

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

Citadele Group's loan portfolio currently has substantial credit exposure to the manufacturing and real estate investment and management sectors in Latvia. As at 30 June 2017, the manufacturing sector constituted 17%, and the real estate investment and management sector 22%, of Citadele Group's total loan portfolio to customers other than private individuals. In the event of economic developments adversely affecting Citadele Group's customers in those sectors, or those sectors more generally, or if any such customers were to move or reduce their business with Citadele Group or were to experience financial difficulties or other difficulties servicing their loan obligations, the performance of Citadele Group's loan portfolio may be materially and adversely affected, which may in turn have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows.

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

As at 30 June 2017, Citadele Group's impairment allowance for loans and receivables from customers was EUR 83.2 million, and the ratio of Citadele's impairment allowance for loans and receivables from customers to total gross loans and receivables from customers was 5.9% The estimation of impairment levels is inherently uncertain and dependent upon many factors, such as historical loan performance, future economic conditions, the trading performance or future cash flows of the borrower and the value of the underlying collateral, for which there may not be a readily accessible market. Citadele Group relies substantially on management's judgment when determining estimated impairment allowances. Citadele Group may not have accurately identified impaired loans or estimated the scope of loan impairments across its loan portfolio, which may result in Citadele Group's loan portfolio performing significantly below Citadele Group's expectations. Actual credit losses may materially differ from reported impairment levels due to a number of factors, including factors that are inherently uncertain, such as international and local economic conditions, borrower specific factors, industry and market trends, interest rates, unemployment rates and other external factors. Any failure by Citadele Group to accurately determine the impairment levels of its loan portfolio may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows.

In 2016, Citadele Group's annual collectively assessed impairment increased to EUR 3.4 million from EUR 1.4 million in 2015, primarily due to an increase in the PD estimates for certain loans and an overall growth of loan portfolio. In 2015, Citadele Group's collectively assessed impairment increased to EUR 1.4 million, from EUR 6.5 million in 2014, primarily due to an increase in the PD estimates for certain loans and an overall growth of loan portfolio. Any failure by Citadele Group to accurately assess or manage the risks or losses that it faces, or any change in the approach to risk management leading to higher impairments, may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows.

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

The main forms of collateral taken by Citadele Group in its lending to SME and corporate borrowers are charges in real estate and other business assets. Citadele Group also provides residential mortgages to retail borrowers in Latvia, Lithuania and Estonia, the collateral of which is charges over residential real estate. As at 30 June 2017, 23% of Citadele Group's loan portfolio comprised loans with a loan-to-value ratio of greater than 100% and unsecured loans.

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

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

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

Citadele Group's operations extend beyond Latvia, with subsidiaries in Switzerland and Lithuania, a branch in Estonia, and representative offices in Ukraine, Kazakhstan, Belarus and Russia. Citadele Group holds collateral or other security over assets in jurisdictions of Latvia, Lithuania, Estonia, Malta and Switzerland in addition to Azerbaijan, as well as movable collateral, such as aircrafts and ships, in connection with its provision of loans, mortgages or other banking operations. In addition, while Citadele Group's current policy is not to accept collateral outside of the EU for new loans provided to customers, some of the legacy loans it received as part of the restructuring of Parex are secured by collateral held outside the EU. As at 30 June 2017, insignificant part of Citadele Group's loan portfolio was secured by collateral held outside the EU, which was composed of loans within Citadele Group's legacy loan portfolio.

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

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

As at 30 June 2017, 24% and 10% of Citadele Group's securities portfolio consisted of Latvian and Lithuanian government bonds, respectively. As a result of this concentration, Citadele Group's securities portfolio is particularly exposed to any default by the Latvian or Lithuanian states, including certain of its branches, departments and local municipalities. In addition, the default of a government of another Member State of the EU would also likely have a significant impact on the fiscal and political situation of the EU and the economic performance of the Eurozone, which may have a significant impact on Citadele Group's fixed income portfolio.

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

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

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

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

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

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

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

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

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

Russia remains a sizeable trading partner to Latvia. According to the Investment and Development Agency of Latvia, it accounted for 8.4% of Latvian exports for the 12 months ended 31 December 2016. Latvia is, therefore, particularly vulnerable to the state of the Russian economy, the imposition of trade restrictions or other sanctions related to Russia and a weakening Rouble. International sanctions imposed by the United States and the EU on Russia and Russian persons and businesses in response to Russia's alleged support of separatist rebels in eastern Ukraine have recently been extended to include specific sectors within the Russian economy. Russia's response has included the placing of an extensive embargo on particular imports from the United States and the EU. Such increases in sanctions and retaliatory responses from Russia may halt or reduce the speed of the EU's economic recovery and may in particular impact upon the stability of international trade between Russia and Latvia and the other Baltic States. Any increases in these restrictions upon trade may have a material impact upon the financial stability of Russia, Ukraine and surrounding countries, including the Baltic States. The Baltic States are also net energy importers and rely to a significant extent on energy imports from Russia. Any impact on the Baltic States' ability to import oil and gas from Russia as a result of sanctions or deteriorations in trade relations between Russia and the EU may have an impact on the Baltic States' energy security, which in turn could have an impact on their economic growth. The ability of Citadele Group's customers to repay amounts due to Citadele Group may also be affected by such customers' exposure to the Russian market. Whilst, at the date of this Base Prospectus, Citadele Group has experienced only limited effects of sanctions applicable to certain sectors (such as agriculture), a number of loan exposures have had to be restructured as a result of these sanctions. Citadele Group has from time to time engaged, and may continue to engage, directly and indirectly in business with Russian persons and businesses in ways that Citadele Group believes comply with all applicable international sanction regimes and has ceased certain activities with certain banks as a consequence of such sanctions. Citadele Group's failure to monitor its customers' sanctions status or to comply with any applicable sanctions regimes, or any change in international sanctions or national or regional geopolitical pressures, may subject Citadele Group to significant fines, additional sanctions and harm its reputation, any of which may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows.

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

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

Citadele Group faces risks in relation to its international deposit book

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

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

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

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

Citadele Group faces risks associated with the fact that it no longer has American Express exclusivity in Latvia and Lithuania as a result of regulatory changes

As a result of the introduction of Regulation (EU) 2015/751 on interchange fees for card-based payment transactions, interchange fees in the EU are reduced. In addition, exclusivity arrangements such as that which currently enable Citadele Group to exclusively issue American Express cards in Latvia and Lithuania are no longer permissible within the EU from 9 December 2015. Due to the loss of American Express exclusivity, Citadele Group's current legal arrangements with American Express in Latvia and Lithuania will be in force until July 2018. Any changes to the existing arrangements or any decrease in the number of customers currently using Citadele's American Express cards or obtaining other cards from Citadele Group may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows. See section entitled „*Business Description —Material Agreements —American Express Independent Operator Agreement*" for more information.

Citadele Group is exposed to correspondent account risk

Citadele Group is exposed to certain concentration risks in relation to its use of correspondent bank accounts for certain currencies, particularly U.S. dollars, which may adversely affect its operations. In 2016, Deutsche Bank Trust Company Americas ("**DBTCA**") ceased correspondent account relationships for all credit institutions operating in Latvia and Estonia, including Citadele Group. Citadele Group, however, has successfully started new relationship with Citibank Inc. in the field of USD correspondent banking and other services. As of the date of this Base Prospectus Citadele Group continues to maintain U.S. dollar correspondent account services with Raiffeisen Bank International. However, if Citibank and/or Raiffeisen Bank International elect to withdraw from the Baltic States and Citadele Group fails to open U.S. dollar correspondent accounts with other banks, Citadele Group may experience difficulties in processing customer payments in U.S. dollars. In particular, these difficulties may affect Citadele Group's private capital management and corporate segments if customers perceive that Citadele is not able to offer a full spectrum of banking services, including the ability to process payments in key currencies such as U.S. dollars. Any such development may result in loss of majority of fee income from payment transfers as well as part of fees from custody and brokerage services that may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows.

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

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

Citadele Group's operations expose it to foreign exchange risk

While the majority of Citadele Group's product offerings and transactions are denominated in Euro, it does provide products in other currencies, including U.S. dollars and, to a lesser extent, the Swiss Franc. Citadele does not engage in taking significant foreign exchange exposures for profit taking purposes and has low tolerance to foreign exchange risk in general. However, in some transactions with customers and other financial institutions the credit risk exposure is strongly correlated with foreign exchange movements, which can translate into losses under extreme scenarios despite all the due efforts taken. Furthermore, exchange rate fluctuations could impact Citadele Group's financial results due to the fact that its financial results are reported in EUR. Any failure by Citadele Group to manage changes in foreign exchange rates, particularly if such changes are sudden or unforeseen, or significant increase in Citadele Group's risk appetite with respect to foreign exchange risk may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows.

Citadele Group faces risks associated with its pension fund operations

Citadele Group offers a number of pension products to its customers, including funds for discretionary personal contributions ("**Pillar III pensions**"), as well as contributions made by the Latvian State from income tax contributions made by customers ("**Pillar II pensions**"), which make up 6% and 57%, respectively, of Citadele Group's total assets under management as at 30 June 2017. If Citadele Group suffers reputational harm or the performance of Citadele Group's pension products is materially worse than that of its competitors in a given period, this may result in a significant number of customers withdrawing their pension fund assets from Citadele Group and moving them to a competitor. Any decrease in the number of pension funds or in the amount deposited in those funds may have a detrimental effect on Citadele Group's commission and fee income, or result in the revocation of licences by the relevant regulators, if Citadele fails to meet capital adequacy requirements, which may in turn have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows.

Recent changes in Latvian tax legislation may negatively impact future business volumes in pension fund products. Among others the most important changes provide for more strict eligibility criteria for personal income tax exemption - combined maximum amount restriction for both life insurance and pension fund contributions - 10% of annual taxable income with a cap of EUR 4 thousand per year.

Citadele Group faces risks associated with its life insurance operations

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

Recent changes in Latvian tax legislation may negatively impact future business volumes in life insurance products. Among others the most important changes provide for more strict eligibility criteria for personal income tax exemption - increased term of the policies from 5 to 10 years and combined maximum amount restriction for both life insurance and pension fund contributions - 10% of annual taxable income with a cap of EUR 4 thousand per year.

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

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

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

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

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

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

Citadele Group's ability to continue to attract, retain and motivate qualified and experienced banking and management personnel is vital to its business. Attracting and retaining highly professional and motivated employees has been challenging at all times. Citadele Group closely monitors the market in terms of pay to ensure employees are adequately remunerated, but there is ongoing competition for talent. Given the shortage of skilled labour in the Baltic States and the resulting competition and increased salary pressure for skilled labour, Citadele Group may be unable to retain existing personnel or hire new qualified personnel, and Citadele

Group may be required to further increase salaries and other benefits offered to experienced banking and management staff, which would increase Citadele Group's personnel costs. Any failure by Citadele Group to retain experienced personnel or hire new qualified personnel (and, particularly, in specialist roles such as IT and legal) may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows.

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

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

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

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

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

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

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

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

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

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

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

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

In accordance with the BRRD and the CIIFRR Law, the bail-in tool is a mechanism for effecting the exercise by a resolution authority of the write-down and conversion powers in relation to liabilities of the credit institution. The resolution authority may apply the bail-in tool for the purpose of, *inter alia*, conversion into equity or reduction in the principal amount of Bonds that are transferred to a bridge institution (i.e., a legal person that is wholly or partially owned by one of more public authorities and is created for the purpose of receiving and holding some or all of the shares or other instruments of ownership issued by a credit institution under resolution or some or all of the assets, rights and liabilities of one or more institutions under resolution) with a view to providing capital for that bridge institution or under the sale of business tool or the asset divestiture tool. Specifically, the resolution authority has the power to cancel all or a portion of the principal amount of, or interest on, certain unsecured liabilities (which may include the Bonds) of a failing credit institution and/or to convert certain debt claims (which may include the Bonds) into another security, including ordinary shares of the credit institution, if any. Whenever decision is adopted by the resolution authority to reduce the principal amount or outstanding amount due on debt instruments such as the Bonds, conversion or cancellation of debt instruments, such decision becomes immediately binding on the institution under resolution and affected creditors and shareholders.

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

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

5.3. Regulatory, Political and Tax Risks

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

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

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

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

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

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

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

Anticipated revisions to tax legislation or to its interpretation may affect Citadele Group's financial condition in the future.

At present, corporate income tax in Latvia is payable on taxable profits, which may be partially offset by any tax loss carried forward from previous tax periods. The new Latvian tax regime, effective 1 January 2018, introduces a new framework whereby corporate income tax would only be payable on dividend pay-outs (irrespective of profits in the particular period) and certain other expenses considered to be distribution of earnings for tax purposes (e.g. non-business expenses and representative expenses that exceed specific threshold). As a result, we expect this new regime to have a positive impact on the Group and the Bank in 2018 (and subsequent periods) as the corporate income tax expense on undistributed profits should decrease substantially under the new tax regime. In accordance with the applicable accounting framework, however, this Latvian tax regime change is expected to require a one-time write-off of most of the deferred tax assets in the amount of EUR c.23 million recognised within Latvian jurisdiction as at the end of 2017. Any write-off of the deferred tax asset is expensed in the income statement as a corporate income tax expense and has a direct negative impact on the net result for the period. The tax assets in other Group's jurisdictions remain unaffected by the changes in the Latvian tax regime.

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

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

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

Citadele Group faces risks associated with compliance with Common Reporting Standard

Citadele Group has implemented Common Reporting Standard (CRS) requirements which became effective as of 1 January 2016. CRS aims to identify taxpayers, such as private individuals and legal entities that are clients of Citadele Group (except for clients of Citadele Group's leasing subsidiaries, pension fund subsidiary and subsidiaries not involved in provision of financial services) and that after the completion of the respective client due diligence measures are classified as residents in a CRS jurisdiction and to report them to the tax authorities based on the principles of the U.S. Foreign Account Tax Compliance Act (commonly known as "FATCA") approach. Although Citadele Group believes that it has fully and accurately implemented CRS, there is a risk that procedures established for identifying the relevant taxpayers and reporting them to the appropriate tax authorities may not be sufficient to fully comply with CRS requirements. Any failure to comply with CRS may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows.

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

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

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

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

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

Citadele Group operates in highly regulated fields of business and provides various financial services and products, which are subject to extensive and comprehensive regulations imposed both through local and through European legal acts. Citadele Group faces extensive regulatory changes in the fields of capital markets, data protection, consumer protection, payment services, etc.

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

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

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

Although Latvia has enacted and fully implemented EU-wide requirements in relation to anti-money laundering ("**AML**"), anti-bribery and sanctions legislation, levels of compliance with this legislation are still not fully consistent across all Latvian financial institutions. In part as a result of the large numbers of international customers which these financial institutions serve and the consequential heightened risk of being used as money laundering vehicles, there is a perception of Latvia as a jurisdiction having inadequate frameworks for dealing with money laundering and bribery; this perception (whether or not founded) may cause correspondent banks in Western jurisdictions to elect not to deal with certain Latvian banks or to cease operations in the region entirely. Such an occurrence may have a material adverse effect on Citadele Group's ability to process international payments, especially in U.S. dollars, and in turn on Citadele Group's business, prospects, financial condition, results of operations or cash flows. Although Citadele Group believes that it has introduced all measures to counteract money laundering which are required by law, including know-your-customer procedures and banking system enhancements, Citadele as part of a sector-wide exercise had engaged a U.S. based external auditor in 2016 to perform a review of its AML policies and procedures to ensure that these are as up to date and comprehensive as possible. As a result of this external review, the auditor's assessment for Citadele showed moderate level of AML compliance with international standards, and ranked Citadele best-in-class within the Latvian banking sector. To address the auditor's recommendations and suggestions for specific AML areas, Citadele has made all efforts to implement all recommendations and suggestions of external auditors according to remediation plan developed by Citadele. However, there is no guarantee that recommendations are fully and accurately implemented per the best practices in place in the United States and European Union. Furthermore, in order to ensure ongoing independent testing of AML compliance and as part of a follow-on sector-wide exercise required by the FCMC in 2017, Citadele has engaged U.S. based auditors for consecutive AML audit to perform re-evaluation of Citadele compliance with U.S. legal and and international regulatory requirements and also address the sufficiency and quality of work performed by Citadele to implement recommendations from the prior review conducted in 2016. Whilst, as at the date of this Base Prospectus, no Citadele Group entity has, to the knowledge of Citadele Group's management, been involved in fraud, money laundering, bribery, corruption, financing of terrorism or any other illegal transactions of a similar nature, it is not uncommon for attempts to be made by individuals, including potentially by employees of Citadele Group, to use banks and their subsidiaries to engage in such activities. For example, in August 2011, a former employee was found to be soliciting bribes from customers in return for fraudulently providing them with better loan terms. The incident was investigated by the Latvian Corruption Prevention and Combating Bureau of Latvia and Citadele engaged forensic accountants to perform an internal investigation, following which Citadele implemented upgrades to its control systems to decrease the potential risk of reoccurrence of such action. As such, there have been and may be attempts to launder money or undertake other illegal activities through Citadele or Citadele entities, and Citadele Group's AML measures or compliance measures may not be effective in preventing such activities, whether as a result of Citadele Group's employees' failure to observe the measures that Citadele Group has put into place or as a result of the development of new methods for conducting money laundering activities or for other reasons. As day-to-day enforcement of AML and compliance measures is a time- and resource-intensive process, Citadele Group may experience delays in reviewing potential AML or compliance issues or in implementing corrective measures. Similarly, whilst Citadele Group introduced a new international sanctions policy in August 2015 which sets out the means by which Citadele Group manages the risk of breaching sanctions together with the enforcement principles which Citadele Group intends to maintain, there can be no guarantee that this new policy will be wholly effective in preventing a breach of sanctions by Citadele Group or its employees.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Citadele Group, like other financial institutions operating within the European Union, faces increasing risks associated with an uncertain and rapidly changing prudential regulatory environment, pursuant to which it is required, among other things, to maintain adequate capital resources and to satisfy specified capital or other ratios. Whilst Citadele Group is in compliance with existing capital adequacy requirements, there is a risk that more stringent capital adequacy requirements could be introduced in relation to the quality or the quantity of capital required to be held. Effective management of Citadele Group's capital is critical to the success of its commercial operations and the implementation of its business strategy. Citadele's Management Board will set its internal target amount of capital by taking account of their own assessment of the risk profile of the business, market expectations and regulatory requirements. If regulatory requirements as to capital levels increase, driven by, for example, new regulatory measures, Citadele Group may be required to comply with increased capital ratios, e.g. due to changes in capital buffer requirements or individual assessment made by FCMC on an annual basis.

Besides minimum capital adequacy ratios as set by CRR Citadele Group currently is exposed to and have to comply with a 2.5% capital conservation buffer, which represents a countercyclical buffer based on Citadele's risk exposure geographical distribution and individual capital adequacy ratio calculated based on the FCMC policies and guidelines. FCMC has also identified the Bank as an "other systemically important institution" (O-SII). The Bank's O-SII capital buffer requirement set by the FCMC is 1.5% and is introduced in two steps – 0.75% capital buffer requirement become effective as at 30 June 2017, while compliance with the full buffer requirements will have to be ensured as of 30 June 2018. Recently the FCMC has issued a regulation which introduces "total SREP capital requirement" (TSCR) and "overall capital requirement" (OCR) concept. TSCR concept implies an increase in capital requirements to cover risks in addition to these covered by the CRR. OCR means the sum of the total SREP capital requirement (TSCR), capital buffer requirements and macro-prudential requirements.

In order to meet its projected capital adequacy requirements, Citadele Group has assumed that its net profits available for distribution will be included as part of its Common Equity Tier 1 capital. By their very nature, profits may be volatile and unpredictable, and there is no guarantee that Citadele Group will be able to achieve the net profits that it anticipates in the future. Citadele Group may also need to increase its capital level in response to changing market conditions or expectations. If Citadele Group is unable to so increase its capital, it may no longer comply with regulatory requirements or satisfy market expectations related to its capital strength, which may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows. Any change that limits Citadele Group's ability to effectively manage its capital (including, for example, reductions in profits and retained earnings as a result of credit losses, write-downs or otherwise, increases in risk-weighted assets, delays in the disposal of certain assets, or the inability to raise capital or funding through wholesale markets as a result of market conditions or otherwise) may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations, liquidity or cash flows.

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

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

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

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

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

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

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

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

Citadele Group may be impacted by changes in accounting methodologies

Citadele Group faces risks in relation to potential future changes to international accounting reporting standards, including IFRS, which could have an impact on Citadele Group's financial position. Such changes may result in adjustments to Citadele Group's equity, as well as other changes that may force Citadele Group to change its strategy. For example, IFRS 9 (Financial Instruments, replaces IAS 39) becomes effective on 1 January 2018, IFRS 15 (Revenue from contracts with customers) becomes effective for annual periods beginning on or after 1 January 2018, and IFRS 16 (Leases) is expected to become effective for annual periods beginning on or after 1 January 2019. In particular IFRS 9 will affect the classification and measurement of financial assets and liabilities, and may, in turn, result in reclassification of certain financial assets of Citadele Group and lead to a change in the measurement and performance reporting of these instruments. IFRS 9 also replaces the incurred credit loss approach with expected credit losses approach to impairment of financial assets, which will affect the level of impairment allowance and related charges in the income statement. Even though Citadele Group is in a late stage of IFRS 9 implementation, the composition of the assets and liabilities and other significant factors may change on 1 January 2018, thus there is uncertainty about the actual implementation impact. Any change in the accounting standards applicable to Citadele Group may have a material adverse effect on Citadele Group's business, prospects, financial condition, results of operations or cash flows.

Citadele Group faces risks as a result of regulatory investigations

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

5.4. Risks Relating to the Offer and Bonds

The Bonds may not be a suitable investment for all investors

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

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

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

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

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

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

Citadele's obligations under the Bonds are unsecured and unguaranteed

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

Citadele's obligations under the Bonds are subordinated obligations

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

The subordination of the Bonds means that in the event of liquidation or insolvency of Citadele, all the claims arising from the Bonds shall become collectible and shall be satisfied only after full satisfaction of all unsubordinated recognised claims against Citadele but before satisfaction of the claims of Citadele's shareholders in their capacity as Citadele's shareholders in accordance with the applicable law. Therefore, upon liquidation or insolvency of Citadele, the Bondholders will not be entitled to any payments due under the Bonds until full and due satisfaction of all the unsubordinated claims against Citadele, except the claims of

Citadele's shareholders in their capacity as Citadele's shareholders. By subscribing to the Bonds, all investors unconditionally and irrecoverably agree to such subordination of claims arising from the Bonds. As long as there are no liquidation or insolvency proceedings initiated against Citadele, all claims arising from the Bonds shall be satisfied by Citadele in accordance with the General Terms and Conditions of the Bonds, the applicable Final Terms and the applicable law. Please be advised that no funds may be left to satisfy the claims of the Bondholders after all or part of unsubordinated claims have been satisfied.

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

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

The Bonds rank *pari passu* with other existing and future unsecured and unguaranteed subordinated obligations of Citadele. See the section entitled "*General Terms and Conditions of the Bonds —Ranking and Subordination"* for more information.

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

The Bonds are subject to bail-in risk

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

There has been no prior trading market for the Bonds

Although in 2016 Citadele issued and listed subordinated bonds under its € 40,000,000 First Unsecured Subordinated Bonds Programme, the Bonds constitute a new issue of securities by Citadele. Prior to the offering and admission to trading on the regulated market of the Bonds, there has been no public trading market for the Bonds. The Offer Price will be determined by Citadele and, as a result, may not be accurately indicative of the market price for the Bonds following their admission to trading.

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

Admission of the Bonds to trading on the Nasdaq Riga requires the approval of the Nasdaq Riga's management board. To secure this approval, Citadele must meet certain eligibility requirements provided for in the applicable rules and regulations of the Nasdaq Riga and other applicable securities laws, including the Latvian Financial Instruments Market Law. Certain of these requirements may be discretionary in their nature and application. Therefore, despite Citadele's intent to apply for admission to trading of the Bonds on the Baltic

Bond List of the Nasdaq Riga Stock Exchange, Citadele cannot provide any assurance that its application(s) for listing the Bonds will be accepted by the Nasdaq Riga and the Bonds will be admitted to trading on the regulated market.

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

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

An active and liquid market for the Bonds may not develop

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

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

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

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

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

Citadele has little experience in complying with the requirements for publicly listed companies

Publicly listed companies in Latvia are subject to a number of obligations, mostly relating to the timely disclosure of relevant information for investors. Citadele has only been subject to such obligations since 2016 and thus it may fail to fulfil them in whole or in part. As a consequence, investors may not be provided with price-sensitive information on time, or at all, or the content of materials made public may be of unsatisfactory quality. In addition, in case of non-compliance with the relevant rules and regulations applicable to publicly listed companies in Latvia, Citadele may be fined or have other sanctions imposed on it, which may have an adverse impact on Citadele's business, prospects, financial condition, results of operations or cash flows.

Investors in Bonds will depend on the account-based system of Nasdaq CSD and functionality of T2S (TARGET2-Securities) securities settlement platform

The Bonds will be affiliated to and recorded in the account-based system (Latvian SSS) of the Nasdaq CSD, and no physical notes will be issued. Clearing and settlement relating to the Bonds will be carried out within the Nasdaq CSD's book-entry system (Latvian SSS) as well as payment of interest and repayment of the principal. Investors in Bonds will therefore dependent on the functionality of the Nasdaq CSD's account-based system (Latvian SSS), as well as the functionality of T2S (TARGET2-Securities) securities settlement platform.

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

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

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

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

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

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

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

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

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

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

No assurance on change of laws or practices

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

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

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

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

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

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

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

Legal investment considerations may restrict certain investments in Bonds

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

The transferability of the Bonds may be restricted

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

The Bonds may be redeemed prematurely on the initiative of Citadele

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

The Offer may be cancelled

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

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

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

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

Bondholders may be required to comply with requests for information

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

6. General Information

6.1. General Description of the Programme

Citadele has established the € 25,000,000 (twenty five million euro) Second Unsecured Subordinated Bonds Programme (the "**Programme**") described in this Base Prospectus under which Citadele, subject to compliance with all relevant laws and regulations, may issue and offer publicly in Latvia and Lithuania from time to time in one or several series (the "**Series**") non-convertible unsecured and unguaranteed subordinated bonds denominated in EUR, having maturity from 7 to 10 years and with fixed interest rate (the "**Bonds**"). The maximum aggregate nominal amount of all Bonds outstanding issued under the Programme shall not at any time exceed € 25,000,000.

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

Citadele's shareholders have authorised issuance, public offering and listing of the Bonds at the meeting of shareholders of Citadele on October 24, 2017 (Meeting minutes No. 3/2017, § 1) and authorised the Citadele's Management Board to approve the characteristics of the Bonds, the Base Prospectus and any of the documents thereto, as well as any amendments and supplements thereof. The Citadele's Management Board has approved the Base Prospectus at its meeting on November 2, 2017.

6.2. Registration and Approval of the Base Prospectus

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

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

6.3. Applicable Law

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

6.4. Dispute Settlement

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

6.5. Credit Ratings

The credit ratings included in this Base Prospectus have been issued, for the purposes of Regulation (EC) No 1060/2009, as amended (the "**CRA Regulation**"), by Moody's Investors Service Ltd ("**Moody's**"). Moody's is established in the EU and registered under the CRA Regulation. As such, Moody's is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation. As at the date of this Base Prospectus, the credit rating assigned to Citadele's long term deposits by Moody's is Ba2 (with outlook positive).

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

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

6.6. Use of the Base Prospectus

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

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

7. Citadele Group

7.1. General Corporate Information

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

7.2. History and Development of Citadele Group

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

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

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

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

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

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

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

In January 2017 Citadele repaid the subordinated debt in amount of EUR 34 million to LPA pursuant to the subordinated loan agreement entered into by and between Parex and the Latvian Privatisation Agency on 22 May 2009.

7.3. Structure of Citadele Group

Subsidiaries

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

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

Subsidiary	Country of incorporation	Ownership	Industry
SIA “Hortus Commercial”..................	Latvia	100%	Managing real estate assets
SIA “Hortus Residential”	Latvia	100%	Managing real estate assets
SIA “Hortus Land”	Latvia	100%	Managing real estate assets
SIA “Hortus TC”	Latvia	100%	Managing real estate assets
SIA “Hortus JU”................................	Latvia	100%	Managing real estate assets
SIA “Hortus RE”	Latvia	100%	Managing real estate assets
SIA “Hortus NI”	Latvia	100%	Managing real estate assets
SIA “Hortus BR”	Latvia	100%	Managing real estate assets

Branch

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

Representative Offices

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

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

7.4. Key Consolidated Figures

The following table summarizes the key consolidated financial data of Citadele Group for each of the years ended, 31 December 2015 and 2016, and for six-month period ended 30 June 2017.

The information provided in the table below corresponds to that presented in 2016 Audited Consolidated Financial Statements and 2017 Audited Consolidated Interim Financial Statements. There are also several alternative performance measures included commonly used in market. These provide comparable holistic view of the Group, highlight key value drivers and aggregate financial information in possibly more relevant measures.

EUR millions	Citadele Group				Citadele banka			
	H1 2017	2016	H1 2016	2015	H1 2017	2016	H1 2016	2015
Net interest income	36.2	66.2	31.1	60.5	27.1	50.1	23.6	48.1
Net commission and fee income	19.3	40.1	18.3	35.5	12.1	27.1	13.1	25.3
Operating income (1)	64.5	134.3	70.6	112.7	47.6	107.1	55.9	86.5

Impairment charge and reversals, net	-6.4	-10.1	-5.1	-6.2	-6.7	-10.2	-5.6	-6.2
Net profit	15	40.7	25.4	26.1	10.3	36.3	20.6	19.5
Return on average assets (ROA)(2)	0.90%	1.29%	1.66%	0.90%	0.79%	1.44%	1.68%	0.82%
Return on average equity (ROE)(3)	11.5%	17.2%	22.1%	13.2%	8.4%	16.2%	19.0%	10.2%
Cost to income ratio (CIR) (4)	64.5%	60.4%	55.8%	68.5%	62.4%	55.3%	52.5%	67.1%
Cost of risk ratio (COR) (5)	1.1%	0.9%	1.0%	0.8%	1.2%	0.9%	1.2%	0.7%
Capital adequacy ratio (CAR)	16.7%	16.5%	12.5%	13.4%	19.6%	19.0%	13.7%	15.1%
Adjusted for major one-time items (7)								
Net profit		31.1	14.0			21.6	9.3	
ROA(2)		0.99%	0.92%			0.86%	0.75%	
ROE(3)		13.30%	12.20%			9.90%	8.60%	
Adjusted for IPO costs (8)								
Net profit				31.1				24.5
ROA(2)				1.07%				1.03%
ROE(3)				15.50%				12.70%

EUR millions	**Citadele Group**				**Citadele banka**			
	H1 2017	**2016**	**H1 2016**	**2015**	**H1 2017**	**2016**	**H1 2016**	**2015**
Total assets	3,291	3,350	3,140	2,960	2,550	2,630	2,506	2,409
Loans to customers	1,323	1,241	1,231	1,172	1,071	1,009	1,013	983
Deposits from customers	2,874	2,919	2,748	2,570	2,141	2,149	2,098	2,037
Shareholders' equity	270	254	240	220	249	238	224	209
Loan-to-deposit ratio (6)	46%	42%	45%	46%	50%	47%	48%	48%

(1) Operating income consists of the following income statement items: net interest income, net commission and fee income, net gain on transactions with financial instruments and other income.

(2) Return on average assets (ROA) is calculated as annualised net profit for the relevant period divided by the average of total assets at the beginning and the end of the period. ROA is a measure of the profitability of the assets.

(3) Return on average equity (ROE) is calculated as annualised net profit for the relevant period divided by the average of total equity at the beginning and the end of the period. ROE is a measure of profitability of the equity.

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

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

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

(7) One-time income recognised in the statement of income of 2016 in amount of EUR 11.3 million due to sale of Citadele's share in Visa Europe to Visa Inc, EUR 5.1 million income on dividends from subsidiaries (Bank only) and EUR -1.8 million loss on sale of a single AFS (former HTM) security exposure before maturity

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

FCMC identified Citadele as an "other systemically important institution" (O-SII) at the end of 2015. There are six such institutions and the buffer requirements range from 1.5% to 2.0%. Citadele's O-SII capital buffer requirement is 1.5%, where 0.75% became effective as of 30 June 2017 and another 0.75% will be added as of 30 June 2018. The O-SII buffer requirement has to be ensured by Tier 1 capital. If the full O-SII buffer requirement was effective as at 30 June 2017, the Citadele's and Citadele Group's Tier 1 ratio would have to be at least 10.42%, to meet all the requirements: (1) Common equity tier 1 ratio of 4.5%, (2) additional tier 1 ratio of 1.5%, (3) capital conservation buffer of 2.5%, (4) countercyclical buffer of 0.02%, (5) individual capital buffer of 0.4%, as determined by the FCMC and (6) O-SII capital buffer of 1.5%. As at 30 June 2017, both, Citadele and Citadele Group have sufficient Tier 1 capital to comply with the full O-SII buffer requirements. FCMC will inform Citadele on the new individual capital buffer at the end of 2017 after completing supervisory review and evaluation process. Citadele expects to be fully compliant with updated requirements.

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

7.5. Strategy

Overview

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

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

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

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

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

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

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

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

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

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

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

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

Expand private capital management, asset management and pension product offerings to individual customers

Citadele aims to increase its activities in the profitable private capital management segment in the Baltic States by cross-selling private capital management and asset management products. Citadele also aims to grow customer base interested in an international retail solution. Notwithstanding this intention to expand the private capital management segment, Citadele believes that the relative importance of this segment may decrease in comparison to the retail and SME segments.

7.6. Citadele’s Share Capital

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

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

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

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

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

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

7.7. Citadele's Objects and Purposes

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

7.8. Corporate Governance

General

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

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

Supervisory Board

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

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

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

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

The Supervisory Board meets at least quarterly.

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

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

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

Timothy Collins, Chairman of the Supervisory Board. Mr. Collins is the Chief Executive Officer of Ripplewood Advisors LLC, an investment firm based in the U.S. Over the last 20 years, Ripplewood Advisors LLC has successfully invested in and grown companies globally, including in Europe, the Middle East and Asia. Before founding Ripplewood Advisors LLC, Mr. Collins held executive positions with Onex Corporation, Lazard Frères & Company, Booz Allen & Hamilton and Cummins Engine Company. Currently, Mr. Collins serves on the Board of Directors of Palm Hills Developments SAE. Mr. Collins holds a BA in Philosophy from DePauw University and an MBA in Public & Private Management from Yale University. Mr. Collins joined the Supervisory Board and assumed the role of Chairman on 20 April 2015. His term of office expires on 3 May 2022.

Elizabeth Critchley, Deputy Chairman of the Supervisory Board. Mrs. Critchley is Managing Director of Ripplewood Advisors Limited. Prior to joining Ripplewood Advisors Limited, Mrs. Critchley was a Founding Partner of Resolution Operations which raised £660 million through a listed vehicle at the end of 2008, and went on to make three acquisitions in financial services. Until forming Resolution Operations, Mrs. Critchley was a Managing Director at Goldman Sachs International where she ran the European FIG Financing business. Mrs. Critchley has structured, advised, or invested in transactions with more than fifty global financials and corporates. Mrs. Critchley holds a First Class Honours Degree in Mathematics from University College London. Mrs. Critchley joined the Supervisory Board and assumed the role of Deputy Chairman on 20 April 2015. Her term of office expires on 3 May 2022.

James L. Balsillie, member of the Supervisory Board. Mr. Balsillie currently chairs the Board of Directors of Sustainable Development Technology Canada. Mr. Balsillie was appointed to this role by the Government of Canada in 2013. Mr. Balsillie is a co-founder and former co-CEO of Research In Motion (BlackBerry) and founder of the Centre for International Governance Innovation (CIGI). He is also the founder of the Balsillie School of International Affairs (BSIA), Arctic Research Foundation, and co-founder of Communitech. Mr. Balsillie was the private sector representative on the UN Secretary General's High Panel for Sustainability. His awards include: Mobile World Congress Lifetime Achievement Award, India's Priyadarshni Academy Global Award, Time Magazine World's 100 Most Influential People, and three times Barron's list of "World's Top CEOs". Mr. Balsillie holds a Bachelor of Commerce from the University of Toronto, an MBA from Harvard Business School, and is a Fellow of the Institute of Chartered Accountants Ontario. Mr. Balsillie joined the Supervisory Board on 20 April 2015. His term of office expires on 3 May 2022.

Dhananjaya Dvivedi, member of the Supervisory Board. Mr. Dhananjaya "Jay" Dvivedi headed the Banking Infrastructure Group and was the Corporate Executive Officer of Shinsei Bank from 2000 to 2010. Mr. Dvivedi was instrumental in transforming Shinsei's IT platform as part of its strategy to improve customer service with conveniences such as internet banking, 24-hr ATMs, managed and monitored remotely, and real-time data, while maintaining cost control. Mr. Dvivedi has also served as the External Director of SIGMAXYZ Inc. from 2008 until 2011 and has since been involved in various research and advisory capacities for the development of new technologies to benefit society. Mr. Dvivedi holds an engineering degree from the Madhav College of Engineering in India and an MBA from the Indian Institute of Management. Mr. Dvivedi joined the Supervisory Board on 20 April 2015. His term of office expires on 3 May 2022.

Lawrence Lavine, member of the Supervisory Board. Mr. Lavine is a Senior Managing Director of Ripplewood Advisors LLC following a 28 year career in investment banking. At Ripplewood Advisors LLC, Mr. Lavine has focused primarily on companies in the financial services and telecommunications industries. Mr. Lavine was previously a Managing Director of Credit Suisse First Boston in its Mergers and Acquisitions Group. He joined CSFB in 2000 as part of the acquisition of Donaldson, Lufkin & Jenrette where he had been a Managing Director in M&A since 1987. He started his career on Wall Street at Kidder Peabody & Co. in 1976. Mr. Lavine holds a BS from Northeastern University and an MBA from Harvard Business School. Mr. Lavine joined the Supervisory Board on 20 April 2015. His term of office expires on 3 May 2022.

Klāvs Vasks, member of the Supervisory Board. Mr. Vasks has served as Chairman of Citadele Supervisory Board since the establishment of the bank in 2010 until 20 April 2015, at which point he was replaced by Mr. Timothy Collins. He has 20 years of experience in the banking sector. Previously he was vice president of the SEB Bank Latvia, also working as the director of the Restructuring Department and Large Company Services Department. From 2010 to 2015, he chaired the Latvian Guarantee Agency. Mr. Vasks holds a bachelor's degree from the Banking University College and an MBA degree from the Rīga School of Business of the Rīga Technical University. His term of office expires on 3 May 2022.

Nicholas Haag, Member of the Supervisory Board. Mr. Haag is an independent non executive director (INED) 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. His term of office expires on 3 May 2022.

Karina Saroukhanian, Member of the Supervisory Board. Ms. Saroukhanian is a senior banker in the Financial Institutions Team at the EBRD. She has over 15 years' industry experience, with recent focus on financial institutions sector. At the EBRD, Ms. Saroukhanian specialises in complex equity transactions, working with financial sponsors in multiple jurisdictions. Prior to joining the EBRD, Ms. Saroukhanian 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. She holds an MSc in Economics from the London School of Economics and the New Economic School, Moscow as well as Bsc in Mathematical Economics from the Moscow State University. Her term of office expires on 3 May 2022.

Catherine Ashton, Member of the Supervisory Board. Baroness Ashton most recently served as the EU High Representative from 2009-2014, where she visited over 100 countries, leading diplomatic missions such as being responsible on behalf of the UN Security Council for negotiations with Iran, and concluding negotiations between Serbia and Kosovo. Baroness Ashton is currently involved in a number of advisory and lecturing assignments. Baroness Ashton holds a BSc Economics, in Social Sciences and Law from London University. Her term of office expires on 3 May 2022.

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

Management Board

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

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

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

Santa Purgaile, Chief Commercial Officer Corporate. Ms Purgaile holds an MSc in International Economics and Business from the University of Latvia, where she graduated in May 2004. She has 20 years of banking experience, including as head of the private banking division of SEB in Latvia and the Baltic states, where she worked from 1994 to September 2012. Ms Purgaile's main responsibilities are the development and management of Citadele Group's business in Latvia and the Baltic States, and in relation to various aspects of client services. Ms Purgaile joined Citadele in September 2012, and has been a member of the Management Board since 20 September 2012. Her term of office expires on 21 September 2022.

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

Kaspars Cikmačs, Chief Operating Officer. Mr. Cikmačs holds an EMBA from the Stockholm School of Economics in Riga, having previously studied computer sciences at the University of Latvia where he graduated with a Bachelor's degree in 1999. He has 20 years of banking experience and previously headed the IT operations department at Swedbank Baltic. He is responsible for administrative services, record-keeping and bank operations. Mr. Cikmačs joined Parex in 2009 and became a Management Board member in September 2010. His term of office expires on 21 September 2020.

Vladislavs Mironovs, Chief Commercial Officer Retail. Mr. Mironovs is responsible for Citadele Group's Retail segment and business strategy implementation and business development. He joined Citadele 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. Mr. Mironovs held a position of Business Development Manager in GE Capital, UK (2012-2013) and Sales and Marketing Director in GE Money Bank Latvia (2010-2012). Mr. Mironovs holds Executive MBA from Riga Business School. His term of office expires on 16 December 2021.

Uldis Upenieks, Chief Compliance Officer. Mr. Upenieks in Citadele Group is responsible for the Compliance area. He has 20 years experience in the financial sector, of which last 15 years he has worked in the banking sector. Since November 2012 Mr. Upenieks was a Chairman of the Board at "CBL Asset Management". Before that he worked in PrivatBank – as a Board member and as a head of internal audit. Prior to that Mr. Upenieks was responsible for client oversight function (2002-2009), and a vice president and the deputy director of the Risk and Compliance Sector (2009.-2011.) at Citadele. Mr. Upenieks holds a master's degree in business administration and a bachelor's degree in economics from the Riga Technical University and he has studied at Riga Graduate School of Law. His term of office expires on 31 July 2022.

Slavomir Mizak, Chief Technology Officer. Mr. Mizak is responsible for Citadele Group's IT and technology development. In Citadele Group he has been working since August 1, 2017. Before joining, Mr. Mizak 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 (2002.-2009.). Mr. Mizak holds a master's degree in Business Administration from the University of Economics in Bratislava. His term of office expires on 31 July 2022.

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

Principal Committees

Supervisory Board Committees

Audit Committee

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

According to the decision of the Citadele's meeting of shareholders the Audit Committee fulfills the duties of Audit Committee as prescribed by Latvian Financial Instruments Market Law thus ensuring a supervision of Citadele audit processes, audit and non-audit services, etc.

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

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

Name	**Position**	**Date of appointment to the committee**
Klāvs Vasks	Chairman of the committee	25 May 2017
Elizabeth Critchley	Deputy chair of the committee	25 May 2017
Lawrence Lavine...........................	Member of the committee	25 May 2017
Dhananjaya Dvivedi	Member of the committee	25 May 2017
Nicholas Haag	Member of the committee	25 May 2017
Stephen Young	Member of the committee (shareholder level)	1 January 2017
Catherine Ashton(1)	Member of the committee	25 May 2017
James L. Balsillie	Member of the committee	25 May 2017

(1) Ms. Ashton has informed Citadele of her intention to leave the position of the member of the Audit Committee. The Supervisory Board plans to decide on this matter before the end of 2017.

Risk and Governance Committee

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

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

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

Name	**Position**	**Date of appointment to the committee**
Timothy Collins	Chairman of the committee	25 May 2017
Elizabeth Critchley	Deputy chair of the committee	25 May 2017
Lawrence Lavine...........................	Member of the committee	25 May 2017
Nicholas Haag	Member of the committee	25 May 2017
Karina Saroukhanian	Member of the committee	25 May 2017

Remuneration and Nomination Committee

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

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

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

Name	**Position**	**Date of appointment to the committee**
Elizabeth Critchley	Chairman of the committee	25 May 2017
Lawrence Lavine...........................	Deputy chair of the committee	25 May 2017
Karina Saroukhanian	Member of the committee	25 May 2017
Klāvs Vasks	Member of the committee	25 May 2017
Catherine Ashton(1)	Member of the committee	25 ay 2017

(1) Ms. Ashton has informed Citadele of her intention to leave the position of the member of the Remuneration and Nomination Committee. The Supervisory Board plans to decide on this matter before the end of 2017.

Technology Committee

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

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

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

Name	**Position**	**Date of appointment to the committee**
Dhananjaya Dvivedi......................	Chairman of the committee	25 May 2017
Timothy Collins	Deputy chair of the committee	25 May 2017
James L. Balsillie..........................	Member of the committee	25 May 2017
Nicholas Haag	Member of the committee	25 May 2017
Karina Saroukhanian	Member of the committee	25 May 2017

Management Board Committees

Credit Committee

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

Assets and Liabilities Management Committee

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

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

Compliance Committee

The Compliance Committee is tasked with ensuring that Citadele's business operates within applicable laws and regulations and in accordance with the industry's standards of best practice. The committee's responsibilities include coordinating Citadele's AML and counter-terrorist financing measures, implementing policies and procedures to prevent market abuse (including making decisions relating to the termination or continuation of contractual relationships with clients where there is suspicion of market manipulation), evaluating conflicts of interest, and introducing compliance monitoring systems across Citadele Group. It reviews Citadele's compliance risks and suggests prevention measures to the Management Board. The Compliance Committee reports to the Management Board, and it meets at least 4 times per year, or more frequently as and when required. See the section titled *"Compliance Committee"* under *"Asset, Liability and Risk Management—Risk Management Structure"*.

Group Investment Committee

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

Financial Market and Counterparty Risk Committee

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

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

SME Credit Committee

The SME Credit Committee is responsible for reviewing lending proposals in connection with lending to certain corporate entities and self-employed individuals where such proposed loans are below the limits which require approval by the Credit Committee (EUR 0.75 million) but exceed the individual approval limits.

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

Private Individuals Credit Committee

The Private Individuals Credit Committee is responsible for reviewing lending proposals in respect of lending to private individuals where such proposals relate to loans below the limits requiring approval by the Credit Committee (EUR 0.75 million) but exceed the individual approval limits. The Private Individuals Credit Committee meets twice per week. See the section title "*SME Credit Committee and Private Individuals Credit Committee*" under "*Asset, Liability and Risk Management—Risk Management Structure*".

Group Leasing Committee

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

The Group Leasing Committee meets twice per week.

Ethics and Disciplinary Committee

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

Procurement Committee

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

The Procurement Committee meets on a weekly basis.

Product Development Committee

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

The Product Development Committee generally meets on a monthly basis.

Remuneration

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

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

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

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

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

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

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

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

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

The table below sets out the aggregate remuneration for members of the Management and Supervisory Boards, as at and for the year ending 31 December 2016.

	Fixed remuneration	**Variable remuneration**	**Additional benefits in kind**	**Total**
Management Board	EUR 723, 152	EUR 120, 287	–	EUR 843, 439
Supervisory Board	EUR 135, 000	–	–	EUR 135, 000

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

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

Management Loans

As at 30 June 2017, there was EUR 38 thousand in loans and EUR 92 thousand in other financial commitments and guarantees in place between Citadele and members of the Management Board and Supervisory Board, their close relatives and companies in which they have a controlling interest.

Conflicts of Interest

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

Further information in relation to the Management and Supervisory Board members

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

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

Corporate Governance Rules

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

According to the Latvian Financial Instruments Market Law, a joint-stock company with its bonds traded on the regulated market has an obligation to prepare a corporate governance report on an annual basis. The Nasdaq

Riga has issued Principles of Corporate Governance and recommendations on their implementation, which take into account the requirements for companies as set out in Latvian legislation as well as the recommendations of the EU and OECD. These rules are based on the principle of "comply or explain" and follow governance principles in effect in other European countries.

Interests in Citadele

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

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

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

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

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

7.9. Shareholders

Major Shareholders

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

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

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

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

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

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

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

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

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

(7) Calculated by reference to voting interests in Citadele

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

Related Party Transactions

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

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

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

Citadele conducts all transactions with related parties on an arm's length basis and on market terms, including in the case of the advisory services provided by Ripplewood Advisors LLC where an assessment has been performed concluding that the services agreement constitutes a transaction conducted on arm's length basis. On 28 September 2017, Citadele entered into a new advisory services agreement with Ripplewood Advisors LLC in connection with the provision of certain advisory services to Citadele's management. See section entitled *"Business Description —Material Agreements —Advisory services agreement"* below. Transactions between Citadele and related parties (as defined by applicable banking regulations) are subject to the laws and regulations promulgated by the Latvian Parliament, the Cabinet of Ministers and the FCMC, which set certain limits for both single transaction related party exposure and aggregate transaction related party exposure.

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

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

7.10. Asset, Liability and Risk Management

General

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

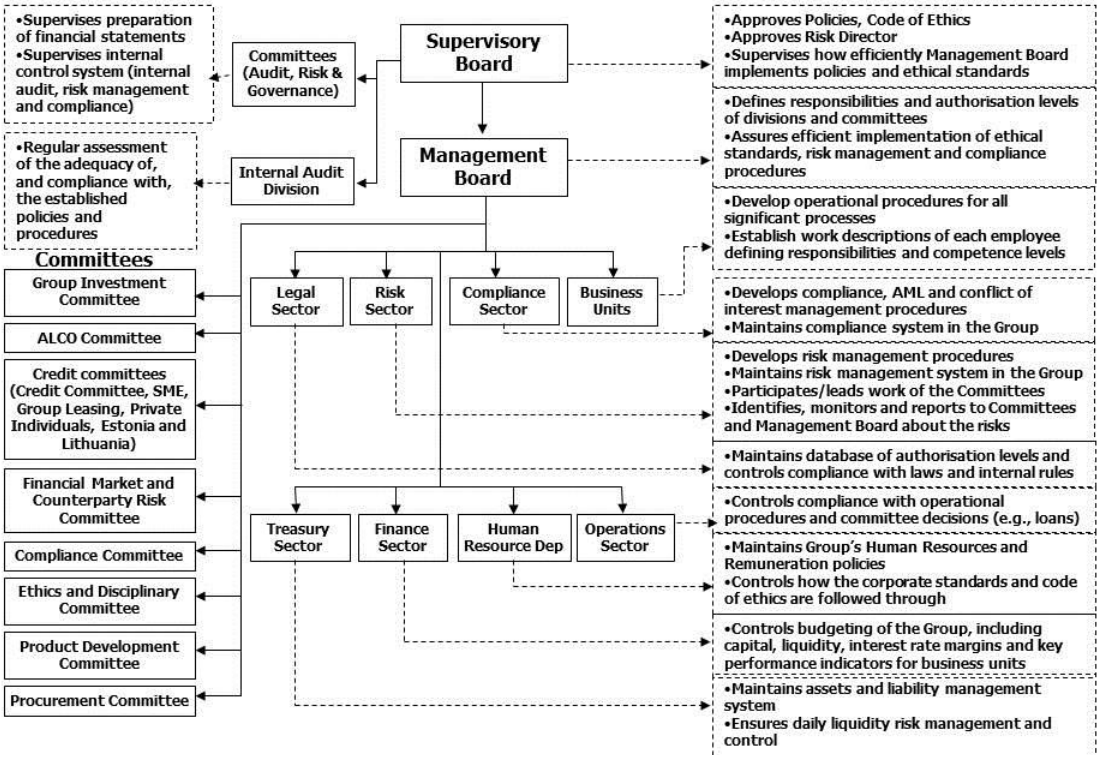
In order to assess and monitor complex risk exposures, Citadele Group applies a wide range of risk management tools in conjunction with risk committees, which include as its members a variety of employees across Citadele Group's various operations, in order to balance business and risk orientation across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

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

Citadele Group believes that it has a conservative risk tolerance across the organisational hierarchy and aims to ensure that it maintains a low overall risk exposure, a diversified asset portfolio, limited risks in financial markets and low levels of operational risk. Risks are always assessed in relation to their expected return. Exposures that are not acceptable are avoided, limited or hedged. Citadele Group does not assume high or uncontrollable risks irrespective of the return they provide, and assumes risks only in economic fields and geographical regions in relation to which it believes it has sufficient knowledge and expertise.

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

Risk management structure



Principal risk management bodies

Supervisory Board

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

Management Board

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

Risk and Governance Committee

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

Audit Committee

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

Internal Audit Division

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

Risk Sector

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

Risk Director

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

Compliance Sector

The Compliance Sector is a separate unit within Citadele Group that has oversight of Citadele Group's compliance framework. The Compliance Sector is responsible for: (i) providing with independent, efficient compliance management in the Group; (ii) improving and maintaining the general rules (frameworks) of compliance management and control in the Group; (iii) ensuring the implementation and maintenance of the Compliance supervision system in the Group, including in the area of prevention of money laundering and terrorism financing and observance of international sanctions imposed by the United States and the EU, as well as international organisations (UN).

Chief Compliance Officer

Pursuant to Latvia's legislation, Citadele banka has appointed Chief Compliance Officer, member of the Management Board, who is responsible for oversight and performance of compliance function in Citadele banka. Moreover, Chief Compliance Officer is also responsible for ensuring oversight over compliance functions within Citadele Group and regular assessment of Citadele Group's compliance strategy. As of the date of this Prospectus, the Chief Compliance Officer for Citadele Group is Uldis Upenieks. Chief compliance officer is also the Chairman of the Compliance Committee.

Sanctions Officer

Citadele banka has appointed dedicated Sanctions Officer who is responsible for compliance of Citadele Group with international sanctions imposed by the United States and the EU, as well as international organisations (UN) regarding the application of international anti-money laundering and counter financing terrorism requirements in the operation of financial institutions, as well as observance of other sanctions imposed by the United States and the EU and international organisations (UN).

Data Protection Officer

According to requirements of the EU General Data Protection Regulation (EU 2016/679), Citadele banka has appointed dedicated Data Protection Officer. Duties of Data Protection Officer are to ensure the implementation of the aforementioned regulation within Citadele Group concerning personal data protection, inform and advise Citadele Group and its employees who carry out processing of personal data, monitor compliance with regulation and applicable national laws and internal policies.

Group Investment Committee

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

Assets and Liabilities Management Committee

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

Financial Market and Counterparty Risk Committee

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

Credit Committee

The Credit Committee has responsibility for approving lending to non-financial institutions (other than bonds which are approved by the FMCRC) as well as issuing new loans or additional amounts to a single individual, SME or corporate customer or (in the case of a SME or corporate customer) to members of a customer's group which, in aggregate, are above EUR 0.75 million. In addition, the Credit Committee is responsible for approving Citadele's lending guidelines for loan products as well as approving any cooperation with independent collateral valuation companies, collateral insurance companies and other partners related to loan portfolio management. The Credit Committee is also responsible for approving lending by Citadele's subsidiaries and foreign branches. Lending decisions of the Credit Committee exceeding certain limits, as well as decesions related to lending guidelines or otherwise having material impact on credit risk level are approved by the Management Board. The Credit Committee is composed of two memebers of the Management Board (Chief Risk Officer and Chief Commercial Officer) and one representative from the Risk Sector (Head of Credit Risk Management Division).

SME Credit Committee and Private Individuals Credit Committee

The SME Credit Committee and the Private Individuals Credit Committee are each responsible for reviewing and approving loan issuance proposals below the value of EUR 0.75 million, but which do exceed the individual Management Board and senior management limits. See the section below "*—Credit Risk Management*".

Group Leasing Committee

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

Compliance Committee

The Compliance Committee is responsible for reviewing compliance risk monitoring and coordination as well as fulfilment of Citadele Group's AML and counter-terrorist financing policies. It is tasked with: (i) preventing money laundering and terrorist financing; (ii) ensuring compliance with international sanctions imposed by the United States and the EU, as well as international organisations (UN); (iii) protecting investors' interests by ensuring compliance with the requirements of Markets in Financial Instruments Directive (Directives 2004/39/EC and 2014/65/EU) ("**MiFID**" and "**MiFIDII**") (as implemented by Latvian legislation); (iv) preventing market abuse; (v) developing Citadele Group's corporate governance policies, including the evaluation of conflicts of interest, as well as compliance management systems for Citadele Group; (vi) supervising the protection of confidential information and personal data; and (vii) supervising the introduction of Unified Compliance Monitoring requirements across the overseas subsidiaries, branches and representative offices of Citadele Group. The decisions of the Compliance Committee are approved by the Management Board.

Treasury Sector

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

Credit Risk Management

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

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

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

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

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

Loans and bonds underwriting

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

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

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

Monitoring

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

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

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

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

Citadele Group manages country risk wherever possible based on the country of origin of the exposure rather than the customer’s country of domicile or registration, meaning that Citadele Group focuses on where the customer performs its economic activity, derives profit or where its assets are situated.

The ALCO sets an overall cap applicable to all types of exposure in a particular country, including investment, lending, and liquidity management related activities. The concentration limits are reviewed by the ALCO at least once per year.

In addition to the credit risk which is inherent in Citadele Group’s loan portfolio and fixed-income securities portfolio, Citadele Group is also exposed to credit risk arising as a result of its banking relationships with multiple credit institutions which it maintains in order to process customer transactions in a prompt and efficient manner. Citadele Group manages its exposure to commercial banks and brokerage companies on a regular basis by monitoring the credit ratings of such institutions, conducting due diligence of their credit profiles and monitoring the individual exposure limits applicable to counterparties set by the FMCRC. Citadele Group’s exposures to derivative counterparties arise from its activities in managing liquidity and credit risks through short term derivatives that do not expose it to material counterparty risk. As at the date of this Base Prospectus, none of Citadele Group’s derivative exposures was overdue.

Control of Citadele Group’s collateralisation level

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

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

Market Risk Management

Citadele Group recognises two major types of market risk: position risk and foreign exchange risk. Position risk is the risk that Citadele Group will incur a loss as a result of the mark-to-market revaluation of balance sheet and off-balance sheet items caused by changes in market values of financial instruments due to changes in interest rates, asset values and other factors. General interest rate risk and specific interest rate risk are the main risks which arise from fair valued bond portfolio held by Citadele Group for investment and liquidity purposes. Foreign exchange risk is a risk of loss arising from fluctuations in currency exchange rates. Market risk is assessed and limits are set by the Group Investment Committee and the FMCRC, and the decisions of these committees are approved by the Management Board.

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

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

Interest Rate Risk Management

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

Liquidity Risk Management

The purpose of liquidity risk management is to ensure the availability of liquid assets to cover any possible gaps between cash inflows and outflows as well as to secure sufficient funding for lending and investment activities. Citadele Group manages its liquidity risk in accordance with its liquidity risk management policy. The management and reporting of liquidity risk is coordinated by the Treasury Sector, and the risk is assessed and decisions are taken by ALCO. All ALCO decisions are approved by the Management Board. The Risk Sector provides information on a monthly basis to the ALCO and the Management Board about the level of the assumed risk as part of the reporting and supervision process. The Management Board in turn briefs the Supervisory Board annually on liquidity risk management. Furthermore, the Risk Sector conducts an annual internal assessment of liquidity adequacy at the Group level and submits ILAAP report with conclusions to the Management and Supervisory Boards.

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

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

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

The FCMC requires banks in Latvia to estimate and maintain a liquidity ratio of at least 30% and also sets individual liquidity ratio requirements based upon cash and cash equivalent assets available within 30 days span and current liabilities of the bank due in the next 30 days. Citadele's individual liquidity ratio requirement remained stable at 40% for the last 3-year period. Citadele was in compliance with the liquidity ratio requirements issued by the FCMC and met mandatory reserve requirements defined by the Bank of Latvia. In addition to a Latvia-specific liquidity ratio, the FCMC has also introduced a minimum requirement for a Basel III proposed Liquidity Coverage Ratio (LCR) with a phase-in period ending in 2018. The corresponding minimum levels to be maintained in 2017 and 2018 and on are 80% and 100%, respectively. Citadele is fully compliant with the current requirements and has implemented necessary measures to ensure smooth compliance with future LCR thresholds. Another liquidity indicator – the Net Stable Funding Ratio (NSFR) as introduced in Basel III framework – has no binding level defined by the regulator yet, but is expected to be announced in the near future. The limit is likely to be set at 100%. For internal risk management purposes Citadele calculates and reports to ALCO the NSFR based on preliminary methodology inferred from the Basel III document.

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

Six months ended	**Highest**	**Lowest**	**Average**	**Year (period)-end**
30 June 2017	70%	62%	66%	62%
30 June 2016	61%	57%	59%	61%
Year ended				
31 December 2016	70%	55%	60%	70%
31 December 2015	63%	55%	59%	57%
31 December 2014	59%	50%	55%	59%

The following table sets out LCRs and NSFRs as at the dates indicated. Unless otherwise noted, the information presented is for Citadele Group.

	As at 30 June		**As at 31 December**	
Liquidity Ratios	**2017 (unaudited)**	**2016 (unaudited)**	**2016 (audited)**	**2015 (audited)**
Net Stable Funding Ratio⁽¹⁾	151%	120%	152%	136%
Liquidity Coverage Ratio⁽²⁾	275%	193%	253%	239%

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

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

Operational Risk Management

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

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

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

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

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

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

Some of the key tools for restricting operational risks are: segregation of functions and responsibilities, documentation of the assignment of authorities, the separation of duties within the decision-making process and the use of a "four-eyes" principle. Citadele Group also has in place a centralised operational risk event reporting system is used for setting Citadele Group's risk management policies and procedures.

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

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

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

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

The compliance function is performed by Chief Compliance Officer who is the Member of the Management Board. Separate structural units at Citadele Group: the AML Division and Compliance Division of the Compliance Sector are acting under the authority of the Chief Compliance Officer.

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

The Compliance Division, meanwhile, is responsible for: (i) the supervision and implementation of new internal policies and procedures to ensure compliance with binding laws and regulations in the field of Personal Data Protection, Anti-Bribery and Corruption, Ethics, Automatic Exchange of Financial Account Information (FATCA/CRS), Payment Services Compliance, Capital Markets Compliance, Compliance with Consumer Rights, Compliance of New Products; (ii) the development and documentation of procedures to ensure Citadele Group's employees follow compliance laws and regulations; (iii) the monitoring of compliance with Citadele Group's internal regulations; (iv) the assessment of the impact of potential changes in law and regulations which could affect Citadele Group's operations; and (v) the provision of advice, support and training to Citadele Group employees.

The responsibility for risk management in relation to money laundering and terrorist financing lies with the Chief Compliance Officer, the Management Board member together with the Money Laundering and Reporting Officer and AML Division within the Compliance Sector. The Compliance Committee in turn oversees control over the fulfilment of Citadele Group's AML, Counter-Terrorism Financing and Sanctions Compliance policies and programmes.

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

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

Citadele Group believes that it does not engage, and has not engaged, in risk transactions with customers who are involved in money laundering, criminal activity or financing terrorism, or where such activity is suspected to have taken place or with the residents of countries under international sanctions imposed by the United States and the EU, as well as international organisations (UN).

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

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

Citadele Group has developed and implemented scoring models for credit cards and consumer loans for private individuals, as well as for micro SME loans. Currently, the aforementioned scoring models are under ongoing improvement process to ensure development of more sophisticated and enhanced customer evaluation technics.

Capital Adequacy Management

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

According to CRR and CRD IV, the supervisory authority can impose additional capital requirements on credit institutions depending on the analysis of their specific risk profiles. CRD IV also includes certain mandatory micro- and macro-prudential capital buffers. The latest individually calculated standalone minimum capital adequacy ratio according to Citadele's business model amounts to 8.0% of minimum Tier 1 requirement plus FCMC's individual requirement of additional 0.4% plus Basel III capital conservation buffer (CCB) of 2.5%, plus other systemically important institution (O-SII) buffer of 0.75%, plus countercyclical buffer (CCyB) of 0.02%, which adds up to 11.67%. As at 30 June 2017, Citadele met this minimum capital adequacy ratio.

In 2017 the FCMC introduced several changes in regulation with a material effect on the capital requirements of Citadele Group. In addition to uniform minimum capital charge of 8.0%, two additional mandatory layers of capital requirements were announced: the first should cover the Pillar 2 risks that are not considered, nor are insufficiently covered by baseline requirements and that are estimated within ICAAP framework; the second consists of Basel III micro- and macro-prudential capital buffers. The Pillar 2 capital surcharge as estimated during the most recent ICAAP exercise performed as at 31 December 2016, stood at 3.6%. As noted above, Citadele Group is subject to a 2.5% CCB requirement, 0.75% O-SII buffer requirement (1.5% from 30 June 2018) and 0.02% CCyB requirement. The results of the most recent ICAAP and additional individual capital requirements are to be approved by the end of year, 2017. Typically, a bank will hold a capital buffer above the minimum requirements, which is the approach currently followed by Citadele Group. Citadele Group's management anticipates that both Citadele as a standalone entity and Citadele Group as a whole will comply with its minimum capital adequacy ratio target as described in the latest ICAAP submission. However, Citadele anticipates that the overall capital adequacy target, which includes also capital buffers, will only be achieved in case Citadele Group continues to direct its operating profits towards increasing its capital position, as well as successful placement of the subordinated debt under this program.

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

Capital adequacy calculation as at 30 June 2017, 31 December 2016 and 31 December 2015

The following table sets forth the capital adequacy calculation of Citadele Group and Citadele in accordance with EU regulations (Basel III framework, Pillar I) as implemented by FCMC regulations as at 30 June 2017, 31 December 2016 and 31 December 2015:

	As at 30 June 2017	**As at 31 December 2016**	**As at 31 December 2015**	**As at 30 June 2017**	**As at 31 December 2016**	**As at 31 December 2015**
	Group[1]	**Group**[1]	**Group**[1]	**Bank**	**Bank**	**Bank**
				EUR thousands		
Common equity Tier 1 capital						
Paid up capital instruments	156,556	156,556	156,556	156,556	156,556	156,556
Retained earnings and eligible profits	95,281	95,568	55,431	80,571	80,571	80,571
Deductible other intangible assets	(3,065)	(3,052)	(2,506)	(2,801)	(2,801)	(2,762)
Other capital components, deductions and transitional adjustments, net	(6,126)	(7,069)	(3,915)	(5,376)	(5,376)	(5,221)
Tier 2 capital						
Eligible part of subordinated liabilities	51,431	53,254	30,633	51,431	51,431	53,254
Own funds	**294,077**	**295,257**	**236,199**	**280,381**	**280,381**	**282,398**
Risk weighted exposure amounts for credit risk, counterparty credit risk and dilution risk						
Central governments or central banks	17,925	33,518	16,500	13,882	13,882	26,582
Regional governments or local authorities	563	849	806	115	115	203
Public sector entities	35	67	23	34	34	67
Multilateral Development Banks	2,376	2,461	2,578	2,376	2,376	1,819
Institutions	89,680	92,763	134,322	59,075	59,075	65,415
Corporates	781,539	742,291	730,788	700,261	700,261	674,130
Retail	153,656	138,350	111,333	65,282	65,282	57,130
Secured by mortgages on immovable property	203,568	272,040	255,935	166,524	166,524	233,134
Exposures in default	93,469	90,797	72,986	89,765	89,765	92,304
Items associated with particularly high risk	28,278	32,810	37,213	27,571	27,571	32,438
Claims on institutions and corporates with a short-term credit assessment	699	337	1,178	-	-	-
Collective investments undertakings	6,286	11,041	11,179	6,286	6,286	11,041

	As at 30 June 2017	As at 31 December 2016	As at 31 December 2015	As at 30 June 2017	As at 31 December 2016	As at 31 December 2015
	Group(1)	**Group(1)**	**Group(1)**	**Bank**	**Bank**	**Bank**
Equity	13,009	12,822	19,407	64,245	64,245	64,018
Other items	130,408	126,296	131,813	50,908	50,908	43,776
Total exposure amounts for position, foreign currency open position and commodities risk						
Traded debt instruments	2,609	2,850	13,881	2,609	2,609	2,851
Equity	-	-	249	-	-	-
Foreign Exchange	8,122	7,044	7,878	705	705	1,747
Commodities	-	-	6,975	-	-	-
Total exposure amounts for settlement	-	-		**-**	-	-
Total exposure amounts for operational risk	**223,140**	**223,140**	**206,687**	**177,374**	**177,374**	**177,374**
Total exposure amounts for credit valuation adjustment	1,519	1,109	1,067	1,494	1,494	1,109
Total risk exposure amount	**1,756,883**	**1,790,585**	**1,762,798**	**1,428,505**	**1,428,505**	**1,485,193**
Total capital adequacy ratio	**16.7%**	**16.5%**	**13.4%**	**19.6%**	**19.6%**	**19.0%**
Common equity Tier 1 capital ratio	**13.8%**	**13.5%**	**11.7%**	**16.0%**	**16.0%**	**15.4%**

Transitional and fully-loaded capital ratios

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

	As at 30 June		As at 31 December	
Capital Ratios(1)	**2017 (audited)**(9)	**2016 (audited)**	**2016 (audited)**	**2015 (audited)**
Basel II/Basel III Transitional Basis(2)				
Total capital adequacy ratio(3)	16.7%	12.5%	16.5%	13.4%
Common equity Tier 1 capital ratio(4)................	13.8%	11.1%	13.5%	11.7%
Leverage Ratio(5)....	7.3%	6.3%	7.1%	6.8%
Risk weighted assets(6)	1,756,883	1,823,204	1,790,585	1,762,798
Risk weighted assets as a percentage of total assets(7)	53.4%	58.1%	53.5%	59.5%
Basel III Fully Loaded Basis(8)				
Total capital adequacy ratio(3)	16.0%	11.7%	15.7%	12.6%
Common equity Tier 1 capital ratio(4)................	13.1%	10.3%	12.7%	10.9%
Leverage Ratio(5)....	6.9%	5.9%	6.7%	6.3%
Risk weighted assets(6)	1,756,883	1,823,204	1,790,585	1,762,798
Risk weighted assets as a percentage of total assets(7)	53.4%	58.1%	53.5%	59.5%

(1) The capital ratios for the years ended 31 December 2016, 31 December 2015 and the six months ended 30 June 2017 and 30 June 2016 have been calculated in accordance with FCMC regulations at that time (Basel III framework, Pillar 1). AAS “CBL Life” is not included in Citadele Group’s consolidation group for capital adequacy purposes, and the value of Citadele’s investment in AAS “CBL Life” constitutes a risk exposure for capital adequacy purposes. See Note 15 to the Audited Interim Consolidated Financial Statements and Note 34 to 2016 and Note 33 to the 2015 Audited Consolidated Financial Statements for more information. Total capital adequacy ratio and common equity Tier 1 capital ratio, each on a Basel III transitional basis, for the six months ended 30 June 2017 and 30 June 2016 are included in the 2017 Audited Consolidated Interim Financial Statements. Total capital adequacy ratio and common equity Tier 1 capital ratio, each on a Basel III transitional basis, for the years ended 31 December 2016 and 31 December 2015 are included in the 2016 and 2015 Audited Consolidated Financial Statements. The other capital ratios set forth in this table have not been audited or reviewed. Profits as at 30 June of the respective year have not been included in the calculations of Capital Ratios.

(2) The capital ratios set forth under the heading Basel II/Basel III transitional basis are calculated on a Basel III transitional basis for years ended 31 December 2016 and 31 December 2017 and the six months ended 30 June 2017 and 30 June 2016 and in accordance with the grandfathering rules under the CRR/CRD IV which allow for the transitional treatment of certain capital instruments, such as additional Tier 1 capital and Tier 2 capital, that are not compliant with the new rules, and permit for a gradual reduction in recognition as regulatory capital.

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

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

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

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

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

(8) The capital ratios set forth under the heading Basel II/Basel III fully loaded basis are calculated on a Basel III fully loaded basis for the six months ended 30 June 2017 and 30 June 2016and for the years ended 31 December 2016and 31 December 2015 which approximates the capital position assuming all of the transitional arrangements under the CRR/CRD IV regime have expired as of the dates presented, and thus represents the full implementation of the CRR/CRD IV rules.

(9) All data are audited except for Leverage ratio

8. Business Description

8.1. Overview

Citadele Group is a leading universal banking group and the largest non-Nordic owned universal bank in Latvia. As at 30 June 2017, Citadele has the third highest number of active customers (approx. 277,000), the third highest number of internet banking users (approx. 139,000 active users) and the third largest network of branch offices in Latvia, according to the ACBL. Furthermore, as at the same date, Citadele had a total market share in Latvia of 7.7% in total loans, 10.4% in deposits and 9.3% in total assets, according to data published by the ACBL.

Citadele Group offers a wide range of banking products to its retail, SME (including micro SME) and corporate customer base. It also provides wealth management, asset management, life insurance, pension and leasing and factoring products. Citadele has won numerous local and international awards for its business, customer service and innovative technology applications, including the 2016 award for the best transformation in Eastern Europe from the global financial journal, Euromoney, the 2014 award for the second consecutive year for the best locally owned bank in Latvia from the global financial journal, Euromoney, the Bank of the Year award by 2014 Acquisition International in Latvia, and being named among the best 100 companies in Europe by the European Business Awards in 2013. As at 30 June 2017, Citadele Group employed 1,614 people. Its distribution network comprises 33 branch offices in Latvia, 6 branch offices in Lithuania and 1 branch office in Estonia and 1 branch office in Switzerland as well as its online and mobile banking platform, the latter of which currently is only available in Latvia.

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

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

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

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

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

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

8.2. Principal business activities

Introduction

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

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

Distribution channels

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

- branch offices: Citadele Group has an extensive network of branch offices across Latvia and Lithuania which it inherited from Parex (which was, at its peak, a much larger business than Citadele) and which, therefore, provides a strong platform for Citadele Group to leverage its business, attract customers and grow in the future. As at the date of this Base Prospectus, Citadele Group currently has 33 branch offices in Latvia, 6 branch offices in Lithuania, 1 branch offices in Estonia and 1 branch offices in Switzerland. Whilst Citadele aims to deliver a personalised service for its customers in its branch offices, customers are sometimes redirected towards automated cash operations if required to enable sales managers to focus on advisory services for revenue generation. This extensive network of branch offices enables Citadele Group to provide an efficient customer service to customers, enhances the positive perception of Citadele Group's brand and increases the opportunities to advertise, highlight, and cross sell Citadele Group's products more effectively. As part of its strategy, Citadele Group also intends to review and if necessary upgrade and modernise its network of branch offices;
- relationship managers: Citadele Group has recruited relationship managers to provide advice to customers across its business segments with a view to selling Citadele Group's products. These relationship managers are important, from the perspective of both creating and maintaining relationships with Citadele Group's customers, such as by supporting the customer during the underwriting process and during the life of the loan. Citadele Group has invested in its relationship managers by providing them with extensive training focused upon sales. Relationship managers increase the opportunities to sell additional products to its customers more effectively.
- online and mobile banking presence: Citadele Group believes that its online banking offering is crucial to retaining existing customers and attracting new customers. Furthermore, Citadele Group's ability to tailor its online banking offering to the specific local requirements of each of the Baltic States plays an important role in reinforcing the market perception that Citadele Group is responsive and in touch with the differing and specific needs of its local customers across the Baltic States. Citadele Group is continually upgrading its online banking offering to its customers to enhance functionality, security and usability to ensure that Citadele Group is matching or exceeding the online offering of its competitors. Citadele has also implemented enhanced security through the introduction of Mobilescan^{TM} software on banking authorisation devices, thus customers can use their mobile phones for 2-factor authorisation on Citadele's online banking platform. In Latvia, Lithuania and Estonia Citadele offers a mobile banking application to its customers, enabling mobile access and management of their funds and payments, as well as ATMs, branches and retail stores with special offers for Citadele's customers. The online banking offering, including Citadele Group's mobile banking and SMS banking platforms, also provides customers with easier access to Citadele Group's products, and enables customers to apply for these products directly and more efficiently online.
- ATMs: Citadele Group has the third largest ATM network in Latvia and these ATMs are located across all regions of the country. As at 30 June 2017 the total number of ATMs in Latvia is 166 - approximately 40% being cash-in/cash-out ATMs (enabling both deposits and withdrawals). ATMs provide the main cash-out transactions channel for Citadele Group, with more than 97% of all bank cash-out transactions being made through ATMs. Citadele Group intends to maintain the total number of ATMs and to renew and modernise its existing ATM network by focusing upon converting more of its ATMs to have cash-in as well as cash-out functionality;
- relationships with retailers: Citadele Group has strong relationships with retailers operating across the Baltic States. These relationships form the basis for Citadele Group to offer point of sale products, cash management products and finance for consumers in relation to white goods, electronics or other high cost

products and services more effectively to such retailers. Citadele Group has also developed an extensive discount and rewards programme called "Relax" with retailers for its customers when using Citadele Group's products, which differentiates Citadele Group from its competitors and further encourages customers to use Citadele Group's products; and

- call centre team: As at 30 June 2017, Citadele Group had 57 employees working in its call centre team, which is open on a 24 hour basis. This call centre team has two key functions. First, it deals with queries from existing customers as well as directing customers who wish to acquire products to the appropriate branch office or relationship manager. Second, as part of the business strategy, the call centre proactively calls new and existing customers to offer new products or initiatives and thereby develop into a key sales channel, as well as to proactively identify and solve common customer issues, such as blocked cards.

Retail and SME in Latvia

Overview

Citadele's retail segment caters primarily to private individuals. Citadele's SME segment caters to entities with annual turnover of up to EUR 7 million (including a micro SME customer base comprised of entities with an annual turnover of up to EUR 0.4 million). A typical SME customer for Citadele has annual revenues of EUR 1 million and outstanding loans with Citadele of EUR 120,000. Citadele Group's retail and SME customers share similar characteristics in relation to their size, the type of services required and the frequency of access to branch offices, which is why they are addressed together. Citadele does, however, have separate strategies for each of these customer groups (see *"Citadele Group —Strategy"*). As at 30 June 2017, Citadele had c. 227,200 retail customers and c. 15,600SME customers.

Key products for retail customers in Latvia

Card products

Citadele Group offers a wide range of card products to its customers including credit cards with MasterCard and Visa and debit cards with MasterCard. Using information provided by each customer and verified by Citadele in accordance with its systems and operational controls, Citadele assigns appropriate credit limits on the majority of the credit cards issued. Credit card limits are available in amounts of up to EUR 15,000 per customer.

In April 2017, Citadele signed an agreement for a long-term partnership with global payments company Visa. The agreement anticipates a close cooperation in developing new and innovative cards and other payment products and services that will be introduced across all three Baltic States over the next six years. The first joint product developed by Visa and Citadele is a new brand of credit card with three card types: X Card, X Platinum and X Infinite for different client segments.

Citadele was also the first bank in the Baltics to introduce mobile payments using NFC. From April 2017, Citadele's mobile payment services were available for beta testing by Citadele employees and selected customer groups in order to ensure that the mobile payment solution was easy-to-use and applicable in different, everyday payment situations. Payments using mobile phones were made available to people who use smartphones with an Android operating system (Samsung, HTC, Huawei etc.), representing around 80% of all phone users in Latvia. For users of smartphones with other operating systems, Citadele plans to offer alternative mobile payment solutions - bracelets and stickers with NFC (near-field communication) technology. Currently, mobile payments using NFC technology are possible in over 8,000 places in Latvia where contactless payments are accepted. It is expected that by 2020 every payment terminal in Latvia will be fitted with contactless payment function.

As at 30 June 2017, the number of cards issued by Citadele was approximately 357,000.

Deposit products

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

Consumer loans

Citadele Group also offers consumer loans to its customers. The size, rates and terms of such loans are based on the salary income that the customer is able to adequately evidence to Citadele. Loans are available in amounts of up to EUR 15,000 per customer and are repayable for a maximum period of 5 years but have a typical maturity of 2 years. Citadele has developed web based tool “manskreditreitings.lv” where any individual can assess his/her credit rating.

Mortgages

Mortgages are primarily taken out by customers in order to acquire, build, improve and/or repair residential homes. Before any amounts are provided to a customer pursuant to a mortgage, Citadele evaluates such customer’s solvency, regular income, credit history and requires adequate security to be provided by such customer in the form of a charge over the property itself, but from time to time Citadele also requires guarantees to be provided where available. Citadele was the first commercial bank in Latvia to offer state-guaranteed mortgages to Latvian families with favourable conditions.

Key products for SMEs in Latvia

Business development loans

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

Credit lines

Citadele provides credit lines to its SME customers in order to fund the payment of working capital as required by such customers from time to time. Citadele analyses the financial performance and outlook of a customer’s business and requires adequate security to be provided before it will issue a credit line to a SME customer Citadele Group typically issues credit lines for a period of no more than 2 years, with approximately 80% of the total number of credit lines issued being equal to or below EUR 100,000 in value.

Corporate in Latvia

Overview

Citadele has targeted mid-sized corporate customers (being companies with annual turnover of EUR 7 to 20 million) who operate in a wide range of industries including manufacturing, retail, wholesale trade and transport. Consequently, Citadele has acquired a corporate customer base of profitable long-term customers, which consist primarily of entities within the top 300 to 1,200 largest companies in Latvia (based on gross revenue) and institutional customers including state-owned entities and government departments. Citadele does not focus on the top 300 largest companies on the basis that this is a crowded, over-served segment of the Latvian market. A typical corporate segment customer is an entity or a group of entities in the manufacturing, retail/wholesale, transport or commercial real estate sectors with annual turnover above EUR 7 million, total liabilities to Citadele Group in excess of EUR 2 million or total assets exceeding EUR 15 million. Citadele has been able to achieve this strong position with Latvian corporate customers through the involvement of its dedicated relationship managers from the origination of opportunities until the signing and closing of corporate banking transactions. Citadele believes that the wide retail network of branch offices and Citadele Group’s local presence across Latvia significantly improves its relationships and opportunities with regional corporate customers in Latvia. Citadele also differentiates itself from its competitors by having Citadele’s Management Board and senior managers within Citadele directly form relationships with Citadele’s key corporate customers, who Citadele management believes value such relationships highly, ensuring key decisions in relation to such customers can be made more efficiently and providing a higher level of customer service and engagement to Citadele’s customers.

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

Key products for corporate customers in Latvia

Cash management and point of sale services

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

Loans for business development

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

Credit lines

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

Guarantees

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

Letters of credit

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

Credit and debit cards

Citadele offers corporate debit, cash collection cards and corporate credit cards - Maestro, Visa Business and Visa Business Gold. Verifying the financial status of the relevant corporate customer, Citadele can offer a credit limit on the issued corporate credit cards.

Private capital management

Overview

Citadele Group provides a wide range of private banking services to 9,900 active (meaning at least one transaction has been made in the previous 12 months) customers with a total of EUR 870 million deposited or invested with Citadele Group. 7,600 (77%) of the mentioned customers are foreign customers primarily located in CIS countries (of which 5,700 are individuals and 1,900 are corporates) and the remaining 2,300 are high net worth customers (being customers and their relatives with more than EUR 100,000 of total assets held with Citadele) both resident in Latvia and outside of Latvia as at 30 June 2017. The typical profile of these customers and the types of banking services provided differs according to the customer. The affluent Latvian customers are predominantly offered premium payment cards, savings and investment products and lifestyle services, while the international customers who are individuals are predominantly offered current account and ordinary payment cards. These individuals often have an interest in brokerage transaction services and asset management services as well. The international corporate customers are typically cross-border businesses involved in trading, transportation or logistics. They have a notable demand for cross-border payments and Citadele therefore processes a significant volume of demand deposits. Citadele Group also seeks to provide or highlight opportunities for its private capital management customers to invest in projects, funds or other ventures in Latvia. Citadele management believes these clients value our relationship highly. The key products for Citadele Group in the private capital management segment are (i) payment cards, where significant commission and fee revenue is derived from transactions both within Latvia and internationally, (ii) international payment transfers where Citadele Group receives transfers fees and (iii) fees from wealth management, custody and brokerage activities.

In Latvia, Citadele's private banking offering is focused upon affluent domestic and foreign customers (being customers that hold in total of EUR 533 million deposited or invested with Citadele Group), over 60% of whom have been customers of Citadele for over five years. A typical customer profile for this segment would be an individual who is a business owner or entrepreneur with at least EUR 100,000 deposited or invested with Citadele Group. The Latvian private banking market is competitive and Citadele seeks to further improve customer service and update private banking products to make sure it retains existing relationships with high net worth individuals based in Latvia as well as acquire new private capital management customers in Latvia.

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

Other operations

Asset management and pensions

Citadele's asset management subsidiary was established in 2002, and Citadele Group has, since its formation, grown this asset management business into one of the top three asset managers in Latvia based upon the value of assets under management as at 30 June 2017. Citadele Group does not currently conduct any active asset management activity outside of Latvia (other than in relation to its Swiss subsidiary).

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

Citadele Group is a manager of Pillar II and Pillar III pension funds in Latvia. It is also one of the top three service providers in relation to state funded pension plan management in Latvia with a total customer base in excess of 175,000 individuals, representing 14% of the Latvian market as at 30 June 2017.

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

- "Pillar 2" pension customers: these are Latvian resident customers who accrue state pensions through their contributions to state income taxation in Latvia and are able to choose which pension fund provider (including Citadele Group) manages their contributions. Citadele Group uses its extensive network of branch offices in Latvia as the key distribution channel to capture as much of the "Pillar II" pension value as possible;
- affluent, high net worth customers: these are primarily international and Latvia resident customers from the private capital management segment and Latvia resident customers from the retail segment, seeking to invest a portion of their funds in segregated portfolios or mutual funds; and
- "Pillar 3" pension customers: these are Latvian resident customers contributing voluntarily to their pensions into Citadele's subsidiary, AS CBL Atklātais pensiju fonds.

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

Life insurance

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

Leasing

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

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

The total value of the leased portfolio equalled EUR 159 million as at 30 June 2017 (on a gross basis).

Operations in Lithuania

Citadele Group (and prior to its establishment, Parex) has been present in the Lithuanian market since the acquisition of Industrijos Bankas in 2000 by Parex. Today, Citadele conducts operations in Lithuania through its wholly owned subsidiary, AB Citadele. Citadele Group's Lithuanian operations offer products and services across the Retail and SME and Corporate segments through a network of 6 branch offices and 2 clients service centers, which cover the key cities in Lithuania. Citadele Group's Lithuanian customer base is predominantly local and unconnected with its customers in Latvia. Citadele Group's customers in Lithuania also include international customers from the CIS region.

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

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

The total value of loans provided to customers in Lithuania as at 30 June 2017 was EUR 253 million (on a gross basis). The deposits from Lithuanian customers provide sufficient funding for Citadele Group's Lithuanian lending operations and also secure full compliance with the liquidity requirements in Lithuania.

Operations in Estonia

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

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

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

The total value of loans provided to customers in Estonia as at 30 June 2017 was EUR 116 million (on a gross basis).

Operations in Switzerland

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

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

The value of total customer funds as at 30 June 2017 equalled EUR 468 million of which EUR 265 relates to deposits held in current or deposit accounts and EUR 203 million relates to funds held under management and fiduciary deposits. The majority of the total funds under management, including balance sheet items, are derived from CIS and Baltic State customers.

8.3. Competition

According to data published by the ACBL, as at 30 June 2017, there were 22 credit institutions operating in Latvia with total collective assets amounting to EUR 28.8 billion for the banking system. The market is relatively concentrated, with the largest five banks by total assets accounting for 67.2% of total assets, 74.5% of total loans, and 68.9% of total deposits (as at 30 June 2017). The Latvian banking sector has 13 foreign banks, which are present in the country either through a subsidiary or a branch. The Scandinavian-owned banks currently dominate the Latvian market, with the four largest of these by total assets (Swedbank AS, AS SEB banka, Nordea Bank AB Latvia branch and AS DNB banka) accounting for 50.0% of the total Latvian banking assets. On 1 October 2017 Nordea and DNB combined their operations in the Baltic States creating a new bank – Luminor Bank AS. Based market share of Nordea Bank AB Latvia and AS DNB banka new bank is expected to become one of the largest banks on the market, but no financial statements have been released by the new bank as of October 2017. Citadele is the largest non-Nordic-owned universal bank in Latvia measured by the number of customers. A universal bank is a financial institution which has broad diversification in its products, services and customer base across retail, SME and corporate sector.

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

According to data from the ACBL, Citadele had the third highest number of active customers (277,120) as at 30 June 2017 after Swedbank (956,130) and SEB (439,615) (and ahead of DNB with 160,341, Nordea with 89,063 and NORVIK with 78,266), and was also ranked third by the number of online banking users (138,989) at the same date, behind Swedbank (774,442) and SEB (288,933), and ahead of DNB (114,463), Nordea (57,286) and Norvik (25,365). With 33 branch offices as at 30 June 2017, Citadele operated the third largest network of branch offices in Latvia after Norvik and Swedbank, and was also the fifth largest bank in terms of total deposits (with 10.4% market share), third largest for households deposits (with 11.7% market share), sixth largest for total loans (with 7.7% market share) and sixth largest for total assets (with 9.3% market share). Citadele was also ranked second by term deposits (with a 14.6% market share) with EUR 495.1 million as term deposits, behind Swedbank (EUR 608.5 million) and ahead of SEB (EUR 469.5 million), Nordea (EUR 450.1 million) Rietumu banka (EUR 310.6 million), DNB (EUR 261.2 million) and. As of October 2017 there is no information available regarding consolidated market share of newly created Luminor Bank AS.

Despite a market-wide deleveraging process in recent years, Citadele Group's loan portfolio has remained resilient compared to several of its competitors, growing by 3.2% per annum over the period 2012-2017 compared to an average 2% contraction of Citadele's key Nordic-owned competitors (including Swedbank, SEB, Nordea and DNB).

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

For further information on the macro-environment in the Baltic States and banking sector in Latvia, see the section entitled “*Macro-Economic Profile of the Baltic States and Outline of the Latvian Banking Sector*” below.

8.4. Key strengths

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

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

The Latvian economy is one of the fastest-growing economies in Europe, with GDP growth in recent years (of 2.8%, 2.2% and 4.0% in 2015, 2016 and first half of 2017 respectively) outpacing the EU average (of -2.3%, 1.9% and 2.3% in 2015, 2016 and first half of 2017, respectively), placing Latvia among the fastest growing markets in the EU. According to data from the International Monetary Fund (“**IMF**”), this growth trend is expected to continue in the short- to mid-term, bolstered by an accelerated pace of disbursement of EU funds while private consumption growth is expected to remain robust, supported by slowing, but continued wage growth, a recovery of domestic credit, and improving sentiment. Latvia’s current economic position, including low levels of public debt (40.1% of GDP as at 31 December 2016, according to EC), healthy fiscal balance, stable and relatively low unemployment (of 8.8% as at 30 June 2016 which is significantly below the 2010 peak of 19.5% and not far above EU average of 7.7% as at 30 June 2017, according to Eurostat) and industry diversification, now provides an attractive backdrop for continued growth benefitting the full spectrum of Citadele’s operations.

Latvia’s banking sector, including Citadele Group, has benefited from the performance of the underlying economy in this period and is undergoing a solid, continued recovery in the wake of the financial crisis in 2008 and 2009. Profitability across the Latvian banking sector is recovering, assisted in part by the normalisation of non-performing loan rates in Latvia (which declined from 19% as at 31 December 2010 to 4.4% as at 30 June 2017) and an increase in the net interest margin (which rose from 1.1% in 2010 to 1.9% in 2017). Citadele Group has experienced profitable growth during this period, and with the removal of the EC restrictions (described more fully in the section entitled “*Citadele Group —History and Development of Citadele Group”* above), including limits on lending, deposit taking and levels of capital, Citadele Group is well placed to exploit the growth potential of the Latvian banking sector. Moreover, despite this recovery, the use of banking services by individuals and businesses in Latvia remains relatively low, with total banking assets as a percentage of GDP of 118% as at 31 December 2016 well below the EU average of 291%. Citadele Group believes that the overall banking sector backdrop therefore offers additional attractive and significant growth opportunities for Citadele Group.

In addition to the favourable economic conditions in Latvia, both Lithuania and Estonia are undergoing a period of sustained growth and their banking sectors, like that of Latvia, are well positioned for continued growth and increased market penetration of banking services. According to the World Bank, in 2014, 90% of all adults in Latvia, 98% in Estonia and 78% in Lithuania, had bank accounts. GDP growth in Lithuania was 1.8%, 2.3% and 4.1% in 2015, 2016 and first half of 2017, respectively, and in Estonia, the GDP growth rate was 1.7%, 2.1% and 5.1% over the same periods. However, as with Latvia, both these markets are relatively underserved by their respective banking sectors, with banking assets as a percentage of GDP standing at 116.7% in Estonia and 70% in Lithuania as at 31 December 2016, which Citadele Group believes places it in a strong position to increase its revenue in these markets in the future.

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

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

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

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

Citadele Group's extensive and well established distribution capabilities offer significant opportunities for Citadele Group to attract new customers and gain additional revenue from its existing customer base. Citadele has a range of distribution channels in Latvia through which it can offer its products and services, including: (i) a network of 33 branch offices; (ii) a well-utilised, functional and reliable online and mobile banking platform with approx. 139,000 active users of its online banking service at 30 June 2017, which is the third largest in Latvia, according to the ACBL; (iii) an extensive ATM network of 166 ATMs, the third largest in Latvia, which are managed and monitored remotely and in real time; and (iv) a team of highly trained and sales-focussed relationship managers. In addition to its distribution channels in Latvia, Citadele Group also has 8 branch offices in Lithuania and one branch office in each of Estonia and Switzerland as well as other distribution capabilities which provide a scalable platform to support Citadele Group's strategic objectives in these markets. By means of this extensive network, Citadele Group is able to support approximately 400,000 cards as at 30 June 2017.

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

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

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

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

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

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

Citadele Group has a deposit-focussed funding model, with deposits accounting for the vast majority of total liabilities (as at 30 June 2017), to support its operations, the majority of which are retail deposits. As a result of its growing deposit base, Citadele Group believes it is well positioned to benefit from the organic growth of its primary funding source, to provide the capital for additional growth and revenue generating opportunities. Citadele Group also has a highly liquid balance sheet, with cash and securities representing 54% of the asset base and deposits accounting for 89% of funding, which is defined as the sum of deposits and subordinated debt as at 30 June 2017. The net loan to deposit ratio stands at 46% as at 30 June 2017.

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

Strong corporate governance framework and experienced management team

Citadele Group has a comprehensive corporate governance and risk management structure in place, which it believes allows it to operate in a transparent and prudent manner to balance and protect the interests of its various stakeholders. In recognition of its comprehensive corporate governance structure, Citadele was awarded the top prize for governance of state owned enterprises in the Baltic States by the Baltic Institute of Corporate Governance in 2012. Furthermore, members of Citadele's Management Board are experienced participants in the banking sector and have an average of 15 years experience in the banking and financial services industry. This Management Board has established a strong track record by successfully leading Citadele Group from its inception in 2010 to the successful banking organisation that it is today with increased customer numbers, revenues and profits, despite the challenging economic environment, the launch and establishment of a new brand and the EC operating restrictions within which they operated.

Experienced shareholders with an established track record of delivering results

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

In 2006, a consortium led by Ripplewood Holdings, LLC acquired a significant minority stake in CIB in Egypt for approx. USD 240 million. Post-acquisition, CIB introduced operating enhancements in financial reporting, customer service centre processes and product offerings. It also implemented an equity incentive compensation plan, which was a first in the region. The consortium exited in 2009, at which point CIB's assets had doubled and earnings and book value had almost trebled. Additionally, co-investing shareholders James L. Balsillie and Dhananjaya Dvivedi (who are both members of Citadele's Supervisory Board) have, between them, extensive experience in the technology, IT and financial sectors. They intend to continue to deploy their experience and expertise alongside the management team, to enhance the development and growth of Citadele Group, through improving and developing new and innovative products, services and systems, as well as developing and improving upon Citadele Group's existing products, services and systems. Finally, the continued ownership of the EBRD brings its experience in instilling best practice governance structures and in fostering progress towards market orientated economies.

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

8.5. Properties

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

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

As at 30 June 2017, Citadele leased 33 other premises in total for its branch offices in Latvia, customer service centres and storage and archive centres in Latvia. All such leases expire by 31 December 2022 and the relevant member of the Citadele Group is able to terminate such leases on giving notice. Citadele Group also leases locations in premises for 143 ATMs as at 30 June 2017.

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

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

8.6. Information systems

Citadele Group's IT systems are at the core of its operations. A significant proportion of Citadele Group's front- and back-office functions for its operations in Latvia and Estonia are centrally managed through the T24 system provided by the Swiss company Temenos. Over 2,000 firms across the globe, including 41 of the top 50 banks, rely on Temenos to process the daily transactions of more than 500 million banking customers. The T24 system's functionality enables it to support a range of Citadele Group's products and services, including credit risk management processes, payment mechanics, cash operations and the processing of deposits, loans, securities and other financial instruments. The T24 system is fully integrated with the additional satellite IT systems set out below. Citadele Group's technology is designed using a modular and highly adaptable architecture to ensure a robust operating environment for cards, internet and mobile banking systems. Citadele's technology is designed such that its internet and card transaction processing ability is preserved even if the core banking system is unavailable. T24 system's open and flexible architecture allows Citadele Group's experienced IT team to quickly adapt and extend system functionality according to the business needs and customer expectations.

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

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

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

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

Citadele Group also utilises internet banking and mobile banking solutions. The internet banking platform provides a full spectrum of banking services to customers, including access to payments, information about all customer existing products, account statements, card management, credit scoring and loan applications, standing orders, deposits, investment funds, life insurance, pension funds and other product applications, information and advertisement. Customers are also able to set up SMS notifications in connection with card authorisations, balance enquiries and payments. Loyalty program information, correspondence with the bank and different e-services from bank partners are provided as well. The internet banking system supports different two-factor authentication devices, thereby promoting high levels of security for online transactions. Citadele has also implemented a new, modern internet banking authorisation system (MobileScan) which enables login and payment confirmations to be processed using a smart phone application rather than a separate authentication device. Citadele Group's mobile application, meanwhile, enables customers to view special offers from partners as well as the locations of the nearest Citadele ATMs and branch offices. It also enables customers to access account balances, see latest transactions and conveniently set up payments. The internet and mobile banking solutions have been developed in-house, and Citadele Group continually improves and updates the systems to meet future customer demands. These internet and mobile banking applications are highly stable and recorded a 0.14% level of unplanned downtime (excluding planned maintenance and upgrades) for the 12 months preceding the date of this Base Prospectus.

Citadele Group has several other systems in place, including a data warehouse system (which contains a large volume of customer data and can be used for extensive customer and product data analysis), specialized Anti Money Laundering and sanction filtering systems, advanced card fraud prevention systems, and modern customer loyalty management solutions. In 2016 Citadele has implemented online Credit Rating Tool for private customers. Citadele has implemented world leading call centre platform from Genesys which will enable more sophisticated customer service interactions.

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

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

8.7. Employees

As at 30 June 2017, Citadele Group had 1,614 employees compared with 1,694 employees as at 31 December 2016. Citadele Group's remuneration policy includes basic compensation (fixed base salary), variable compensation (incentive schemes, performance based annual bonus, long-term incentive plan), and perks (health insurance, Citadele Group's products at a special employee rate).

Citadele Group continuously invests resources in its employer branding, talent attraction and retention, as well as implements internal programs aimed at improvement of loyalty and motivation of its employees. Employees' engagement survey is organized on annual basis for all Citadele Group's functional units and focus groups are being organized to improve the survey results. Citadele Group monitors the market trends to offer a competitive remuneration to its employees. Citadele Group aims to be the most desirable employer in Latvia, based on a set of values reflecting the performance based nature of the organisation and the focus on strong profitability.

8.8. Intellectual property

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

8.9. Principal investments made by Citadele

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

8.10. Material Agreements

General

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

EBRD Subordinated Debt

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

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

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

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

Shareholders' Agreement

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

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

Membership of the Supervisory Board

- For so long as the EBRD holds at least 10% of Citadele's share capital, it is entitled to nominate one person to the Supervisory Board. If RA Citadele Holdings, LLC and the other co-investors (together, the "**Main Shareholder**") nominate more than five members of the Supervisory Board, the EBRD shall be entitled to nominate a second person to act as a member of the Supervisory Board. As the Main Shareholder has nominated six members of the Supervisory Board, the EBRD has two nominated members on the Supervisory Board.

- For so long as the EBRD holds at least 10% of Citadele's share capital, the EBRD and the Main Shareholder shall be entitled to nominate jointly one independent member (the "**Independent Member**") that is not affiliated with RA Citadele Holdings, LLC to act as a member of the Supervisory Board.
- Subject to the total number of Supervisory Board members not exceeding eleven, the Main Shareholder shall be entitled to nominate the remaining members of the Supervisory Board.

Decisions of the Supervisory Board

- No resolution of the Supervisory Board shall be proposed or adopted at any meeting of the Supervisory Board unless: (1) a quorum consisting of a majority of its members, including at least one member nominated by the EBRD or the Independent Member, shall have been present throughout the entire meeting; and (2) a majority of the members constituting the quorum shall have voted in favour of such resolution.
- For so long as the EBRD holds at least 10% of Citadele's share capital, certain matters shall only be adopted at a Supervisory Board meeting if at least one member of the Supervisory Board nominated by the EBRD votes in favour of such matter. These matters consist of: (1) the approval of any draft resolution for submission to the GMS relating to a dividend or any other distribution of profit that would: (a) lead to a breach of any capital adequacy regulations applicable to Citadele; or (b) be in excess of IFRS net profit after tax for the relevant preceding period; (2) the approval of any draft resolution amending the Articles of Association for submission to the GMS unless such changes are required to comply with the law of the Republic of Latvia; (3) the approval of any draft resolution increasing the registered capital of Citadele or changing the type, rights or form of any call of shares for submission to the GMS; or (4) any resolution to appoint or change Citadele's auditors.

Management Board

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

Conflict with Citadele Articles of Association of Latvian Law

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

Termination

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

Information Rights

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

Advisory services agreement

On 28 September 2017, Citadele entered into an advisory services agreement with Ripplewood Advisors LLC in connection with the provision of certain advisory services to Citadele's management. The agreement stipulates that such advice shall include, but not be limited to: business plan development, risk management, capital allocation, funding and capital structure, operating efficiency, strategic fit of business lines, customer relationship management, product and service development and enhancement, distribution channel strategy and performance, human resource management and compensation, management information systems and tools, methods to increase the performance culture of Citadele, identification, evaluation and execution of acquisition and combination opportunities and internal and external reporting marketing and communications, as well as such other advisory services as may be reasonably requested and agreed from time to time.

In return for the performance of the advisory services, Citadele is required to pay an annual total fee of EUR 2,000,000 plus VAT on a quarterly basis in arrears, commencing from 20 April 2017. Citadele is also required to indemnify Ripplewood Advisors LLC in connection with investigations or disputes resulting from the provision of services under the advisory services agreement. This advisory services agreement is for a term of two years from 20 April 2017, with the possibility of renewal subject to the prior approval of the Supervisory Board. On or following 20 April 2019, either Ripplewood Advisors LLC or Citadele may terminate the advisory services agreement on 30 days' notice. Additionally, either Citadele or Ripplewood Advisors LLC may terminate the advisory services agreement at any time and with immediate effect on giving notice to the other in the event of the insolvency, the administration or the winding-up of the other party, it being unlawful for Ripplewood Advisors LLC to provide the advisory services or if the other party commits a material breach of the advisory services agreement which is either irremediable or is remediable but is not remedied within a period of 30 days after notice has been given requiring such remedy.

American Express Independent Operator Agreement

On 17 December 2015, Citadele, AB "Citadele" bankas and American Express Limited ("**AMEX**") entered into an independent operator agreement, under which AMEX has granted Citadele and AB "Citadele' bankas certain exclusive, non-transferable rights to act as a card issuer and merchant acquirer in Latvia and Lithuania. However, this exclusivity arrangement ceased to have effect from 9 December 2015 due to EU Regulation (EU) No. 2015/751. Consequently, Citadele, AB "Citadele" bankas and American Express have agreed to terminate the agreement as of 31 March 2018. For more information, see "*Risk Factors— Citadele Group faces risks associated with the fact that it no longer has American Express exclusivity in Latvia and Lithuania as a result of regulatory changes* ".

MasterCard Licence Agreement

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

MasterCard Licence Agreement

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

Visa Europe Membership

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

IP Coexistence Agreement

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

Temenos Software Agreement

On 30 June 2010, Temenos Headquarters SA ("**Temenos**") and Parex entered into a software agreement under which Temenos agreed to supply Parex with the T24 software systems and documentation and to grant a non-exclusive, non-transferable and non-sub-licensable licence to use such systems and related documentation. Parex transferred all of its rights and obligations under the software agreement to Citadele by way of an addendum to the original software agreement dated 30 June 2010, which took effect 1 August 2010. In consideration of the provision of the software by Temenos, Citadele has agreed to pay certain recurring licence fees. The software agreement will continue in force for a term of 20 years, unless terminated earlier.

First Data Services Agreement

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

Nomad Software Licence Agreement

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

NetEconomy Licence and Services Agreement

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

Moody's Service Agreement

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

9. Financial and Trend Information

9.1. Historical Financial Information

2015 Audited Consolidated Financial Statements, 2016 Audited Consolidated Financial Statements and 2017 Audited Consolidated Interim Financial Statements (prepared according to IFRS) are attached to this Base Prospectus and form an integral part of this Base Prospectus.

9.2. Independent Auditors

The 2015 and 2016 Audited Consolidated Financial Statements, as well as the 2017 Audited Consolidated Interim Financial Statements were audited by KPMG Baltics SIA (registration number: 40003235171, legal address: Vesetas Street 7, Riga LV 1013, Latvia. KPMG Baltics SIA is included in the register of companies of certified auditors maintained by the Latvian Association of Certified Auditors. KPMG Baltics SIA has no material interest in Citadele or Citadele Group.

9.3. Material Legal and Arbitration Proceedings

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

The re-hearing of the case before the District Court concluded in April 2017 and by its judgment dated 10 May 2017, the District Court upheld Callidus' claims in full. Ripplewood Advisors LLC has indicated to Citadele that it believes the decision of the District Court is ungrounded and entirely unsupported by the evidence that was presented to the District Court. Ripplewood Advisors LLC has filed an appeal against the decision, which is currently scheduled to be heard in December 2017. Pending the appeal, the District Court's decision is of no legal force or effect.

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

Citadele is also involved in a series of actions involving one of its customers who has sought to challenge the enforcement by Citadele of certain securities held in relation to loans which went into default. The customer contests that certain properties held as security and sold at public auction by Citadele to recover its losses were not sold at fair market value and seeks, among other things, any difference in value. In 2016, the customer filed suit in the United States against Citadele, Ripplewood Advisors LLC and other defendants challenging the foreclosure process in Latvia but it was terminated in 2017 for lack of jurisdiction.

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

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

9.4. Significant Changes in Financial Position of Citadele

There has been no material adverse change in the financial or trading position of Citadele or the Citadele Group since 30 June 2017, the end of the last financial period for which financial information has been published.

9.5. Trend Information

There has been no material adverse change in the prospects of the Citadele or the Citadele Group since the date of the 2017 Audited Consolidated Interim Financial Statements.

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

9.6. Future Outlook

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

10. General Terms and Conditions of the Bonds

10.1. General

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

10.2. Type and Class

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

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

10.3. Form and Registration

The Bonds are dematerialized debt securities in bearer form and registered with Nasdaq CSD SE, registration number: 40003242879, legal address: Vaļņu 1, Riga, LV-1050, Latvia (the "**Nasdaq CSD**") in book-entry form with the securities settlement system governed by Latvian law (the "**Latvian SSS**"). Investors may hold Bonds through Nasdaq CSD participants participating in Latvian SSS.

10.4. Currency and Nominal Value

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

10.5. ISIN Code

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

10.6. Security

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

10.7. Ranking and Subordination

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

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

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

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

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

10.8. Applicable Law and Dispute Resolution

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

10.9. Transferability

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

10.10. Rights Attached to the Bonds

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

No „Change of Control” obligations

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

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

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

No Set-off

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

No obligations of Citadele regarding its operations

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

10.11. Interest and Yield

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

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

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

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

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

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

Interest on the Bonds shall be paid through Nasdaq CSD in accordance with the applicable rules of Nasdaq CSD, as amended or replaced from time to time, to the persons who were registered as the Bondholders at the end of 8 (eight) Business Day prior to the Interest Payment Date.

Should any Interest Payment Date fall on a date which is not a Business Day, the payment of the interest due will be postponed to the next Business Day. The postponement of the payment date shall not affect in any manner the amount payable and no interest on such payment will accrue in respect of the delay.

An expected yield to maturity for the Bonds (the “**Yield to Maturity**”) being offered, based on the final Issue Price and the final Annual Interest Rate, will be specified in the Final Terms which will be published after allotment of the Bonds to the investors. The Yield to Maturity is the percentage rate of return paid if the Bond is held to its Maturity Date, assuming that interest paid over the life of the Bond is reinvested at the same rate.

10.12. Maturity and Redemption

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

If the Offer Period (as defined below) is extended according to the section entitled “*Terms and Conditions of the Offer —Offer Period*” of this Base Prospectus, the final Maturity Date will be rescheduled by Citadele proportionally to the length of extension of the Offer Period and specified in the Final Terms which will be published after allotment of the Bonds to the investors. The principal of the Bonds shall be paid through Nasdaq CSD in accordance with the applicable rules of Nasdaq CSD, as amended or replaced from time to time, to the persons who were registered as the Bondholders at the end of the Business Day immediately preceding the Maturity Date or the Early Redemption Date, as the case may be.

Should the Maturity Date or the Early Redemption Date fall on a date which is not a Business Day, the payment of the amount due will be postponed to the next Business Day. The postponement of the payment date shall not affect in any manner the amount payable and no interest on such payment will accrue in respect of the delay.

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

- at any time after the lapse of 5 years period as from the Issue Date (as defined below) by notifying the Bondholders at least 30 (thirty) days in advance, provided that the competent authority (such as FCMC or the EBA, if they are in the competence thereof) has granted its consent for such early redemption of the Bonds, if required by applicable law and other relevant legal requirements (such as the conditions of Article 78(1) of the CRR, if applicable at the moment of early redemption of the Bonds) have been met; and
- prematurely before the lapse of the 5 year period as from the Issue Date (as defined below), provided that the competent authority (such as FCMC or the EBA, if they are in the competence thereof) has granted its consent for such early redemption of the Bonds, if required by applicable law and other relevant legal requirements (such as the conditions of Article 78(4) of CRR, if applicable at the moment of early redemption of the Bonds) have been met; and
- prematurely before or after the lapse of the 5 year period as from the Issue Date (as defined below), if applicable laws and rules permit such redemption, provided that all the relevant legal requirements have been met.

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

If Citadele decides to exercise the right to redeem the Bonds prematurely prior to the Maturity Date as stated above, subject to receiving the necessary consents, Citadele shall specify the date on which the Bonds will be redeemed (the "**Early Redemption Date**"). Early Redemption Date will be announced as described in the section entitled "*General Terms and Conditions of the Bonds —Notices"* below.

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

10.13. Issue Date

The issue date of each Tranche (the "**Issue Date**") shall be specified in the Final Terms.

If the Offer Period (as defined below) is extended according to the section entitled "*Terms and Conditions of the Offer —Offer Period*" of this Base Prospectus, the final Issue Date will be rescheduled by Citadele proportionally to the length of extension of the Offer Period and specified in the Final Terms which will be published after allotment of the Bonds to the investors.

10.14. Issue Price

The Bonds may be issued at their nominal value or at a discount or a premium to their nominal value (the "**Issue Price**"). The Issue Price shall be specified in the Final Terms.

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

10.15. Taxation

All payments in respect of the Bonds by Citadele shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature ("**Taxes**"), unless the withholding or deduction of the Taxes is required by laws of the Republic of Latvia. In such case, Citadele shall make such payment after the withholding or deduction has been made and shall account to the relevant authorities in accordance with the applicable laws for the amount so required to be withheld or deducted. Citadele shall not be obligated to gross-up or make any additional compensation to the Bondholders in respect of such withholding or deduction. See Section 13 of this Base Prospectus entitled "*Taxation*" below for further information.

10.16. Publication of the Final Terms

The Final Terms of each Tranche will be approved by Citadele's Management Board. Before the Offer of the respective Tranche commences, the initial Final Terms:

- will be submitted to the FCMC, who will forward them to the Bank of Lithuania (*Lietuvos Bankas*); and
- will be published on Citadele's website www.citadele.lv.

The Final Terms containing information about the established aggregate principal amount of the respective Tranche and definitive amount of the Bonds to be issued, as well as the final Offer Period, Annual Interest Rate, Issue Price, Issue Date, Maturity Date and Interest Payment Dates will be published on the Citadele's website www.citadele.lv and submitted to the FCMC after allotment of the Bonds to the investors.

10.17. Admission to Listing and Trading

Citadele shall submit an application for admitting each Tranche to listing and trading on the official bond list (Baltic Bond List) of Nasdaq Riga AS, registration number: 40003167049, legal address: Vaļņu 1, Riga, LV-1050, Latvia (the **"Nasdaq Riga"**) according to the requirements of Nasdaq Riga not later than within 3 (three) months after the Issue Date of the respective Tranche. Trading of the respective Tranche on the Baltic Bond List of the Nasdaq Riga Stock Exchange is expected to commence within 1 (one) month after the above-mentioned application has been made. All dealings in the Bonds of the respective Tranche prior to the commencement of unconditional dealings on the Baltic Bond List of the Nasdaq Riga Stock Exchange may be in the form of private over-the-counter transactions and will be at the sole risk of the parties concerned. Nasdaq Riga Stock Exchange is a regulated market for the purposes of MiFID.

Unless the context requires otherwise, references in this Base Prospectus to Bonds being "listed" (and all related references) shall mean that such Bonds have been listed and admitted to trading on the Baltic Bond List of the Nasdaq Riga Stock Exchange as may be specified in the applicable Final Terms.

Citadele shall use its best efforts to ensure that the respective Tranche remains listed in the official bond list (Baltic Bond List) of Nasdaq Riga or, if such listing is not possible to obtain or maintain, listed or traded on another regulated market. The Citadele shall, following a listing or admission to trading, take all reasonable actions on its part required as a result of such listing or trading of the respective Tranche. Citadele will cover all costs which are related to the admission of the respective Tranche to the relevant regulated market.

10.18. Estimated Expenses Charged to the Investors

No expenses or taxes will be charged to the investors by Citadele in respect to the issue of the Bonds. However, the investors may be obliged to cover expenses which are related to the opening of securities accounts with the credit institutions or investment brokerage firms, as well as commissions which are charged by the credit institutions or investment brokerage firms in relation to the execution of the investor's purchase or selling orders of the Bonds, the holding of the Bonds or any other operations in relation to the Bonds. Citadele shall have no obligation whatsoever to compensate the Bondholders for any such expenses.

10.19. Underwriting

The Bonds may be subject to underwriting. The Final Terms shall include an indication as to whether any underwriting arrangement is applicable to the particular Tranche.

10.20. Force Majeure

Citadele shall be entitled to postpone the fulfilment of its obligations under the Bonds and this Base Prospectus and any relevant Final Terms, in case the performance is not possible due to continuous existence of any of the following circumstances:

(a) action of any authorities, war or threat of war, rebellion or civil unrest;

(b) disturbances in postal, telephone or electronic communications which are due to circumstances beyond the reasonable control of Citadele and that materially affect operations of Citadele;

(c) any interruption of or delay in any functions or measures of Citadele as a result of fire or other similar disaster;

(d) any industrial action, such as strike, lockout, boycott or blockade affecting materially the activities of Citadele even if it only affects part of the employees of any of them and whether any of them is involved therein or not; or

(e) any other similar force majeure or hindrance which makes it unreasonably difficult to carry on the activities of Citadele.

In such case the fulfilment of the obligations may be postponed for the period of the existence of the respective circumstances and shall be resumed immediately after such circumstances cease to exist, provided that Citadele shall use all best efforts to limit the effect of the above referred circumstances and to resume the fulfilment of its obligations, as soon as reasonably practicable.

10.21. Further Issues

Citadele may, from time to time, without the consent of and notice to the Bondholders, create and issue further bonds whether such further bonds form a single Series with already issued Bonds or not (the Final Terms must include a corresponding indication, if the respective Series will consist of only one Tranche) and whether issued within the Programme or not. For the avoidance of doubt, Citadele's right to issue any other notes and securities is not restricted in any way. However, the maximum aggregate nominal amount of all Bonds outstanding issued under the Programme shall not at any time exceed € 25,000,000.

10.22. Purchases

Citadele or any of its Subsidiaries may at any time purchase the Bonds in any manner and at any price in the secondary market subject to provisions of applicable law. Such Bonds may be held, resold or surrendered by the purchaser through Citadele for cancellation.

10.23. Time Bar

Claims arising from the Bonds shall expire in accordance with the statutory terms of Latvian law.

10.24. Notices

The Bondholders shall be advised of matters relating to the Bonds through a press release and by a notice published in English and Latvian in the official System for Central Storage of Regulated Information ORICGS (www.oricgs.lv), on the Citadele's website (www.citadele.lv or www.cblgroup.com) and, after the Bonds are admitted to the regulated market, also on the news service of the Nasdaq Riga website or otherwise as prescribed by the applicable rules of Latvian law. Any such notice shall be deemed to have been received by the Bondholders when published in the manner specified above.

10.25. Representation of the Bondholders

Within the Programme, the rights of the Bondholders to establish and/or authorize an organization/person to represent the interests of all or a part of the Bondholders are not contemplated, but, on the other hand, these rights are not restricted. The Bondholders should themselves cover all costs/fees of such representative(s).

10.26. Meetings of the Bondholders

Save as otherwise provided in respect to the amendments to technical procedures and aspects relating to the Bonds below, if Citadele intends to amend these General Terms and Conditions of the Bonds or the Final Terms of the Tranches of the relevant Series, Citadele shall convene a meeting of the Bondholders or the Bondholders of the relevant Series (as applicable) (the "**Bondholders' Meeting**") to decide on amendments of these General Terms and Conditions of the Bonds, the Final Terms of the Tranches of the relevant Series or other matters that may significantly affect the interests of the Bondholders. The following rules shall apply to any Bondholders' Meeting:

- All expenses in relation to the convening and holding the Bondholders' Meeting shall be covered by Citadele;

- Notice of the Bondholders' Meeting shall be published in accordance with the section entitled "*General Terms and Conditions of the Bonds —Notices"* above no later than 10 (ten) Business Days prior to the respective Bondholders' Meeting. Furthermore, the notice shall specify the time, place and agenda of the respective Bondholders' Meeting, as well as any action required on the part of the Bondholder that will attend the respective Bondholders' Meeting. No matters other than those referred to in the notice may be resolved at the respective Bondholders' Meeting;
- Only those who, according to the information gathered by the Nasdaq CSD in respect of the Bonds, were registered as the Bondholders on the 6th (sixth) Business Day prior to the date of respective Bondholders' Meeting or proxies authorised by such Bondholders, shall be entitled to vote at the meeting and shall be recorded in the list of the Bondholders participating in the respective Bondholders' Meeting;
- The Bondholders' Meeting shall be held in Riga, Latvia, and its chairman shall be the Citadele's representative appointed by Citadele;
- Voting rights of the Bondholders shall be determined according to the principal amount of the Bonds held;
- The Bondholders' Meeting shall be held in English with translation into Latvian, unless the Bondholders present in the respective Bondholders' Meeting unanimously decide that the respective Bondholders' Meeting shall be held only in Latvian or English;
- A representative of Citadele and a person authorised to act for Citadele may attend and speak at the Bondholders' Meeting;
- Minutes of the Bondholders' Meeting shall be kept by a representative of Citadele, recording the day and time of the meeting, attendees, their votes represented, matters discussed, results of voting, and resolutions which were adopted. The minutes shall be signed by a representative of Citadele as the keeper of the minutes. The minutes shall be attested by one of the persons appointed by the Bondholders' Meeting to attest the minutes by a simple majority vote of the Bondholders present at the respective Bondholders' Meeting. The minutes shall be published in accordance with the section entitled "*General Terms and Conditions of the Bonds —Notices"* above after the Bondholders' Meeting as soon as possible and without any delay. If applicable, new or amended General Terms and Conditions of the Bonds or Final Terms of the Tranches of the relevant Series (as applicable) shall be appended to the minutes. The minutes shall be stored in a secure manner by Citadele;
- The Bondholders' Meeting shall be organised by a representative of Citadele acting as the chairman of the Bondholders' Meeting;
- The Bondholders' Meeting is entitled to adopt decisions that are binding upon all the Bondholders with the consent of at least 75 (seventy-five) per cent of holders of the aggregate principal amount of the outstanding Bonds. The meeting of the Bondholders of the relevant Series is entitled to make the decisions that are binding on all the Bondholders of the relevant Series with the consent of at least 75 (seventy-five) per cent of holders of the aggregate principal amount of the outstanding Bonds of the respective Series;
- Resolutions passed at the Bondholders' Meeting shall be binding on all Bondholders irrespective of whether they have been present at the Bondholders' Meeting;

Citadele shall have a right at its sole discretion to amend the technical procedures and aspects relating to the Bonds in respect of payments or other similar matters without the consent of the Bondholders or the Bondholders' Meeting, if such amendments are necessitated by the changes in applicable rules of Latvian law or otherwise, if such amendments are not prejudicial to the interests of the Bondholders.

10.27. Interests of Natural and Legal in the Offer

In so far as Citadele is aware, no person involved in the Offer has an interest material to the Offer, nor any conflicting interests.

10.28. Reasons for the Offer and Use of Proceeds

Citadele expects to receive net proceeds of up to EUR 24.5 million from this Offer. The net proceeds from the Offer are to be used by Citadele for its general corporate purposes and to strengthen further the regulatory capital structure of Citadele, including use as Citadele's subordinated capital in accordance with the requirements of the CRR and any other applicable rules for Tier 2 capital and repaying the outstanding amount under the subordinated loan currently held by the EBRD under the EBRD Subordinated Debt. For more information on see section entitled "*Business Description —Material Agreements —EBRD Subordinated Debt*."

Following the Offer, Citadele intends to hold discussions with the EBRD in connection with the early repayment of the EBRD Subordinated Debt. Citadele anticipates a period of up to two months from receipt of the proceeds of the Offer and the requisite permissions being granted to enable the early repayment of the EBRD Subordinated Debt. Citadele Group expects (on the basis of facts and data available as at the date of the Base Prospectus) the net proceeds from the Offer and the repayment of the EBRD Subordinated Debt to result in its total capital adequacy ratio, calculated on a Basel III fully loaded basis, to increase by up to 49 basis points, and to reach up to 17.3% (the calculation also assumes that EUR 15 million of audited profit for the first half of 2017 is included in the eligible equity). The actual changes to total capital adequacy ratio arising from the repayment of the EBRD Subordinated Debt may differ from the amounts and percentages that are provided above, which have been prepared on the basis of facts and data available as at the date of this Base Prospectus. The repayment of the EBRD Subordinated Debt and the consequential change to Citadele's capital adequacy position is subject to the prior approval of the FCMC.

If in respect of any particular Series, there is another particular identified use of proceeds, this will be stated in the relevant Final Terms applicable to the particular Series.

11. Terms and Conditions of the Offer

The following terms and conditions will apply to the Offer.

11.1. Placement account

Initially the Bonds of the respective Tranche will be book-entered in the Latvian SSS distribution account of Citadele with the Nasdaq CSD.

11.2. Right to participate in the Offer

The Offer is directed to all natural and legal persons (institutional and retail investors) in Latvia and Lithuania, irrespective of whether they qualify as qualified investors within the meaning of Article 2(1)(e) of the Prospectus Directive, as well as to persons (institutional investors) located in the Member State of the EEA (other than Latvia and Lithuania) who are qualified investors within the meaning of Article 2(1)(e) of the Prospectus Directive in each case pursuant to an exemption under Article 3 of the Prospectus Directive, as implemented by the respective Member States of EEA.

11.3. Minimum Investment Amount

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

11.4. Offer Period

The offer period for each Tranche, including any and all its extensions as indicated below (the "**Offer Period**") will be specified in the relevant Final Terms.

Until the end of the applicable Offer Period, Citadele may extend the Offer Period at its sole discretion once or several times. The minimum length of any such extension should be at least 2 Business Days. The notification about extension of the Offer Period will be published on Citadele's website www.citadele.lv. Investors should follow the information on the aforementioned website and have a right to modify or cancel their Purchase Orders if the Offer Period has been extended, provided that such modification or cancellation of the Purchase Order is received by Citadele before the end of the Offer Period.

If the Offer Period is extended, the final Offer Period will be specified in the Final Terms which will be published after allotment of the Bonds to the investors.

11.5. Submission of Purchase Orders

The investors wishing to purchase the Bonds shall submit their orders to purchase the Bonds (the "**Purchase Orders**") at any time during the Offer Period to Citadele (fulfilling the functions of the issuing agent) and its agents, which will be specified in the Final Terms. The procedure of submission of the Purchase Orders will be specified in the Final Terms.

11.6. Purchase Orders

The Purchase Order shall indicate the total amount of the Bonds to be purchased by the respective investor based on the applicable Issue Price and Annual Interest Rate at the time of making of the Purchase Order, which shall be at least equal to the Minimum Investment Amount.

All Purchase Orders constitute a binding and irrevocable commitment to acquire the allotted Bonds, with the exceptions stated below.

11.7. Invalid Purchase Orders

The Purchase Order shall not be considered valid and shall not be processed in case the purchase amount indicated in the Purchase Order is less than the Minimum Investment Amount, the Purchase Order was received after the Offer Period, the Issue Price based on which the Purchase Order was made is lower than the final Issue Price applicable at the end of the Offer Period and/or the Annual Interest Rate based on which the Purchase Order was made is higher than the final Annual Interest Rate applicable at the end of the Offer Period.

Only valid Purchase Orders compliant the requirements of:

- the Minimum Investment Amount,
- reception of the Purchase Order within the Offer Period, and
- the Issue Price based on which the Purchase Order was made being equal or higher than the final Issue Price applicable at the end of the Offer Period and the Annual Interest Rate based on which the Purchase Order was made being equal or lower than the final Annual Interest Rate applicable at the end of the Offer Period

shall be treated as qualifying Purchase Orders (the "**Qualifying Purchase Orders**").

Citadele does not have any obligation to inform investors about the fact that their Purchase Orders are invalid.

11.8. Cancellation of the Offer

On the next Business Day following the Offer Period Citadele will decide whether to proceed with the Offer of a particular Tranche or cancel it. In case the Offer of a Tranche is cancelled, Citadele will publish an announcement on the Citadele's web-site www.citadele.lv and submit it to the FCMC. All rights and obligations of the parties in relation to the cancelled Offer will be considered as having been terminated as at the moment when such announcement is made public.

11.9. Allotment

In case Citadele decides to proceed with the Offer of a Tranche, on the next Business Day following the Offer Period the following actions shall be taken:

(a) Establishment of the Qualifying Purchase Orders

Citadele shall at its sole discretion determine which Purchase Orders can be treated as Qualifying Purchase Orders, and the extent of their satisfaction.

(b) Determination of the final aggregate principal amount of the respective Tranche and allotment of the Bonds to the Investors

Upon determination of the Qualifying Purchase Orders, Citadele will establish the exact amount of the Bonds to be allotted with respect to each Qualifying Purchase Order and thus determine the final aggregate principal amount of the respective Tranche. Citadele will at its sole discretion decide upon the final allocation of the Bonds to each investor and Citadele is entitled to reject any Purchase Orders, in whole or in part, for any reason at its sole discretion.

(c) Guaranteed Allocations

Citadele has a general discretion to reject any Purchase Orders, in whole or in part, for any reason at its sole discretion, and no person is guaranteed to receive any number of Bonds.

(d) Announcement of the Final Terms

The Final Terms containing the information about the final Offer Period, Annual Interest Rate, Issue Price, Issue Date, Maturity Date and Interest Payment Dates, the aggregate principal amount of the respective

Tranche and definitive amount of the Bonds to be issued within the respective Tranche will be published on Citadele's web-site www.citadele.lv, as well as submitted to the FCMC.

(e) Allotment Notifications

After completion of the allotment with respect to each Qualifying Purchase Order Citadele shall submit an allotment notification (the "**Notification**") to each investor. The Notification will evidence the extent of satisfaction or rejection of the Purchase Order submitted by the investor, the number of Bonds allotted to the investor, the final Annual Interest Rate, Issue Price and the purchase price payable for the Bonds.

Citadele will send the Notification to each investor through Bloomberg trading system. However, if an investor has opened a securities account with Citadele and is acting through Citadele in respect to purchase of the Bonds, the Notification will be sent to the respective investor in accordance with the terms and conditions of the agreements concluded between Citadele and such investor. Furthermore, if an investor has opened a securities account with AB "Citadele" bankas and is acting through AB "Citadele" bankas in respect to purchase of the Bonds, the Notification will be sent to the respective investor in accordance with the terms and conditions of the agreements concluded between AB "Citadele" bankas and such investor.

11.10. Settlement and Delivery

The settlement for the Bonds will be carried out in accordance with the delivery-versus-payment (DvP) principle pursuant to the applicable rules of Nasdaq CSD. The settlement will take place on the Issue Date. All paid up Bonds shall be treated as issued. The Bonds which are not paid up shall be cancelled in accordance with the applicable rules of Nasdaq CSD.

However, if an investor has opened a securities account with Citadele and is acting through Citadele in respect to purchase of the Bonds, the settlement for the Bonds will be carried in accordance with the terms and conditions of the agreements concluded between Citadele and such investor.

No dealing may begin before full completion of the settlement and delivery of the Bonds.

11.11. Information About the Results of the Offer

Information about the results of the Offer of each Tranche (amount of the Bonds issued and aggregate principal amount of the respective Tranche) shall be published on the Citadele's web-site www.citadele.lv, within 3 (three) Business Days after the Issue Date.

12. Form of the Final Terms

Final Terms dated [date] [month] [year]

AS Citadele banka

Issue of up to € [●] Bonds due [●] under

the € 25,000,000 Second Unsecured Subordinated Bonds Programme

Terms used herein have the meaning given to them in the Base Prospectus of € 25,000,000 Second Unsecured Subordinated Bonds Programme of AS Citadele banka dated [●] [as supplemented by supplement(s) to it dated [●] [and [●]] (the "**Base Prospectus**"), which constitutes a base prospectus for the purposes of Directive 2003/71/EC, as amended (the "**Prospectus Directive**"). References herein to „the Base Prospectus" shall, where applicable, be deemed to be references to the Base Prospectus as supplemented or amended from time to time.

This document constitutes the Final Terms of the Bonds described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Base Prospectus. Full information on Citadele and the offer of the Bonds is only available on the basis of the combination of these Final Terms and the Base Prospectus. However, a summary of the issue of the Bonds is annexed to these Final Terms.

The Base Prospectus is available for viewing at Citadele's website www.citadele.lv.

1.	Issuer:	AS Citadele banka
2.	Series Number:	[●]
3.	Tranche Number:	[●] (indication as to whether the respective Series will consist of only one Tranche)
4.	ISIN Code:	[●]
5.	Aggregate principal amount:	[from € [●] up to [●]][1]
6.	Nominal value of the Bond:	€ [●]
7.	Issue Date:	[●][2]

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[1] *Citadele has a right to increase or decrease the aggregate principal amount of the Tranche, provided that the maximum aggregate nominal amount of all Bonds outstanding issued under the Programme shall not at any time exceed € 25,000,000. The final aggregate principal amount of the Tranche will be specified in the Final Terms which will be published after allotment of the Bonds to the investors.*

[2] *The Offer Period may be extended by Citadele according to the section entitled "Terms and Conditions of the Offer —Offer Period" of the Base Prospectus. If the Offer Period is extended, the final Issue Date will be rescheduled by Citadele proportionally to the length of extension of the Offer Period and specified in the Final Terms which will be published after allotment of the Bonds to the investors.*

8. Annual Interest Rate: [●][3]

9. Interest Payment Dates: [●] and [●] each year[4]

10. Maturity Date: [●][5]

11. Issue Price: [●]% of the Nominal Value of the Bond[6]

12. Minimum Investment Amount: 10 Bonds

13. Yield to Maturity: [●][7]

14. Offer Period: from [●] to [●][8]

15. Procedure for submission of the Purchase Orders: [●]

16. Agent of Citadele: [●]

17. Credit rating: the Bonds to be issued under this Tranche [are not/have been/are expected to be] rated [by:[●]]

18. Use of Proceeds: [The net proceeds of the issue of each Tranche will be used by Citadele for its general corporate purposes] / [The net proceeds of the issue of each Tranche will be used by the Citadele for [●]].

19. Underwriting: [●]

20. Information about the bonds of Citadele that are already admitted to trading on regulated markets: [●]

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

[4] *The Offer Period may be extended by Citadele according to the section entitled "Terms and Conditions of the Offer —Offer Period" of the Base Prospectus. If the Offer Period is extended, the final Interest Payment Dates will be rescheduled by Citadele proportionally to the length of extension of the Offer Period and specified in the Final Terms which will be published after allotment of the Bonds to the investors.*

[5] *The Offer Period may be extended by Citadele according to the section entitled "Terms and Conditions of the Offer —Offer Period" of the Base Prospectus. If the Offer Period is extended, the final Maturity Date will be rescheduled by Citadele proportionally to the length of extension of the Offer Period and specified in the Final Terms which will be published after allotment of the Bonds to the investors.*

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

[7] *An expected yield to maturity for the Bonds, based on the final Issue Price and the final Annual Interest Rate, will be specified in the Final Terms which will be published after allotment of the Bonds to the investors.*

[8] *The Offer Period may be extended by Citadele according to the section entitled "Terms and Conditions of the Offer —Offer Period" of the Base Prospectus. If the Offer Period is extended, the final Offer Period will be specified in the Final Terms which will be published after allotment of the Bonds to the investors.*

These Final Terms have been approved by the Citadele's Management Board at its meeting on [date] [month] [year] [and will be updated after allotment of the Bonds to the investors, as well as published on the Citadele's website www.citadele.lv and submitted to the FCMC] / [and have been updated on [date] [month] [year] after allotment of the Bonds to the investors].

Riga, Latvia [date] [month] [year]

Management Board of AS "Citadele banka":

[•]

Annex – Issue Specific Summary

(Citadele to annex an issue specific summary and its translations to the Final Terms)

13. Taxation

The following is a general summary of certain key principles of Latvian and Lithuanian tax regimes which may be relevant to the acquisition, holding, disposal and/or redemption of the Bonds held by the Bondholders, based upon domestic Latvian and Lithuanian tax law in effect as of the date of this Base Prospectus and the provisions of double taxation treaties currently in force between Latvia and/or Lithuania and other countries. Legislative, judicial or administrative changes or reinterpretations may, however, be forthcoming. Any such changes or reinterpretations could affect the tax consequences to holders of the Bonds, possibly on a retroactive basis, and could alter or modify the statements and conclusions set forth herein. This summary does not purport to be a legal opinion or to present a comprehensive or exhaustive description of all aspects of Latvian and Lithuanian tax laws that may be of relevance to the Bondholders. Also this summary does not take into account or discuss the tax implications of any country other than the Latvia and Lithuania. The description contained in this summary does not substitute the need for individual Bondholders to seek professional tax advice. It is therefore recommended that each Bondholder consults his/her own tax advisor regarding the tax implications of acquiring, holding, disposing and/or redeeming the Bonds and the required procedures to secure Latvian and/or Lithuanian tax payments, if applicable. Only qualified tax advisors are in the position to adequately assess and advise with respect to the particular tax situation of each individual Bondholder. The information provided in this section shall not be treated as legal or tax advice.

13.1. Latvian Tax Considerations

General

The Bondholders could be taxed with respect to income arising from the holding of the Bonds (taxation of interest income) and disposal or redemption of the Bonds (taxation of capital gains).

For the purposes of this summary, the Bondholders are classified as follows:

- *Resident individuals* – physical individuals who are deemed Latvian residents for personal income tax purposes under Latvian tax law and any applicable double taxation treaty. As a general rule, an individual would be considered Latvian resident for personal income tax purposes if the individual: (i) has a declared place of residence in Latvia; or (ii) has been present in Latvia for 183 days or longer during any twelve-month period beginning or ending in a taxable year, or (iii) is a Latvian citizen employed by the Latvian Government abroad, unless the individual is treated as a resident of another country in accordance with the double taxation treaty entered into between Latvia and that country, as explained below.

  According to the provisions of double taxation treaties, whenever an individual qualifies as tax resident under the domestic tax rules of both countries, the individual's tax residence is determined by applying the following criteria: (i) the individual shall be deemed to be a resident of the country in which he/she has a permanent home available to him; if the individual maintains permanent homes in both countries, he/she shall be deemed to be a resident only of the country with which his/her personal and economic relations are closer (centre of vital interests); (ii) if the country in which the individual has his/her centre of vital interests cannot be determined, or if the individual has no permanent home available to him/her in either country, he/she shall be deemed to be a resident only of the country in which he/she has a habitual abode; (iii) if the individual has a habitual abode in both countries or in neither of them, he/she shall be deemed to be a resident only of the country of which he/she is a national; (iv) if the individual is a national of both countries or neither of them, the competent authorities of both countries shall settle the question by mutual agreement.
- *Non-resident individual* means an individual who is not deemed to be a resident individual as explained above.
- *Resident entity* means a person, other than an individual or partnership, which is established and registered or which was required to be established and registered in Latvia in accordance with the laws of Latvia.
- *Non-resident entity* means a person, other than an individual or partnership, which is not deemed to be a resident entity as explained above.

Taxation of Resident Individuals

According to the Latvian Law on Personal Income Tax interest from the Bonds paid by Citadele to resident individuals is subject to a deduction at source ("withholding tax") at a rate of:

- 10%, if payment is made by the end of 2017;
- 20%, if payment is made as from 2018.

The tax shall be withheld, reported and paid to the Latvian State budget by Citadele.

A capital gain (the difference between the disposal price and acquisition value) earned by the resident individual from the sale or redemption of the Bonds would be subject to personal income tax at the rate of:

- 10%, if sale/redemption is carried out by the end of 2017;
- 20%, if sale/redemption is carried out as from 2018.

The tax should be paid and reported on annual basis by the respective individual him/herself.

Taxation of Non-Resident Individuals

Interest income

Interest paid by Citadele to non-resident individuals would not be subject to taxation in Latvia, provided that:

- the Bonds, at the time of the payment of interest, remained listed on the regulated market of a Member State of the EU or EEA; and
- non-resident individual was not located in a jurisdiction or territory treated as "tax haven".

If interest on the Bonds listed on the regulated market of a Member State of the EU or EEA is paid to a non-resident individual located in a jurisdiction or territory treated as "tax haven", such payments shall be subject to a withholding tax at a rate of:

- 5%, if payment is made by the end of 2017;
- 20%, if payment is made as from 2018.

The tax shall be withheld, reported and paid to the Latvian State budget by Citadele.

The list of "tax-haven" countries and territories are included in the Latvian Cabinet of Ministers Regulation No. 276 on Low Tax or Zero Tax Countries and Territories (dated 26 June 2001). Nevertheless, and despite the list of "tax havens", a tax haven country or territory would not be treated as such for Latvian tax purposes, if the country or territory in question has either signed an effective double taxation treaty or an agreement on exchange of information with Latvia, or has ratified a multi-lateral convention on mutual administrative assistance in tax matters.

If the Bonds at the time of payment of interest were not listed on a regulated market in the EU or EEA, interest payments would be subject to withholding tax at a rate of:

- 10% if payment is made by the end of 2017;
- 20% if payment is made as from 2018

The above stated withholding tax rate could be reduced in accordance with provisions of effective double taxation treaties concluded with Latvia. Specifically, Lithuanian resident individuals will be exempted from withholding tax. To apply lower withholding tax rate or exemption, a non-resident individual should submit to Citadele a valid residence certificate confirmed by the foreign tax authority which thereafter should be confirmed by the SRS. If withholding tax is applicable, it shall be withheld, reported and paid to the Latvian State budget by Citadele.

Capital gains

A capital gain earned by a non-resident individual from the sale or redemption of the Bonds would not be subject to taxation in Latvia, unless the Bonds which are not listed on a regulated market in the EU or EEA are sold to Latvian entity. In the latter case, sales proceeds earned by a non-resident individual shall be subject to a withholding tax at a rate of:

- 2% if the sale is made by the end of 2017 by an individual not located in “tax haven” jurisdiction or territory;
- 15% if the sale is made by the end of 2017 by an individual of “tax haven” jurisdiction or territory;
- 3% if the sale is made as from 2018 by an individual not located in “tax haven” jurisdiction or territory;
- 20% if the sale is made as from 2018 by an individual of “tax haven” jurisdiction or territory.

This 2%/3% withholding tax can be avoided in accordance with provisions of effective double taxation treaties concluded with Latvia. To apply exemption from withholding tax, a non-resident individual should submit to Citadele a valid residence certificate confirmed by the foreign tax authority which thereafter should be confirmed by the SRS.

Similarly 15%/20% withholding tax applicable to residents of “tax haven” jurisdiction or territory may also be avoided, if a special permission from the SRS is obtained by the purchaser prior to the sale. If this is the case, reduced withholding tax rates of 2% and 3% would be applicable.

In any event each non-resident individual should also clarify the extent of tax obligations applicable in his/her country of residence with regard to taxation and reporting requirements of interest and capital gains payable under the Bonds.

Taxation of Resident Entities by end of 2017

According to the Latvian Law on Corporate Income Tax income earned from the Bonds (interest income and/or capital gains from sale or redemption) by the resident entities is not subject to corporate income tax provided that the Bonds at the time of the payment of interest and/or sale or redemption remained listed on the regulated market of a Member State of the EU or EEA.

Should, however, the sale or redemption of such listed Bonds result in a loss, the amount of the loss would not be deductible for corporate income tax purposes. Moreover, costs associated with the acquisition, holding and sale of the Bonds so listed by a Latvian entity would be treated as non-deductible expense and, hence, would be taxable.

If the Bonds are not listed on a regulated market of the EU or the EEA, income from such Bonds (interest payments and/or capital gains) should be included in taxable income of the respective Bondholder and should be subject to corporate income tax at the rate of 15%. Similarly, if sale or redemption of such non-listed Bonds results in loss, it will be tax-deductible for corporate income tax purposes.

Taxation of Resident Entities as from 2018

As from 2018 resident entities will be subject to corporate income tax at a rate of 20% only upon distribution of profit (via dividends or deemed profit distributions). Income from the Bonds is not exempted from corporate income tax, however, taxation will occur only when entity distributes profit. If no profit is distributed, no taxation will occur.

Taxation of Non-Resident Entities

According to the Latvian Law on Corporate Income Tax income earned from the Bonds (interest income and capital gains from sale or redemption) by the non-resident entities would not be subject to taxation in Latvia regardless of the status of the Bonds (listed or non-listed), provided that non-resident entity was not located in a jurisdiction or territory treated as "tax haven".

If interest is paid to a non-resident entity located in a jurisdiction or territory treated as "tax haven", such payments shall be subject to a withholding tax at a rate of:

- 5% if payment is made by the end of 2017;
- 20% if payment is made as from 2018.

The tax shall be withheld, reported and paid to the Latvian State budget by Citadele.

If the Bonds not listed on the regulated market in a Member State of the EU or EEA are sold by a "tax haven" entity to a Latvian entity, such sales proceeds shall be subject to a withholding tax at a rate of:

- 15% if payment is made by the end of 2017;
- 20% if payment is made as from 2018.

15%/20% withholding tax may be avoided, if a special permission is obtained from the SRS by the purchaser prior to the sale. No withholding tax will apply if the Bonds at the time of sale are listed on the regulated market in a Member State of the EU or EEA.

As explained above, the list of "tax-haven" countries and territories is included in the Latvian Cabinet of Ministers Regulation No. 276 on Low Tax or Zero Tax Countries and Territories (dated 26 June 2001). Nevertheless and despite the list of "tax havens", a tax haven country or territory would not be treated as such for Latvian tax purposes, if the country or territory in question has either signed an effective double taxation treaty, or an agreement on exchange of information with Latvia, or has ratified a multi-lateral convention on mutual administrative assistance in tax matters.

In any event each non-resident individual should clarify the extent of tax obligations applicable in his/her country of residence with regard to taxation and reporting requirements of interest and capital gains payable under the Bonds.

13.2. Lithuanian Tax Considerations

General

Tax related information provided below does not constitute tax advice and is intended only as a general guide to current Lithuanian law in force. It relates only to certain limited aspects of the Lithuanian tax treatment of holders of Bonds and is intended to apply only to entities and individuals who are Bondholders and are resident in Lithuania for Lithuanian tax purposes. Definitions of the resident entities and individuals are provided below. Income of the non-resident entities and individuals arising from the holding of Bonds and disposal or redemption of Bonds is not subject to taxes in Lithuania.

Prospective purchasers of the Bonds are advised to consult their own tax advisers as to the consequences of a purchase of the Bonds under the laws of the country in which they are resident, including, but not limited to, the consequences of the receipt of interest and the sale or redemption of the Bonds.

In accordance with the Lithuanian Law on Tax Administration where any international treaties to which Lithuania is a party provide for the rules on taxation different from those of the relevant taxation legislation, and provided the international treaties have been ratified, enacted and enforceable in Lithuania, the rules of such international treaties shall prevail. Lithuania and Latvia have entered into a tax convention on elimination of the double taxation, which provides more favourable taxation regime (effective from 30 December 1994). The rules for application of tax conventions are provided in the Lithuanian Law on Tax Administration and in the other legal acts implementing provisions of the Lithuanian Law on Tax Administration.

Resident Individuals

An individual will be considered as a resident of Lithuania during the calendar year for taxation purposes if he/she meets at least one of the criteria laid out in paragraph 1 of Article 4 of the Lithuanian Law on Personal Income Tax, i.e.: (i) if the individual's permanent place of residence is in Lithuania during the calendar year; (ii) if the individual's place of personal, social or economic interests is in Lithuania rather than in a foreign country during the calendar year; (iii) if the individual is present in Lithuania for a period or periods in the aggregate of 183 days or more during the calendar year; (iv) if the individual is present in Lithuania for a period or periods in the aggregate of 280 days or more during successive calendar years and who stayed in Lithuania for a period or periods in the aggregate of 90 days or more in any of such periods (in such case a person is deemed to be a resident of Lithuania for both years of presence in Lithuania).

If an individual is considered as a tax resident of another country according to its local legislation as well, the country of his/her tax residence is determined by applying provisions of the respective double tax treaty (provided that there is such treaty concluded). When an individual qualifies as a tax resident and another country under the domestic legal acts, the place of his/her tax residence is determined by applying the rules established in the respective double tax treaties:

- the individual shall be deemed to be a resident of the country in which he/she has a permanent home available to him/her; if the individual maintains permanent homes in both countries, he/she shall be deemed to be a resident only of the country with which his/her personal and economic relations are closer (centre of vital interests);
- if the state in which the individual has his/her centre of vital interests cannot be determined, or if the individual has no permanent home available to him/her in either country, he/she shall be deemed to be a resident only of the country in which he/she has a habitual abode;
- if the individual has a habitual abode in both countries or in neither of them, he/she shall be deemed to be a resident only of the country of which he/she is a national;
- if the individual is a national of both countries or neither of them, the competent authorities of both countries shall settle the question by mutual agreement.

In accordance with the Lithuanian Law on Personal Income Tax of any income generated by a resident of Lithuania from the Bonds (interest, result from disposal or redemption of the Bonds) shall be taxed by a 15 per cent rate personal income tax.

The following exemptions are applicable:

- interest (total of interest generated from the Bonds and certain other types of interest) not exceeding EUR 500 during a tax period is non-taxable;
- gains (total of gains generated from sale of the Bonds and certain other types of securities) not exceeding EUR 500 during a tax period are non-taxable.

Income tax must be paid to the Lithuanian State budget by the 1st of May of the year following the year when the income is received.

The resident individual who has received interest from the Bonds or disposed of the Bonds must file an annual income tax return and report this income. The term for filing the tax return is the same as income tax payment term.

Non-Resident Individuals

Since Citadele is a non-resident entity for Lithuanian taxation purposes, the income of the non-resident individual from the Bonds (i.e. interest income and income from the transfer of the Bonds) will not be subject to personal income tax in Lithuania.

Resident Entities

An entity will be considered as a resident of Lithuania for tax purposes if it is established and registered in the Republic of Lithuania. For the purposes of this summary resident entities also include permanent establishments of foreign entities in Lithuania.

Income from the Bonds (interest payments and capital gains) should be included in taxable income of the resident entity and should be subject to corporate income tax at the rate of 15%. If sale of the Bonds results in loss, it will be tax-deductible for corporate income tax purposes. The loss can be utilized only against the profit from sale of securities and can be carried forward for 5 years. If there is a gain upon redemption of the Bonds, it shall be considered as taxable income. If redemption of the Bonds results in loss, this loss is tax deductible.

Non-Resident Entities

Since Citadele is a non-resident entity for Lithuanian taxation purposes, the income of the non-resident entity from the Bonds (i.e. interest income and income from the transfer of the Bonds) will not be subject to corporate income tax in Lithuania.

13.3. The EU Savings Directive

In accordance with the Council Directive 2003/48/EC on the taxation of savings income, each Member State of the EU is required to provide to the tax authorities of another Member State of the EU details of payments of interest (or similar income) paid by a person within its jurisdiction to, or collected by such a person for, an individual resident in that other Member State of the EU or to certain limited types of entities established in that other Member State of the EU.

On 24 March 2014, the Council of the EU adopted a Council Directive 2014/48/EU amending and broadening the scope of the requirements described above. Member States of the EU were required to apply these new requirements from 1 January 2017. The changes have expanded the range of payments covered by the Directive, in particular to include additional types of income payable on securities. The Directive also applies a “look through approach” to payments made via certain persons, entities or legal arrangements (including trusts and partnerships), where certain conditions are satisfied, where an individual resident in a Member State of the EU is regarded as the beneficial owner of the payment for the purposes of the Directive. This approach may in some cases apply where the person, entity or arrangement is established or effectively managed outside of the EU.

Similar reporting obligations Latvia has on U.S. individuals and entities based on bilateral agreement concluded between Latvia and US to Improve International Tax Compliance and to Implement FATCA.

Investors who are in any doubt should consult their professional advisers.

14. Macro-Economic Profile of the Baltic States and Outline of the Latvian Banking Sector

Macro-economic profile of the Baltic States

The Baltic States together form a group of small, open and fast-growing, export orientated economies. According to the IMF, the Baltic States have relatively high GDP per capita figures compared to other counties in central and eastern Europe, with further potential for growth as their wealth continues to converge towards the EU average. With high levels of production and relatively low labour costs, the Baltic States are well-positioned to continue their strong growth-trajectories following their exceptional recovery since the onset of the global economic recession in 2008. A favourable investment climate, together with increasing integration with the rest of the EU strengthens the Baltic States' trade links in the region. Their geographical positioning and cultural proximity also enables them to serve as strategic economic gateways to the Nordics and to Russia. Stable governance and a flexible labour market are also conducive to attracting further inflows of foreign direct investment although increased geopolitical tension has adversely affected relations with Russia.

Labour market begins to show signs of acceleration as unemployment continues to decline and wage growth has surpassed those from recent years in the Baltic States. In Q2 of 2017 average wages in Latvia and Lithuania grew by 8.7% while in Estonia wages rose by 6.8%. While wage growth is likely to remain a strong balanced current account, moderate inflation and credit growth as well as prudent public finances, all point to a balanced economic growth. **Latvia**

As a member of the EU and NATO since 2004, Latvia has made significant strides in increasing integration with the EU over the past decade. This has translated into the EU becoming one of Latvia's key trading partners, and Europe now lies at the heart of the Latvian economy. Following a smooth accession to the Eurozone in January 2014, Latvia has further embedded itself on the European stage and improved its investor-friendly environment. Since July 2016 Latvia has also become a member of the Organisation for Economic Co-operation and Development.

Latvia is an export-oriented economy and according to Central Statistical Bureau of Latvia ("**CSB**") exports of goods and services in 2016 represented 60.2% of GDP, up from 53.7% in 2010, and representing a significantly higher percentage than for the EU as a whole (where exports accounted for 43.9% of GDP in 2016). The EU represents the largest market for Latvia's export of goods, accounting for 73.6% of the total in 2016 (of which Lithuania comprised 18.2%, Estonia 12.1%, Germany 7.2%, Sweden 6.0%, UK 5.6 and Poland 5.2%). Latvia is now more closely tied to the health of the Eurozone, having adopted the Euro in 2014. In addition, Russia remains a key trading partner for Latvia, while its concentration has declined representing 7.6% of Latvia's exports in 2016 down from 10.7% in 2014. Latvia imports according to CSB 79.7% of its goods from the EU, including 25.5% from the other Baltic States (of which Lithuania comprised 16.7% and Estonia 7.8%).

Since Q4 of 2016 favorable global macroeconomic trends and recovery in world trade has boosted exports in the Baltics which in the first half of 2017 grew by 4% in Estonia, 5% in Latvia and 11.8% in Lithuania. These export opportunities are expected to drive the growth of Latvian businesses and increase their requirements for banking services.

Latvia's credit rating has improved in recent years, with Moody's upgrading Latvia from Baa1 to A3 in February 2015 and both Fitch and S&P upgrading Latvia from BBB+ to A- in June 2014 and May 2014, respectively. A reduction in foreign exchange risk and access to ECB funding facilities following the adoption of the Euro were among the key drivers of this upgrade, as was the improvement of the Latvian Government's balance sheet. Latvia now has relatively prudent public finances, with public debt of 40.1% as a percentage of GDP at the end of 2016, down from 47.5% in 2010.[9] This is also considerably below the 83.5% for the average across the EU by the end of 2016. Latvia's wealth convergence with larger economies is demonstrated by its rising GDP per capita figure (USD 14,062[10] as at 31 December 2016), which exceeds the GDP per capita in current US dollars of Poland, Romania, Hungary, Bulgaria and Croatia, which had an average GDP per capita of USD 10,802.

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[9] Data source: Eurostat

[10] Data source: IMF 2016 October WEO

Following robust GDP growth of 4.0% in 2012, the growth rate moderated to 2.4% in 2013, 1.9% in 2014, 2.8% in 2015 and 2.2% in 2016, but in the first half of 2017 growth rebounded strongly to 4. According to IMF October 2017 forecast, Latvian GDP per is expected to grow on average by 3.7% annually between 2018 and 2021, well ahead of the forecasted growth for the EU as a whole of 1.6%.

Latvia has a skilled and highly-educated workforce. Despite this, labour costs remain relatively low, at an average of EUR 7.50 per hour, compared to an average of EUR 25.40 across the EU according to Eurostat. Unemployment continued to fall and reached 9.6% in 2016, down from 10.8% in 2014 and 19.5% in 2010. In comparison unemployment in the EU in 2016 was on average 8.6%. The breakdown of Latvian GDP by sector in 2016 shows that the service sector, including trade, was the predominant contributor to macroeconomic output, having contributed 73.2% of total value added. Industry, construction and agriculture, at 16.9%, 5.3% and 4.6%, respectively, made up the remainder. In terms of end of use, household consumption accounted for 63% of the total end use of Latvian GDP. Latvia also has the seventh fastest internet speed in the world. Inflation has remained relatively low in recent years, with the consumer price index rising by 0.1% in 2016, following 0.6% and 0% in 2014 and 2013 respectively.[11] According to the IMF, in the medium to long term, inflation is expected to reach an average of 2.0% in 2018-2021.

	For the year ended December 31				
Key Macroeconomic Indicators	**2012**	**2013**	**2014**	**2015**	**2016**
GDP (USD bn)	28.1	30.3	31.4	27.0	27.7
Population (m)	2.0	2.0	2.0	2.0	2.0
GDP per capita (USD)	13,762	14,952	15,690	13,614	14,063
GDP, PPP (international USD bn)	43.5	45.4	47.2	49.0	50.6
GDP per capita, PPP (international USD)	21,296	22,439	23,586	24,678	25,702
GDP growth (%)*	4.0	2.4	1.9	2.8	2.2
Unemployment (%)*	15.0	11.9	10.8	9.9	9.6
Inflation (%)*	2.3	0.0	0.6	0.2	0.1
Exports (% of GDP)*	61.3	60.3	60.7	60.5	60.2
General Government gross debt (% of GDP)*	41.2	39.0	40.9	36.5	40.1

Source: IMF, unless stated otherwise

* Source: CSB

Lithuania

Lithuania is also an export-driven economy, with exports of goods and services comprising 74.5% of GDP in 2016. Russia is among the major trading partners for Lithuania, in 2016 representing 13.5% of its total exports down from 20.9% in 2014.[12] Despite this, Lithuania is predominantly westward facing, having acceded to the Eurozone in January 2015 and increased ties with Western institutions. Lithuania's GDP growth rate in 2016 was 2.3%, following 1.8% growth in 2015 and 3.5% in both 2014 and 2013.[13] Whilst the pace of growth has declined in recent years, Lithuania's expected GDP per capita compound annual growth rate between 2018 and 2021 is expected to reach 4.5% according to the IMF, putting it among the fastest growing economies in Europe and exceeding the EU average rate of 1.6%. According to the IMF, in 2016, Lithuania's GDP per capita of USD 14,892 was similar to that of Latvia, and relatively high in comparison to the average level in the central and eastern European region.

Lithuania's credit ratings reflect the Lithuanian government's programme of fiscal consolidation and it joining the Eurozone. Moody's upgraded Lithuania from Baa1 to A3 in May 2015, following an affirmation from Fitch of Lithuania's A- rating in March 2015 and S&P's upgrade from BBB to A- in April 2014 and changed outlook from stable to positive in September 2017. Lithuania's HDI rating was 0.848 in 2015 (the latest available data).

Estonia

Similar to its Baltic neighbours, Estonia also relies heavily on exports, with exports of goods and services representing 79.0% of GDP in 2016. As opposed to Latvia and Lithuania, Estonia's exports are focused on the

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[11] Data source: CSB

[12] Data source: UN Comtrade

[13] Data source: Eurostat

Nordics, with Sweden and Finland comprising 16.8% and 15.1% of its total export market, respectively. Estonia's economic growth in recent years has been weighed down by slow growth in Finland and declining demand from Russia. In 2016 GDP growth rate was 2.1% following 1.7% and 2.9% growth in 2015 and 2014 respectively. Estonia's expected GDP per capita compound annual growth rate for 2018-2021, at 3.4%, is also notably ahead of the 1.6% expected EU average. According to the IMF, Estonia has one of the highest GDP per capita rates among the central and eastern European nations, standing at USD 17,786 in 2016. Estonia's HDI rating in 2014 (the latest available data) reached 0.865.

As a result of Estonia's lowest debt-to-GDP ratio in the EU (9.5%), Estonia's credit ratings are very strong, with both S&P and Fitch assigning the fourth highest investment grade available. Fitch affirmed its A+ rating in May 2014, S&P affirmed its AA- rating in January 2014, and the latest Moody's rating is A1.

Outline of the Latvian Banking Sector

Introduction

The Latvian banking sector consists of commercial banks and branches of EU Member State banks. As at 30 June 2017, there were 16 banks and 6 branches of foreign banks operating in Latvia. Generally, all banks and cooperative credit unions are required to be licensed and are regulated by the FCMC, except the significant institutions that are supervised by the ECB. The market is relatively concentrated, with the largest five banks by total assets accounting for 67.2% of total assets, 74.5% of total loans, and 68.9% of total deposits. On 1 October 2017 Nordea and DNB combined their operations in the Baltic countries creating a new bank - Luminor Bank AS which is expected to become one of the largest banks in the Baltic region.

Commercial Banks in Latvia

According to the FCMC, the total assets in the Latvian banking sector (including both domestic commercial banks and branches of foreign banks) were EUR 28.8 billion as at 30 June 2017 following a dip in the aftermath of the global financial crisis in 2008-2009. Since the beginning of 2016 overall banking assets have declined due to outflow on non-resident deposits which have declined by 32.7% since the end of 2015. Of these assets, 15.3% (EUR 4.1 billion) were held by branches of foreign banks. Of the total assets in the Latvian banking sector, the proportion of loans fell to 52% (EUR 15.0 billion) by 30 June 2017, compared with approximately 70% in 2008, as part of the ongoing deleveraging process. The shrinkage in the loan portfolio between 2010 and 2017 was approximately EUR 5.4 billion (representing a rate of 4% per annum). In terms of the loan portfolio mix, as at 30 June 2017, the corporate loan portfolio amounted to EUR 7.8 billion and the households loan portfolio amounted to EUR 5.5 billion. Between 2010 and 2016, the size of these portfolios declined by 4.8% and 5.7% per annum, respectively. Conversely, the proportion of claims on non-Latvian financial institutions and foreign government securities has risen.

The shift towards deposit funding has continued in recent years, with the share of deposits in banks' liabilities rising to 70.4% by the 30 June 2017 from between 40-45% in the midst of the recession in 2008-2009. Customer deposits amounted to EUR 20.3 billion at 30 June 2017, which represents an increase of 3.7% per annum over the period of 2010 to 2017. Of this total, household deposits constituted 39% (EUR 7.9 billion), which represents an increase of 7.2% per annum between 2010 and 2017, and non-financial corporate deposits constituted 48.9% (EUR 9.9 billion), which represents an increase of 2.6% per annum between 2010 and 2017. By the 30 June 2017 international deposits constituted 41.1% of all deposits, down from 53.4% at the end of 2015. Liabilities to monetary and financial institutions constituted 11.8% of total liabilities as at 30 June 2017, the majority of which (96.9%) represented parent funding of foreign banks. Parent bank funding has declined from 26.5% of total liabilities as at 31 December 2010 to 11.5% as at 30 June 2017. The trend towards deposit funding has meant a significant fall in the loan-to-deposit ratio from a peak of 169% in 2008 to 73.9% in 2017.

The following table sets out loans, deposits and loan/deposit ratios for the Latvian banking sector since 2010:

Year	Loans (EUR billion)	Deposits (EUR billion)	Loan/Deposit ratio (%)
2010	20.4	15.8	129
2011	18.7	15.8	119
2012	16.7	17.8	94
2013	15.6	19.5	80
2014	14.7	22.2	66
2015	14.7	23.3	63
2016	15.1	21.4	71
1H 2017	15.0	20.3	74

The deterioration in loan quality during the recession was accompanied by a sharp rise in the volume of non-performing loans. The percentage of loans which were more than 90 days overdue reached a peak of 19% of total portfolios in 2010 and decreased thereafter, reaching a level of 7.8% in 2012, 6.9% by the end of 2014, and 4.4% as at 30 June 2017. As credit quality has improved since the global financial crisis, provisions for the principal amount of loans have started to decline, reaching lows of EUR 574 million (approximately 3.8% of total portfolios), down from a peak of EUR 2.8 billion in 2010.

The following table sets out the asset quality figures for the Latvian banking sector since 2007:

Year	Non performing loan ratio (%)
2007	0.7
2008	3.6
2009	16.4
2010	19.0
2011	17.2
2012	11.1
2013	8.3
2014	6.9
2015	6.0
2016	4.4
1H 2017	4.4

Lending activities in Latvia have been restrained by the amortisation of loan portfolios and write-offs of bad loans. New lending is beginning to increase following the recovery of the Latvian economy and improvements in the solvency of domestic companies and households. Almost EUR 3.2 billion in new loans was issued in 2016, with more than 60% being issued to domestic borrowers.

The following table sets out the compound annual growth rates of loans issued by selected banks in Latvia between 2012 and 2017:

Bank	**Compound annual loan growth rate (%) (2012-17)**
ABLV Bank	3.8%
Citadele	3.2%
Rietumu Banka	1.2%
Nordea	-0.2%
SEB	-1.3%
Swedbank	-1.9%
DNB	-4.5%

Profitability across the Latvian banking sector improved between 2010 and 2014, with return on equity rates rising from -20.4% at 31 December 2010 to 9.9% as at 30 June 2017, driven by the improved efficiency of Latvian banks. Cost-to-income ratios have declined from 72% as at 31 December 2010 to 57% as at at 30 June 2017. Net interest margins have improved from 1.29% as at 31 December 2010 to 1.64% as at 30 June 2017.

The table below sets out the average gross yields (as a percentage of assets) and cost of funds (as a percentage of assets) of the Latvian banking sector since 2007:

Year	**Gross yield (% of tot al assets)**	**Cost of funds (% of tota l assets)**	**Net interest margin**
2007	6.0	3.3	2.7
2008	6.2	3.8	2.4
2009	4.5	2.9	1.6
2010	3.7	2.4	1.3
2011	3.0	1.6	1.4
2012	2.6	1.1	1.5
2013	2.3	0.6	1.7
2014	2.1	0.5	1.6
2015	2.1	0.4	1.7
2016	2.1	0.4	1.7
1H 2017(1)	2.1	0.5	1.6

(1) The figures for the period to 30 June 2017 have been annualised for comparison purposes

15. Glossary of Terms

2015 Audited Consolidated Financial Statements	Citadele's audited consolidated financial statements as at and for the year ended 31 December 2015 as set out in Schedule 1 to this Base Prospectus
2016 Audited Consolidated Financial Statements	Citadele's audited consolidated financial statements as at and for the year ended 31 December 2016 as set out in Schedule 2 to this Base Prospectus
2017 Audited Consolidated Interim Financial Statements	Citadele's audited consolidated interim financial statements as at and for the six months ended 30 June 2017 as set out in Schedule 3 to this Base Prospectus
Accrual Date	shall have the meaning assigned to in the section entitled "*General Terms and Conditions of the Bonds — Interest and Yield"*
ALCO	Assets and Liabilities Management Committee of Citadele's Management Board
Annual Interest Rate	shall have the meaning assigned to it in the section entitled "*General Terms and Conditions of the Bonds — Interest and Yield"*
Articles of Association	Citadele's constitutional document – articles of association, as in force from time to time
Baltic States	Latvia, Lithuania and Estonia
Bank of Latvia	Latvijas Banka, the central bank of Latvia
Base Prospectus	this Base Prospectus
Bonds	non-convertible unsecured and unguaranteed subordinated bonds denominated in EUR, having maturity from 7 to 10 years and with fixed interest rate to be issued under the Programme
Bondholder	holder of the Bonds
Bondholders	the holders of the Bonds
Bondholders' Meeting	the meeting of the Bondholders or meeting of the Bondholders of the relevant Series as described in the section entitled „*General Terms and Conditions of the Bonds —Meetings of the Bondholders*"
BRRD or Bank Recovery and Resolution Directive	Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012, of the European Parliament and of the Council, as amended
Business Day	a day on which banks in Riga, Latvia, as well as Nasdaq CSD are open for general business
Callidus	Callidus Capital SIA

CEO	Chief Executive Officer of Citadele, unless the context requires otherwise
CIIFRR Law	The Latvian Credit Institutions and Investment Firm Recovery and Resolution Law of 2015, as amended
CIS	Commonwealth of Independent States
Citadele	AS “Citadele banka”, a joint stock company incorporated and registered in, and operating under the laws of, the Republic of Latvia, with registered number: 40103303559, legal address: Republikas laukums 2A, Riga, LV-1010, Latvia, telephone: +371 67010000, fax: +371 67010001, e-mail: info@citadele.lv, website: www.citadele.lv
Citadele Group	Citadele and its Subsidiaries as listed in the section entitled “*Citadele Group —Structure of Citadele Group”*
CRA Regulation	Regulation (EC) No 1060/2009 on credit rating agencies, as amended from time to time
CRD IV	Directive No 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive No 2002/87/EC and repealing Directives No 2006/48/EC and No 2006/49/EC, as amended from time to time
CRR	Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, as amended from time to time
CSB	Central Statistical Bureau of Latvia
Early Redemption Date	shall have the meaning assigned to it in the section entitled “*General Terms and Conditions of the Bonds — Maturity and Redemption”*
EBA	the European Banking Authority, an independent EU Authority which works to ensure effective and consistent prudential regulation and supervision across the European banking sector established by the Regulation (EU) No 1093/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Banking Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/78/EC
EBRD	European Bank for Reconstruction and Development
EBRD Subordinated Debt	a Second Amended and restated subordinated loan agreement entered into by and between Citadele and the EBRD on 20 April 2015.
EC	European Commission
ECB	European Central Bank
EEA	The European Economic Area
Elements	shall mean disclosure requirements, as described in the Summary
EU	The European Union

EUR, euro or €	the single currency introduced at the start of the third stage of the European Economic and Monetary Union pursuant, and as defined in Article 2 of the Council Regulation (EC) No.974/98 of 3 May 1998 on the introduction of the euro, as amended
FCMC	The Financial and Capital Markets Commission of Latvia
Final Terms	the final terms of the relevant Tranche composed according to the form described in the section entitled „*Form of the Final Terms”*
First Interest Period	shall have the meaning assigned to it in the section entitled “*General Terms and Conditions of the Bonds —Interest and Yield”*
FIU	Latvia’s Financial Intelligence Unit
FMCRC	The Financial Market and Counterparty Risk Committee of Citadele’s Management Board
General Terms and Conditions of the Bonds	The general terms and conditions of the Bonds as described in the section entitled „*General Terms and Conditions of the Bonds*”.
GIC	The Group Investment Committee of Citadele’s Management Board
GMS	General meeting of shareholders of Citadele, unless the context requires otherwise
Government	Government of Latvia
IFRS	International Financial Reporting Standards as adopted by the EU
IMF	International Monetary Fund
Interest Payment Date	one of the two Interest Payment Dates
Interest Payment Dates	shall have the meaning assigned to it in the section entitled “*General Terms and Conditions of the Bonds —Interest and Yield”*
ISIN	International Security Identification Number
Issue Date	the issue date of each Tranche of the Bonds as described in the section entitled “*General Terms and Conditions of the Bonds — Issue Date”*
Issue Price	the issue price of the Bonds as described in the section entitled “*General Terms and Conditions of the Bonds — Issue Price”*
Latvian Commercial Law	Commercial Law of the Republic of Latvia of 2000, as amended
Latvian Credit Institutions Law	Credit Institutions Law of the Republic of Latvia of 1995, as amended
Latvian Law on Corporate Income Tax	Law on Corporate Income Tax of the Republic of Latvia of 1995, as amended
Latvian Law on Personal Income	Latvian Law on Personal Income of the Republic of Latvia of 199’3, as amended
Latvian Privatisation Agency	VAS “Privatizācijas aģentūra”, a state joint stock company incorporated and registered in, and operating under the laws of, the Republic of Latvia, with registered number: 40003192154, legal address: Krišjāņa Valdemāra iela 31, Riga, LV-1010, Latvia, telephone: +371 67021358,

	fax: +371 67830363, e-mail: info@pa.gov.lv, website: www.pa.gov.lv
Latvian SSS	the securities settlement system of Nasdaq CSD governed by Latvian law
Lithuanian Law on Personal Income Tax	Law on Personal Income Tax of the Republic of Lithuania, as amended
Lithuanian Law on Tax Administration	Law on Tax Administration of the Republic of Lithuania, as amended
Management Board	Management board of Citadele, unless the context requires otherwise
Maturity Date	shall have the meaning assigned to it in the section entitled “*General Terms and Conditions of the Bonds —Maturity and Redemption”*
Member State	each Member State of the European Union or the European Economic Area, as applicable
Micro SME	Micro SMEs, being entities with annual turnover below EUR 0.4 million
MiFID	Markets in Financial Instruments Directive 2004/39/EC, as amended from time to time
Minimum Investment Amount	the minimum investment amount for subscription of the Bonds, as specified in the section entitled „*General Terms and Conditions of the Offer —Minimum Investment Amount*”
Nasdaq CSD	Nasdaq CSD SE, registration number: 40003242879, legal address: Vaļņu 1, Riga, LV-1050, Latvia
Nasdaq Riga	Nasdaq Riga AS, registration number: 40003167049, legal address: Vaļņu 1, Riga, LV-1050, Latvia
Notification	shall have the meaning assigned to in the section entitled „*General Terms and Conditions of the Offer —Allotment”*
OECD	Organisation for Economic Cooperation and Development
OFAC	The Office of Foreign Assets Control of the U.S. Department of the Treasury
Offer	offering of the Bonds under the Programme pursuant to the Base Prospectus and the applicable Final Terms
Offer Period	the offer period for each Tranche as specified in the section entitled „*General Terms and Conditions of the Offer —Offer Period*” and the Final Terms, including any and all extensions of the applicable Offer Period
Parex	AS “Reverta” (previously – AS „Parex banka”), a joint stock company incorporated and registered in, and operating under the laws of, the Republic of Latvia, with registered number: 40003074590, legal address: Brīvības Street 148A-1, Riga, LV-1012, Latvia, telephone: +371 67779100, fax: +371 67779101, e-mail: reverta@reverta.lv, website: www.reverta.lv
PEP	Politically exposed persons

Programme	the € 25,000,000 Second Unsecured Subordinated Bonds Programme comprising a set of activities intended for the issue of the Bonds within the period of this Base Prospectus being effective
Prospectus Directive	Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading and amending Directive 2001/34/EC, as amended from time to time
Prospectus Regulation	Commission Regulation (EC) No 809/2004 of 29 April 2004, as amended from time to time
Purchase Orders	orders of the investors to purchase the Bonds as specified in the section entitled „*General Terms and Conditions of the Offer — Submission of Purchase Orders*"
Qualifying Purchase Orders	shall have the meaning assigned to in the section entitled „*General Terms and Conditions of the Offer —Invalid Purchase Orders"*
Relevant Implementation Date	The date on which the Prospectus Directive is implemented in a Relevant Member State
Relevant Member State	Each Member State of the European Economic Area which has implemented the Prospectus Directive
Series	shall mean any series of Bonds issued under the Programme
SME	Small and medium sized enterprises, being entities with annual turnover between EUR 0.4 million and EUR 7 million
SRS	The State Revenue Service of the Republic of Latvia
Subsidiary	Company in which Citadele holds direct or indirect interests of not less than 50% or more of the shares and which is part of Citadele Group as described in the section entitled "*Citadele Group —Structure of Citadele Group"*
Supervisory Board	Supervisory board of Citadele, unless the context requires otherwise
Taxes	shall have the meaning assigned to in the section entitled "*General Terms and Conditions of the Bonds — Taxation"*
Tranche	tranche of Bonds of the respective Series
UN	The United Nations
United States or U.S.	The United States of America
Updated Annual Interest Rate	shall have the meaning assigned to in the section entitled "*General Terms and Conditions of the Bonds — Interest and Yield"*
Updated Issue Price	shall have the meaning assigned to in the section entitled "*General Terms and Conditions of the Bonds — Issue Price"*
VAT	Value added tax

Yield to Maturity	the percentage rate of return paid if the Bond is held to its Maturity Date, assuming that interest paid over the life of the Bond is reinvested at the same rate. An expected Yield to Maturity, based on the final Issue Price and the final Annual Interest Rate, will be specified in the Final Terms which will be published after allotment of the Bonds to the investors.

16. Index of Schedules